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A REPORT BY THE GENERAL ACCOUNTING OFFICE FOR IMPROVING GOVERNMENT OPERATIONS FISCAL YEAR 1967

LETTER

FROM

ACTING COMPTROLLER GENERAL OF THE UNITED STATES

TRANSMITTING

A COMPILATION OF GENERAL ACCOUNTING OFFICE FINDINGS AND RECOMMENDATIONS FOR IMPROVING GOVERNMENT OPERATIONS, FISCAL YEAR 1967

MAY 10, 1968.—Referred to the Committee on Government Operations and ordered to be printed

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LETTER OF TRANSMITTAL

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

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May 10, 1968

Dear Mr. Speaker:

The accompanying report presents, for the information of the Congress, a compilation of General Accounting Office findings and recommendations for improving Government operations. This compilation relates for the most part to fiscal year 1967.

The compilation is organized so that the findings and recommendations relate to specified functions and services carried out within the Government. Thus, the items compiled are grouped 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 allows consideration of all findings in all agencies in each functional area.

The purpose of this report is to provide the Congress with a convenient summary showing, by functional areas, the opportunities for improved operations which have been identified by the General Accounting 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 Government departments and agencies are discharging their financial responsibilities.

The report summarizes the corrective actions taken by the departments and agencies on our recommendations for improvement. Certain of these actions involve changes in policies and procecures promulgated through the issuance of revised directives and instructions. Such actions, while desirable and necessary, do not in themselves ensure correction of the deficiencies. Their effectiveness is dependent on the manner in which they are implemented and on the adequacy of the supervision and internal reviews of the operations. For this reason, it is our policy to review and evaluate the effectiveness of corrective actions taken by the departments and agencies to the extent deemed appropriate.

The financial savings attributable to our work cannot always be fully measured. However, our records show that collections and other measurable savings identified during fiscal year 1967, which were attributable to the work of the General Accounting Office, amounted to $190.1 million. Of this amount, $23.4 million consisted of collections and $166.7 million represented other measurable savings. Approximately $21 million of the latter amount is recurring in nature and will continue in future years. A summary of financial savings appears on page 123 of this report.

For the convenience of the committees of the Congress and others, the report contains an index of the departments and agencies to which the findings and recommendations relate.

This report is also being sent today to the President of the Senate. Copies are being sent to the Director, Bureau of the Budget, as well as to the Government departments and agencies for their information and consideration in connection with their operations.

Sincerely yours,

Frank H. Weitzel

Acting Comptroller General
of the United States

The Honorable John W. McCormack
Speaker of the House of Representatives

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ADMINISTRATION OF PAY, ALLOWANCES, AND EMPLOYEE BENEFITS

ADMINISTRATION OF PAY, ALLOWANCES, AND BENEFITS–GENERAL

1. Control over per diem rates--In a report issued to the Congress in August 1966, we pointed out that the per diem payments to certain Air Force military personnel, deployed on an overseas airlift support mission in a noncombat zone, had exceeded the estimated lodging and subsistence costs for those individuals by about 200 percent.

The Department of Defense agreed that payments should be made only as justified and stated that action had been taken by each of the military departments to improve administrative controls over per diem entitlements. In addition, the Joint Travel Regulations were revised to make clear that it is the responsibility of the local commander as well as the theater commander to initiate changes in the per diem rates, when warranted.

2. Reporting of taxable income and tax withholdings--We reviewed a selected sample of the reports of taxable income and tax withholdings of military personnel (Forms W-2), which had been filed by the Army for the calendar year 1963. In our report issued to the Congress in August 1966, we stated that the reports contained overstatements and understatements estimated at about $16 million in the amounts of taxable income reported and about $2.3 million in the amounts of income taxes reported as having been withheld.

These errors existed despite the fact that the Forms W-2 prepared for calendar year 1963 had been subjected to a special review by the Army. We found, however, that the special review had not been conducted as originally intended. It did not provide an independent check on the work performed by the disbursing stations, and the Army did not expand the scope of the review when the samples selected for test showed an unacceptable rate of error.

The Army concurred, in general, in our findings and proposals for corrective action and cited specific efforts on its part to carry out our proposals and to improve the reporting of tax information in future years. The Army stated its intention (a) to require a 100-percent examination and verification of tax records in lieu of the existing sampling technique and (b) to incorporate the preparation of Forms W-2 into the Centralized Automated Military Pay System which the Army expected to be placed into operation by July 1, 1969.

3. Active duty retirement benefits for certain military reserve officers--We reviewed the circumstances under which retired Reserve officers of the Army and the Air Force were receiving active duty retirement pay based on a grade higher than the highest grade attained on active duty. We estimated that the officers who retired from active duty in fiscal years 1964 and 1965 would receive, over the years remaining in their life expectancy, about $100 million more than they would have received had retirement been based on their highest active duty grade. This benefit was not available to Reserve officers of the Navy and Marine Corps or to Regular officers of any of the four military services.

The situation had developed as a result of (a) the language of the Army and Air Force Vitalization and Retirement Equalization Act of 1948 (62 Stat. 1081) and (b) certain policies of the Army and Air Force. Although the act did not specifically require active duty service in the retired grade, the legislative history, although inconclusive, indicated that the Congress expected the Army and Air Force officers to have served in the grade on which active duty retired pay was to be based.

The Department of Defense agreed that the retirement grade and pay under active duty retirement laws should be directly linked to active duty service. To bring this about, the Department had proposed legislation to the Congress--most recently in June 1966--but the Congress had taken no action. In our report submitted to the Congress in August 1966, we suggested that, in view of the significance of this matter, the Congress might wish to consider it in a separate legislative proposal.

4. Approval of time and attendance reports by direct supervisors--In our review of the procedures and controls used in the domestic payroll segment of the Department of State accounting system, we found that time and attendance reports were being signed by the timekeepers who maintained them but were not being approved by the supervisory personnel who had positive knowledge of the presence or absence of individuals reported on, although such approvals were required for effective internal control. We also found that overtime reported for some of the offices in the Department was subject to approval under procedures that did not permit officials designated to approve overtime to acquire the positive knowledge required for effective approval.

We recommended that departmental regulations be amended to require that time and attendance reports be approved by persons having direct supervision over the individuals whose time and attendance they approve and that overtime shown in such reports be included in that approval.

We were informed that procedures were being developed to require that time and attendance reports be approved, as appropriate, by persons having direct supervision of the employees whose time was being reported.

5. Cooperative assistance for improving payroll accounting system--A review of the Peace Corps volunteer readjustment allowance (VRA) payroll accounting system, completed in June 1966, showed that the system did not permit periodic reconciliations of amounts shown in the individual payroll records as due volunteers with the amounts on deposit in a special Treasury deposit fund from which the allowances were paid.

The absence of this essential accounting control, coupled with inadequate controls over processing of documents and failure to provide for the timely recording of payments in individual volunteer accounts, resulted in numerous accounting errors and overpayments to volunteers. Other factors contributing to the errors and overpayments included the inadequate staffing and supervision of the payroll function and the absence of formal written procedures.

Peace Corps officials were informally advised of our findings in June 1966. Subsequently, at the request of the Peace Corps, we cooperated with the Corps in developing an improved VRA payroll accounting system. We submitted a series of proposals for the Peace Corps' consideration in November 1966 and January 1967, which set forth effective methods for integrating the VRA payroll accounting system with the Corps' general accounting system and for eliminating the significant causes of the accounting errors and overpayments to volunteers identified in our review.

Certain parts of our proposed methods were included in formal Peace Corps instructions issued to the Corps' overseas posts for initial implementation in May 1967. Implementation of those instructions as scheduled and other actions taken or planned by the Peace Corps should strengthen accounting controls in the VRA payroll system and thus significantly reduce errors and incorrect payments.

6. Payment of severance benefits--In a January 1967 report to the Congress, we pointed out that certain former Foreign Service officers whose employment had previously been involuntarily terminated by the Department of State had been reemployed by the Federal Government at salaries at least equal to their salaries at the time of separation and were being paid severance benefits also. The former officers were receiving these benefits concurrently with salaries received in their new employment and thereby were receiving increased compensation. We found no compelling reason for paying severance benefits under these circumstances.

These severance benefits, known as selection-out benefit payments, were authorized pursuant to the Foreign Service Act of 1946, as amended, which made no provision for adjustments of selection-out benefits payable in the event the selected-out officer were reemployed by the Federal Government or employed by the District of Columbia before the expiration of his benefit period. During calendar years 1963 through 1965, 53 Foreign Service officers in classes 4 through 7 were selected out and thus were entitled to receive selection-out benefits totaling $488,000.

In our review, we identified six former officers receiving selection-out benefits who had been reemployed by the Federal Government immediately or within a month after separation at salaries commensurate with or higher than the salaries that they were receiving as Foreign Service officers at the time of separation. Selection-out benefits payable to these officers totaled about $64,700. Of this amount, $63,800 was estimated to represent concurrent compensation.

We identified the officers from statements made and other indications shown on documents relating to their separation. However, the Department of State did not require systematic reporting of reemployment by the Government of officers selected out; consequently, information was not readily available to ascertain the full extent to which payments of selection-out benefits had been made concurrently with payments of other compensation by the Government.

Severance benefits payable to civil service employees, as contrasted with those payable to Foreign Service officers, are terminated upon the employees' reemployment by the Federal Government or the municipal government of the District of Columbia, and severance benefits payable to Foreign Service Reserve employees of the Agency for International Development are terminated or adjusted upon reemployment by the Federal Government.

We brought our finding to the attention of the Deputy Under Secretary of State for Administration on June 22, 1966. On October 18, 1966, the Department issued revised regulations which were to have the effect of precluding former Foreign Service officers from being paid selection-out benefits concurrently with compensation for employment with the Department of State as other than a Foreign Service officer; however, such regulation would not have affected Foreign Service officers selected out and employed by other Federal agencies.

In our report, we stated that the Congress might wish to consider the need for amending the Foreign Service Act of 1946 to provide for the adjustment of payable selection-out benefits at such time as a former Foreign Service officer becomes reemployed by the Federal Government or employed by the municipal government of the District of Columbia before expiration of his selection-out benefits period.

7. Instructing payroll personnel in applicable laws and regulations--As a result of our review of payrolls at the Patent Office, Department of Commerce, we brought overpayments of salary to the attention of the payroll supervisor. At that time we suggested that the payroll records be reviewed for similar types of errors. We were subsequently advised that such a review had been made and that it revealed two additional cases in which employees' salary rates had not been established at the correct amounts. When we made a subsequent payroll audit we found additional instances in which incorrect salary rates had been established.

The employees who were overpaid did not meet the statutory requirement for length of service before advancement to the next step in the grade because they had received general wage adjustments prior to transfer to graded positions. Another employee was not considered for a within-grade increase when he became eligible, although the law required such consideration.

In a February 1967 report to the Commissioner of Patents, we stated our opinion that our findings indicated the need for a better understanding of laws and regulations governing the fixing of salary rates for Federal employees by those charged with responsibility for establishing salary rates.

We recommended that the Commissioner establish procedures for more thorough instruction of persons involved in establishing salary rates on the basis of the requirements of applicable laws and regulations. We also recommended that an independent verification of rate determinations be made by someone other than the person who made the original determination.

In March 1967 the Commissioner of Patents informed us that improvements would be made in accordance with our recommendations.

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8. Instructing payroll personnel in applicable laws and regulations– Our review of payroll records of the National Bureau of Standards, Department of Commerce, for fiscal years 1963, 1964, and 1965 revealed instances in which incorrect payments had been made to employees and consultants because pertinent laws and regulations had not been correctly applied. We noted a number of instances in which overpayments and underpayments were made to employees as a result of (a) failure to comply with pertinent laws and regulations applicable to military and court leave, (b) establishment of salaries at incorrect rates, and (c) unauthorized granting of compensatory leave.

In a report in April 1967 to the Bureau Director, we recommended that the Bureau initiate a training program for payroll personnel that would acquaint them more fully with applicable laws and regulations. We also recommended that this training be supplemented periodically with training sessions covering the latest changes in pertinent laws and regulations.

In July 1967 the Assistant Secretary for Administration advised us that action was being taken to ensure that payroll personnel were informed of appropriate laws and regulations and that other steps were being taken to improve the accuracy of the payroll function.

9. Maintenance of employee leave records– On the basis of our review of selected payroll records of the National Bureau of Standards, Department of Commerce, for a 22-month period, we concluded that there was a need for improvement in the maintenance of the Bureau's leave records. We found that a significant number of clerical errors had been made in maintaining employees' leave records. On the basis of our tests, we estimated that the errors made during fiscal years 1964 and 1965 amounted to about $100,000.

We were informed that the Bureau employed a verification procedure which was designed to disclose and correct such errors but that the individuals charged with this responsibility had not been able to keep current in their work and, consequently, had not verified the records which we tested. However, our tests of additional pay records for 1966 which had been subjected to the Bureau's verification procedures revealed errors of about $16,000 for that year. We also tested the extent that corrective action had been taken on the errors reported during the earlier review and found that about one fourth of the errors had not been corrected.

In our report issued to the Director of the Bureau in April 1967, we recommended that, when the Bureau's automatic data processing (ADP) system for the maintenance of leave records was implemented, it provide for such controls as are necessary to produce accurate leave records. We also recommended that, until such time as the automated system became operative, the verification procedure be kept current and prompt correction be made of errors to avoid incorrect payments to employees or the granting of unearned leave.

In July 1967 the Assistant Secretary for Administration advised us that leave records were being audited currently and that the Bureau was developing a new ADP payroll program which would permit the inclusion of routines for checking and matching which were not present in either the current ADP program or manual systems.

10. Consolidation and formalization of procedures– In a report sent to the Director of the National Science Foundation in March 1967, we pointed out that there was a need for consolidating procedures with respect to employees' travel and for formalizing procedures for processing payroll and fellowship allowance payments.

In view of the relatively large amount of travel performed by Foundation employees and consultants, we believed that it would be particularly important to have all Foundation travel policies and procedures consolidated in a single document, such as a handbook or manual, instead of having numerous unconsolidated circulars, bulletins, and memorandums.

With respect to the processing of payroll and other payments, we found that the Foundation had been operating almost entirely on the basis of verbal instructions from the various unit heads, without the benefit of written

procedures or instructions. We pointed out the desirability of written procedures in the interest of a well-defined systematic approach to financial operations in order to obtain uniformity in the work of the assigned employees, to provide more effective control, and to help in the instruction of new employees.

Although the Foundation did not agree to the need for a single consolidated document for travel instructions, it informed us that it would consolidate its travel policies and procedures into three basic circulars. The Foundation further informed us that it would develop written payroll and other payment procedures to be issued by the Comptroller's Office.

11. Paying by check instead of cash--In November 1966 we pointed out that potential savings of about $19,000 a year could be realized by the Bureau of Engraving and Printing, Treasury Department, through the payment of certain salaries by checks in lieu of cash as was customary for the majority of the Bureau's employees.

The Bureau expressed doubt as to the overall economic advantage to the Government for the Bureau to convert to the payment of salaries by check; however, in view of the savings that could be realized, we recommended that further consideration be given to the matter. In January 1967 we were informed that action had been taken to pay these salaries by check.

12. Allowances on transfers of military personnel--We reported to the Congress in June 1966 that certain transfers of Coast Guard members between permanent duty stations had been indirect, which resulted in higher costs. As a result of our finding, the Commanding Officer of the 5th Coast Guard District instituted procedures for transferring recruits and petty officer-school graduates directly to new duty stations in the District. We estimated that the action taken would result in annual savings of about $17,000.

13. Lunch or rest periods for certain employees--The Post Office Department followed a practice of scheduling Railway Post Office (RPO) employees for road service of more than 6 consecutive hours' duration without provision for lunch or rest periods without pay. Our review indicated that, when establishing road duty requirements for RPO employees, the Department could achieve substantial savings, without adversely affecting service to patrons, by providing for such lunch or rest periods. This practice would be consistent with the regulations relating to employees assigned to distribute mail in stationary units. The Postal Manual provides that these employees shall not be required to work more than 6 hours without a lunch or rest period of 30 minutes' duration. Personnel in stationary units are in a nonpay status during such periods. We found no provision in the Postal Manual concerning lunch or rest periods, which was specifically related to RPO employees.

In response to our inquiry concerning the lack of provision for lunch or rest periods in road service schedules, the Department advised us that the practice of permitting mobile unit employees to take lunch or rest periods while in a pay status was one of long standing and that the legislative history of mobile unit pay was silent on the matter of authorizing or prohibiting lunch or rest periods.

In view of the potential savings which we believe could be achieved without adversely affecting mail service, we suggested in our report to the Postmaster General in February 1967 that, when establishing road duty requirements for RPO employees, the Department give further consideration to providing for 30-minute lunch or rest periods during which the employees would be in a nonpay status. To demonstrate the potential benefits available, we suggested that the Department test the feasibility of providing 30-minute lunch or rest periods without pay for RPO clerks performing road service of 6-1/2 hours or more and the effect that the adoption of such a system would have on overall costs and services. Such tests could be made during the next annual or semiannual observation of RPOs.

14. Compensation of rural carriers--Most of the Post Office Department's rural carriers are compensated under a schedule, established by

law, which is based on the length of their routes and their years of service, regardless of the hours of work required to serve the routes. Carriers who serve heavily patronized routes are compensated under a schedule, established by the Postmaster General pursuant to law, which is based on the hours of work required to serve their routes and their years of service.

Our review of the earnings of the carriers in the Cincinnati postal region whose pay was based on route length showed that the hourly earnings of the carriers varied widely, even among carriers who served routes of the same length and received the same annual salaries. The hourly earnings of the carriers ranged a low of $1.88 to a high of $8.41. The hourly earnings of the carriers whose pay was based on the hours of work required to serve their routes ranged from $2.40 to $2.60.

We estimated that the costs incurred in providing rural delivery service in the Cincinnati postal region could be reduced by about $3.4 million annually, if rural carriers' salaries were based on the hours of work required to perform their duties. The Department's internal auditors, in a report dated July 23, 1965, presented a nationwide projection which showed that such cost reductions would be about $58 million annually.

In view of the significant reductions possible in the costs of providing rural delivery service, we recommended, in a report issued in December 1966, that the Congress consider enacting legislation authorizing the Postmaster General to compensate all rural carriers on the basis of the hours of work required to perform their duties.

GOVERNMENT-FURNISHED HOUSING, LODGING, AND MEALS

15. Rental rates for Government quarters-- Bureau of the Budget Circular No. A-45 prescribes generally that the rental and utility charges for Government quarters should be set at levels similar to those prevailing for comparable private housing in the same area after taking into account certain considerations which affect the value of the housing to the occupant. As permitted under the Circular, the Board of Survey of the Agricultural Research Service, Department of Agriculture, Beltsville, Maryland, had granted employees occupying Government quarters at the Research Center an average reduction of 21 percent in the basic rental rate because of undesirable interior conditions and poor heating facilities.

Our review revealed, however, that the reduction was not adequately justified because the interiors of the comparable private housing had not been inspected and, consequently, it appeared that the Board of Survey was not in a position to know whether the interior conditions of the private housing were in fact superior.

We recommended that the Agricultural Research Service conduct a resurvey directed toward a positive determination of the interior conditions and heating facilities of private housing compared with those in Government quarters so that, where appropriate, adjustments could be made to the Government rental rates. In December 1966 the Service completed a reappraisal of the rental charges for Government quarters at the Center and at its Plants Introduction Station, Glenn Dale, Maryland, as well. As a result of the reappraisal, quarters rental rates were increased by about $26,670 annually.

16. Charges for Government-furnished housing and utilities-- In our review of rental rates and utility charges to employees of the Forest Service, Department of Agriculture, occupying Government-owned quarters in the Pacific Northwest Region, we found that in several locations adjustments to basic rental rates exceeded the maximum allowable adjustment of 50 percent permitted by Bureau of the Budget Circular No. A-45 and Forest Service instructions. We also found that reappraisals of charges to employees for utilities, required at least once every 3 years, had not been made.

After we brought these matters to the attention of regional officials, rental rates were adjusted and charges for utilities were reappraised. We estimated that, as a result of these actions, additional charges of about $37,000 would be made between the dates the rates were revised and the dates of the next scheduled reappraisals.

The Forest Service subsequently made an agencywide survey of utility charges. After

finding similar deficiencies in other regions, the agency instructed all of its regions to promptly correct any erroneous charges. The agency also strengthened related provisions in the Forest Service Manual.

In a letter to the Chief of the Forest Service in June 1967, we stated that instructions and manual provisions would not of themselves ensure that the prescribed actions were being taken throughout the agency. We suggested that there was a need to evaluate the effectiveness of the current procedures which each Regional Forester was using to review and follow-up on actions taken by his forest supervisors in establishing charges for rent and utilities in accordance with agency and regional instructions. We were subsequently informed by the Deputy Chief of the Forest Service that an agencywide review would be made.

17. Adjustment of charges for Government-owned quarters and related services--In our review of charges by the Public Health Service (PHS), Department of Health, Education, and Welfare, for Government-owned quarters provided civilian Government employees at Mount Edgecumbe, Alaska, we found that, contrary to the requirements of Bureau of the Budget Circular No. A-45, the rental rates and related charges for utilities and furnishings had been established at levels significantly lower than those in effect for comparable private housing in the same area, which resulted in an annual loss in revenues to the Government of about $215,000. Furthermore, we found that the Quarters Reevaluation Board appointed by PHS was not sufficiently independent to ensure fair and impartial rates and charges, because the members of the Board were employees of PHS and were occupants of the quarters under consideration.

We found a need for improvement in the procedures for reviewing rental rate reevaluations. On the basis of our recommendation, included in a report to the Congress in August 1966, the Department revised its policies and regulations to require that appraisers of the Federal Housing Administration or other Government agencies or commercial appraisers be utilized in the establishment or rental rates in all cases where it is practicable to do so. Also, after our field review was completed, the rentals were increased by $2,384 monthly or about $28,600 annually.

The Department advised us, however, that the new rates might not be in consonance with Circular No. A-45 because a survey of rental rates for Government-owned housing throughout Alaska showed that the rates should be increased from 60 to 200 percent. PHA is holding any further adjustment in abeyance pending an appeal to the Bureau of the Budget for waiver of its requirements because of the potential adverse effect on employee morale.

18. Construction versus leasing of housing in Liberia-- In February 1967, we reported to the Congress that we believed that savings of upwards of $2 million would have been obtainable over the period of a 33-year country-to-country agreement if the United States Information Agency (USIA), at the appropriate time, had sought and obtained the necessary funds from the Congress and had constructed the houses required at Brewerville, Liberia, rather than leasing them from private owners. Although the total potential savings were diminishing each year, we believed that substantial savings were still possible by constructing the housing. Moreover, the potential savings could be much higher if USIA's African Program Center in Brewerville, Liberia, were staffed to the level planned by USIA and if the number of houses constructed were increased to meet the level planned for full staffing.

USIA included in its fiscal year 1964 budget a request for funds to construct the African Program Center but did not furnish the Congress with information as to how it planned to meet housing needs for employees required to operate this facility. USIA did not request funds for construction of housing in either its fiscal year 1964 or its fiscal year 1965 budget submissions, although it was already well aware of the desirability of constructing rather than leasing the housing.

We were informed that USIA had included a request for funds for housing construction in its fiscal year 1966 budget submission but had deleted the request when the Bureau of the Budget required USIA to reduce the total budgetary funds being requested. No request for funds for this purpose was made in either the fiscal year 1967 or the fiscal year

1968 budget submissions to the Congress. It appears, therefore, that the full potential savings through constructing rather than leasing housing at Brewerville will not be achieved.

19. Use of current cost data in meal pricing– In a letter to the Secretary of the Army in November 1966, we stated that, during our review of the adequacy of charges for meals served to certain transients on board floating plants of the Corps of Engineers (Civil Functions), Department of the Army, we found that the charges established by the Corps were not adequate to fully recover the costs of the meals provided. We found that during 1965 the Corps' charges to transients who were required to pay for meals were about $13,700 less than the cost of providing the meals.

Bureau of the Budget Circular No. A-25 dated September 23, 1959, provides that the Government's full costs–direct and indirect–for providing special benefits that do not accrue to the public at large be recovered from the recipients. We stated our belief that, since meals served to transients are special services not available to the public at large, the Corps should recover the full cost of providing such meals.

We recommended that the Corps revise its charges to transients for meals so that, in compliance with BOB Circular No. A-25, the full cost of providing such meals may be recovered. The Corps advised us that action had been initiated to increase the charges for these meals in order that all direct and indirect costs would be recovered by the revised charges.

TRAINING COSTS

20. Commitment for continued Government service subsequent to university training at Government expense– Pursuant to the Government Employees Training Act, employees of most Government agencies are required, as a prerequisite to receiving training at non-Government facilities, to sign an agreement to remain with the agency for a period equal to at least three times the period of the training or, if voluntarily separated before completion of the training or the agreed-upon period, to reimburse the Government for the cost of the training. The Government Employees Training Act does not apply to Foreign Service personnel, and the Foreign Service Act of 1946, which governs training of Foreign Service personnel, does not contain similar provisions.

We found that, of 127 Foreign Service officers who received university training during the academic years 1962-63 through 1965-66, nine had resigned without completing a period of service equal to three times the period of their training. Training costs, exclusive of travel, transportation, and salaries, in these cases amounted to about $11,850. If these Foreign Service officers had been subject to the same or similar requirements of the Government Employees Training Act, a portion of the training costs would have been recoverable.

We recommended that the Department of State issue regulations which would require Foreign Service personnel to enter into a continued-service agreement as a condition to receiving training at Government expense at a non-Government facility.

On August 10, 1967, the Department issued an instruction requiring that, beginning with the 1967-68 academic year, Department of State and United States Information Agency Foreign Service personnel who receive assignments for an academic year's study program at a college or university execute a continued-service agreement. With respect to a full academic year's study program, the provisions of the agreements to be executed by Foreign Service personnel are consistent with the provisions of those executed pursuant to the Government Employees Training Act.

TRAVEL ADVANCES AND ALLOWANCES

21. Revision in agency travel regulations to achieve a reduction in per diem costs– Our examination of 100 vouchers for travel of Foreign Service personnel and their dependents to or from the United States and between localities outside the United States involving travel time of 6 hours or more showed that the per diem payments based on the per diem rates established for the point of final destination had exceeded what appeared reasonably necessary to meet subsistence expenses that would have been incurred by the traveler during the period of the travel.

The vouchers covered reimbursement expenses of certain Foreign Service employees and their dependents for travel by airplane, train, and ship during the period September 16, 1964, through May 30, 1965. In our opinion the payment of per diem during a period of travel at the destination rate is inappropriate because transportation fares for travel by airplane include meals and by train include sleeping accommodations where required. Moreover, transoceanic travel by airplane generally is of such short duration that lodging is not an expense factor.

Travel per diem is intended to be an allowance for each day that the traveler is in a travel status, in lieu of payment for actual subsistence expenses, and it is designed to cover the average cost of a single room with bath; meals; incidentals such as laundry, dry cleaning, and tips; and related travel expenses. Consequently, payment of a per diem rate which includes all the elements of cost used in establishing the destination rate results in the traveler receiving an amount which is greater than the expenses that he is likely to have incurred during the period of travel.

By letter dated June 1, 1967, the Deputy Under Secretary of State for Administration expressed agreement with our position that the use of a destination rate instead of the rate prescribed by the Standardized Government Travel Regulations had led to higher per diem payments. He advised us that appropriate steps had been taken to eliminate the destination rate and to ensure that the guidelines set forth in the Standardized Government Travel Regulations would be followed.

On July 13, 1967, the Department of State revised its regulations effective August 15, 1967, to limit per diem to $6 for employees traveling for 6 hours or more by airplane, train, or ship to, from, or between points outside the continental United States, including stopovers of less than 6 hours.

22. Use of Government-owned rather than privately owned vehicles for official travel--Our review of travel procedures at 14 major Government agencies showed that agencies had not been furnished management information on the cost of operating motor pool cars at various mileage levels and therefore were not in a position to adequately consider the alternative of providing motor pool cars to high-mileage drivers who drive their own cars on official business.

Our more detailed reviews at selected field offices of the Internal Revenue Service, the Federal Housing Administration, and the Federal Crop Insurance Corporation showed that the annual cost of reimbursing high-mileage drivers for official travel exceeded the cost of operating motor pool cars by about $245,000. If the mileage patterns observed were typical, these agencies' annual nationwide costs of reimbursing high-mileage drivers for official travel exceeded the cost of operating interagency motor pool cars by about $1.6 million.

As a result of our proposals, the Bureau of the Budget revised the Standardized Government Travel Regulations effective April 10, 1967, to provide policy guidelines for management in determining (a) whether it is feasible and advantageous to the Government for employees to use their own cars for official business and (b) the reimbursement to which employees are entitled if they are authorized to use their cars on official business when such use is for their own convenience.

23. Use of first-class air travel--Our review showed that central office employees of the Federal Home Loan Bank Board traveling by air to certain major cities used first-class accommodations although the airlines offered suitable less costly accommodations. Further, in a number of instances, the travel vouchers of employees utilizing first-class air accommodations contained no justification for the use of such service.

In July 1966 we recommended that the Board (a) reemphasize to the employees the need to follow more closely the Board's policy of using less-than-first-class air accommodations whenever possible, (b) require employees to include a justification on travel vouchers when first-class air accommodations have been used, and (c) make periodic reviews of travel performed to determine whether the use of first-class air accommodations has been consistent with the requirements of the travel policies promulgated by the Bureau of the Budget and adopted by the Board. We were

advised by an agency official in July 1966 that steps had been taken in accordance with our recommendations.

24. Controlling amount and liquidation of travel advances--In July 1966 we pointed out that funds for authorized travel were advanced to employees of the Federal Home Loan Bank Board in amounts greater than necessary and reasonable to meet travelers' requirements pending periodic reimbursements, and that certain of these advances were allowed to remain outstanding for extended periods during which no travel was performed.

In a review of travel advances totaling $9,863 at June 30, 1965, made to 43 central office employees, we found that advances issued to 22 employees were in excess of their needs. These advances ranged from $112 to $500 and totaled $6,600, of which $4,400 was in excess of the travelers' needs. During fiscal year 1965, some of these 22 employees did not perform any travel and other employees' travel ranged from 1-3/4 to 61-1/4 days and their travel vouchers averaged from $42 to $147. Our review also revealed that two employees were holding travel advances at June 30, 1965, although they had performed no travel for 13 and 24 months, respectively.

We recommended that the Board's Comptroller take the necessary steps to ensure that travel advances are limited to the amounts necessary for the performance of the travel and that refunds are obtained for the advances as required by the applicable regulations. We were advised by an agency official in July 1966 that steps had been taken to remedy the objections enumerated.

UNIFORM ALLOWANCES

25. Opportunities for savings--In our February 1967 report to the Bureau of Customs, Treasury Department, we expressed the opinion that the Bureau could improve the administration of its uniform allowance program and effect savings to the Government if the uniform requirements for certain employees were more in consonance with the nature of the official duties performed by these employees and if the Bureau of Customs reimbursed certain employees for uniform purchases in lieu of paying annual cash allowances. It was our opinion also that, because of the substantial differences in uniform replacement requirements between different Customs districts, the Bureau should review and adjust its annual uniform allowance standards for individual uniform items.

In commenting on our findings, the Commissioner of Customs advised us that action had been taken to provide certain employees with less costly rough-duty uniforms in lieu of full-dress uniforms. We were later advised that consideration would be given to the need for individual uniform items and that the Bureau would consider establishing uniform standards according to geographical areas. Subsequently, the Bureau agreed that, for those areas where there would be significant potential savings because of the recomputed standards, payment of uniform allowances would be made by direct reimbursement.

26. Issuance of uniform items in lieu of granting allowances--Our review indicated that substantial savings could be achieved if the Post Office Department discontinued granting uniform allowances to window clerks and entered into procurement contracts for the furnishing of the authorized uniform items. We noted that further savings could be achieved if the Department entered into procurement contracts for the furnishing of uniform items for carriers and employees in other postal crafts.

In a September 1966 report to the Congress, we proposed that the Department study the uniform needs of employees stationed in various sections of the country and that the Department consider furnishing uniforms in lieu of providing uniform allowances, after making a detailed study to determine the most practicable and economical means of furnishing and distributing uniform items to employees.

Prior to the issuance of our report, the Postmaster General advised us that, with certain necessary qualifications, he intended to initiate prompt action on our proposal. He advised us further that changes in the method of providing uniform items to carriers and employees in other crafts would be given close attention.

Subsequent to the issuance of our report, the Postmaster General informed the Director of the Bureau of the Budget that, although savings might be achieved by adopting our recommendation, the Department did not believe that the applicable legislation and congressional intent permitted the Department to adopt the recommendation with regard to employees already receiving uniform allowances. The Postmaster General further advised that the Department was in the process of permitting certain additional employees to wear uniforms and planned to provide uniforms for this group through a contract system, thereby gaining experience which would be helpful in the future should the Congress amend the present legislation.

On September 1, 1967, the Post Office Department issued an invitation for bids on uniform items to be supplied to about 5,000 employees engaged in custodial maintenance, mail handling, and vehicle maintenance activities.

27. Cash allowances for the acquisition and replacement of uniforms--In a report to the Director, Bureau of Sport Fisheries and Wildlife, United States Fish and Wildlife Service, Department of the Interior, in November 1966, we pointed out that the Bureau had established a program for providing dress and work uniform allowances for its field station employees without taking into consideration the employees' varying needs for uniforms.

We found that, when the Bureau's uniform program was initiated, the same uniform requirements and allowances were established for all field station employees even though different groups of employees performed different duties, had different needs for uniforms, and therefore could reasonably be expected to incur acquisition and replacement costs of different amounts.

After we brought our findings to the attention of the Department, we were advised that the requirement that all field employees own a dress uniform had been eliminated and that the determination as to which unclassified employees must own a dress uniform would be left to the discretion of the regional directors. Subsequently, we expressed our belief that the Bureau should reevaluate its dress uniform requirements taking into consideration its experience in those instances where regional directors have decided that unclassified employees need not own dress uniforms.

Although the elimination of requirements for dress uniforms might not have an immediate effect with respect to lower uniform allowances, we felt that it could result in lower overall costs to the employees as well as preclude the need for raising uniform allowances in the future.

COMMODITY DISTRIBUTION PROGRAM

28. Obtaining advantages of minimum carload rates–In a report submitted to the Congress in December 1966, we stated that there were opportunities for the Consumer and Marketing Service (C&MS), Department of Agriculture, to reduce the costs of transporting donated commodities to State distributing agencies by providing for the shipment of commodities in lot sizes consistent with the minimum shipping weights provided in carrier tariffs. We found that two commodities–print butter and frozen beef–were being shipped to State agencies in lot sizes having gross weights below the minimum shipping weights upon which the freight rates of certain carriers were based. On the basis of our review, we estimated that savings of about $138,000 could have been realized in 1 year if the size of the carload lots of print butter and frozen beef had been increased.

Although C&MS took specific action to increase the size of butter and frozen beef shipments, it was our belief that existing procedures had not been sufficiently strengthened and, therefore, that further steps were necessary to ensure that lot sizes for all commodities would be established and maintained at levels that would effect the most economical shipping cost consistent with program requirements. We therefore recommended that C&MS establish specific procedures to achieve this objective.

In January 1967, C&MS issued further instructions to its commodity contracting officers to provide assurance that below minimum carlot weights would not be used inadvertently in C&MS purchases.

29. Use of most economical mode of shipping–In our review of certain practices of the Consumer and Marketing Service (C&MS), Department of Agriculture, in transporting food commodities to State distributing agencies for donation to schools, institutions, and needy families, we found that shipments of commodities were often made in accordance with the mode of transportation requested by State agencies, even though this was not in all cases the most economical mode of shipment. In a December 1966 report to the Congress, we expressed the belief that substantial savings would have been realized if C&MS had required the State agencies, whenever possible, to refrain from requesting delivery by rail only, so that optimum use could be made of the most economical mode of shipping commodities.

The Associate Administrator, C&MS, advised us in May 1966, that C&MS planned to have State agencies make their requests for shipment so as to permit the maximum use of either truck or rail, in order to hold transportation costs to a minimum. In this regard C&MS issued an instruction to State distributing agencies in July 1967, setting forth procedures for selecting the method of delivery. The instruction provides that donated commodities are to be shipped by whatever method of transportation results in the least program costs, except when program operations necessitate a specific method of shipment.

30. Enforcement of family eligibility requirements–Our examination into the administration of the program for distribution of Government-donated food commodities to needy families in the State of Pennsylvania revealed that food donated by the Department of Agriculture was distributed to a significant number of families who did not meet the eligibility requirements for participation in the program.

From statistical samples of cases in three Pennsylvania counties selected by us for review, we estimated that (a) of the 55,160 families participating in the program in these counties at the time of our review, between 14,400 and 26,800 did not meet eligibility requirements and (b) donated commodities distributed to such ineligible families during a 3-month period cost the Federal Government between $182,000 and $602,000.

After we brought our findings to the attention of officials of the Consumer and

Marketing Service (C&MS), Department of Agriculture, State and local officials reviewed the caseload of eight counties in Pennsylvania, including the three counties that we reviewed, to determine the eligibility of the families. These reviews resulted in the removal of about 18,800 families from the rolls of eligible participants. We estimated that this action would result in savings of approximately $665,000. Also, the Administrator, C&MS, advised us in August 1966 of various corrective actions, consistent with our proposals, that would be taken to improve the administration of program activities. Our report to the Congress on this matter was issued in February 1967.

DISABILITY COMPENSATION BENEFITS

31. Disability compensation payments greater than those apparently intended by law–In December 1966 we reported to the Congress on our review of the method used by the Bureau of Employees' Compensation, Department of Labor, in computing disability compensation increases authorized by the 1949 amendment to the Federal Employees' Compensation Act. Our report revealed that the Bureau's method resulted in the largest rate of increase in disability compensation for the least disabled and that partially disabled claimants received compensation increases of as much as 400 percent; whereas, totally disabled claimants were limited to increases of 10 or 40 percent. In our opinion, the legislative history of the amendment indicates that compensation increases in excess of 10 and 40 percent, depending on the date of the injury, were not contemplated.

We estimated on the basis of our review at four offices that, nationwide, from October 1949 through March 1965, approximately 1,700 partially disabled claimants received payments that exceeded by about $2.2 million the amounts which, in our opinion, were intended and that these higher payments were continuing at a rate of about $123,000 annually.

Our conclusion in this matter is supported by prior rulings of the Employees' Compensation Appeals Board dating back to 1953 in which the Board ruled in individual cases that the method used by the Bureau for computing increases was incorrect and resulted in overpayments of compensation. Decisions rendered by the Board on individual cases are binding on the Bureau. Appropriate adjustments, however, were made by the Bureau only with respect to those cases in which the Board made a specific ruling.

In commenting on our finding, the Department did not agree that the Bureau's method of computing compensation increases was incorrect. No comment was made, however, on the inconsistency between the method of computation used by the Bureau and the method of computation set forth in prior rulings of the Board.

The act provides that no recovery shall be made where an incorrect payment has been made to an individual who is without fault and where recovery would defeat the purpose of the act or would be against equity and good conscience. However, we expressed the opinion that there was no justification for continuing to make such payments at rates not intended by the 1949 amendment.

In view of the difference of opinion between the Secretary of Labor and the General Accounting Office as to the proper amount of increased compensation intended under the 1949 amendment to the Federal Employees' Compensation Act, we suggested that the Congress may wish to express its views in this matter.

32. Prevention of overpayments of disability compensation–In June 1967 we reported to the Congress on our review of the procedures and practices followed by the Bureau of Employees' Compensation, Department of Labor, in computing compensation awards to partially disabled Federal civilian employees. Our review showed that there were inconsistencies among district offices and within district offices in the procedures followed and that this resulted in correspondingly inconsistent treatment of disabled employees.

In our examination of the records for 505 disability compensation awards made from January 1960 through September 1965 by four district offices, we found that 308 disabled employees had received excess payments averaging about $219 a case during this period. The excess payments resulted

primarily from the practice in two offices of reducing disabled employees' estimated wage-earning capacity to the next 5-percent interval below that recommended by the rehabilitation advisors. The practice of adjusting wage-earning capacity in favor of the claimants caused these disabled employees to receive excess annual payments averaging about $60 a case at the time of our review.

We estimated that, if the practices noted during our limited review were essentially the same at all 10 district offices, the Bureau had made overpayments of about $370,000 from January 1960 through September 1965 and could achieve savings of at least $100,000 a year by eliminating any adjustment of the percentage of wage-earning capacity computed.

The Secretary of Labor informed us that instructions would be issued to discontinue the practice of basing compensation awards to disabled employees on adjusted percentages of their wage-earning capacity and that improved supervision including the use of internal audits would be provided. The Bureau issued such instructions in May 1967. The Bureau also advised that appropriate adjustments of existing awards would be made during the annual review of the awards where such action would not result in hardship to the beneficiaries.

33. Expediting reductions of compensation payments-- In January 1967 we reported to the Congress on our review of the practices followed by the Bureau of Employees' Compensation, Department of Labor, in adjusting disability compensation payments to injured Federal employees from temporary total disability rates to partial disability rates. We pointed out the need for prompt adjustment of compensation payments to total disability claimants after it is determined that they are no longer totally disabled. Our examination of 854 cases at four district offices showed that, over a 10-year period, 562 claimants had received about $656,000 more than they would have received if partial disability rates had been established effective at the time medical evidence showed that their total disability had ceased.

On the basis that the conditions found existed also in the six districts not visited during our review, we estimated that, nationwide, claimants then on partial disability rolls may have been paid additional compensation totaling about $1 million.

We concluded that the extended delays in reducing total disability compensation rates to partial disability rates resulted primarily because district offices did not promptly obtain the required nonmedical evidence necessary for determining the amount of the reduced compensation payable. In our opinion, there was a need for the Bureau to provide for (a) clear and specific instructions to the claims examiners to promptly compile and evaluate information required for rating claimants, (b) periodic reviews by an internal audit staff to identify problem areas, and (c) an effective system of informing management on a continuing basis of the status of cases waiting for partial disability determinations and of the possible additional costs to be incurred if such determinations are not made promptly.

In commenting on these matters, the Secretary of Labor outlined a number of improvements being made in Bureau administration which substantially included the actions we had proposed. After our report was issued, the Bureau issued instructions for obtaining the required nonmedical information during the recovery period so that, as we had suggested, a claimant's wage-earning capacity can be promptly determined when he reaches maximum medical improvement.

DREDGING OPERATIONS

34. Industrial participation in the cost of dredging operations--In December 1966 we reported to the Congress that the Corps of Engineers (Civil Functions), Department of the Army, needed to improve its procedures so as to ensure compliance with existing law which prohibits depositing industrial waste solids into navigable waters unless a permit is obtained from the Secretary of the Army authorizing the deposits. We found that the Chief of Engineers had not established adequate and uniform procedures for determining whether industrial plants were depositing into navigable waters waste solids that reduced the navigable capacity of a navigation project.

Because there are a number of industrial plants which are depositing waste solids into navigable waters, the possibility exists that some of these deposits result in shoaling and that the Corps could realize significant savings in maintenance dredging costs by requiring that industry either stop depositing waste solids into navigable waters or obtain permits which authorize deposits but require participation in the costs of maintenance dredging of shoals resulting from such deposits. Because of the technical knowledge required to make such a determination, it was not practicable for us to determine the amount of shoaling that had been caused by the depositing of waste solids into navigable waters.

We recommended that the Secretary of the Army direct the Chief of Engineers to establish uniform procedures (a) for identifying industrial plants that are depositing waste solids into navigable waters, (b) for providing a means by which the deposited waste solids and the resulting shoaling can be measured and by which each industrial plant's proportionate share of the maintenance dredging costs can be identified, and (c) requiring that any plants so identified either stop depositing waste solids into navigable waters or obtain from the Secretary of the Army permits authorizing continued depositing but requiring that the plants participate in the costs of maintenance dredging.

We recommended also that, whenever a plant refuses to obtain a permit or stop depositing waste solids into navigable waters, the Corps take appropriate legal action.

In February 1967 the Chief of Engineers issued an engineering circular which (a) emphasized the pertinent laws relating to industrial deposits into navigable water and (b) directed that corrective action be taken in accordance with our recommendations.

FARM PROGRAMS

35. Protective services on shipments of perishable commodities–On the basis of our review of the practices followed by the Commodity Credit Corporation (CCC), Department of Agriculture, in providing protection from heat and cold on shipments of certain perishable commodities, we concluded that CCC could save on its rail transportation costs by eliminating excessive protection on shipments of butter and cheese without risking spoilage or deterioration.

We estimated that CCC could have realized savings of about $219,000 in transportation costs for butter and cheese during the year reviewed if it had required protective services comparable to those of a commercial shipper. Also, we expressed the opinion that additional savings might be available on shipments of other perishable commodities.

The Executive Vice President, CCC, concurred in our suggestion that a comprehensive study would be desirable and stated that an evaluation of protective services required for protecting perishable commodities from damage or deterioration in transit would be made. He stated also that the requirements would be revised, where appropriate, to keep the cost of protective services at a minimum consistent with prudent management and that periodic evaluations would be made of the adequacy of such requirements.

However, the Executive Vice President questioned the practicability of adjusting generally prescribed amounts of protection to take into consideration special weather conditions existing at the time of shipment. We expressed the belief that, to obtain the maximum benefits from revising the protective services requirements, provisions would have to be made for revision of previously issued instructions to cover a situation where weather conditions upon which such instructions had been based changed substantially prior to shipment.

We therefore recommended in a report to the Congress in August 1966 that the Secretary of Agriculture require that Department officials, as part of the evaluation of protective services requirements which they intended to make, explore the opportunity for reducing costs by instituting procedures providing for the revision of protective services instructions to cover changes in weather conditions prior to actual shipment which would materially affect the amount of protection previously prescribed.

We recommended also that consideration be given to the feasibility of revising require-

ments for freezing print butter prior to shipment. Subsequently, we were informed that these requirements had been eliminated.

36. Use of revised conversion factors in reporting on quantities of wheat processed– Wheat processors are required to report periodically to the Commodity Credit Corporation (CCC), Department of Agriculture, the quantity of wheat which they process into food products and to purchase domestic wheat marketing certificates equal to the number of bushels of wheat used in the manufacture of such food products. Departmental regulations provide that a wheat processor can elect to report the quantity of wheat processed either on the basis of the weight of wheat processed or on the basis of a standard conversion factor established by the Department.

The conversion factor established for white flour for the 1964 and 1965 marketing years represented approximately the average extraction rate for white flour produced in the United States in 1963. Our review revealed that many processors using the Department's standard factor actually extracted flour at below-average rates; consequently, they used more wheat to produce a hundredweight of flour than was recognized in the standard conversion factor. As a result, such processors did not acquire certificates equal to the number of bushels of wheat actually processed into white flour.

On the basis of our review, we estimated that CCC's proceeds from the sale of the certificates would have been increased about $5.4 million for certificates on wheat processed into white flour during the 1964 and 1965 marketing years if processors had been required to purchase certificates equal to the number of bushels of wheat actually processed.

After we brought this matter to the attention of agency officials, the Department amended its regulations to establish a standard conversion factor reflecting a lower extraction rate. We estimated that this change would increase proceeds to CCC by about $650,000 annually or about $2.6 million during the remaining 4 years of the program.

In a report submitted to the Congress in November 1966, we stated our belief that the revised factor was not representative of the extraction experience of mills reporting on the conversion factor basis and that its use by certain mills would still result in substantial loss of proceeds to CCC. We recommended, therefore, that the Department take further actions to minimize such losses. The Department further revised its regulations accordingly.

37. Use of vaccines in eradication of hog cholera– We found that there was a need for the Agricultural Research Service (ARS), Department of Agriculture, to strengthen controls over the use of modified live virus vaccines in the program designed to eradicate hog cholera. Use of such vaccines during 1964 and 1965 was cited by ARS as the probable source of hog cholera, where the probable source could be identified, in about 15 percent of all reported outbreaks of the disease in the Nation.

In our report submitted to the Congress in April 1967, we made certain proposals for strengthening controls and recommended that the Secretary of Agriculture make our report available to an ARS study group which had been set up by the Secretary to establish basic guidelines for using different vaccines in the final phases of the eradication program. Subsequently, our report was made available to the study group. After considering the report, the group supported in general our proposals for corrective action.

FEDERAL-AID AIRPORT PROGRAM

38. Federal participation in the cost of land for airports– In reports to the Administrator, Federal Aviation Administration (FAA), issued during fiscal year 1967, we stated that Federal participation in the cost of land for certain airports should have been reduced, as required by FAA policy, by the value of (a) land not needed for airport purposes and (b) improvements retained or sold by airport sponsors. We recommended that the excessive Federal participation, totaling about $350,000, be recovered from the airport sponsors.

FAA agreed with our findings and stated that the excessive Federal participation would be recovered.

39. Determining airport needs--In a report to the Congress in October 1966, we stated that our review showed that the Federal Aviation Administration (FAA) had made separate grants to the adjacent communities of Kenai and Soldotna, Alaska, for improving their respective airports, although it should have been evident to FAA that both airports, as improved, were not needed. We found that each of the improved airports was capable of accommodating 100,000 air operations annually, which far exceeds the foreseeable combined traffic loads of the two airports.

We expressed our belief that a significant portion of the grant of $233,300 to the Soldotna airport would not have been necessary if the Alaska Region had followed the agency's area airport policy of developing only one airport, where possible, to serve the needs of more than one community. The Washington headquarters office had not established adequate procedures and controls to ensure compliance with the area airport policy.

FAA indicated general agreement with our findings and proposals for corrective action and informed us that agency directives for the implementation of the area airport policy would be strengthened. In February 1967, FAA issued procedures which require that locations with possible regional airport potential be identified and that requests for aid under the Federal-aid airport program for locations so identified be subject to careful review for applicability of the regional airport concept.

The revised procedures, if properly implemented, should ensure that adequate consideration will be given to the area airport policy in evaluating requests for grants under the Federal-aid airport program.

40. Appraisal reports on acquisition of land--We reported to the Federal Aviation Administration (FAA) in April and June 1967 and to the Congress in August 1967, on our reviews of grants made by FAA under the Federal-aid airport program. We stated that appraisal reports on land acquired for certain airport development projects did not fully meet FAA's standards for such reports and that the reasonableness of the land costs in which FAA agreed to participate were not adequately supported by appraisal reports.

Most of the appraisal reports reviewed were deficient in that they did not establish a specific relationship between comparable market data and the appraised values. In some cases, the sales listed in the appraisal reports as comparable sales were not appropriate--because of location, size, or type of property--for use in establishing the value of the airport land.

We noted some instances where the same persons or firms had appraised the land and negotiated the purchase price. In some cases, the negotiation fee paid to the appraiser was based on a percentage of the negotiated purchase price. The practice of permitting the same person to perform both appraisal and negotiation functions is objectionable because it lessens the independence of the appraiser and could result in inflated land costs to the airport sponsor and in greater Federal participation in such land costs. This problem is compounded when the negotiation fee is based on a percentage of the purchase price of the land.

FAA agreed with our findings and proposals for corrective action and informed us that agency guidance relating to the adequacy of appraisal data would be improved. FAA also informed us that its procedures would be revised to specify that, when an appraiser negotiates the purchase price of the land, his appraisal report will not be used by FAA in determining the reasonableness of the land costs.

FEDERAL-AID HEALTH PROGRAM

41. Financial administration of health grants made to States--As reported to the Congress in August and September 1966 and in July 1967, our review of Federal grants to several States for supporting certain essential health services showed a need for more effective administration by the Public Health Service, Department of Health, Education, and Welfare, in order to reasonably ensure that such Federal grant-in-aid funds fully serve the purposes for which they are made available. Our review covered grants for heart disease control, cancer control, and programs for the chronically ill and aged in Illinois; heart disease and cancer control programs in Indiana; and programs for the chronically ill and aged in Washington.

We found that the Public Health Service should have made more effective reviews of the States' plans for carrying out the health programs and that the Department's audit staff should have made more adequate tests to ascertain whether accountability requirements had been met by the States and program activities had been conducted in compliance with approved health plans. We proposed that the Department strengthen supervisory controls over its regional office activities, which include the review and approval of State plans, revision of its audit procedures, and obtaining refunds from the States for any grant funds improperly expended.

In response to our proposals, the Department informed us of several actions which were taken or contemplated to improve and strengthen the reviews of State health plans and the Department's audit activities. Also, we were informed that Federal grant and matching expenditures questioned by us would be reviewed and action would be taken to recover any Federal funds not properly expended.

FEDERAL-AID HIGHWAY PROGRAM

42. Clarification of administrative responsibilities for multiagency construction projects--The John Day River Bridge on Interstate Route 80 N in the State of Oregon, constructed at a cost of about $2.4 million, collapsed in December 1964--about 15 months after completion--as a result of scouring of the stream bed around and below the footings of one of the bridge supports during extreme flooding conditions. The footings of this support had been established on compacted sand and gravel approximately 14 feet above bedrock, which was contrary to the original contract requirement that the bridge piers be founded upon bedrock.

The bridge was designed and constructed under the supervision of the Oregon State Highway Department under a contract with the Corps of Engineers, Department of the Army. Because Federal-aid highway funds were involved, the Bureau of Public Roads, Federal Highway Administration, Department of Transportation, in accordance with the requirements of Federal-aid highway legislation, reviewed and approved the construction plans and specifications and concurred in the award of the construction contract.

The Bureau's division office that had the responsibility for reviewing and approving all changes was not made aware of the change in the pier's elevation until about 1-1/2 months after the footings had been poured. The State did not notify the Bureau nor obtain its approval before the change was made, and there were certain misunderstandings, principally because the memorandum of understanding between the Corps and the Bureau did not clearly define each of the agency's responsibilities. We found that the Bureau relied on what it thought was a thorough review by the Corps and did not attempt to independently evaluate the change, when it was first in a position to do so, after the change took place.

In our December 1966 report to the Congress, we recommended that, to avoid future misunderstandings concerning agency responsibilities in reservoir highway relocation projects in which Federal-aid highway funds are involved, the Bureau and the Corps revise their memorandum of understanding to more clearly define for each agency the respective responsibilities and limitations set forth therein and that the significance of the changes be brought to the attention of responsible field officials of both agencies.

In May 1967 we were advised that corrective action, as suggested in our report, had been taken. On the basis of our review of the revised memorandum, we believe that proper implementation by the Corps and the Bureau of the provisions set forth in the revised memorandum should preclude future occurrences similar to the John Day River Bridge incident.

43. Problems in location of interstate highway segments in urban areas--Our continuous review of the various aspects of the Federal-aid highway program administered by the Bureau of Public Roads, Federal Highway Administration, Department of Transportation, indicated that the timely and economical completion of the Interstate Highway System may be hindered by unresolved route location and design problems for segments in major metropolitan areas. The problems stem basically from an inability of the parties concerned--Federal, State, and local--to reach agreement on suitable specific route location or design features.

With the passage of the Federal-Aid Highway Act of 1956, the Congress declared that prompt and early completion of the Interstate

Highway System was essential to the national interest and specified its intent that the entire system be brought to simultaneous completion by June 30, 1972. During the early years of the program, there was little indication that the system could not be completed as planned. In 1965, however, the Bureau advised certain States that it was concerned with the slow progress being made in connection with urban segments of the system.

Our review of the route location problems of certain Interstate Highway System segments in major metropolitan areas in five selected States–Michigan, Illinois, Maryland, New York, and California–showed that, although the need for obtaining route location agreements between the parties concerned was present in each case, the circumstances that created the disagreement varied.

The Bureau, in commenting on these matters, advised that these unresolved segments were not vital links in the unified national network of the Interstate Highway System but, rather, were vital links only in metropolitan transportation systems and would serve to improve metropolitan traffic circulation, relieve local congestion, and provide service through the central district. In this regard, the Bureau stated that failure to complete these segments would not prevent the completion of an integrated and complete Interstate Highway System.

The Bureau stated also that the route location problems could be resolved by deleting route segments entirely from the Interstate Highway System and substituting other interstate connections. The Bureau pointed out that this approach had been used in San Francisco without any adverse effects on the unified national network of interstate highways. In this case, the Bureau, in March 1966, deleted two interstate segments from the system and rerouted a third interstate segment because no progress was being made toward gaining local approval of the location of the route. These segments totaled about 14 miles and, in 1965, were expected to cost about $330 million.

Both State and Bureau officials recognized, however, that the deleted segments or substitutes therefor would eventually have to be constructed in order for San Francisco to meet its traffic needs. Moreover, Bureau officials informed us that, if the State could demonstrate to the Bureau that the deleted segments could be reestablished and built before 1972, the Bureau might designate portion of the deleted segments as part of the Interstate Highway System. It appears, therefore, that the Bureau's approach to the route location problems in San Francisco was an expedient solution.

It was our opinion, after reviewing the problems associated with the location of interstate segments in metropolitan areas and analyzing the Bureau's comments on these matters, that the Bureau's solution to these problems carried with it such consequences that the Congress might wish to examine the approach in detail. Therefore, in August 1967 we reported these matters to the Congress for its consideration in its continuous review of the Federal-aid highway program.

FLOOD CONTROL PROGRAM

44. Requirement for a local contribution to a dam and reservoir project--In a report to the Congress in January 1967, we pointed out that, although it is the policy of the Corps of Engineers (Civil Functions), Department of the Army, to recommend to the Congress a local contribution toward the costs of flood-control reservoirs that serve essentially as local flood-protection measures or produce some specific local benefit, a local contribution had not been recommended in connection with the costs allocated to flood control for the Del Valle Dam and Reservoir in California. We expressed our belief that a more complete evaluation of the factors involved–which, in our opinion, reasonably should have been made in the circumstances–would have indicated that a local contribution of between $1.1 million and $2.4 million may have been appropriate in connection with the proposed project costs allocated to flood control. The flood-control storage to be provided by this project appears to be essentially a local flood-protection measure for which, under Corps policy, a local contribution could have been recommended.

So that all essential information with respect to local benefits on projects such as the Del Valle Dam and Reservoir will be available,

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we recommended that the Secretary of the Army request the Chief of Engineers to revise existing procedures to require a more complete analysis of the benefits expected to result from the construction of future flood-control works and to clearly identify the recipients to whom substantial benefits will accrue, and that this information be made a part of each project report submitted to the Congress for approval.

In March 1967 the Department of the Army advised us that (a) the Senate Public Works Committee had directed the Corps to restudy the current monetary authorization for the Del Valle project and (b) our report would be considered during the course of the restudy. We were advised further that, in those cases permitting a clear identification of the recipients to whom substantial benefits will accrue, such information will be made a part of the project report.

FOREIGN ASSISTANCE PROGRAMS

45. Competitive bid procedures adopted on Government-financed procurements. We reviewed the procurement practices followed by the Afro-American Purchasing Center, Inc. (AAPC), New York, N.Y., in regard to the nondisclosure of the prices paid for measles vaccine purchased with Agency for International Development (AID) funds for use in African countries.

From September 1965 through May 1966, AAPC procured by negotiation over 2.1 million doses of measles vaccine with $930,000 of AID funds that had been granted to African governments or organizations. In November 1966, AAPC was authorized to procure over 3.3 million additional doses of measles vaccine, which was to cost over $1.3 million, with AID grant funds as the first increment of a significantly larger smallpox eradication and measles control program in Africa over a 5-year period that would require an estimated 24.6 million doses of measles vaccine at a cost of about $10 million in the fiscal years 1967, 1968, and 1969.

AID Regulation I states that formal competitive bid procedures will be used if required by the implementing documents or if elected by the importer. The regulation further states that, if procurements are not subject to formal competitive bid procedures, they should be made in accordance with good commercial practices. The implementing documents, issued to AAPC by AID, concerning the measles vaccine procurement did not require that formal competitive bid procedures be followed but required that AAPC comply with AID Regulation I which permits good commercial practices. The president of AAPC advised us that, as a matter of business ethics, AAPC followed the commercial practice of not revealing the award price except when directed to do so, such as in the case of procurements financed with AID loan funds.

We were advised by AID officials that, where AID loan funds were involved in Africa, it was AID's practice to require public opening of bids and that, if they were to make the measles vaccine procurements directly, they would be required to follow the provisions of the Federal Procurement Regulations requiring the disclosure of prices paid even though the procurements technically could be considered as made through negotiation rather than through formal competitive bidding.

Under the circumstances, it seemed to us that, as a matter of principle, protection of the interest of the United States in ensuring the most economical procurement would require preservation of the safeguards provided by the statute and the regulations to the maximum degree, compatible with the purposes intended to be served. The facts in this situation did not, in our estimation, present a case justifying dispensing with these safeguards since the purposes for which the United States funds were being expended would be the same regardless of whether the funds were expended by AAPC or directly by the Agency.

We suggested that, where organizations such as the AAPC are utilized for procurements under the economic assistance program, AID incorporate a provision with respect to the expenditure of AID funds which would require that established United States Government procurement practices be followed, including disclosure of prices paid, unless compelling circumstances dictate otherwise. We further believed that deviation from standard Government procurement practices in such exceptional cases should be fully justified in writing as a part of the official record pertaining to the program in question.

In commenting on these matters, AID stated that AAPC had agreed that, on all new AID-financed business, it would utilize the formal competitive bid procedures requiring public opening of bids, for any purchase contract estimated to exceed $50,000 unless waived by AID in specific cases. With respect to smaller transactions, AID also had been receiving a summary of offers and award and upon request would make the information available to suppliers.

46. Implementation of a project to provide medical services--Our review of the United States economic and military assistance provided to health projects in El Salvador since 1963 showed that, because of a shortage of doctors, the civic action medical clinic project, a joint project under the Department of Defense and the Agency for International Development (AID), was never fully implemented and failed to meet its objective of providing better medical services for El Salvador. Failure to implement the project resulted in ineffective use of most of the $300,000 worth of United States-financed equipment, supplies, and services.

We also found that implementation of the mobile rural health project was delayed for over a year due to the lack of sufficient qualified personnel and that, as a result, much of the immediate and favorable impact which the project could have achieved for the Alliance for Progress was lost. Certain United States-financed commodities provided to this project were also ineffectively utilized.

Insofar as the ineffective utilization of medical equipment and supplies is concerned, we have been advised by the Department and AID that corrective action which will result in effective utilization has been initiated or taken.

47. Planning and supervision of economic development projects--Our reviews of the Agency for International Development's (AID's) administration of economic development projects for Colombia showed that there was a need for improvement in the planning for, and the supervision of, United States-financed development projects not only in Colombia but also in other countries.

We found in our review of the private investment fund project--in which the AID had invested the peso equivalent of $38 million--that at least $24 million had been used for purposes either contrary to United States objectives or of questionable need and priority. In our opinion, the primary cause was AID's release of project funds without establishing adequate criteria and controls to govern their use.

We also found in other projects--in which the Agency had invested the equivalent of about $30 million in dollars and pesos--that progress had been so limited, in terms of accomplishing AID objectives, that the projects had not produced the intended benefits in any significant amount. The projects included fertilizer production, agricultural resettlement credit, primary education and a related educational television system, and feasibility studies. In our opinion, the primary cause of these difficulties was AID's approval of projects without determining that they were feasible or that the Government of Colombia was willing and able to effectively and timely carry them out.

In commenting on our review, AID officials agreed in general with our findings and stated that actions being taken would strengthen control and supervision over the projects reviewed.

Although the actions being taken by AID might correct many of the deficiencies which we had identified, we believed that additional steps should be taken to prevent similar deficiencies in projects for Colombia or other countries. Therefore, we recommended that AID establish criteria which would facilitate determination of recipient country capability for implementing and administering United States-financed projects.

48. Maintenance and utilization of equipment furnished under foreign assistance--Our review of the programming of equipment and vehicles provided to 10 of the 20 African countries, including Dahomey and Mali, receiving limited assistance strongly indicated that the Agency for International Development (AID), in programming assistance, had not realistically recognized that the recipient countries lacked capabilities for maintaining and effectively utilizing the equipment and vehicles.

We found that, from an overall standpoint, Dahomey and Mali had not effectively utilized and maintained a substantial part of the AID-financed road construction and maintenance equipment and vehicles. AID internal reviews in recent years also had generally indicated that equipment and vehicles provided to Dahomey and Mali and eight other African countries were not being effectively utilized and maintained. The ineffective utilization and maintenance was generally due to (a) the lack of trained operators and mechanics, (b) inadequate maintenance facilities, (c) insufficient spare parts inventories, and (d) failure of the recipient country to provide adequate budgetary support. In our opinion, the recipient countries consequently were not receiving the benefits from this type of assistance that otherwise could have been reasonably expected.

Our review showed that, in some of the countries, AID had not maintained adequate surveillance over the use of the equipment and vehicles or followed up on indicated deficiencies. We were advised that AID efforts to maintain surveillance over the equipment and vehicles had been hindered by a policy decision in 1963 relative to AID's administration of assistance programs in Africa. After reduction in appropriations and because of increasing congressional concern with the number of countries having separate AID missions, AID decided not to establish missions in many of the African countries receiving limited assistance.

AID recently had made efforts to obtain better utilization of equipment and vehicles furnished to African countries, through improved planning and management relating to furnishing this type of assistance.

In commenting on these matters, AID recognized the need to more realistically appraise the capabilities of the recipient countries and to obtain specific and meaningful commitments from countries on providing mechanics and operators or to make contractual arrangements with supplier representatives for maintenance of vehicles and equipment while the countries build up their own maintenance capabilities. We were advised that AID had taken steps to meet the need for prompt and adequate surveillance over projects, including better end use and financial reviews of projects in the field.

We believed that the improved management and planning policies, if adequately implemented, would mitigate most of the problems revealed. In view of AID's commitment to administer the assistance furnished to African countries receiving limited assistance along the lines described above, we did not make any recommendations.

49. Planning, construction, and surveillance of economic development projects--We reviewed six capital development projects financed by United States economic assistance of more than $200 million in dollars and rupees for India, mostly by loans, as administered by the Agency for International Development (AID) and considered AID's plans and arrangements for the importation of equipment and materials essential to completion of the projects.

On the basis of our review, we believed that AID could provide for improvements in planning, implementing, and continued surveillance of major capital development projects in India to ensure that maximum potential benefits to the Indian economy would be obtained.

We noted serious delays and difficulties in connection with several projects financed by the United States, which were an indication that the AID mission's surveillance of project implementation should be improved. Substantially changed conditions relating to a rayon yarn and tire cord facility raised doubts as to the technical and economic feasibility of constructing a proposed cotton linters plant estimated to cost in excess of $2.2 million, as a result of which AID was belatedly reevaluating the feasibility of the projects.

For substantial rupee and dollar loans being provided through the Industrial Finance Corporation of India to concerns in the private sector for the purpose of new industrial development or expansion, it appeared that there was an opportunity for improvements in financial management with respect to both rupee and dollar loans to the prime borrower, including more reasonable assurance that projects being financed by subloans were sound as to technical and economic feasibility and were being implemented in an economical manner.

For two other industrial development projects and a modern storage of food grains project being financed by AID, we noted instances where improvements in project implementation were possible through increased mission activity and surveillance and we made specific recommendations where deemed appropriate. We also noted that objectives had not been met in a gear plant project but that action was then being taken by AID to determine if the situation could be corrected.

We found that, although AID had provided the necessary foreign exchange for the import of equipment in support of major development projects, there were continuous problems in connection with the implementation of such projects because AID had failed to make necessary plans and arrangements for the import of equipment essential to completion of projects. In the absence of such necessary plans and arrangements, the traditional practices of the Indian Government in conserving its foreign exchange were applicable to AID-financed projects and unnecessarily restricted imports essential to these projects.

We proposed that AID take action in connection with all future loan agreements for major capital development to reach an understanding with the Government of India regarding the timely importation of all necessary materials and equipment to prevent project delays.

We believed that the facts related to the six projects covered by our review demonstrated that AID had approved projects although there had not been sufficient advance planning to ensure that implementation would take place in a reasonably effective, efficient, and economical manner and that the Mission thereafter had not exercised the necessary surveillance over the implementation of the projects to attain the desired economic objectives.

AID, in commenting on our draft report, indicated an awareness of the need for further improvement in the administration of capital assistance activities in India. AID also reported that it was attempting to improve procedures and staffing and that the Government of India had taken steps to facilitate sound economic development.

50. Processing claims against voluntary relief agencies--In a report submitted to the Congress in June 1967, we pointed out that the United States Government had been having very little success in processing and collecting claims against distributing agencies in cases of reported food loss or misuse that might create a monetary liability on the part of the agencies.

We believed that problems in processing claims had been created by a lack of information needed to establish the nature and extent of loss and the liability of parties involved. Other difficulties were being experienced because claims responsibilities had been divided between two agencies and some very difficult administrative problems in obtaining information needed to substantiate or otherwise resolve the claims had been introduced by the separation.

We made several proposals for overcoming these problems. However, there were involved other issues which, in our opinion, Government agencies should consider simultaneously with proposals to improve procedures in processing claims.

Voluntary relief agencies commented on the difficulties in administering donation programs in less developed countries where administrative talents and port, transportation, and storage facilities were, in general, far from United States standards. They believed that these factors, together with other extenuating circumstances, made a certain amount of loss inevitable but that the regulations governing food donation programs did not provide reasonable allowances for these factors. There also was some question as to the effect the payment of a significant volume of claims might have on the capability of the voluntary relief agencies to administer donation programs.

We commented on the extenuating circumstances brought to our attention so that executive branch agencies would be in a position to give them careful consideration in reviewing regulations to determine whether changes were called for.

The Department of Agriculture, the Agency for International Development, and the principal voluntary relief agencies agreed, in general, with the matters discussed in the

report. We were advised that steps had been taken to revise program regulations and to realign administrative responsibilities.

There are many problems yet to be overcome before claims responsibilities are discharged in a satisfactory manner. We are unable at this time to comment on the ultimate success of the measures being taken. We plan to keep abreast of the future efforts made by the cognizant agencies to resolve these problems.

We brought these matters to the attention of the Congress because of the long-standing problems in processing claims which have been of concern to both Government and distributing agency officials and to call attention to measures being taken by cognizant agencies to alleviate these problems.

51. Transportation of food donated for distribution abroad--In a report submitted to the Congress in April 1967, we pointed out that, of 107 countries receiving American foods in 1965 and 1966, only four had contributed toward the ocean freight costs.

The governments of more than four of these countries appeared to be in sound financial condition during this period.

Potential savings that could be realized by making efforts to obtain contributions to shipping costs from recipient countries were not subject to precise calculation because of a number of variables involved. Our review indicated, however, that the amount would be significant.

If efforts were successful, the United States balance-of-payments position would be benefited to some extent.

Food-for-Peace legislation permits payment by the United States of ocean freight costs for food donated by the American people to nonprofit distributing agencies to assist the needy in foreign countries, provided a determination has been made that such payments are necessary to accomplish program purposes.

Our inquiry showed that regulations followed by the Agency for International Development (AID) did not require an assessment of the recipient countries' financial means, or willingness, to defray ocean shipping charges.

We found that the question of whether foreign countries could or should pay ocean freight costs had been considered only in isolated cases.

At the conclusion of our review, we made several proposals with which AID expressed agreement. AID advised us of positive steps it was taking in keeping with the spirit of this report. We will report on the success of these efforts after a reasonable time.

This report to the Congress spotlighted an area where significant savings might be achieved by encouraging additional self-help measures on the part of nations receiving donated foods from the United States.

52. Audits of food donation programs administered by nonprofit voluntary relief agencies--In March 1967, we reported to the Congress on our survey of the extent of audits of Government food donation programs administered by nonprofit voluntary relief agencies.

The broad objective of our survey was to place in perspective the difficulty in striking a reasonable balance between the Government's need to ensure effective operation of food donation programs and the need to avoid unduly hampering or restricting voluntary agencies in their administration of these programs.

Some voluntary relief agencies expressed the view that the amount of review activity by Government agencies so empowered had become excessive. We concluded that the food donation programs abroad were so large in size, so varied in type, and so geographically dispersed that there had been only limited audit coverage despite a significant amount of audit effort made by Government agencies. Also, we believed that working arrangements among executive branch agencies auditing these programs guarded, for the most part, against overlapping efforts.

A proposal which was being considered by the Agency for International Development (AID) could result in a redirection of

executive branch audits if satisfactory arrangements could be worked out with voluntary relief agencies. This proposal envisages an expanded audit effort on the part of voluntary relief agencies so as to permit AID auditors to adopt a broader management approach in their reviews.

The degree to which this proposal can be implemented depends on the capability of voluntary relief agencies for expanding their internal reviews abroad. We were advised that AID officials had met with voluntary relief agency officials to learn their views on this proposal and to help these agencies establish audit guidelines and reporting procedures.

Associated with the question of the extent of the audit were other questions, such as the reasonableness of the regulations and the lack of allowances that take into account the adverse conditions under which the programs are conducted in less developed countries where administrative talents and port, transportation, and storage facilities usually are far from United States standards.

Although we did not address ourselves specifically in this survey to the equity of governing regulations or to the degree to which voluntary relief agencies were being or should be held monetarily liable for violations, we undertook another review which focused on these matters. We were advised by AID that the governing regulations for donation programs were being restudied.

AID and the major voluntary relief agencies expressed general agreement with the matters discussed in the report.

It is pertinent to note that we did not attempt to come to conclusions as to what an appropriate level of audit staffing or coverage should be. This would require consideration of a variety of questions, and we have not yet performed the types of reviews abroad that would permit us to make independent judgments.

We plan to inquire into these matters in a number of countries in future reviews. Because of the consideration being given to revising program operating guidelines and to realigning audit responsibilities, we plan to initiate our reviews after a reasonable time has elapsed.

We issued this report to the Congress because of inquiries received from several members indicating a general interest in the subject matter.

53. Purchase of commodities for the Vietnam commercial import program--During our survey of the Agency for International Development's (AID's) administration of the commercial import program for Vietnam, we noted a number of problems associated with the procurement of commodities for the program through the General Services Administration (GSA). Through June 1967 AID had obligated $28 million for such purchases.

Procurement through GSA was one of the major program reforms agreed to by the Government of Vietnam in July 1966. The purpose of this procedure was to sever all possible collusive links between importers and suppliers, to achieve cost economies through bulk procurement, to reduce shipping to increase overall efficiency, and to reduce port congestion. Goods procured through GSA were generally shipped to Vietnam aboard United States Army vessels and the Army was responsible for off-loading.

We noted problems in such areas as the providing of specifications to GSA by AID, the lead time given GSA by AID to initiate procurement action, the arrangements for obtaining reimbursement, the arrangements for ocean transportation, and the off-loading of commodities. We expressed the belief that a number of these difficulties could be corrected on the basis of experience and that these problems should be resolved by AID, GSA, and the Army.

We noted also that procurements through GSA had been limited to bulk commodities and that consideration had not been given to utilization of GSA's General Schedule of Supplies procedure as part of the regular commercial import program.

We therefore recommended that AID (a) devote its best efforts to correcting, in conjunction with GSA and the United States Army, the difficulties encountered in making purchases through GSA and (b) consider pressing the Government of Vietnam to expand the list of commodities to be procured

through GSA and to utilize GSA's General Schedule of Supply in connection with relatively small individual purchases.

54. Management reporting system regarding audit coverage--In a report submitted to the Congress in August 1967, we stated that the overall surveillance of the commercial import program in Vietnam by the Agency for International Development (AID) could be overstated. Our primary concern was with the reliance placed by top AID management and other interested parties upon data so reported in evaluating program effectiveness.

There are a number of important management control stages in the implementation of a commercial import program which lend themselves to audit coverage. These stages range from the broad procurement authorization stage at the beginning of the import cycle to the end-use of a specific commodity at the end of the cycle.

In a sampling of the manner in which audit coverage was being afforded at each control point, we found that coverage varied considerably, with the greatest coverage being given to the initial stages of the procurement cycle. Our review also showed that, in reporting the dollar value of audit coverage to top AID management, the Audit Branch followed the practice of reporting overall audit coverage on the basis of the broadest program segment, rather than reporting on each control stage. Thus, end-use coverage, which is the last and narrowest program segment, was in effect quantified on the basis of the earliest and broadest segment.

We recommended that top AID management adopt an audit coverage reporting system which would reflect the varying degrees of audit coverage accorded at each management control stage of the commercial import program. Such a system should include, as a minimum, a stratification of the coverage accorded at each principal review stage.

55. Identification and redistribution of excess materiel to meet other valid requirements--Our review of certain military materiel provided a military assistance recipient country showed that materiel valued at several million dollars was excess to the military assistance purposes for which it was furnished and that it was not declared available for return to United States control. Had this materiel been available, a significant amount could have been considered since August 1964 for meeting other United States requirements, particularly in Southeast Asia, in lieu of procuring new items or renovating other available stocks.

We found that the responsible military advisory organization had not fully carried out the direction and guidance of the Department of Defense for obtaining the return to United States control of excess military assistance materiel nor had it been required to do so by the Department of Defense or unified command.

Our report on this finding was issued to the Congress in April 1967.

During the course of our review, we brought to the attention of the Secretary of Defense that we had found, in this review and in our military assistance program reviews in general, that military assistance advisory groups in many instances had not made a concerted effort to identify military assistance provided materiel no longer needed for the purposes for which provided, or to enforce existing agreements which require recipient countries to make such materiel available for redistribution.

The Secretary of Defense reemphasized to unified commands and military assistance advisory groups the importance of recovering excess items which were urgently required by the military departments because of actions in Southeast Asia. As a result, significant quantities of materiel were declared excess by military assistance recipient countries; and, as of February 1967, about $14.9 million had been recovered by the United States.

In our report on this review, which we provided the Secretary of Defense for comment, we made proposals for strengthening the DOD system for identifying, reporting, utilizing, and/or disposing of military assistance program excesses. The Department of Defense comments stated that our report had been helpful in reemphasizing the need for

continuous surveillance and enforcement of Department policy at all levels of military assistance program management and that, on the basis of our proposals, the Department would issue additional guidance to all unified commands. Instructions were issued incorporating elements of the corrective actions we proposed.

The extent to which military assistance materiel, no longer required by recipient countries for the purpose for which provided, will be recovered, redistributed for immediate use, or shared to satisfy future requirements to limit new procurements will depend largely upon effective implementation of the policies and instructions.

56. Development and use of accurate asset data to avoid excesses--As disclosed in our report to the Secretary of Defense in October 1966, our review of selected aspects of the management of supplies and equipment furnished under the military assistance program to the Korean Air Force indicated a potential for realizing substantial reduction in costs of logistical support for the Korean Air Force. We expressed the belief that a reduction in costs could be realized by the exercise of greater efforts by the United States advisory personnel in assisting the Korean Air Force to improve the management of material provided by the United States.

Because of the absence of effective supply management, the Korean Air Force had requisitioned and the United States had delivered large quantities of assemblies, spare parts, and support equipment--valued at several million dollars--in excess of actual needs. In our opinion, the large accumulation of excess stock resulted from numerous problems in the day-to-day supply operations; however, we believe the major contributing factors to be (a) the failure to properly consider in computing requirements for stock replenishments, all available, unserviceable but reparable, assets and excess spare parts on hand at the operating levels (b) the use of unreliable requirement data as a basis for supply management, and (c) the ordering of supplies and equipment in excess of established requirements.

During the course of our review, the United States advisors initiated action to cancel outstanding requisitions amounting to $314,000.

At the completion of our review, we proposed to the Secretary of Defense that action be taken (a) to identify and redistribute the stocks excess to the needs of the Korean Air Force, (b) to validate outstanding requisitions on the basis of firm and reliable requirements, (c) to establish procedures to minimize future accumulations, under the military assistance program, of stocks excess to the needs of the Korean Air Force, and (d) to ensure that realistic and reliable requirement data would be established as a basis for requisitioning assets, that levels of established requirements would not be exceeded, and that reparable and other assets on hand would be properly considered in determining stock replenishment requirements.

The Office of the Assistant Secretary of Defense, International Security Affairs, advised us, in classified comments, of the corrective actions that were being taken.

57. Enlargement of petroleum facilities to eliminate transshipment of petroleum products--Our review of selected aspects relating to the shipment and handling of bulk petroleum products consumed in Korea by United States and Korean military forces showed the potential for realizing a substantial annual reduction in costs of supplying petroleum products.

The United States Army has been supplying the majority of the petroleum requirements for Korea from the Army terminal and storage facilities located in Japan. This method of supply involves the shipment of petroleum, generally from refineries located in the Persian Gulf, to Japan in large tankers. The products are off-loaded into the Army terminal and storage facilities in Japan and transshipped to Korea in small tankers. This indirect routing of petroleum to Korea has been necessary because the storage tank capacity in Korea has been inadequate to handle the receipt of large tanker shipments on a routine basis. Some of the requirements in Korea have been met in the past few years by partial off-loading of direct shipments from the refineries.

We estimated that, by enlarging the Korean depot storage facilities–which would cost an estimated $834,000–requirements could be met by direct shipments from the refineries and that future annual handling and transportation costs would be reduced by about $1,386,000.

We proposed to the Secretary of Defense that an evaluation be made of the feasibility of providing additional tank capacity in Korea and of supplying the petroleum requirements direct from the Persian Gulf.

The Deputy Assistant Secretary of Defense (Installations and Logistics) concurred in our proposal and informed us that an economic-feasibility study was being made. We were subsequently informed that direct shipments of petroleum products to Korea were more economical than transshipment and that the Army was initiating actions necessary to the establishment of a commercial contract in support of the petroleum operation in Korea.

58. Management of data to support claims for cost sharing of construction costs–In our report to the Secretary of Defense in October 1966, we highlighted another example of the need for improvements in the administration of United States construction in Europe to obtain the maximum benefits of cost sharing under the NATO infrastructure program. This report was based on our review of the Air Force administration of a claim submitted for NATO reimbursement of costs incurred by the United States.

Normal procedures for obtaining NATO cost sharing of eligible projects required that NATO funding approval be obtained prior to construction of the project. In the early years of the NATO common infrastructure program, considerable confusion existed as to the proper application of this and other rules governing eligibility for cost sharing. In 1959 NATO approved a procedure, as an exception to the basic rule for eligibility, permitting the cost sharing of projects that either had not been previously submitted for NATO approval or had been submitted but not accepted.

Under this procedure the United States Air Forces in Europe (USAFE) submitted to the Federal Republic of Germany, the host country, for submission to NATO in accordance with established procedure an adjusted claim of about $34.3 million, which included costs incurred by the United States both in dollars and in deutsche marks.

Our review disclosed no action by USAFE to pursue the claim or determine its status until, in March 1963, USAFE was notified that NATO action on the claim had been deferred because sufficient supporting documentation was lacking. Subsequent settlement of the claim was hampered because documentation used in preparing the claim and documentation necessary to support the claim had not been preserved. This review pointed up improvements needed in administration of claims for reimbursement of United States costs to ensure timely follow-up, retention of necessary documentation, and establishment of accounting controls.

We presented this report to the Secretary of Defense as a further illustration of the need for improvement in management controls to obtain the maximum benefits from the NATO infrastructure program as recommended in our report to the Congress on "Lack of Effective Action by the Military Services to Obtain NATO Cost Sharing of Military Construction Projects in Europe" (B-156489, June 4, 1965). In that report we made recommendations for (a) coordinating and policing all actions required to obtain NATO approval of United States construction projects and (b) coordinating and policing all actions required to obtain timely reimbursement of funds due the United States.

The Assistant Secretary of Defense, Comptroller, informed us of some of the actions being taken to improve the administration of United States financial interests relating to the construction of facilities in Europe. These actions included issuance of a Department of Defense instruction and also implementing of the instructions by the Defense components having responsibilities over NATO infrastructure functions.

FOREST MANAGEMENT PROGRAMS

59. Appraisal procedures used by Government timber-management agencies–In December 1966 we reported to the Congress that significant

differences existed in the procedures which the three principal timber-selling agencies in the Federal Government used to appraise timber in the States of Oregon and Washington. Each of the three agencies: the Forest Service, Department of Agriculture, and the Bureaus of Land Management and of Indian Affairs, Department of the Interior, use the analytical appraisal method to calculate the appraised value, or minimum acceptable selling price, of timber. Under the analytical appraisal method, the appraised value of a given amount of standing timber is determined by estimating the selling value of products into which the timber may be converted and then subtracting from this value all necessary costs of processing the timber. The remainder is further reduced by an allowance for profit and risk. The result is the appraised value.

We found significant differences in the appraisal procedures of the three agencies with regard to (a) determining the estimated selling value of the wood products and by-products to be obtained from the timber, (b) estimating the costs of producing these wood products, and (c) establishing the allowance for profit and risk. We concluded that, because of their differing procedures regarding these factors, the three agencies could compute significantly different appraised values for like stands of timber.

We recognized in our report that officials in the Federal timber management agencies had eliminated some of the differences in their appraisal procedures. However, we noted that these officials had not resolved other differences despite the statement of congressional intent in 1956 that the Federal timber-selling agencies should have uniform policies, methods, and procedures and despite Bureau of the Budget requests in 1959 that the Department of Agriculture and the Department of the Interior achieve consistency in these areas.

We stated our belief that it is important, when different agencies are selling timber, that the responsible management officials coordinate their activities to help ensure that the policies and procedures for the appraisal and sale of this timber are uniform and equitable to both the Government and the timber purchasers. So that this uniformity would be achieved, we recommended in our report that the Director, Bureau of the Budget, in connection with a joint study by these agencies, take the necessary action to ensure that they would jointly develop and apply the most desirable set of appraisal procedures that would resolve the existing differences discussed in the report as well as any other differences shown by the study.

In response to our report, an official of the Bureau of the Budget informed us in April 1967 that the two departments had agreed to develop plans for a timber appraisal system that would be uniform to the fullest practicable extent and that the plans were to be implemented by July 1, 1968.

60. Controls over timber-cutting practices in national forests–The Forest Service, Department of Agriculture, generally relies on its own personnel to measure the timber which purchasers cut and remove from the national forests. In most areas of the Douglas-fir subregion of the Pacific Northwest Region, however, the timber purchaser may elect, with Forest Service concurrence, to have this function performed by private organizations known as scaling bureaus.

In September 1966 we reported to the Congress that the Forest Service, Pacific Northwest Region, which uses these scaling bureaus, needed an effective system to detect improper cutting practices of timber purchasers and that regional instructions which require the assessment of penalty charges for such improper practices should be implemented. We estimated that the Government would have obtained additional timber sale revenue of as much as $300,000 in calendar year 1964 had appropriate assessments been made and collected.

We proposed that the Chief of the Forest Service require bureau scalers to record all instances of improper cutting and require regional officials to make periodic reviews to ascertain whether charges are being assessed for improper cutting practices.

In November 1966 we reported to the Chief, Forest Service, that further improvements were needed in the system for evaluating the performance of bureau scalers in the Pacific Northwest Region. We recommended

that procedures be established to determine whether bureau scalers were being periodically rotated and effectively check scaled and that, to facilitate the evaluation of performance on each bureau scaler, a cumulative central record be maintained showing the results of check scales made on him.

In December 1966 and January 1967 revised agreements with the scaling bureaus were signed by the Forest Service. These agreements required bureau scalers to note instances of improper cutting practices. In addition, the bureaus were required to notify the Forest Service of any scaler location changes. The Forest Service, Pacific Northwest Region, also instructed its timber sales officers in the Region to use the new scaling information to assess charges for improper cutting, and the agency began a study to evaluate the adequacy of the present frequency of check scaling.

GEODETIC SURVEYING ACTIVITIES

61. Coordination of geodetic surveying activities of selected agencies of the Federal Government– In January 1967, we submitted a report to the Congress on our review of the geodetic surveying activities of selected agencies of the Federal Government. Our review indicated that economies could be realized through improved coordination of these activities.

The Environmental Science Services Administration, Department of Commerce, has the responsibility for establishing a nationwide network of geodetic control points, and the Bureau of the Budget has the overall responsibility for coordinating geodetic surveying activities in the Federal Government.

Other Federal agencies–including the Geological Survey, Department of the Interior, in its national mapping program and the Federal Highway Administration, Department of Transportation (formerly the Bureau of Public Roads, Department of Commerce) in its highway programs–also establish geodetic control points. These points generally were being established only to standards required for individual program needs, however, and, for the most part, they did not meet the standards of accuracy required to extend the national network. Consequently, the Environmental Science Services Administration had planned to resurvey most of the same areas to establish points that would meet national network standards.

We expressed the opinion that, if the initial surveys could be made to national network standards, substantial savings in effort and cost would result, because it would not be necessary for the Environmental Science Services Administration to resurvey the same areas. On the basis of data available during our review, we estimated that past or planned expenditures for geodetic surveys, which would not contribute to the national network of geodetic control, by the Bureau of Public Roads or the Federal Highway Administration under the highway programs would total about $30 million and by the Geological Survey under the topographic map program would total about $15 million.

In September 1966, the Bureau of the Budget advised us that the Geological Survey and the Environmental Science Services Administration had entered into an agreement which would provide that, while the Environmental Science Services Administration would continue to accomplish as many of the horizontal control (latitude and longitude) surveys as possible, the Geological Survey would establish horizontal control to national network standards in those situations where a portion of a large uncontrolled area must be mapped before the Environmental Science Services Administration can provide the control.

We recognized this agreement to be an important step in the right direction but concluded that a more economical arrangement might be possible. Under the contemplated arrangement, the Geological Survey would perform the basic control required for those areas which are presently uncontrolled and which it plans to map under its current mapping program, except where this would result in delays in satisfying the requirements of other agencies.

In those cases in which the Geological Survey would perform the basic control, it would result in only one field operation, while in those cases in which the Environmental Science Services Administration would perform the basic control, two field operations would be required–one by the Environmental

Science Services Administration to establish the control and one by the Geological Survey to identify and utilize the control for mapping purposes.

Also, there was no indication that any specific action would be taken by other Federal agencies to improve the coordination of their geodetic surveying activities with those of the Environmental Science Services Administration. In our opinion, geodetic control surveys should be performed to national network standards whenever such surveys are performed in an area where they will fit into the overall national geodetic control plan and whenever such control will eliminate the need for the Environmental Science Services Administration to resurvey the same area.

Therefore we recommended that the Director, Bureau of the Budget, determine whether the geodetic surveying activities conducted by Federal agencies and under programs administered by Federal agencies are of such a nature and scope that it will be economically feasible to have such surveys, when undertaken in uncontrolled areas, performed to standards which will extend the national network of geodetic control.

Subsequently, the Bureau of the Budget in a letter dated March 24, 1967, to the Chairman, House Committee on Government Operations, indicated a partial acceptance of our recommendation in that it suggested to the Department of Commerce that it investigate the possibility of concluding an agreement with the Department of Transportation to facilitate to the maximum extent possible the coordination of the geodetic surveying activities of the Bureau of Public Roads and the Environmental Science Services Administration.

The Bureau stated that such an agreement could be modeled after the recent agreement between the Administration and the Geological Survey. The Bureau did not indicate, however, any plans to consider the feasibility of similar coordination agreements between the Administration and other agencies involved in geodetic surveying activities.

In May 1967, the Bureau of the Budget issued a revised Circular No. A-16 which redefined the responsibilities of Federal agencies regarding the coordination of surveying and mapping activities. The Circular delegated the responsibility to the Department of Commerce for exercising Government-wide leadership in assuring coordinated planning and execution of its national geodetic control surveys and the related survey activities of Federal agencies to the end that all surveying activities financed in whole or in part by Federal funds contribute to the national network of geodetic control when it is practicable and economical to do so.

At the request of the Bureau, the Environmental Science Services Administration undertook a comprehensive survey aimed at ascertaining the most efficient means for meeting geodetic control requirements, including appropriate cooperative arrangements with Federal users of geodetic controls.

We believe that the actions taken are responsive to our recommendation and, to the extent that they are effectively carried out, should lead to economies in geodetic surveying activities.

LOAN PROGRAMS

62. Justification for loan of dollars instead of counterpart funds--We examined into the Agency for International Development (AID) action in respect to a loan agreement with the Government of Colombia for $4 million, or the equivalent in pesos, to finance a livestock credit bank. We noted certain matters which we believed reflected seriously on the manner in which the loan agreement and the use of dollars instead of pesos had been officially justified.

The purpose of the loan, as justified by the AID Mission in Colombia and by loan-reviewing AID officials in Washington and as represented in AID's presentation to the Congress, was to finance the bank project for providing credit to Colombian cattle farmers. The loan agreement provided that pesos could be substituted for dollars. AID had estimated that pesos would comprise about 90 percent of the loan costs. AID had disbursed $1.7 million for these loan costs in dollars from February 1965 to the time of our review in July 1965.

The primary justification given in the loan papers for the use of dollars was that priority uses had been established for all available United States-owned and counterpart pesos. We found, however, that nearly $20 million in counterpart pesos, not firmly committed, had become available before the first loan disbursement was made in February 1965, at which time AID knew that as much as $25 million in counterpart pesos would soon be generated and had not been firmly committed. About $30 million in uncommitted pesos was available as of July 31, 1965.

AID, in commenting on our findings, cited an entirely different primary justification and gave several other secondary reasons, some of which had not been mentioned in the loan papers, for the use of dollars for this loan. We found this primary justification, and the other reasons given for using dollars, to be invalid in the light of the following facts.

We were told that the primary justification for the use of dollars had been that the use of pesos was subject to a credit-ceiling agreement of the International Monetary Fund (IMF) and would be inflationary. Actually this was not so because counterpart pesos had become and would become available and because the IMF agreement specifically excluded counterpart funds from being subject to the ceiling.

Another reason given in the loan papers was that the use of dollars would provide the leverage desired to influence the development of the livestock bank. Such leverage would be intangible and should have been unnecessary in view of the benefits to the host country from the increased resources of the bank, the responsibility of the host country for utilizing counterpart pesos, and the fact that the use of dollars was not required for generating pesos to finance the bank.

Other reasons given were that (a) this loan was an additional balance-of-payments loan, (b) mutual agreement on the use of pesos was required and had been refused by the Government of Colombia, and (c) the host-country had a list of proposals for using pesos far in excess of the amount potentially available. However, the balance-of-payments purpose was not included in the loan agreement nor disclosed in the loan papers, mutuality of agreement was not required on the use of pesos but only on the priority of their use, and no evidence was found that AID had discussed with the host country the use of pesos in lieu of dollars on this particular loan. Also, the list of Colombian proposals for using pesos was tentative, priorities for the proposals had not been established, and planning on many of the proposals was insufficient to reasonably ensure their economic feasibility and the effective use of pesos.

After we discussed the foregoing reasons with AID officials, we received AID's supplementary comments in which still another reason, which had not been included in the loan papers, was given for using dollars instead of pesos; that was, to provide additional external resources in line with AID's long-range assistance strategy.

In our opinion, the fact that the incorrect data presented to AID by the Mission were passed on by AID's loan-reviewing officials indicated that AID's justification and approval procedures were inadequate for providing a basis for AID's reaching a valid decision on loan applications and for ensuring full disclosure of such matters to the Congress in AID's annual budget presentations.

We believe that, to guard against the occurrence of similar situations, it would be desirable to bring this case to the attention of all AID personnel responsible for processing and approving loans in order that they might understand the need for ensuring that complete, accurate, and current information relevant to the purpose and means of financing of the proposed loans is obtained and fully considered in making loan decisions. AID advised us that the matter would be called to the attention of the appropriate offices in Washington and in the field for their future guidance.

6 3. Procedures for determining applicants' ability to obtain loans from other sources--On the basis of our review of 35 loans to 15 Latin American countries by the Agency for International Development (AID) during calendar years 1963 through 1965, we concluded that, on the majority of these loans, the records of the Agency's determinations did not demonstrate that the Agency had taken into consideration the borrowers' ability to obtain

financing from other free world sources prior to authorization of these loans. We believe that this stemmed from the lack of established formal procedures for determining the availability of financing from other free world sources.

The significance and magnitude of the Agency's lending operations make it imperative that all transactions to be carried out with the major free world financial institutions be done in a formal business-like manner and be fully documented. Without formal solicitation of other free world financial institutions and documentations thereof, a void is created which denies to management a vital decision-making tool needed in the processing of loan proposals.

In commenting on this matter, AID stated that it had made informal determinations that other free world loan financing was not available; however, the Agency agreed that there was a need to more fully document its efforts. Because of the lack of documentation, we were unable to determine whether informal solicitations were made.

The Agency advised us that it had recently established procedures and revised instructions which we believe, if properly implemented, will correct the deficiencies revealed and will result in significant benefits to the Agency's lending operations.

64. Loans for development of recreational facilities--Section 306 of the Consolidated Farmers Home Administration Act of 1961, as amended (7 U.S.C. 1926), provides, in part, that loans can be made to nonprofit associations to provide for shifts in land use, including the development of recreational facilities, primarily for serving farmers and rural residents. In a report issued in September 1966 to the Farmers Home Administration (FHA), Department of Agriculture, we stated that our examination into the administration of selected section 306 loans showed a need for FHA to (a) make adequate determinations that the facilities would primarily benefit farmers and rural residents, (b) obtain assurance that, in accordance with FHA policy, land purchased with loan funds would be limited to recreational use, and (c) define the type of clubhouse facilities which could be constructed with FHA loan funds.

FHA issued instructions in November 1966 to all State Directors, pointing out the administrative weaknesses shown by our review and directing that such actions be taken as might be necessary to be certain that all loans made in their States complied with legal and procedural requirements. Also, FHA issued instructions which, if adhered to, should enable operating personnel to avoid approving the use of FHA loan funds for the construction or development of clubhouse facilities not related to outdoor recreation.

65. Administration of small business investment company program--In August 1966 we reported to the Permanent Subcommittee on Investigations, Senate Committee on Government Operations, on the results of our examination into the effectiveness of actions taken by the Small Business Administration (SBA) in discharging its responsibilities in aiding small business investment companies that were in financial difficulty and in protecting the Government's investment in the program. Because of the increasing trend in the number of small business investment companies in financial difficulty and the possible adverse effect on the Government's investment, we examined into the agency's policies and practices with respect to six companies with capital impairments.

As a result of our review, we proposed that the SBA Administrator:

a. Establish criteria for use by the companies in evaluating prospective portfolio investments.

b. Require adherence to such criteria by incorporating them in regulations of the Administration so that any violations thereof would provide the agency with a means for taking action to minimize losses to the Government.

c. Establish a system for obtaining and effectively evaluating financial data concerning the companies so that sound decisions and timely actions would result.

d. Take prompt action to aid companies in financial difficulty so that corrective or recovery action would be initiated.

e. Establish surveillance procedures to ensure adherence to lending criteria and to ensure that necessary corrective action recommended by SBA be taken by the companies in a timely manner.

The Administrator informed us on July 20, 1966, that the agency was aware of both the general and the specific problems included in the report and was taking action as expeditiously as possible to correct the matters and to prevent future occurrences. The Administrator's letter to us outlined the steps being taken in planning the future of the small business investment company program, many of which related specifically to the matters discussed in our report.

In November 1966, SBA issued investment guidelines which we believe will, if properly implemented, assist the small business investment companies in making sound value loans to and investments in small business concerns and thereby help reduce losses to the industry and the Government.

LOW-RENT HOUSING PROGRAMS

66. Construction of office buildings and other nondwelling structures--In September 1966, we reported to the Secretary of Housing and Urban Development (HUD) that the procedures of the Housing Assistance Administration (HAA) did not require a timely reevaluation of the need for office buildings and other nondwelling structures by local housing authorities (LHAs) prior to the solicitation of bids and award of the construction contract. We pointed out that, as a result of this nonrequirement, HAA authorized the construction of a central office building for an LHA without adequately considering that the LHA had reduced and decentralized a large part of its central office staff during the 3-1/2 year period between HAA's original approval and the award of the construction contract. The office building that was constructed was therefore larger than needed for the administration of the LHA's Federal low-rent housing program.

The new building increased development costs under the LHA's housing program by a total of approximately $800,000, including financing costs. Federal assistance is furnished LHAs in the form of annual contributions which, if made in the maximum amount, would be sufficient to pay the principal and interest on long-term obligations sold by the LHAs to obtain funds to pay the cost of developing housing projects, including related nondwelling structures. To the extent that LHA development costs are minimized, the Federal Government's liability for annual contributions is also minimized.

In view of the numerous nondwelling structures proposed for construction at federally aided low-rent housing projects, we recommended in our report that existing procedures be revised to provide that, if more than a year has elapsed since HAA's approval of a development program for a nondwelling facility, HAA before authorizing the LHA to issue invitations for bids, reevaluate the need for a facility of the size and type proposed and disapprove the construction of any proposed facility for which need is not justified by circumstances existing at the time of the reevaluation.

In November 1966, the Assistant Secretary for Administration informed us that HAA was revising its procedures along the lines recommended in our report. The revised procedures were issued in January 1967.

67. Maximizing the investment of excess funds to provide additional revenue--It is the policy of Housing Assistance Administration (HAA), Department of Housing and Urban Development (HUD), that excess funds of local housing authorities (LHAs) be invested in income-producing securities to the fullest extent practicable. Our examination showed, however, that additional interest revenue amounting to about $170,000 a year could have been earned by nine of the 14 largest LHAs in the low-rent public housing programs if further investments of available cash had been made by these LHAs. We found that, in most cases, HAA files on reviews of LHA financial activities either made no mention of short-comings in the LHAs' investment programs or did not show the full extent of additional potential investment income.

The most recent LHA financial statements available at the central office at the

time of our review showed that approximately 1,500 LHAs with projects under management, construction, or preconstruction--exclusive of the LHAs covered by our review--reported year-end balances of uninvested cash aggregating about $39 million. We pointed out in our report that it was therefore possible that additional opportunities were available for the investment of funds by LHAs to provide increased interest revenue.

Any increase in LHA revenue through the investment of available development or operating funds tends to decrease the Federal Government's liability for annual contributions for financial assistance to the LHAs.

In a report submitted to the Congress in January 1967, we recommended that the Secretary of HUD take appropriate action to maximize the investment earnings of LHAs by requiring the larger LHA's to use the cash forecasting and investment procedures set forth in the HAA management handbook. We stated that, for the smaller LHAs that may have limited staffing and cash resources, the establishment of simplified alternative procedures may be appropriate. We also recommended that the Secretary provide for more effective reviews of LHA investment program activities so that timely corrective action can be taken where warranted.

In May 1967, the Assistant Secretary for Administration informed us that HAA instructions were revised in April 1967 to require that, for determining excess funds available for investment, all LHAs use the forecasting method set forth in the HAA management handbook or use an appropriate alternate method to be approved by HUD. Also, instructions were issued to provide for increased emphasis, during HAA reviews, on the detection and reporting of losses of LHA investment revenue and on the furnishing of constructive guidance to LHAs in this regard.

68. Leasing of excess office space--In a report issued to the Secretary of Housing and Urban Development (HUD) in September 1966, we stated that a central office building constructed under the low-rent public housing program for a local housing authority (LHA) had not been adequately utilized from the time of its initial occupancy in May 1960. As of March 1966, about 6 years later, the LHA central office staff, which had been reduced and partly decentralized, was using only two floors of the three-story building and aggressive action had not been taken to lease the excess space to provide additional revenue.

The annual contributions contract between an LHA and the Housing Assistance Administration (HAA) provides for reducing the maximum annual Federal contribution by the amount of residual receipts available from operation of low-rent public housing projects. Any increase in LHA operating revenue tends to increase residual receipts and to correspondingly decrease the Federal Government's liability for annual contributions.

In our report to the Secretary and in subsequent correspondence with HUD officials, we recommended that a study be made of the LHA's need at that time for central office space, with a view toward resolving the existing unsatisfactory situation through feasible arrangements that would provide for the most efficient and economical use of available excess office space.

An HAA central office official informed us in March 1967 that the LHA had leased some of the excess office space for a 2-year period. We were also informed by the Acting Assistant Secretary for Renewal and Housing Assistance in May 1967 that HAA would take immediate steps to encourage and assist the LHA to obtain satisfactory use of the remaining vacant space as soon as possible.

69. Reclassification of maintenance work force and establishment of appropriate wage rates--Our review of job classification and wage rates of maintenance workers employed at certain low-rent public housing projects financed under contracts with the Housing Assistance Administration (HAA), Department of Housing and Urban Development (HUD), showed that inappropriate wage rates had been established by the HUD regional office for certain maintenance workers employed at these projects by the two local housing authorities (LHAs) involved.

We estimated that the use of construction employees instead of general classes of maintenance employees to meet maintenance

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requirements at one of the LHAs and the resulting greater payment for fringe benefits increased project operating expenses by approximately $460,000 a year. About $318,000 of this amount was allocable to federally aided low-rent housing projects. We estimated that the use of construction employees by the other LHA increased its operating expenses by about $65,000 a year, about $59,000 of which was allocable to federally aided projects.

Increases in operating expenses can decrease the amount of an LHA's residual receipts which otherwise would be accumulated, or can prevent an LHA from accumulating residual receipts; such residual receipts would be available for application against payment of project development costs, and would result in a reduction in the amount of Federal contributions required to meet these costs. Moreover, improvements in overall management operations which tend to reduce operating expenses may also eventually warrant lower rental levels and enable low-income tenants to benefit financially from more economical project management.

In a report to the Congress in November 1966, we recommended that the Secretary of HUD take appropriate action to resolve the uneconomical conditions existing at that time at the two LHAs covered by our review and at any other LHAs where conditions similar to those discussed in our report might have existed, so that wage rates of maintenance employees would be established on the basis of skills needed to perform the type of work involved in project maintenance. We expressed the opinion that adoption by the LHAs of some form of the multipurpose maintenance classifications discussed in our report would facilitate establishment of appropriate wage rates.

The Acting Deputy Assistant Secretary for Housing Assistance generally disagreed that inappropriate wage rates had been established for maintenance employees of the two LHAs but stated that further action was anticipated by HAA toward the establishment of general maintenance classifications for certain of these employees.

MORTGAGE ASSISTANCE AND INSURANCE ACTIVITIES

70. Reduction of the number of extra final inspections on newly constructed houses--Our review indicated that premature inspections requested by builders or their representatives resulted in increased inspection costs to the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD).

We reviewed FHA records of final inspections requested by builders or their representatives for about 2,000 newly constructed houses. The review showed that about 50 percent failed to pass final inspection, and required an average of about 1.8 additional inspections per house, to successfully pass the final inspection. We expressed the belief that, in many cases, final inspections had been requested prematurely by the builders and that procedures followed by FHA insuring offices to discourage builders from making premature requests had not been sufficiently effective. FHA performed the extra final inspections, without additional charges.

We estimated that the average cost of an inspection was about $5. At least one extra final inspection was required in 25 to 75 percent of the cases we examined in four insuring offices. If only 25 percent of the estimated 158,000 new houses that received final inspections in fiscal year 1966 required one additional extra final inspection, overall savings available by eliminating those extra final inspections would have amounted to about $200,000.

The Assistant Secretary-Commissioner, HUD, FHA, in commenting on our report, stated that the agency agreed that the number of extra final inspections resulting from premature requests should be reduced. Accordingly, the agency instructed the insuring offices to review their inspection operations and to take specific steps to control and reduce the number of premature final inspections.

In our report to the Congress in June 1967, we expressed the belief that, although these steps might help to reduce the number of extra final inspections, the agency's actions would be more effective if it imposed a

penalty for additional inspections resulting from premature requests for final inspections.

71. Increased insurance risk on an urban renewal housing project--Our review indicated that the insured mortgage of an urban renewal housing project in Kansas City, Missouri, was increased by about $158,000 as a result of approval by the Federal Housing Administration (FHA) of a sponsor's and builder's profit and risk allowance computed on the basis that a joint venture agreement between the mortgagor and the builder created an identity of interest.

Section 227 of the National Housing Act provides, in part, that, when the mortgagor is also the builder of the project, the mortgagor may include in the certification of the project costs (actual costs), a sponsor's and builder's profit-and-risk allowance equal to 10 percent of the building's construction cost and all other project costs, including the cost of land. However, when the mortgagor is not the builder, the profit-and-risk allowance which may be included in the mortgagor's certification of project costs may not be based on the cost of constructing the building, but is limited to 10 percent of the other project costs, excluding the cost of land.

In a report to the Secretary of Housing and Urban Development in December 1966, we expressed the belief that recognition of the joint venture was questionable because (a) the joint venture, ostensibly entered into for the purpose of constructing the project, was formed after the work under the construction contract was completed and (b) the mortgagor had previously certified that it had no identity of interest with the builder.

We stated that the problems encountered by the insuring office personnel and our review of FHA internal regulations and instructions pertaining to identity of interest indicated that these regulations and instructions were not sufficiently clear to preclude misinterpretation. We therefore expressed the belief that it would be appropriate for FHA to carefully review its internal regulations and instructions with respect to identity of interest to determine what amendments were necessary to achieve the desired objectives.

The Secretary of Housing and Urban Development advised us in December 1966 that our comments were being considered.

72. Consolidation of property management functions--In May 1967 we reported on the possible benefits of consolidating within one agency the management and disposition of all single-family residential properties acquired as a result of default of loans under home financing programs of the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), and the Veterans Administration (VA).

We expressed the belief that the property management functions were essentially the same in both agencies and that consolidation of these functions was feasible and would provide a basis for lower costs through a reduction in the overall size of the staffs performing these functions separately. We stated further that consolidation would provide opportunities for additional benefits, such as savings through volume contracting for broker services, and for simpler and more uniform procedures and terms in dealings with brokers and potential buyers.

Officials of HUD, VA, and the Bureau of the Budget (BOB) commented on our proposal. Although VA believed that it was not desirable to separate its home financing functions from its associated property management functions, the other two agencies were of the opinion that a study was warranted.

Subsequently, we were advised by the Assistant Secretary for Administration, HUD, that a management consulting firm would be engaged by BOB to make a study to determine what, if any, organizational and other actions should be taken. We were later informed that the consulting firm had completed its study and was in the process of preparing a report.

73. Discontinuance of public liability insurance on acquired housing properties--Our review of premium costs and claims relating to public liability insurance purchased by property

management brokers under contract to the Federal Housing Administration (FHA), Department of Housing and Urban Development, indicated that elimination of the requirement that brokers purchase this insurance, covering property acquired by FHA through foreclosure under its mortgage insurance programs, could result in significant savings to FHA. In an August 1966 report, we stated that premium costs for this type of insurance covering bodily injury amounted to about $340,000 a year, which was far in excess of the claims being paid under this coverage.

In view of the past experience of FHA, we expressed the belief that it would be more economical for the agency to adopt the Government's long-standing policy of self-insurance by assuming the risks covered by this type of insurance. Further, we stated that savings may be realized by adopting the self-insurance policy for other coverages provided for in management contracts, such as surety bonds and burglary insurance, if the agency's costs and claim experience is found to be similar to that related to public liability insurance.

The agency informed us that it was favorably disposed toward the general premise of self-insurance and was studying our proposals.

74. Underwriting of operating deficits by nonprofit sponsors of insured housing projects for the elderly--In a report submitted to the Congress in February 1966, we expressed the opinion that, in approving mortgage insurance equal to 100 percent of the costs of a housing project for the elderly near Forth Worth, Texas, the Federal Housing Administration (FHA), Department of Housing and Urban Development, did not take reasonable precautions to assure itself that the project's sponsors had the ability, or were aware of their responsibility, to fully subsidize the operations of the project, which the agency recognized might incur large operating deficits.

We expressed the belief that FHA placed undue reliance on the national religious organization to which the sponsors belonged for insuring the financial success of the project. Further, the agency unrealistically assumed that endorsement by the national organization alone would induce elderly people to move to the project from other parts of the country.

FHA revised its procedures with respect to projects which would need operating subsidies and now requires agreements binding sponsors to underwrite the estimated operating deficits. However, in our report we stated that, in our opinion, these procedures did not go far enough and proposed that FHA's procedures be revised (a) to require reasonably firm assurance of responsibility from central or national organizations of sponsoring groups before permitting insuring offices to consider as prospective tenants persons who are not residents of the locality in which the project is to be constructed and (b) to require nonprofit sponsors to raise necessary funds from persons or organizations which do not stand to profit from the approval of mortgage insurance for the project.

Subsequently, in May 1967, the agency revised its procedures to provide that the marketability of a proposed project for the elderly should be judged on the basis of demand expected to be generated within the market area where the project is to be located. In addition, in June 1967, the agency provided guidelines to the insuring office directors for establishing the eligibility of nonprofit sponsors. The guidelines included, among other matters, a requirement that the local director must be satisfied that the sponsor is acting on its own behalf and is not, either knowingly or unwittingly, under the influence, control, or direction of any outside party seeking to derive profit or gain from the proposed project.

75. Procedures relating to the default of guaranteed housing loans--In a report submitted to the Congress in June 1967, we estimated that savings of about $300,000 a year could be realized in reduced court costs, legal fees, and property management expenses if the Veterans Administration (VA) were to revise certain procedures relating to defaulted guaranteed housing loans in Illinois. Reductions in these costs would result in savings either to the Government or to the veteran-borrowers, depending upon whether deficiencies in the proceeds of foreclosure sales of property to satisfy the unpaid balances of loans were collectible from the veteran-borrowers. We estimated that the

potential cost reductions would amount to an average of about $500 on each foreclosure in the State of Illinois.

When a borrower defaults on a VA-guaranteed housing loan and the mortgage holder decides to foreclose the mortgage, the mortgage holder generally prosecutes the foreclosure proceedings in a State court. Accordingly, we recommended that, in the State of Illinois, the VA acquire defaulted guaranteed housing loans and related mortgages immediately prior to initiating foreclosure suits and refer them to the Department of Justice for foreclosure action in United States district courts.

We recommended also that the Department of Justice be requested to petition the courts to appoint the VA as mortgage-in-possession during the redemption period. In addition, we recommended that the VA consider the applicability of our proposals to loan guaranty activities in other States.

The VA stated that our proposals, if adopted, could result in additional costs to the Government. After considering the agency comments, we were still of the view that expenses could be significantly reduced if the VA were to revise its procedures. The Department of Justice indicated that it had no objection to the proposals and would endeavor to discharge its responsibility for handling the resulting foreclosure litigation promptly and effectively, as required by the new procedures, if the VA were to adopt our recommendations.

76. Cancellation of hazard insurance policies on properties acquired upon default of housing loans--In a report submitted to the Congress in August 1966, we estimated that savings of about $112,000 could have been realized in fiscal year 1965 at six Veterans Administration (VA) regional offices visited by us and that substantially greater savings could have been realized nationwide if (a) available refunds on unexpired insurance policies had been obtained and (b) regulations had been revised to enable cancellation of hazard insurance policies in certain States granting mortgagors redemption rights.

It is the stated policy of the VA to be self-insured against hazards to properties owned by it. However, in May 1964, the VA revised its instructions to require that a hazard insurance policy on acquired property be permitted to remain in force regardless of the amount of the unexpired premium, unless the property is sold prior to the expiration date of the policy.

Certain States have laws which establish a period of time subsequent to foreclosure during which mortgagors in default may redeem their properties. Existing regulations of the VA do not provide the agency with the authority to cancel unexpired insurance policies on properties acquired in these States. Under these circumstances the VA is unable to become self-insured. A revision in these regulations seems particularly desirable when receivers are appointed who have the duty under State law to carry hazard insurance during their period of custodianship. The insurance carried by the VA is of no practical value because it duplicates the receiver's insurance coverage.

The VA disagreed with our estimate of the amount of savings available and stated that the VA had made a study at 16 regional offices and was not satisfied that any loss of revenue had been shown.

After our report was issued, the VA completed a comprehensive study at applicable field stations and concluded that the comparatively small recoveries would not offset the additional administrative costs involved. However, after evaluating the VA study, we pointed out to the VA various deficiencies in the study and reaffirmed our original conclusions.

POSTAL SERVICE ACTIVITIES

77. Consolidation of rural carrier routes--The Post Office Department is prohibited by the United States Code (39 U.S.C. 3339) from consolidating rural routes unless vacancies exist in the rural carrier positions. In fiscal year 1964 the Department eliminated 152 routes through consolidations where vacancies existed in the rural carrier positions. The average annual savings, as determined by the Department, was $3,640 for each route

eliminated, or total annual savings of about $550,000 from these route consolidations.

We reviewed the records relating to the 2,244 rural routes which existed as of September 1964 in the Cincinnati postal region. On the basis of the Department's criteria that the time required to serve a route after consolidation should be 40 hours or less a week, 277 of these routes appeared to be susceptible of elimination through consolidation with other routes.

Assuming that there was an average annual saving of $3,600 for each route eliminated, we estimated that, under the present method of compensating rural carriers, the Department could effect annual savings of about $1 million in the Cincinnati postal region if these routes were eliminated.

The restrictive statute which prohibits the Department from consolidating rural routes unless there is a vacancy in the carrier position was enacted in 1934, and the legislative history indicates that the action of the Congress of restricting the consolidation of rural routes was influenced, to great extent, by the unemployment and depression conditions that existed at that time. In view of the changed conditions since the enactment of the restriction, we recommended, in a report issued in December 1966, that the Congress consider repealing 39 U.S.C. 3339 so that the Department could consolidate rural routes whenever economies were possible without adversely affecting service.

78. Accelerated business collection and delivery of mail--In a report submitted to the Congress in May 1966, we stated that--at the Baltimore, Boston, and Washington, D.C., post offices--estimated annual operating costs of about $214,000 could be attributed to the additional collection routes established, the additional dispatches scheduled, and the changes in normal mail-processing procedures made for accomplishing the objectives of the accelerated business collection and delivery (ABCD) program.

The Post Office Department's objectives for the program are to deliver local first-class mail deposited by 11 a.m. in specially identified collection boxes within the central business district to business and lockbox patrons within the same city by 3 p.m. of the same day and to expedite the dispatch of out-of-town mail.

The program, as operated at these three post offices, resulted in costs which would not have been incurred if the mail had been afforded normal first-class mail delivery service, and the additional costs did not appear to be commensurate with the quantity of mail delivered earlier as a result of the program. Therefore, we questioned whether continued operation of the program, in its existing form, was justified.

We recommended that the Department reevaluate the need for the ABCD program operations at the Baltimore, Boston, and Washington, D.C., post offices and at other post offices where significant costs were being incurred for the operations of the ABCD program.

In November 1966, the Department requested each of its regional offices to review the ABCD program operations at each participating office having annual receipts in excess of $5 million in order to ascertain whether the costs of the operations could be reduced without loss of the good service features. Guidelines for these reviews were issued by the Department, and each regional office was requested to submit a report showing the recommended modifications of the program at each office and the estimated annual savings if such modifications were made.

According to information furnished to us by the Department, modifications to, or curtailment of, the ABCD services were recommended for 45 of the 93 participating offices having annual receipts in excess of $5 million. No changes in services were recommended for the other 48 offices. The Department informed us that all the recommended curtailments of services and other modifications to the program had been implemented by the end of July 1967 and that these actions should result in future annual savings of about $350,000 in the cost of the program.

79. Manpower costs of railway post offices--Our review in four postal regions indicated that the Post Office Department could achieve

estimated annual savings of about $265,000 in manpower costs if (a) the number of employees assigned to unload railway post offices and/or the time allowed these employees for unloading were reduced to the number of employees and the time necessary for unloading and (b) when railway post offices arrived ahead of schedule, the employees were paid for only the actual service time. To the extent that conditions similar to those observed by us in the four postal regions exist in the other 11 postal regions, we believe that additional savings may be available.

We observed one unloading operation for 61 of the 282 railway post offices operating in the four postal regions. A total of 468 employees were paid for 8,155 minutes of unloading time in the 61 operations we observed. Our observations showed, however, that only 377 employees participated in the unloading and that the total time used by these employees was 4,736 minutes. We estimated that the Department could realize annual savings of about $160,000 in manpower costs in these four regions if the number of employees assigned to unload railway post offices and/or the time allowed these employees for unloading were reduced to the number of employees and the time necessary to accomplish the unloading.

Railway post-office employees are given full credit, for pay purposes, for the time between the scheduled arrival time and the actual arrival time when railway post offices arrive late and may be paid at overtime rates for such time; however, when railway post offices arrive ahead of schedule, the employees receive credit for their scheduled hours of service even though the actual service time is less than the scheduled time. We estimated that the Department could save about $105,000 annually in the four regions if the employees received credit for actual service in those instances when railway post offices arrived early. We believe that additional savings may be available in other postal regions.

We brought these matters to the attention of the Postmaster General in February 1966. Pursuant to our suggestions, the Department established, in a letter to its regional offices dated May 9, 1966, a maximum of six as the number of employees that should be assigned to unload a full-size railway post-office car. The letter contained additional instructions aimed at better management control over the time allowed and the number of employees assigned to unload railway post offices.

Concerning the early arrival of railway post offices, the Postmaster General set forth some problem areas which the Department believed that it might encounter in its consideration of this matter. The Postmaster General stated, however, that the Department would review the situation. We reported to the Congress on this matter in February 1967.

PUBLIC ASSISTANCE PROGRAMS

80. Providing nursing home care and controlling payments for prescribed drugs for welfare recipients.—At the request of the Chairman, Subcommittee on Health of the Elderly, Special Committee on Aging, United States Senate, we examined into certain allegations of improper practices in regard to providing nursing home care and controlling payments for prescribed drugs for welfare recipients in the State of California.

In our report to the Subcommittee, dated August 8, 1966, we stated that, with respect to the providing of nursing home care, we had found evidence of questionable practices in the areas of certain of the allegations; however, in most of these cases, we could not consider the evidence conclusive for the reasons that in some cases relevant documentation was incomplete and in others adequate evaluation of the significance of the conditions found would require the application of professional, medical judgment to all pertinent facts and circumstances.

However, of more importance, in our view, was that (a) the California State plan in effect at the time of our review did not clearly provide or fix responsibility for the exercising of controls designed to detect and to require the correction of improper practices or deficiencies in the areas of most of the allegations and (b) the representatives of the Welfare Administration, Department of Health, Education, and Welfare, had not made the reviews of State and county agency activities necessary for an evaluation of the adequacy of the State plan in this respect.

We pointed out that, in our view, the California State plan needed improvement to clarify the respective responsibilities of the State and county welfare agencies and of the State Department of Public Health to provide the surveillance necessary to disclose deficiencies in the care, services, or treatment provided welfare recipients in nursing homes.

Our review, as it related to payments for prescribed drugs, showed that the procedures, recommended in the State plan to provide assurance that payments be made only for correctly priced drugs prescribed under proper authority and actually delivered for the use of eligible welfare recipients, had not been adequately implemented at the county level. In our report, we stated our view that the State agency had not adequately carried out its responsibilities for the evaluation of county activities and that the Department had not utilized the review processes necessary to ascertain the quality of this aspect of the administration of the programs.

The Department and the State and local agencies expressed general agreement with our findings and conclusions and outlined certain corrective actions which had been taken or were being contemplated. Also, we were advised that, as of March 1, 1966, the California State plan relating to medical care had been superseded by a new plan, conforming with title XIX of the Social Security Act, which reassigned responsibilities and corrected some of the deficiencies discussed in our report.

81. Expenses charged to medical assistance for the aged program--We reviewed selected aspects of the costs of infirmary care under the medical assistance for the aged (MAA) program in Oakland County, Michigan, under a State plan approved by the Department of Health, Education, and Welfare. Our review showed that, for the period February 1961 through December 1964, the Oakland County Medical Care Facility included, in its claims for financial participation in costs incurred in the care of MAA patients, about $22,000 for expenses that were not related to MAA care. Of that amount, 50 percent or about $11,000 represented the Federal share. The unrelated expenses consisted of payments for outpatient pharmacists' salaries at the Oakland Medical Care Facility which provides inpatient care only to MAA patients.

The State Department of Social Welfare had brought this matter to the County's attention, but the County continued to include these unrelated expenses in its cost reports on which the claims were based. After our review, the Director, Oakland Medical Care Facility, informed us that outpatient pharmacists' salaries would no longer be included in the cost reports. Subsequently, the $11,000 of unallowable costs was recovered.

82. Payments provided for the medical care of old-age assistance recipients--Our review of procedures used to recover excess funds accumulated under an insurance contract for the medical care of old-age assistance recipients in the State of Texas, led us to believe that such procedures, which were approved by the Department of Health, Education, and Welfare, were improper and had resulted in payments to the State of about $2.3 million in excess of amounts authorized by law.

The initial insurance contract between the State and the contractor provided that, within 90 days after the period covered by the contract, the contractor render to the State a final accounting and repay the State, upon demand, the excess of the premiums paid to the contractor over the total of the claims paid by the contractor and the contractor's allowable administrative expenses. The total refund determined by the contractor to be due the State amounted to more than $5 million, including earnings on the excess premium payments. In our opinion, under the governing Federal legislation and the pertinent provisions of the Texas State plan approved by the Department, about $4 million of this amount should have been returned to the Federal Government.

With the approval of the Department, the contractor repaid the excess funds to the State by offset against premiums payable by the State during the period of a second contract. With respect to the second contract period, the State then claimed Federal participation only in the net premium payments to the contractor. As a result, the Federal Government recovered about $1.7 million through reduced

payments to the State during the second contract period but did not recover the balance of the $4 million.

Subsequent to issuance of our report to the Congress in January 1967, the Department stated, in a letter dated April 4, 1967, to the Chairman, Committee on Government Operations, House of Representatives, that the State had acted with the express concurrence of the Federal agency and had, in good faith, expended the funds in question for program purposes. The Department expressed its opinion that, as a matter of law and equity, it did not see a sufficient basis for retroactively requiring recovery from the State. The Department has informed us, however, that it is following our recommendation for the development of policies that will preclude the occurrence of similar problems related to such adjustments in the future.

83. Work registration requirement for welfare recipients-- In our review of work registration under the Federal-State program of aid to families with dependent children of unemployed parents in Ohio, we examined 286 cases selected at random from welfare rolls for March 1965 in four Ohio counties. We found that the unemployed parents in about 70 percent of the cases had not registered or reregistered for employment with the State employment service although required to do so, consistent with Federal law, by the Ohio State plan approved by the Department of Health, Education, and Welfare.

We estimated that, if the counties included in our review were representative of all Ohio counties, about 4,000 families, representing about 22,500 recipients, may have received assistance payments during the month of March although registration requirements had not been met.

We believe that the registration provision was not properly enforced inasmuch as caseworkers had not properly inquired, in many cases, into the applicants' registration status. We believe also that the Department of Health, Education, and Welfare did not fulfill its responsibility for reviewing particular aspects of the administration of this program.

We brought these findings to the attention of cognizant Department and State officials. Subsequently, the State took several actions designed to correct the deficiencies relating to enforcement of work registration requirements. Also, we were advised of certain actions taken to strengthen the Department's ability to carry out its responsibilities relating to the public assistance programs.

84. Pricing methods for drugs purchased for use by welfare recipients-- On the basis of our review of pricing methods used by various States in the purchase of prescribed drugs for use by welfare recipients under federally aided public assistance programs, we concluded that, if the Department of Health, Education, and Welfare would provide the States with appropriate guidance and requirements pertaining to the establishment or revision of the pricing methods, the drug programs in many States would be significantly improved and would result in economies to both the States and the Federal Government.

Although prescription drug programs under which payments are made directly to vendors have been in existence in many States for several years, the Department has not provided the States with guidance in the establishment or revision of pricing methods for welfare prescriptions. In fiscal year 1966 these programs involved expenditures of about $144 million of which the Federal share was estimated at about $81 million.

We believe that this lack of guidance has been a significant factor contributing to the use of a diversity of welfare prescription drug pricing methods and to the use in many States of pricing methods which do not result in equitable prescription drug pricing. Also, many of the pricing methods are not conducive to economical procurement because they include features which provide an incentive to pharmacies to dispense higher cost drug products where suitable lower cost products meeting the prescription requirements are available.

We proposed that the Secretary of Health, Education, and Welfare establish a policy governing methods of pricing welfare prescription drugs which would prohibit the use of methods based on cost plus a percentage of cost or methods otherwise providing an incentive for dispensing higher cost products where suitable lower cost products meeting the prescription requirements are available. We

proposed also that the Department's policy encourage the use of methods based on the cost of the product dispensed plus a fixed professional fee.

Concerning these proposals, the Department stated that it was in general agreement that it should develop a policy for pricing pharmaceutical products obtained under prescription which would prohibit a cost-plus-a-percentage-of-cost basis of reimbursement but which, in contrast to our view that the use of a cost-plus-a-fixed-professional-fee method should be encouraged, would incorporate encouragement to the States to move toward a cost-plus-a-flexible-professional-fee basis. A cost-plus-a-flexible-fee pricing method would provide a fee, increasing with the cost of the product, for each of two or more defined ranges of drug cost–for example, a fee of $0.50 might be paid for a drug costing a pharmacy less than $1, a fee of $0.75 might be paid for a drug costing from $1 to $2, and so on.

The Department acknowledged that, under the flexible-fee pricing method, pharmacies would still have some incentive to stock and dispense higher cost products; but it expressed the view that such incentive would be less than that under a cost-plus-a-percentage-of-cost method. The Department also described certain considerations which it believed warranted the encouragement of a flexible-fee rather than a fixed-fee pricing method.

The Department stated further that, because of the need to establish certain related controls in consonance with the policy statement to be developed and because of the need to further define and explore certain questions concerning the proper composition of a professional fee, it believed that the development of any policy should be deferred for a reasonable period of time.

We believe that the Department's principal reason for proposing to encourage the use of a flexible-fee pricing method is the effect a fixed fee would have on low-cost prescription items. However, we believe that, because the fixed-fee method would remove an incentive to dispense higher cost products, it would tend to reduce the overall cost of drugs to the program.

We therefore recommended in a report submitted to the Congress on April 28, 1967, that the Secretary of Health, Education, and Welfare take action as early as practicable to establish a policy governing methods of pricing welfare prescription drugs under federally aided public assistance programs that would be acceptable for the purposes of Federal financial participation. We recommended also that such a policy prohibit not only the use of methods of pricing based on cost plus a percentage of cost but also the use of any methods which provide an incentive to dispense higher cost products where suitable lower cost products meeting the prescription requirements are available. We recommended further that the policy urge the use of methods based on the cost of the product dispensed plus a fixed professional fee.

By letter dated August 16, 1967, the Assistant Secretary, Comptroller, Department of Health, Education, and Welfare, furnished to us a copy of the Department's statement to the Chairman, Committee on Government Operations, House of Representatives, pertaining to this matter. The Department expressed the view that sufficient information did not exist to determine the full effects of a cost-plus-a-fixed-fee method or a cost-plus-a-flexible-fee method and proposed the establishment of a policy which would allow the States the option to select either method. The policy would include a requirement for the Department to periodically evaluate and make adjustments as appropriate regardless of the method employed.

85. Cost determinations for public home infirmary care under the medical assistance for the aged program--On the basis of our review of Federal financial participation in the cost of public home infirmary care under the medical assistance for the aged program in New York City, we believed that the financial administration of the program could be significantly improved if the Department of Health, Education, and Welfare (HEW) were to establish specific guidelines for States and localities for cost determinations for infirmary care services and if HEW and State welfare agencies were to review such cost determinations.

Our review showed that the reimbursement rate for such infirmary care was

incorrect because of duplicated and other erroneous salary charges and because of inequitably allocated overhead costs. We estimated that about $436,000 was erroneously charged for infirmary care under the program in New York City during the fiscal year ended March 31, 1964. The Federal share of this amount was about $218,000.

The Welfare Administration, HEW, pointed out that Federal legislation left the determination of how the States and localities should conduct their activities to their discretion. It stated that, since the Federal Government merely required that States set forth in their plans the rates they would pay and specific methods for determining such rates were not required, New York had wide latitude in establishing such rates.

In general, we agreed with the above comments; however, we believe that HEW's responsibility under the Social Security Act for determining that federally aided public assistance programs are administered in a proper and efficient manner was not fulfilled by merely requiring the States to set forth in their plans the rates to be paid. Without knowledge of the methods used for establishing such rates and without any assurance as to the validity of the information upon which the rates were based, HEW has no reasonable basis upon which to evaluate the discretion exercised by the States and localities or the reasonableness of the rates that are being paid.

We therefore recommended in a report issued to the Secretary of HEW in June 1967, that such reviews be made as necessary to determine the reasonableness of the amounts paid for public home infirmary care under the medical assistance for the aged program in New York City from the inception of the program and that such adjustments be made of the Federal share as might be appropriate. We recommended also that guidelines be provided to the States and localities for cost determinations for informary care. We further recommended that the Secretary take appropriate action for ensuring that field representatives of HEW's Welfare Administration and its Audit Agency periodically examine into the adequacy of State reviews of public home infirmary care rates.

8 6. Providing nursing home care, medical services, and prescribed drugs to old-age assistance recipients--At the request of the Chairman, Subcommittee on Long-Term Care, Special Committee on Aging, United States Senate, we made a preliminary inquiry into certain allegations of improper practices in providing nursing home care, medical services, and prescribed drugs for old-age assistance recipients in the Cleveland, Ohio, area. The allegations related principally to the adequacy of enforcement of the State of Ohio nursing home licensing requirements for the standards of treatment and care of nursing home residents; the appropriateness of procedures and practices employed in placing welfare recipients in nursing homes; and the adequacy of State controls over payments to vendors, including medical or health care practitioners and pharmacies.

In our report to the Subcommittee, dated March 31, 1967, we expressed the view that, because of inadequacies in pertinent policies, procedures, and controls--or in their implementation--practices or deficiencies of the types described in the allegations could exist without detection by appropriate authorities or, if detected, could continue without appropriate corrective action. Therefore, we stated our view that each of the areas to which we directed our inquiry would warrant further examination or investigation, and in greater depth, to ascertain the extent to which the alleged practices or deficiencies do, in fact, exist and to develop suggestions for needed improvements in related policies, procedures, and controls.

We found that HEW had not provided its responsible field representatives with specific instructions or guidelines for making continuing reviews of the State and local administration of program activities relating to providing nursing home care, medical services, and prescribed drugs for old-age assistance recipients in Ohio. On the basis of our review of records and our discussions with responsible officials in the HEW regional office, it appeared that neither the regional representatives of the Bureau of Family Services, Welfare Administration, nor the cognizant HEW auditors had performed independent reviews of the State and county procedures and controls followed with respect to these program activities.

Upon release of our report, the Chairman requested the Secretary of HEW to supply each State welfare director with a copy of the report in order that it might be used as an

investigatory guideline in seeking out what may be widespread abuse of the program by local physicians and practitioners, nursing homes, and certain public officials.

RAILROAD RETIREMENT ANNUITIES

87. Eligibility of members of disabled or retired employees' families for annuity payments--In April 1967, we reported to the Railroad Retirement Board that members of disabled or retired employees' families on account of whom the former employees' annuities were increased were not advised that the Board, with appropriate authorization from the former employee, could distribute portions of the increased annuities directly to them or to their custodians. Some family members were being maintained with public funds without the contributing support of the former employees, even though the Board had increased the former employees' annuities on account of the family members.

After we brought our findings to the attention of the Board, we were informed that its practice would be revised and that such persons would be informed upon request that a portion of the annuities could be paid to them if they presented appropriate authorization from the former employees. In our opinion the revised procedure should help to achieve a more equitable distribution of the increases in annuities of former employees who are not contributing to the support of family members on whose account the annuities were increased.

88. Control over propriety of annuity payments--In April 1967, we reported to the Railroad Retirement Board that its procedures and practices had not been wholly effective in developing accurate information from social security wage records and from disabled or retired employees concerning earnings and changes in eligibility of members of their families. As a result, certain annuities were not paid in the proper amounts. We noted improper payments to 146 annuitants, consisting of $47,800 in overpayments and $3,100 in underpayments.

After we brought our findings to the attention of the Board, certain automatic data processing programs were established or revised to obtain earnings information from social security wage records and to ensure that annual report forms are issued to certain disabled or retired employees. Also, action was taken by the Board to provide internal audit coverage for this phase of its operations. These actions, if effectively implemented, should strengthen the Board's control over the propriety of annuity payments.

REFUGEE AND ESCAPEE PROGRAMS

89. Use by nonrefugees of facilities supported by refugee assistance program--Funds appropriated for assistance to refugees have been used by the Department of State for facilities and services in Hong Kong which serve substantial numbers of nonrefugees. We have some reservations as to whether such usage is completely in accord with congressional intent, and we question whether the congressional committees have been fully informed as to the extent of participation by nonrefugees.

The American consulate general has determined that, for the purposes of the Department of State's refugee assistance program in Hong Kong, a person who has fled or been expelled from mainland China after January 1, 1949, or a minor child of such a person, would be classed as a refugee. The Department has estimated that, on the basis of these criteria, refugees comprise about 50 percent of the population of Hong Kong and the Department has informed the Appropriations Committees of the Congress at various times of the possibility that some facilities receiving United States contributions would be used by nonrefugees; however, in our view, the Department's statements have indicated that such usage would be relatively minor.

We believe that the Department's overall estimate that 50 percent of the population of Hong Kong are refugees is unrealistic because the definition on which it is based does not include a termination point; that is, the stage at which refugees who have been successfully integrated into the Hong Kong community cease to be considered refugees.

We found that United States funds had, to a large extent, been expended on projects which were not intended specifically for

refugees but were available to all residents of Hong Kong without distinction. The Department had not, to our knowledge, attempted to accumulate statistics as to the extent of nonrefugee usage of specific projects. We obtained the results of limited tests of two projects made by voluntary agency personnel and found that as high as 58 percent of the users might have been nonrefugees. Further, an overall application of the percentage reached in the Department's estimate would indicate that 50 percent of all individuals benefiting from United States refugee funds in Hong Kong could be nonrefugees. We believe therefore that the facilities and services, to which the United States has contributed have served substantial numbers of nonrefugees.

We visited many of the major buildings and facilities in Hong Kong and Macao that had been constructed either partially or entirely with United States funds appropriated for refugee assistance and found that only one of the facilities which we visited appeared to be specifically for the use of refugees.

In commenting on our finding, the Department stated that it had consistently endeavored to assist refugees by its program in Hong Kong and that only incidentally and unavoidably were persons who might not be classified as refugees being assisted. The Department stated also that the Congress had been informed on many occasions of, and had acquiesced in, the use of such funds for small numbers of nonrefugees where necessary. The Department stated further that it was impossible to differentiate between the refugees and the other needy residents in Hong Kong to whom help was furnished from many sources including United States refugee assistance funds, and the Department also stated that, from a practical standpoint, there would be no way for the United States Government to carry out its objectives unless it conformed to the requirements of the Hong Kong Government that there be no distinction between new refugees, refugees who were integrated, and needy long-time residents.

We recognize that there is a practical problem in identifying refugees in Hong Kong. However, refugees have been identified under some of the service contracts with voluntary relief agencies. At least one of the facilities that we visited appeared to be in use specifically for refugees. These facts indicate that the Department is not forced to use its refugee assistance funds for projects benefiting all residents of Hong Kong but has some options as to fund application.

We recommended that, in conjunction with requests made in the future for funds for refugee assistance in Hong Kong, the Department furnish the congressional committees more complete and realistic information as to anticipated usage of project facilities and services by refugees and nonrefugees. This would necessitate, as a starting point, revising of the Department's definition of refugees in Hong Kong to include a statement of the stage at which refugees, successfully integrated into the Hong Kong community, would cease to be considered refugees. It would also require, for proposed individual projects, the furnishing of estimates as to anticipated refugee versus nonrefugee usage to the extent that it would be practicable to make such estimates.

90. Assistance to escapees by voluntary agencies--In our review of the United States Escapee Program (USEP) in Europe, we found that contract payments to voluntary agencies were not correlated with the number of USEP eligibles assisted by the agencies and that, consequently, refugee assistance costs might have been higher than necessary. Department of State officials advised us that factors other than the number of refugees to be assisted also were considered in determining the size of each agency's contract. Although other factors might not always permit an exact correlation, we believe that a more proportionate relationship could possibly be achieved in some cases.

For example, in 1965 USEP paid for 19 full-time employees of the National Catholic Welfare Conference (NCWC) to assist 1,660 refugees. More than half of these persons were employed in Italy, however, where NCWC had only about 24 percent of its total case load.

Also, USEP paid in 1965 for four full-time employees of the World Council of Churches (WCC) to assist 456 refugees in Europe, excluding Greece. One of these employees performed his duties at a refugee camp in Italy. In December 1965 there were 922

refugees at this camp, of which 34 were USEP eligibles registered with NCWC and 12 were USEP eligibles registered with WCC. The WCC representative in Rome advised us that the WCC counselor at the camp spent his time counseling all refugees at the camp registered with WCC, which included both USEP eligibles and non-USEP eligibles.

The Director, Office of Refugee and Migration Affairs (ORM), has advised us of his intention to review these cases with a view toward possible contract revisions.

We noted that the cost of supporting refugees in Greece was relatively high because USEP was financing (a) the administrative and salary costs of voluntary agency personnel assisting both USEP and non-USEP refugees and (b) the major portion of the cost of maintaining a refugee camp in Greece which was used for USEP and non-USEP refugees. Here again, the Director, ORM, attributed USEP presence in Greece to factors additional to specifically providing assistance to individual refugees. He observed, however, that, since the Greek Government had agreed in principle to assume the basic costs of camp care and maintenance as of January 1, 1967, USEP assistance should be greatly diminished.

RESEARCH AND DEVELOPMENT PROGRAMS

91. Control and distribution of research reports and materials--Our review of the control and distribution of reports and materials resulting from grants awarded by the Division of Research Grants and Demonstrations, Vocational Rehabilitation Administration (VRA), Department of Health, Education, and Welfare, revealed several areas in the administration of the research and demonstration grant program which, we believe, were in need of improvement. We believed that there was need to (a) increase efforts to disseminate vocational rehabilitation research and demonstration project reports on hand so that useful information about developments in vocational rehabilitation might be placed in the hands of interested individuals and organizations who might benefit from its use and (b) develop and implement adequate controls and procedures regarding the future receipt and distribution of research reports and demonstration grant materials. The need to disseminate the results of research programs was emphasized in the Vocational Rehabilitation Act Amendments of 1965.

After we discussed our findings with representatives of the Division of Research Grants and Demonstrations, they informed us that arrangements would be made for the distribution of available research and demonstration grant reports to State agencies, other divisions within VRA, grantees, doctoral candidates, graduate students, and college and university libraries. They informed us also that the Division would attempt to establish adequate control over the material ordered, stored, and distributed.

92. Controls over equipment purchased with grant funds--In its guidelines governing the use of Federal grants for medical research activities, the Public Health Service (PHS), Department of Health, Education, and Welfare, had not provided for appropriate controls over equipment purchased by grantee institutions with such grant funds. We found a particular need for such guidelines in view of the grantees' obligation to use the equipment only for the purposes specified in the grant, and we believe that these controls are necessary to comply with established PHS guidelines which require a determination by an appropriate administration official of the grantee institution that no other equipment is available for the intended use before purchasing equipment for a PHS-supported project. We noted instances where grantee institutions had no reliable record of equipment on hand that could be referred to before placing orders for new equipment, and there was no assurance that proper custody was exercised over equipment on hand.

In our report of June 1967 to the Surgeon General, we recommended that appropriate instructions regarding the maintenance of adequate control over grant-financed equipment be included in PHS guidelines to facilitate proper use and custody of such equipment and economical purchasing procedures. The Surgeon General advised us in September 1967 that the need for improvement in these procedures was recognized and that appropriate policies for use within the entire Department were being considered.

93. Disposition of net income from activities supported by grants--The Public Health Service, Department of Health, Education, and Welfare, in its published policies regarding the disposition of any net income derived from grant-supported activities, has made no provision with respect to the treatment of professional fees received by researchers supported by grant funds. For example, we found that, in the case of a grant-supported cancer research organization, it was not clear, and there was uncertainty on the part of the Department's own audit representatives, as to whether the disposition of medical fees earned by the physicians employed by the grantee was in accordance with approved agency policy.

We recommended in June 1967 that the Surgeon General establish more specific guidelines to define what category of income should be subject to return to the United States Government and that the guidelines set forth any other acceptable arrangements for the disposition of grant-generated income which may be included in grant agreements. We were advised by the Surgeon General in September 1967 that the Service was considering adopting a policy which would provide that all fees, such as those mentioned in the above example, be retained by the grantee institution for expenditure for health-related research or training purposes only or for deposit in a general research support grant account.

94. Audits of research activities--In our reports to the Congress in September and December 1967 on our reviews of the National Science Foundation's administration of its contracts for the operation of the National Center for Atmospheric Research, Boulder, Colorado, and Kitt Peak National Observatory, Tucson, Arizona, we pointed out the need for regular periodic audits by the Foundation of operations conducted at the two Centers.

We found that, from inception of operations at the two Centers in 1960 and 1957, respectively, until completion of our audit work at the sites in 1966, no independent reviews or appraisals had been made of the costs incurred by, and the performance of, the contractors, nor were internal audits made of the Foundation's contract negotiation and administration of activities related to the Centers' operations.

Foundation expenditures through fiscal year 1966 totaled about $31 million for the operations in Boulder, Colorado, and $29 million for the operations in Tucson, Arizona.

We proposed that the Foundation provide for regular, systematic audits of the Centers' operations, sufficiently broad in scope to enable Foundation management to effectively appraise the discharge of the contractors' financial responsibility to the Government and to provide information necessary to sound contract negotiation and administration. The Foundation agreed with our proposal and informed us that efforts were being made to have staff members of the Foundation's Internal Audit Office devote more time to the review of operations, policies, and procedures at the research centers operated under Foundation contracts.

95. Title to land used in research activities--During our review at the National Science Foundation's Kitt Peak National Observatory, Tucson, Arizona, we found that the private nonprofit corporation operating the Center under a cost-reimbursable contract had purchased land adjacent to the Observatory headquarters in Tucson to provide for anticipated future expansion of the Observatory. The funds used by the contractor to purchase the land came from its corporate reserve, comprised primarily of management fee payments to the contractor by the Foundation for the operation and management of the Center.

In a report submitted to the Congress in December 1967, we expressed the belief that real property needed for expansion of Observatory operations should be provided by the Government rather than purchased by the contractor with funds made available to it through Foundation management fees. By providing for the property needs of the Observatory operations through cost reimbursements under the contract, title to such property would be vested in the Government and would thereby provide a means for ensuring its use for the performance of research work desired by the Government.

We recommended that, to the extent justified by the related circumstances, the Director of the Foundation initiate appropriate action to acquire the land from the contractor so that title to facilities required to perform research work desired by the Government would be vested in the Government rather than in the operating contractor. The Director agreed to review the situation and to initiate any action deemed appropriate.

96. Negotiating management fees-- During our review of the National Science Foundation's administration of the contract for the operation of its National Center for Atmospheric Research, Boulder, Colorado, we found that, under the Foundation's concept of the fixed fee to be paid the contractor for managing and operating the Center, the amount was to be determined on a need basis.

The fee for operating the Center for the initial contract period was established to provide for the contractor's estimated needs for a 1-year period. However, the current fee covers the contractor's needs over a 5-year period. We believe that use of a 1-year period, rather than a 5-year period, would have given the Foundation a far greater measure of assurance that the fee would closely approximate the contractor's needs intended to be funded under the contract.

We proposed that the Foundation enter into negotiations with the contractor aimed at the reinstatement of the former procedure of annual negotiation of the management fee. The Foundation informed us that, in its opinion, the time period for which fees should be negotiated was a matter of judgment and that, for this contract, the 5-year period was advantageous. The Foundation further informed us that it would prefer to leave the present arrangement in effect. However, the Foundation stated that, in light of our views, it would periodically review the contractor's fee experience during the life of the contract and, if considered advisable, would reopen the fee negotiations with the contractor.

We remain of the opinion that, to aid in keeping the expenditures of Government funds through the management fees in line with reasonable corporate needs, annual fee negotiations would be more effective and would place the Foundation in a better position to adjust the level of funding provided through the fee in the event of extraordinary accumulation or disposition of assets comprising the corporate reserve.

We therefore recommended in a report submitted to the Congress in September 1967 that, in conducting periodic reviews of the contractor's fee experience, the Director of the Foundation give careful consideration to the advantages, as described in the report, of annual negotiation of the fixed fee and, to the extent warranted, reinstitute at the earliest practical date, the practice of negotiating the fixed fee on an annual basis.

97. Negotiating management fees-- In a report submitted to the Congress in December 1967, we pointed out that, under the terms of its contract for the operation of Kitt Peak National Observatory, the National Science Foundation reimburses the contractor--a private nonprofit corporation--for all costs incurred arising out of or connected with the work under the contract. In addition, the contractor receives a management fee which has been negotiated on an annual basis. The amount of the management fee varied from $17,500 in fiscal year 1958 to $125,000 in each of fiscal years 1965 and 1966.

Under the Foundation's concept of the management fee, the amount is to be determined on a need basis and is intended to provide for the normal operating expenses of the contractor not reimbursable under the contract and to enable the corporation to accumulate capital equivalent to about 2 years' corporate expenses.

Between fiscal years 1958 and 1966, the fees negotiated by the Foundation enabled the contractor to accumulate the greater portion of a corporate reserve of about $377,000 after providing for all of its corporate expenses. We noted that this reserve was more than four times the corporate expenses--$82,000--incurred during fiscal year 1966. Therefore we recommended that the Foundation, in negotiating the management fee for the next contract period, give appropriate consideration to this situation.

The Director of the Foundation agreed with our views and stated that, in negotiating the management fee for the next contract period, the Foundation would consider the amount of the contractor's corporate reserve and the related corporate assets.

98. Negotiating management fees-- In a report submitted to the Congress in September 1967, we pointed out that the National Science Foundation (NSF), in negotiating the 5-year $700,000 management fee with its operating contractor at the Foundation's National Center for Atmospheric Research, Boulder, Colorado, did not make an adequate review of available financial data affecting the level of funding intended to be provided through the fee.

The Foundation established the 5-year fixed fee at an amount which it considered would provide for the contractor's normal operating expenses not reimbursable under the contract and enable the accumulation of a corporate reserve of between $250,000 and $300,000.

We noted that, as of June 30, 1966, in addition to about $100,000 in reserve funds accumulated from the Foundation's management allowance paid under the prior contract, the contractor also had available unrestricted funds of about $90,000 derived from corporate membership fees, interest income on invested funds, and reimbursed overhead costs on non-NSF contracts. These latter funds were not considered by the Foundation in negotiating the fixed fee. We believe that, had these additional funds been considered in negotiating the fixed fee, it is possible that a lower fee could have been established because of the availability of such funds for inclusion in the corporate reserve.

Although the Director of the Foundation was of the opinion that the $700,000 fixed fee for the 5-year period of the contract was a fair and reasonable amount, he agreed that the size of the total corporate reserve should be considered in evaluating the appropriate level of the fee and stated that in future fee negotiations such consideration would be given.

99. Contractors' medical and group life insurance programs--Our review of the contractor's fringe benefit programs at the National Center for Atmospheric Research, Boulder, Colorado, showed that the cost of its major medical and group life insurance programs was being borne entirely by the National Science Foundation under its cost-reimbursable prime contract, while the costs of comparable medical and life insurance programs at the Foundation's two other National Research Centers in the United States, also operated under cost-reimbursable contracts, were being shared by the contractors and the employees. The cost of these programs totaled about $85,000 in fiscal year 1966 and is expected to increase with an anticipated increase in the number of employees.

In our opinion, the justification given by the contractor for the noncontributory policy was questionable. We therefore proposed that the Director of the Foundation provide for a review and appraisal of the major medical and group life insurance programs at the Center to determine whether adequate justification existed for continuing them on a noncontributory basis.

After reviewing the situation, the Director stated that the Foundation was convinced of the merits of the justification for a noncontributory system at the Center. He stated further, however, that, in view of our concern and in recognition of our proposal, the Foundation would periodically examine the justification for continuing the contractor's major medical and group life insurance programs on a noncontributory basis.

100. Passenger-carrying vehicles used by Government contractors--In a report submitted to the Congress in December 1967, we pointed out that a more expensive type of vehicle than needed had been purchased by the contractor operating the National Science Foundation's Kitt Peak National Observatory to meet its transportation needs at Kitt Peak and Tucson, Arizona. These more costly vehicles had been acquired because the Foundation misinterpreted the statutory prohibition on the Foundation's own acquisition of passenger-carrying vehicles as being applicable to cost-reimbursement contractors. Also, contrary to normal Government policy, title to the vehicles acquired for use in the operation of the Observatory was vested in the contractor and the cost of insurance on these vehicles

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was paid for by the Government under the Kitt Peak contract.

During the course of our review, the Comptroller General, in a report to the Congress dated September 20, 1966, held that the statutory limitation on the acquisition of passenger-carrying vehicles by a Government agency did not apply to the purchase of passenger vehicles by contractors under Government contracts. We therefore informed the Foundation, by letter dated December 15, 1966, of a need for clarifying its policies relative to vehicles purchased for use by contractors conducting the operations of the national research centers. The Foundation informed us that its practices would be adjusted accordingly.

We also expressed the belief that the Government's interest would be better protected and that economies would result if titles to vehicles acquired under prime contracts were vested in the Government and if the Government acted as self-insurer, in accordance with its general practice.

The Foundation informed us that, since savings might accrue from Government ownership of vehicles, the Foundation proposed to develop, with its contractors, a schedule for shifting to a Government-owned fleet of vehicles.

101. Financing construction activities– In a report submitted to the Congress in September 1967 on our review of the administration by the National Science Foundation of its contract for the operation of the National Center for Atmospheric Research, Boulder, Colorado, we pointed out that the Foundation had not required the contractor to obtain the Foundation's prior approval before using funds, originally budgeted for program operations, to finance construction activities. As a result of this practice and other fund transfers, the contractor was able to expend about $7.4 million for its construction projects or about $1 million more than was specified for this purpose in the Foundation's annual budget justification submitted to the Congress.

Although the Foundation receives only one appropriation to finance all of its expenditures and is not legally restricted by the amounts specified for construction in its annual budget justification, we believe that the Foundation's practice of permitting the contractor to finance construction activities by reprogramming funds originally budgeted for other purposes, without prior approval, tends to weaken the financial controls. In our opinion, a Federal agency should attempt to maintain financial control over its construction activities, in line with the strong congressional interest in expenditures for construction of Federal facilities.

We proposed that the Foundation require the contractor to obtain prior Foundation approval for any planned reprogramming of funds budgeted for program operations and development to finance construction activities.

The Foundation agreed with our proposal and advised us of contemplated measures which, if properly implemented, should help ensure that proper consideration will be given to the use of funds budgeted for program operations for the financing of major construction activities.

102. Records on usage of equipment– During our review at the National Science Foundation's Kitt Peak National Observatory, Tucson, Arizona, we found that the contractor did not maintain records from which usage of Observatory equipment could be determined. Thus, the Observatory's management and the Foundation lacked an important means by which to evaluate justifications for additional equipment and for the retention of existing equipment.

As of October 14, 1966, the Observatory had 150 items of equipment with a unit value in excess of $1,000 and a total value of $718,633. This equipment included many items, such as lathes, milling machines, and drill presses, designed for the same function or similar functions. During our review, we observed that much of the equipment was frequently idle. However, Observatory representatives familiar with its use informed us that all the existing equipment was needed and was used regularly.

An Observatory official advised us that, in line with our suggestion, consideration

would be given to the establishment of usage records on the more expensive items of equipment. In our opinion, such records would be beneficial to the Observatory's management and to the Foundation in identifying excess equipment and evaluating requests for additional equipment.

Also, the Foundation advised us that it had initiated a review of the equipment at the Observatory to ensure its effective use.

We recommended that, as soon as practicable after completion of the review of the Observatory's equipment usage, the Director of the Foundation institute procedures requiring that equipment usage records be maintained at the Observatory in order to ensure the most efficient and economical equipment management.

103. Administration of contract patent provisions--In December 1967 we reported to the Congress on our review of the National Science Foundation's administration of its contract for operation of the Kitt Peak National Observatory, Tucson, Arizona. We stated that there was a need for the Foundation to improve its administration of the patent provisions included in the contract to help ensure the receipt of information relative to inventions made or conceived by the contractor's employees or visiting scientists and to effect timely determination of the rights to and appropriate disposition of potentially patentable inventions, as the Foundation is required to do under the terms of the contract.

We found that the contractor had devised its own patent agreement form but had not obtained the Foundation's approval of the form, although such approval was required by the contract. Further, at the time of our review, only 44 of the 127 technical and scientific employees of the Observatory had signed these agreements and the Foundation had not been provided with copies of any of the signed agreements.

In regard to determining the rights to and disposition of potentially patentable inventions, we noted at the time of our review that of the two cases referred to the Foundation for determination, one, an invention disclosure case, had remained unsettled since 1964. The Foundation attributed this lack of action to an administrative oversight.

We proposed that the Director of the Foundation institute effective procedures aimed at ensuring that patent agreements, in an approved form, are executed and furnished to the Foundation in accordance with the Kitt Peak contract. We also proposed that the Director determine the rights to and the disposition of the 1964 invention disclosure case and notify the parties concerned of the determination made.

In response, the Director stated that the contractor had been made aware of the need for complying with the patent provisions of the Kitt Peak contract and that the contractor was revising its employee invention assignment form for submission to the Foundation for approval. In addition, the Director advised us that the Foundation was taking action relative to the determination of the rights to or the proper disposition of the 1964 invention disclosure, and that a follow-up procedure had been instituted which the Foundation believed would prevent oversights in the future.

SCHOOL CONSTRUCTION

104. Recovery of funds remaining after completion of schools constructed with Federal financial assistance--In a report issued to the Commissioner of Education, Department of Health, Education, and Welfare, in February 1967 on our examination of the disposition of funds remaining after the completion by local educational agencies of schools constructed with Federal financial assistance, we pointed out that in some cases the actual cost of constructing schools was less than the estimated cost on which the amount of Federal assistance was based and that the Office of Education had allowed the local educational agencies to retain and use the savings.

We found that in about a 5-year period approximately $60,000 of such savings had been retained by local educational agencies. We concluded that, because the purpose of the program was to provide Federal assistance only to the extent necessary to pay for construction, any funds remaining after completion of the schools should accrue to the Federal Government.

After we brought this matter to its attention, the Office informed us that, as a result of discussions with our staff, it had adopted a policy providing that, where the final cost of construction is less than the total estimated cost, the savings accrue to the Federal Government unless pertinent factors are present which were not considered at the time the original estimates were made.

SLUM CLEARANCE AND URBAN RENEWAL ACTIVITIES

105. Adjustment of noncash local grant-in-aid credits for certain public facilities-- We reviewed the policies and practices followed by the Renewal Assistance Administration (RAA), Department of Housing and Urban Development (HUD), in approving claims for noncash grant-in-aid credits for three urban renewal projects --one in the State of Washington and two in the State of Virginia. In an October 1966 report to the Congress, we expressed the belief that there was a need for revising certain policies of the agency for determining the benefits of facilities to urban renewal projects.

In our opinion, RAA approved excessive noncash local grant-in-aid credits which increased project costs--two thirds of which are shared by the Federal Government--for (a) a bridge, because the method used to estimate the benefits of the bridge did not give proper consideration to the benefits provided to areas outside the project, and (b) a limited-access street, because inadequate consideration was given to its limited-access characteristics and its benefits to nonproject areas.

We also expressed the belief that there was a need for adjusting the local noncash grant-in-aid credits approved for the donation of certain publicly owned parcels of land to one of the urban renewal projects. In our opinion, the value of the improvements on the parcels of land were excessive because an improper basis was used in determining their values.

The amounts of the excess allocations for the bridge and the limited-access street and of the excess value of the buildings could not be estimated without detailed studies; however, we expressed the belief that the amounts could be substantial in relation to the $3 million credits allowed for the facilities involved.

We recommended that the Secretary, HUD, require RAA (a) to revise the Urban Renewal Manual to provide that, in those instances when it is determined that a facility, such as the bridge, will provide more than one type of benefit, the relative values of the benefits be determined so that each type of benefit will be appropriately weighted for an equitable allocation of the total benefits to project and nonproject areas and (b) to revise the agency's policy on noncash grant-in-aid credits to recognize that the limited-access portions of the facilities, such as the street, substantially benefit the entire community and that, therefore, the costs of such facilities should be appropriately allocated between the project and nonproject areas.

We recommended also that the Secretary require that the value of the noncash grant-in-aid credits for the publicly owned parcels donated by the city in one of the Virginia projects be determined on the basis of the value of the improvements for suitable private use. In our opinion, this would represent fair market value because the buildings were contemplated for abandonment before the project was started.

In response to our report, the Secretary stated that HUD was reviewing the entire matter. The Secretary indicated that, upon completion of this review, HUD would take action to implement our recommendations if such action was considered appropriate.

During fiscal year 1967, as a result of proposals we made to HUD in prior years relative to other urban renewal projects, noncash grant-in-aid credits were reduced for a school, a fire station, street lights, and traffic signals. The Federal Government's share of the costs of these projects was thereby reduced by about $410,000.

106. Evaluating effect of changes on project land disposition prices--In a January 1967 report to the Secretary of Housing and Urban Development (HUD), we expressed the opinion that HUD did not ensure that fair market value, although required by law, was received for the sale of land in the residential portion of an urban renewal project in San Francisco, California.

The net costs–gross costs less proceeds from the disposition of land–of federally assisted urban renewal projects generally are shared two thirds by the Federal Government and one third by the local community. Section 110(c) of the Housing Act of 1949, as amended, requires that the property acquired in an urban renewal area be disposed of by the local public agency at its fair value for uses in accordance with the urban renewal plan. The regulations of HUD's Renewal Assistance Administration (RAA) provide that changes proposed in the urban renewal plan involving changes in the project area or land reuses be reviewed to determine the need for new appraisals of the value of the land.

A contract was awarded under competitive conditions to sell project land to a developer for $6 million. One of the bases for the award was the design of the proposed redevelopment. Subsequently, changes were allowed in the urban renewal plan and in the winning design to increase the density, land coverage, and building height. The Department, however, did not require the local public agency to obtain appraisals of the effect of the changes on the value of the land to determine whether the sales price to the developer should be adjusted. In our opinion, available data indicated that the value of the land to the redeveloper might have been increased substantially, but such increase in value could not be determined without detailed studies.

We believe that the primary reason for not requiring reuse appraisals after changes were made in the urban renewal plan and redeveloper's winning design was that HUD's regulations do not contain specific criteria for the regional offices to determine whether plan changes are of sufficient magnitude to require new appraisals and whether the disposition prices should be adjusted.

We therefore recommended that the Secretary, HUD, require RAA to develop definitive criteria as to which changes in urban renewal plans are considered of sufficient magnitude to require additional reuse appraisals. We recommended also that HUD's regulations provide that, where the disposition of land includes price and design competition, any subsequent design changes which do not necessarily require a change in the urban renewal plan limitations be evaluated to determine the effect of the changes on the value of the land.

HUD disagreed in general with our conclusions and, therefore, did not believe it appropriate to take action on our recommendations. With respect to our second recomendation, HUD stated that problems arise as a result of land disposition on a competitive basis which involve the factors of price and design in one and the same offering. HUD therefore, proposed to amend its policies to prohibit any invitation to bid which combines both price and design factors as part of the evaluation criteria.

We believe that any subsequent design changes should be evaluated to determine the effect of the changes on the value of the land, regardless of whether there is a change in the urban renewal plan.

SOCIAL SECURITY BENEFITS

107. Accounting controls for overpayment of social security benefits--In March 1967 we reported to the Congress that the Social Security Administration (SSA) did not have sufficient accounting control over benefit overpayments, that many overpayments could have been prevented through the exercise of greater care by SSA employees in handling benefit claims, and that there was a need for improvement in overpayment recovery activities. In accordance with our proposals, the Department of Health, Education, and Welfare agreed to establish a system of accounting controls for overpayments and to take action designed to minimize overpayments and improve procedures governing recovery of overpayments.

108. Procedures for processing appeals of denials of disability insurance benefits--In a report issued in June 1967 on our review of procedures for processing appeals of denials of disability insurance benefits, we pointed out that, under present procedures followed by the Social Security Administration (SSA), requests for reconsiderations of denied disability claims cases were referred to State agencies for redetermination of disability regardless of whether claimants furnish new or pertinent additional medical evidence in support of their requests.

We recommended that the Secretary of Health, Education, and Welfare (HEW) amend the regulation under which the reconsideration procedure was established to provide that, in those cases where no new or pertinent additional medical evidence was submitted with requests for reconsideration of disability claims, SSA reexamine the evidence of record in support of such claims in lieu of first returning the cases to State agencies for reconsideration. We proposed that those cases, for which SSA determines that additional development is warranted, then be subject to the present reconsideration procedure and be returned to State agencies for new determinations.

We estimated that the adoption of our recommended revised procedure would eliminate the need for State agency reviews of about 12,000 cases, costing SSA about $370,000 annually. HEW has advised us that necessary changes will be made in social security regulations which it believes will result in substantial implementation of our recommendation.

TAXES

109. Excise tax exemptions on beer and tobacco products given to certain consumers-- Under the provisions of chapters 51 and 52 of the Internal Revenue Code of 1954 administered by the Internal Revenue Service, Treasury Department, breweries are permitted to furnish tax-free beer to employees and visitors for consumption on the premises and manufacturers of cigars and cigarettes are permitted to furnish these products tax free to employees for personal consumption.

In a report submitted to the Congress in April 1967, we expressed the belief that, although these general practices had existed for a long time, expenses incurred in producing and promoting the sale of products, as well as excise taxes, were appropriate costs to the manufacturers and that excise taxes should be imposed on beer and tobacco products even though the producers continued the practice of giving these products to employees and visitors free of charge. We estimated that, if the beer and tobacco products given away during fiscal year 1965 had been subject to excise taxes, such taxes would have amounted to about $1.6 million.

In commenting on our findings, the Assistant Secretary of the Treasury for Tax Policy advised us that, strictly from the view of administrative and revenue considerations, the Treasury would have no objection to the repeal of the exemptions in question. The Assistant Secretary stated that repeal of the present exemptions would also, as we had indicated in our report, equalize the situation existing with respect to other producers of alcoholic beverages and tobacco products who do not enjoy the tax exemption privilege.

In our report we suggested that the Congress might wish to consider amending chapters 51 and 52 of the Internal Revenue Code to provide for the payment of taxes by brewers on beer consumed by employees and visitors and by tobacco products manufacturers on cigars and cigarettes given to employees.

110. Reporting, as income, payments received under various agricultural programs--In December 1966 we reported on our review of the procedures and practices established by the Internal Revenue Service (IRS), Treasury Department, with respect to reporting, for tax purposes, income received by taxpayers under programs administered by the United States Department of Agriculture (USDA). We pointed out that IRS seemingly had not established controls and procedures for determining the extent of nonreporting of income by recipients of payments under various agricultural programs. During fiscal year 1965 such payments made by USDA amounted to about $3.7 billion.

Subsequent to our discussions of this matter, the Deputy Commissioner, IRS, informed us that, beginning in January 1967, IRS would receive information from USDA concerning certain agricultural program payments made during calendar year 1966 for matching against the taxpayers' tax returns. Payments made under these programs amounted to about $2.2 billion, or about 59 percent of the total agricultural program payments made during fiscal year 1965.

Payments made under the remaining agricultural programs (principally Commodity Credit Corporation loans), which totaled about $1.5 billion during fiscal year 1965, were not included in the system for reporting information mentioned by the Deputy Commissioner because of some problems relating

to determining whether and when such payments were to be reported on information returns to IRS. The Deputy Commissioner advised us, however, that satisfactory solutions to the problems would be developed in cooperation with USDA.

111. Reporting of interest received by taxpayers on Federal income tax refunds--In a report submitted to the Congress in November 1966, we stated that our review of selected activities of the Internal Revenue Service (IRS), Treasury Department, with respect to Federal income tax refunds on which interest was paid revealed that a high percentage of taxpayers were not voluntarily reporting, as income, interest received on their tax refunds. Because of our limited access to records, we could not reasonably ascertain the total amount of such unreported interest income. However, on the basis of information made available to us and a test of transactions in four district offices and the amount of interest paid by IRS--$88.5 million in fiscal year 1964--it was our belief that considerable taxable income had not been reported.

Effective January 1, 1967, IRS established internal procedures for issuing annual information notices to taxpayers showing interest received on tax refunds to provide IRS with the facility for checking on the reporting of such interest. Also steps were taken for making better use of instructional publications to communicate more effectively to taxpayers the requirements for reporting, as income, interest received on tax refunds.

We believe that the actions taken by IRS should substantially improve reporting by taxpayers of interest received on tax refunds.

112. Opportunity for reducing interest payments on certain Federal income tax refunds--Our review of the payment of interest on income tax refunds attributable to net operating loss deductions showed that excessive interest costs were being incurred by the Government. Also, better treatment was accorded taxpayers claiming net operating loss carry-back refunds than was available to taxpayers claiming ordinary refunds.

The excessive interest costs are incurred because interest is paid from the close of the year in which the loss is incurred; whereas, in the case of ordinary refunds, section 6611(e) of the Internal Revenue Code provides an interest-free period of 45 days following the prescribed due date or date of receipt of the return, if later, for the Internal Revenue Service to process the claims. Also, taxpayers can delay filing claims for refunds in cases of net operating loss deductions for periods up to 3 years and receive interest for the entire period.

We believe that millions of dollars could be saved each year if the tax code were amended. Consequently, in our May 1967 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 net operating loss deductions begin from the date of filing the application or claim for such a refund, except that the Internal Revenue Service be authorized to establish a reasonable period after the applications or claims are filed within which interest-free refunds may be made.

Also, in view of comments by the Assistant Secretary of the Treasury for Tax Policy concerning interest payments on refunds attributable to investment credit carry-backs, and unused deductions of life insurance companies, we suggested that the Congress might wish to consider amending the statutory provisions applicable to those refunds.

The Assistant Secretary stated that the Treasury Department was prepared to support legislation which would revise the Code to the effect that no interest shall be paid on carry-back or unused deduction refunds for periods prior to the filing date of an adjustment application or claim for refund and which would allow a period of 90 days from the date of filing within which interest-free refunds may be made.

113. Collection of Federal unemployment taxes--The Unemployment Trust Fund, which is financed primarily by the taxes collected under the Federal Unemployment Tax Act, is used by the Secretary of Labor to finance the

cost of the administration of employment security activities throughout the country. Our review showed that a significant acceleration in the availability of funds for financing the administration of employment security activities could be realized if appropriate legislation were enacted to provide for quarterly, rather than annual, collection of the Federal unemployment taxes.

The collection of these taxes after the close of the calendar year has necessitated the borrowing of funds at prevailing interest rates to finance the costs of administering the State employment security offices during the first 7 months of the respective fiscal year. In a report submitted to the Congress in January 1967, we pointed out that the account incurred $2.2 million in interest expense from July 1964 until the majority of calendar year 1964 taxes were collected in early 1965. We estimated that, if collections for calendar year 1964 had been made on a quarterly basis, available funds not only would have been adequate to meet administrative costs but also would have earned about $7.1 million in interest.

Both the Treasury Department and the Department of Labor agreed in principle with the desirability of the proposal to change the collection of Federal unemployment taxes to a quarterly basis. The Treasury advised us, however, that various policy and technical problems needed to be resolved. In our report to the Congress, we recommended that the Secretaries of Labor and the Treasury cooperatively determine the most feasible method of making quarterly collections of Federal unemployment taxes and submit for consideration by the Congress the necessary legislative proposal to provide the authority for such collections.

TRAINING ACTIVITIES

114. Training and development of staff engaged in administering public assistance programs--In our review of staff training and development activities conducted under the federally aided public assistance programs in the State of Missouri, we found that funds received by the State's Division of Welfare as payment for training it provided in public assistance and child welfare to students of a local university had not been taken into account in computing its claims for Federal financial participation under the State plan approved by the Department of Health, Education, and Welfare. The university had paid the State a total of about $30,000 since 1962.

It appeared to us that such payments should have served to defray the costs incurred by the Division of Welfare in rendering training services, particularly the salary costs of staff training personnel of that Division. In any event, it appears that the Federal Government should not participate in the full costs of salaries of those personnel in the Division of Welfare assigned to provide instructional services for the students.

This matter was reported to the agency in June 1967 with our recommendation that it make a review to determine the extent to which payments by the university represented the reimbursement of training costs and that it make such adjustments as might be appropriate in the amount of Federal financial participation. We were advised by the Department in October 1967 that action to effect adjustment would be taken.

115. Contracts for financing on-the-job training--In a report issued to the Secretary of Labor in January 1967, we stated that, although the Department's guidelines governing on-the-job training projects provided that Federal funds should not be used as a subsidy to replace existing training programs or efforts by contractors, the Department's Bureau of Apprenticeship and Training, in contracting with the Chicago Transit Authority for the training of bus drivers, did not include sufficiently clear and explicit provisions in the contract to ensure that these guidelines would be implemented. As a result, the contracting parties subsequently found it necessary to reach agreement on an interpretation of the contract's provisions, which, in our opinion, was not compatible with the objectives of the manpower development and training program.

The contract, as interpreted, allowed Federal financing of the contractor's existing bus-driver training program on the basis that the contractor would maintain its precontract level of expenditures for training by introducing additional training in other occupations.

However, in computing the costs of the additional training effort, the Department allowed trainees' salaries--an item of expense not included as a reimbursable cost under the contract. As a result, the contractor received $113,700 of Federal financing for costs which, in our opinion, did not meet the maintenance-of-training-effort requirement of the program.

After we brought the matter to its attention, the Department of Labor advised us that this was one of the first contracts under the program and that in making future contracts it would seek to avoid the basic problems of the contract that we described. The Department stated, however, that there are occasions when it may be advantageous for the Government to finance existing employer training programs.

In view of the possibility that in certain instances it may be advantageous for the Government to finance employers' continuing training programs, we recommended that the Department approve such proposals only when it is clearly demonstrated that the nature and amount of the new training, in terms of costs and benefits, are at least equal to the training to be financed by Federal funds.

116. Hours of weekly instruction for institutional training--In reports issued in April 1967 to the Secretary of Health, Education, and Welfare and to the Secretary of Labor we stated that we had previously submitted to them our finding that certain States, primarily Kentucky, had not increased the average length of the weekly instruction period for institutional training under the Manpower Development and Training Act of 1962, despite the issuance of guidelines by the Department of Health, Education, and Welfare that were designed to effect such an increase. We noted that these guidelines had been issued after our Office had proposed that training costs be reduced and training accelerated by increasing the number of hours in the weekly instruction periods.

After we brought the matter to its attention, the Department of Health, Education, and Welfare advised us that the Office of Education would continue to make every effort to extend weekly training periods for those persons who could profit thereby; would increase supervision given to field representatives to ensure maximum enforcement of the applicable guidelines and attempt to persuade the States to increase the hours of weekly instruction as contemplated by the guidelines, and would instruct field representatives to consider on an individual course basis the type and character of training to be undertaken, as well as the applicability of the conditions set forth in the guidelines, before approving courses scheduled for less than 40 hours of instruction a week.

We noted in our report that, since we had transmitted our finding to the Departments of Health, Education, and Welfare and of Labor, some increase had been effected in the length of the weekly instruction period in Kentucky and that we believed the further efforts by the Departments should result in broader implementation of the established guidelines and bring about corresponding savings in training costs.

UNEMPLOYMENT SERVICES

117. Administration of the Federal merit system standards--In a report submitted to the Congress in February 1967, we expressed the belief that there was a need for the Bureau of Employment Security, Department of Labor, to improve the administration of the Federal merit system standards which provide that the salaries of State employment security agency employees shall be at levels comparable to the salaries of other State agencies for positions of similar difficulty and responsibility.

We found that these Federal standards were not appropriately observed in 1964 in that salary increases were approved for the Georgia State agency, which, for the most part, were higher than the increases approved and applied generally to the State government organization. We estimated that employment security employees would receive annually about $246,000 more than similarly classified employees would receive in all but one of the other agencies of the State.

The Department agreed with the intent or substance of our proposals for improving the administration of the Federal merit system standards, with certain reservations regarding

their implementation, and advised that it would review its requirements and controls with a view to strengthening its procedures.

WAGE RATE DETERMINATIONS

118. Determinations establishing the minimum wage rates to be paid for Federal construction--In a report submitted to the Congress in December 1966, we pointed out that the minimum wage rates determined by the Department of Labor, under the Davis-Bacon Act, for construction of Carters Dam, Georgia--a federally financed Corps of Engineers project--had increased, on the average, by about 63 percent in less than 2 years. We stated that, as a result, the contract amount for phase II of the main dam included about $1.7 million in extra direct labor costs--which we believe had been considered by the contractors in their bids--and accordingly increased the project cost to the Government. In our opinion, lower minimum wage rates would have been determined had appropriate consideration been given to (a) the wage rates prevailing on similar heavy construction and highway construction work, (b) the wage rates paid during the representative peak payroll periods on similar work in the area, and (c) the wage practices of other contractors in the area.

We expressed the belief that recommendations made in our prior reports to the Congress concerning wage determinations applied also to determinations made for the Carters Dam project. In these recommendations we advocated that (a) the Department make more realistic determinations of prevailing wage rates on the basis of proper identification of construction similar to that of the federally financed construction project and on the basis of proper identification of the locality involved and (b) the Department document appropriately the prevailing wage rates being paid in the areas for such comparable construction and that sufficient data be gathered firsthand in the locality of the construction site to afford a basis for appropriate wage determinations.

The Assistant Secretary for Administration, Department of Labor, informed us that the Department believed that the minimum wage rates determined by the Department were proper for the type of construction involved, but he submitted no additional evidence to cause us to modify our conclusions.

WATER RESOURCES DEVELOPMENT PROGRAMS

119. Application of revisions in procedures--Our review showed that the Bureau of Reclamation, Department of the Interior, had not established a policy requiring that revisions in procedures for determining irrigation benefits be applied consistently to all reclamation projects that have advanced to the same stage of development. In justifying requests for appropriations to construct the Almena unit, Missouri River Basin Project, the Bureau inconsistently applied procedural revisions, which, in our opinion, materially affected the benefit-cost ratio for the unit and the amount of costs assigned to the irrigation features of the project.

The Commissioner of Reclamation advised us that the standards used in reevaluating reclamation projects had been determined on a project-by-project basis after consideration of the circumstances in each case. In our opinion, consistency is necessary in applying procedures so that data furnished to the Congress by the Bureau may be relied upon to objectively present the merits of proposed projects and to properly disclose the effects of changes that occur during the various phases of project development.

Therefore we proposed, in July 1966, that the Secretary of the Interior request the Commissioner of Reclamation to establish policies setting forth criteria for determining those projects to which revisions in procedures for computing benefits are to be applied and requiring that these criteria be applied consistently for all procedural revisions. Although in November 1966 the Department had advised us that it did not disagree with our proposal, it subsequently informed us that no action had been initiated or planned for establishing policies requiring consistent application of procedural revisions.

Consequently, in our report to the Congress in July 1967, we recommended that the Secretary of the Interior request the Commissioner of Reclamation to revise the Bureau's practices to preclude the inconsistent applica-

application of revisions in procedures for determining irrigation benefits to projects being reevaluated. We further recommended that, if the Bureau can demonstrate that in a particular case there are compelling reasons for the inconsistent application of procedures, the Congress be fully informed of the circumstances necessitating the inconsistency and of the effects on the benefit-cost ratios and cost allocations of the projects involved.

In August 1967 the Department advised the Bureau of the Budget that it had adopted our recommendations.

ACCOUNTING AND FISCAL MATTERS

120. Correlation of advances of grant funds with need--Our review of the administration by the Department of State of the refugee assistance program in Hong Kong revealed that the Department had on numerous occasions advanced substantial amounts of cash to the Hong Kong Government with little or no evaluation of that Government's immediate cash requirements for the projects involved. We estimated that, as a result of these premature advances, the United States Government incurred through March 31, 1965, about $77,000 in unnecessary interest expense on disbursement of $1.5 million made between fiscal years 1960 and 1963. Furthermore, at least $32,000 in interest accrued to the Hong Kong Government through March 31, 1965, on the funds advanced.

Our review showed that the procedures followed by the American consulate general provided that, upon agreement that a grant would be made to the Hong Kong Government for a project, the entire amount of the grant funds be disbursed immediately. Thus, funds were often disbursed a year or more before major work was commenced and before funds were required. For example, a grant of $250,000 for the construction of a workshop at the Hong Kong Technical College was offered by the American consulate general on June 27, 1962, and accepted by the Hong Kong Government on June 28, 1962. The entire amount of the grant was given to the Hong Kong Government on July 3, 1962; however, at October 31, 1963, over $188,000 of the grant remained unused.

In another instance, a grant including four projects, two of which represented $150,000 for an addition to the Sandy Bay Convalescent Home and $132,000 toward the building of the Kowloon Tsai Playground, was offered by the American consulate general on April 16, 1963, and accepted by the Hong Kong Government on April 25, 1963. The total amount for the projects was given to the Hong Kong Government on May 2, 1963; however, at March 31, 1965, all of the $150,000 for the Sandy Bay project remained unused and a balance of $109,644 remained unused for the Kowloon Tsai Playground project.

Such premature advances of funds are disadvantageous to the United States Government because they tend to accelerate the Treasury's cash requirements and borrowings and increase related interest expenses. We estimated that, through March 31, 1965, the Treasury incurred unnecessary interest expense of $77,000 because of premature advances of grant funds to the Hong Kong Government. Our estimate was made by applying a rate of 3 percent to the outstanding monthly grant balances as shown by Hong Kong Government records through that date.

In addition, our examination revealed that interest accrued to the Hong Kong Government on the grant funds between the time they were prematurely granted and the time they were expended. Interest earned was credited by the Hong Kong Government, in some cases, to the projects for which the funds were granted and, in other cases, to the Hong Kong Government's general revenue.

We recommended that the Department discontinue the practice of making immediate lump-sum disbursements of funds for grant projects under the refugee assistance program in Hong Kong and make funds for all future grant projects available on the basis of the percentage of completion or need.

The Department agreed in general that funds should not be granted in advance of need. However, the Department also stated that it would not wish to limit its flexibility in making an unconditional grant with an immediate lump-sum disbursement if it considered that this was necessary for foreign policy reasons.

121. Timely deposit of cash collections--In our review of administrative activities of the United States Embassy and selected consulates in Mexico, we noted that cash collections totaling an estimated $395,000, consisting of United States dollars and Mexican pesos, were on hand in the agent cashier's office at the

Embassy on October 29, 1965. Some of these collections had been on hand for about 3 months and none had been recorded in the Embassy's cash records.

We were advised that the collections had not been recorded and deposited because of the press of other work. The timely deposit of collections is a requisite for proper control over funds. Moreover, we believed that, by failing to deposit large amounts of collections for extended periods of time, the Embassy in effect placed the United States Treasury in the position of having to borrow funds to meet current disbursement requirements which could otherwise have been paid from the undeposited collections.

The collections noted consisted of over $390,000 in consular fees received by the Embassy and the various consulates between June 21 and October 28, 1965, and about $4,600 in miscellaneous receipts, some of which were dated in June, August, and September 1965. Our further review of deposit dates in the cash records for fiscal year 1965 and the first 4 months of fiscal year 1966 showed that collections were being deposited only at infrequent intervals.

By law, collections are required to be paid into the Treasury at as early a date as practicable (31 U.S.C. 484) and to be paid into the Treasury in all cases within 30 days of their receipt (31 U.S.C. 495). The Department's regulations, as set forth in the Foreign Affairs Manual, require that collections be deposited at least once each month, or more frequently if necessary as determined by the budget and fiscal officer.

When we brought this matter to the attention of Embassy officials, they agreed with our suggestion that all receipts should be recorded in the cash records immediately after they are received and should be deposited in the account of the United States disbursing officer or of the United States Treasury as soon as possible. On December 3, 1965, we were advised that the receipts on hand at October 29, 1965, had been properly recorded and deposited.

122. Improvement of the accounting and financial management system--In a report issued to the Congress in March 1966, we stated that the financial statements of the Agency for International Development (AID) did not, in our opinion, present fairly the financial condition of the loan program at June 30, 1964, or the results of operations of the program for fiscal years 1962, 1963, and 1964. Certain financial statement balances had been materially overstated and others understated because of accounting practices that, we believed, were not sound. Also, net income for each of the 3 fiscal years and the accumulated net income shown in the June 30, 1964, Statement of Financial Condition were materially overstated because of exclusion of administrative expenses.

AID's accounting and financial management system had a number of significant weaknesses and did not fully comply with the accounting principles and standards prescribed by the Comptroller General. The system did not, in our opinion, provide an adequate foundation for AID's current and prospective financial management needs for planning, programming, budgeting, accounting, and reporting in respect to both AID's internal management responsibilities and its responsibilities to the Congress.

AID had prepared a revised statement of basic accounting policy which is intended to provide a sound foundation for a revision of its overall accounting manual. AID also engaged the services of a contractor to design and develop an accounting system for the loan program in accordance with the accounting principles and standards prescribed by the Comptroller General. AID had in process a draft of a proposed procedure to provide for the identification and accumulation of administrative costs attributable to the loan program.

123. Use of sight draft procedure to defer Treasury borrowings until funds are needed--The Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, administers its various conservation, acreage allotment, and price-support programs through its county offices located throughout the United States. County office managers have the authority to execute Commodity Credit Corporation (CCC) sight drafts for disbursements made in connection with these programs.

Our inquiries at a limited number of locations revealed that funds required to meet the administrative expenses of the county offices had been obtained primarily from the United States Treasury in the form of checks issued quarterly upon the request of the ASCS state offices. Funds obtained from the Treasury were deposited in a local bank account, and disbursements were made by check as expenses were incurred.

Since most expenses were paid on a biweekly or monthly basis, funds deposited quarterly were in some cases unnecessarily retained in checking accounts for periods of up to 3 months. As a result, the Treasury was borrowing these funds prematurely and unnecessary interest cost was being incurred by the Government. We brought this matter to the attention of ASCS and suggested that consideration be given to using sight drafts to provide operating funds for county offices at shorter intervals in order to reduce the time that Government funds would be idle in local bank accounts.

The Department advised us that the suggested procedure would be implemented and that it had estimated that annual interest savings of $548,000 to the United States Government would result from its use.

124. Accounting for liabilities and related accrued costs determined on an actuarial basis--As a result of our review of the accounting system of the Coast and Geodetic Survey (C&GS), Department of Commerce, we pointed out that, although the agency's method of accounting for payments to retired C&GS officers on an "as paid" basis was in accordance with its appropriation structure, this method was not consistent with the principles prescribed by the Comptroller General in 2 GAO 13.4 for accounting for liabilities and related accrued costs determined on an actuarial basis.

We therefore suggested that the accounting system of the Environmental Science Services Administration (ESSA), Department of Commerce, into which the C&GS had been merged, provide for accounting for the cost of retirement pay for C&GS commissioned officers on an actuarial basis, as it accrues, including a distribution of the cost to the agency's various activities, so that (a) the system will show this significant element of cost and the related liability and (b) this element of cost can be recovered in connection with the agency's reimbursable work.

The Department of Commerce agreed with our suggestion and requested our assistance in developing a method for accounting for such costs. In view of the similarity between the C&GS and the military retirement systems, we consulted with the actuarial consultant in the Office of the Assistant Secretary of Defense (Manpower) to obtain information on the actuarial valuation techniques used by the Department of Defense.

As a result of these consultations and on the basis of the statistical data accumulated by our staff, the Department of Defense prepared an actuarial valuation of the retirement system of the Coast and Geodetic Survey as of January 1, 1966. This valuation was summarized in our letter of May 11, 1967, to the Assistant Secretary for Administration, Department of Commerce.

In accordance with the foregoing valuation, ESSA recorded an estimated accumulated accrued liability of about $16 million as of June 30, 1967. In October 1967, ESSA was exploring various methods of recording the annual accrued costs of the retirement system.

125. Timing cash advances to coincide with actual cash requirements--Our review showed that the Maritime Administration, Department of Commerce, had advanced funds to general agents for the operation of Government-owned vessels used in support of military operations in Southeast Asia in amounts sufficient to maintain a cash balance of not more than $100,000 per vessel or $500,000 per agent rather than in amounts sufficient to meet anticipated current needs. As a result, funds were being advanced in excess of current requirements.

This practice is contrary to the policy set forth in Treasury Department Circular No. 1075 which provides that cash advances be timed in accord with the actual cash requirements of the recipient in carrying out the purpose of the program. On the basis of our review, we estimated that annual savings in

interest costs of about $239,000 could be realized if Maritime would time its cash advances to meet the general agents' anticipated current needs rather than to maintain prescribed cash balances.

We were subsequently advised by the Acting Maritime Administrator that, in accordance with our proposal, he was taking action to make funds available to general agents only on the basis of current needs. New instructions which became effective March 15, 1967, require general agents to request cash advances weekly to cover cash to be disbursed the following week and to support each request by a schedule of anticipated disbursements. The instructions also provide that the Maritime District Comptroller review the supporting schedule for propriety, determine the amount to be advanced, and process the voucher for timely delivery of the advance to the general agent.

Our report on this matter was submitted to the Congress in July 1967.

126. Guidance for financial administration of federally owned properties--Our review of the propriety of reported rental income and expense on federally owned housing constructed under section 10 of Public Law 815, as amended (20 U.S.C. 640), and operated by local educational agencies showed that financial administration of the housing could have been improved had the Office of Education, Department of Health, Education, and Welfare, provided additional guidance to local educational agencies. The housing, which had been constructed as part of school facilities, was rented generally to teachers.

In a policy statement dated June 10, 1958, the Division of School Assistance in Federally Affected Areas, Office of Education, set forth requirements with respect to net revenues derived from the operation of the federally owned housing. This statement provided that any income in excess of operating costs properly attributable to the housing must inure to the benefit of the United States. The Division did not, however, provide the local educational agencies with specific instructions and guidelines for implementing the 1958 policy statement, particularly with respect to the manner in which operating costs were to be determined.

In June 1967, in a report to the Commissioner of Education on the results of our examination at two local educational agencies, we pointed out examples of inadequate recordkeeping and questionable and inconsistent accounting practices which could result in inequitable treatment of such agencies. We recommended that, in the event that the subject properties are not transferred to the local educational agencies under authority of recently enacted legislation, the Commissioner identify the program objectives, provide complete instructions to the local educational agencies for carrying out the program objectives, and take action to establish effective surveillance over administration of the program.

In July 1967, the Commissioner advised us that the Office was reviewing the policies and procedures pertaining to the operation of federally owned housing by local educational agencies and was consulting with the Department's Office of the General Counsel on those matters which require legal interpretation.

127. Improvements in accounting system to produce better data for management and control--In a report submitted to the Congress in November 1966, we pointed out the need for revisions in the accounting system of the Communicable Disease Center (CDC), Public Health Service, Department of Health, Education, and Welfare, in order that the system might better produce financial data useful to agency officials in the discharge of their management and control responsibilities. Also, adoption of the suggested revisions in the accounting system would enable the Center to comply with certain basic accounting principles and standards prescribed by law and by the Comptroller General, which have as their objective the development and reporting of complete and reliable financial information.

We found that CDC's accounting system did not provide for the complete and timely use of the accrual basis of accounting, including consideration of all resources, liabilities, and costs of operations. We found also that, although the system provided the basic framework for the accumulation and distribution of expenditures to programs and projects, substantial improvements were needed before the system could be relied upon to produce accurate and meaningful results. Because of CDC's use of inadequate accounting

procedures for allocation of direct and indirect expenses, financial reports were presented in such a manner that the amounts expended by programs and projects seemed to compare most favorably with the amounts programmed and budgeted. These financial reports were, in our opinion, inaccurate and misleading.

The Department was in general agreement with our findings and informed us that the Center was strengthening its system of inventory control, had made improvements in the system for recording costs, and was expecting to make other changes in the system to correct the adverse findings cited in the report.

We were further informed that, since the Center was one of the accounting entities constituting the Public Health Service's accounting system, its basic system could not be changed without consistently revising the entire accounting system of the Service. Such revision based on a study made by outside consultants was then in process, and agency staff and systems procedures were being drafted.

128. Installation of cost accounting system--Effective July 1, 1967, a cost accounting system was installed by the United States Tariff Commission on a pilot basis to accumulate and provide cost information by organization, activity, and project. The Commission plans to make refinements in the system as experience dictates before submitting its accounting system to the Comptroller General for approval.

The Commission's action resulted from our April 1966 report which pointed out that, although the Commission's accounting system provided for controlling specific items of expenditure–such as salaries, travel, supplies, and equipment–in terms of funds available to the Commission, it did not provide for accumulating or reporting data to show the costs of programs and activities. Thus, management could not readily determine whether the planned programs and activities were being economically carried out.

At that time we proposed that the Commission, which was in basic agreement with our proposal, institute cost-based budgetary practices for planning and controlling operations; revise the accounting system to provide financial data to support activities, in conformity with the revised budget plan requiring control by assignment of responsibility; and establish a financial reporting system to provide appropriate levels of management with meaningful cost data to aid in the conduct of operations.

129. Obligation and expenditure controls--In a report submitted to the Congress in March 1967, we expressed our belief that, on the basis of a review of selected financial management practices of the Department of Labor, certain aspects of the Department's obligation and expenditure practices relating to the control of appropriations were in need of substantial improvement. We pointed out that funds advanced for central and specialized services by certain bureaus of the Department and by other Government agencies had not been applied in the amounts or for the purposes authorized. Instead, the funds had been applied to purposes and expenses of other bureaus of the Department which lacked funds to pay for the services provided to them.

We concluded that inadequate controls over appropriated funds in the Bureau of Labor Statistics had resulted in violations of the Antideficiency Act when obligations had been incurred before appropriate allotments had been made. In addition, we expressed our opinion that a number of overpayments and duplicate payments of vendors' invoices had been made as a result of unsatisfactory internal control procedures.

In commenting generally on our findings, the Department stated that most of the deficiencies mentioned had been or were being corrected in connection with the Department's development and implementation of an integrated system of management, planning, budgeting, and accounting.

130. Criteria for valid obligations--In a report to the Secretary of Labor in December 1966, we commented on what we believed to be questionable practices of certain State employment security agencies in recording obligations against fiscal year 1965 funds

appropriated for the administration of employment security programs. We analyzed a considerable number of obligations recorded in the latter part of fiscal year 1965 by employment security agencies in two States and noted that in many instances the related purchase orders had not been issued to vendors until fiscal year 1966.

We pointed out that we had previously brought these matters to the attention of the Secretary and had suggested that all State employment security agencies be provided with written instructions which–in accordance with the criteria specified in section 1311 of the Supplemental Appropriation Act, 1955, as amended–would clearly and specifically define those transactions which constitute valid obligations.

The Secretary of Labor, in commenting on our suggestion, advised that corrective action would be taken. In March 1967 the employment security manual was revised to more clearly define the previous criteria followed by State agencies in determining valid fiscal year-end obligations. In addition, specific guidelines were included to assist State agencies in determining the time or point in the process when transactions become valid obligations for purposes of reporting. We believe that these regulations, if appropriately enforced, should result in the recording of obligations on a basis consistent with the criteria established in the applicable law.

131. Accounting systems improvements--We reviewed the accounting system submitted by the Immigration and Naturalization Service (INS), Department of Justice, and tested its application to operations and financial controls at the INS central office and selected field locations.

As a result of cooperative efforts between INS and the General Accounting Office, several improvements designed to strengthen accounting controls and internal reporting were incorporated in the system. Provision was made for data derived from cost accounts to be used in the preparation of budgets and cost reports and in the evaluation of program performance.

In April 1967 we informed the Attorney General that, on the basis of our review, we deemed the INS accounting system to be adequate within the framework in which it operates and in conformity in all material respects with the principles, standards, and related requirements prescribed by the Comptroller General. Consequently, the accounting system was approved.

132. Use of management funds for construction--In a report submitted to the Congress in September 1966, we stated that the Bureau of Sport Fisheries and Wildlife, United States Fish and Wildlife Service, Department of the Interior, had improperly used management and investigation-of-resources (MIR) funds to construct a new fish laboratory at Warm Springs, Georgia, and a number of smaller buildings and projects located in various other States. We estimated that approximated $296,000 had been used improperly between January 1, 1960, and December 31, 1964.

We expressed the belief that the improper use of MIR funds occurred because Bureau officials had incorrectly interpreted the administrative provisions of the Fish and Wildlife Act of 1956 and the annual appropriation acts as providing authority to use such funds for new construction.

The Bureau's action also violated a provision of the Anti-Deficiency Act (31 U.S.C. 665(a)) which prohibits an officer or employee from involving the Government in any contract or other obligation for the payment of money in advance of appropriations made for that purpose. We therefore proposed that the Secretary of the Interior report all facts regarding this violation to the President and to the Congress.

In March 1966 the Department advised that it could not conclude that any conscious violation of 31 U.S.C. 665 had occurred. The Department agreed, however, that the Bureau's interpretation of the availability of management and investigation-of-resources funds for incidental construction within defined limits should be the subject of specific congressional expression on a current basis and stated that efforts were being made to obtain such an expression. In this regard, the Department, in a letter dated December 13,

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1966, to the Chairman, House Committee on Government Operations, stated that it was working out clarifying appropriation act language with the Bureau of the Budget and the staff of the Subcommittee on the Interior, House Committee on Appropriations.

AUDITING PROCEDURES

133. Reviews of contractors' price proposals by the Defense Contract Audit Agency--We made a survey of the Defense Contract Audit Agency's reviews of contract pricing proposals negotiated without the safeguards of competition. These reviews, which are made prior to negotiation with the contractor, constitute a substantial portion of the Agency's workload and are accorded the highest priority.

In a report issued to the Congress in February 1967, we stated that the Agency was making significant progress. However, we found that there was a need for certain improvements. We pointed out that:

a. The estimating methods and procedures of contractors should be improved and incorporated into formal systems.

b. The Agency's scope of review should be broadened (significant cost estimates in price proposals had not been reviewed by Agency auditors in some instances).

c. Procedures should be provided for feedback from procurement officials to the Agency on the usefulness and effectiveness of the audit reports submitted to them by the Agency.

d. Certain access-to-records problems, encountered by Agency auditors in review of contractors' records, should be resolved.

The Department of Defense agreed and advised us of actions taken to effect improvements in each of the areas we cited.

134. Taking action on findings and recommendations in internal audit reports--Certain weaknesses in procurement procedures relating to the initial development-type contract and to the subsequent noncompetitive procurements of portable echo sounders by the Coast and Geodetic Survey, Environmental Science Services Administration, Department of Commerce, were identified in an internal audit report prepared by the agency. In making a subsequent review, we noted that effective action had not been taken to promptly correct the weaknesses in procurement procedures identified by the internal audit report, because there was no adequate machinery at either the Department or the bureau level for systematically following up on the matters discussed in the audit report to ascertain whether the proposed corrective actions had been, in fact, effectively implemented. We expressed the belief that, as a result of such inaction, agency management could lose much of the constructive benefit of internal audit work.

In connection with this problem, we noted that, since June 1965, the Department had been considering a proposed Administrative Order which would prescribe Department-wide procedures for systematically following up on internal audit recommendations and for reporting the status of the corrective actions taken. In a report to the Secretary of Commerce issued in September 1966, we stated our belief that such a requirement would provide safeguards against the type of delay in acting on internal audit findings, which occurred in this instance, and we recommended that a requirement which would achieve the objectives of the proposed Administrative Order be put into effect.

An Administrative Order was issued in December 1966 to provide specific Department-wide procedures for systematically following up of all internal audit recommendations and for reporting the status of corrective actions taken.

135. Organizational placement and manner of conducting internal and external audits--On the basis of our review and appraisal of the efficiency and effectiveness of the audit activities of the Department of Commerce we believe that, with the exception of the external audit activities of the Maritime Administration, nine separate audit staffs of the Department should be consolidated into a single organization at

the departmental level and should be made responsible, preferably, to the Secretary or Under Secretary.

In addition, we found that the following related matters required special consideration:

a. Greater emphasis was needed on audits of field activities, especially those of the highly decentralized agencies such as the Environmental Science Services and Maritime Administrations.

b. Greater concentration of audit effort should be placed on the more important aspects of agency operations and activities, particularly with regard to the Maritime Administration and the National Bureau of Standards.

c. Greater stress should be placed on audits evaluating the programs of the Economic Development Administration.

In commenting on our findings, the Assistant Secretary for Administration concurred, in general, in our proposal for consolidation of the internal audit functions of the Department but advised us that the organization would be responsible to his office. The Assistant Secretary also concurred in our observations on the need to improve the scope of internal and external audits. The Assistant Secretary further expressed the view that the responsibility for carrying out external audits for the Economic Development Administration should remain at the agency level.

Because we believed that certain practical advantages would result from placing responsibility for these economic development audits in the consolidated organization, we recommended in a report to the Congress in July 1967 that the Secretary reconsider the Department's position in this matter.

Effective September 30, 1967, a Departmental Order was issued to consolidate the Department's audit activities, including economic development external audits but excluding Maritime audit activities, in the Office of Audits reporting to the Assistant Secretary for Administration. Subsequently, in December 1967, the Maritime internal audit staff also was transferred to the Department's Office of audits.

136. Organizational placement of internal audit function--In June 1967 we reported to the Administrator, Small Business Administration, on our review of the organization and operation of the Administration's internal audit function. We noted that, at the outset of our review, the internal audit function was being conducted by separate audit staffs in Washington and in each of eight area offices. In Washington, the Audits Division was under the supervision of the Office of Audits which reported directly to the Administrator. The auditors in the area offices, although receiving technical guidance from the Audits Division in Washington, were under the direct control and supervision of the area administrators who were also in charge of operating the various programs of the Administration within each of the eight geographical areas.

We have consistently maintained the position that the internal audit function should be placed at the highest practicable organizational level to make it independent of the officials who are directly responsible for the operations being reviewed. By so doing the internal audit function may more effectively serve as an integral part of the agency's overall system of management control and may further its intended purpose of providing top management with objective appraisals of financial and administrative controls over the agency's operations.

We had previously recommended that the Administration give consideration to removing the internal audit function from the Office of the Controller, which directed many activities presently under the authority of the Office of the Assistant Administrator for Administration, and establishing it as an independent organizational unit responsible directly to the Administrator. Prior to the completion of our review, the internal audit function was reorganized and was centralized under the Audits Division of the Office of Audits and Investigations which is under the organizational responsibility of the Assistant Administrator for Administration. The Assistant Administrator is also responsible for the budget, accounting, personnel, procurement, and property management functions of the Administration.

In our June 1967 report, we expressed the belief that some improvement in technical and administrative direction should result from the organizational changes made and that changes made in the audit guidelines and procedures should, if properly implemented, correct certain weaknesses such as those noted in our review. We stated, however, that consideration should be given to having the Audits Division report to the Administrator so that its function may be fully independent of officials who are directly responsible for operations.

137. Centralization of internal auditing activities--At the completion of our review and appraisal of the internal auditing activities of the United States Civil Service Commission, we expressed the belief that the opportunity for the Commission's internal audit function to serve as an effective tool of top management would be enhanced considerably if the responsibility for conducting the audit activities, then assigned to three separate operating divisions under the jurisdiction of the Director, Bureau of Management Services, were to be centralized in a single group responsible to the highest practicable organizational level--preferably the Chairman of the Commission or the Executive Director.

It was our opinion that the centralization of the internal audit organization directly under top management would help it to achieve a degree of independence essential to the maximum effectiveness of the internal review function and would tend to encourage appropriate consideration by the various levels of management of the reported findings and recommendations of the internal auditors. We stated also that, to give reasonable assurance to top management officials that authorized functions were being accomplished effectively, efficiently, and economically, the scope of the internal audit program should be broadened to provide systematic coverage of all operations administered by the Commission.

The Chairman of the Commission informed us by letter in December 1966 that he had directed that all internal auditing activities of the Commission be centralized in a single audit organization reporting directly to the Director, Bureau of Management Services, which he considered to be at a sufficiently high organizational level to give the internal auditors the necessary independence. He stated also that the internal audit staff would be given unlimited jurisdiction to conduct management reviews of organizational structure, delegations of authority, operations, procedures, and personnel practices on a systematic basis to ensure coverage of all programs and activities over a reasonable period of time.

Although the above measures should, if properly implemented, help increase the efficiency and effectiveness of the Commission's internal audit program, we stated in our report to the Congress in March 1967 that continuing the centralized internal audit activity under the jurisdiction of the Director, Bureau of Management Services, did not achieve for the audit staff the high degree of independence that is generally desirable since the Director had administrative responsibility for activities, such as budgeting, procurement, personnel, and various housekeeping functions.

138. Internal audit reports and audit guides--Our review of the direction of the internal audit activity at the General Services Administration (GSA) revealed that the function of internal auditors was independent of the operating services, that audit findings were discussed with cognizant operating personnel and submitted to high-level officials to ensure authoritative consideration, and that audit recommendations were followed up to appraise the corrective action. We expressed our belief that all these points are necessary for an adequate internal audit activity.

However, in our report issued to GSA in March 1967, we pointed out areas of the internal audit program which we believed could be improved. GSA has agreed to take appropriate action on our proposals.

We noted that internal audit reports to management tended to highlight the deficiencies found, without identifying the basic causes of the deficiencies or recommending corrective action designed to assist management in preventing recurrences of the deficiencies. Also, internal audit reports failed to appraise management's efficiency and its compliance with prescribed policies and procedures. We proposed that in their reports

auditors (a) include appraisals of the adequacy or inadequacy of internal controls and the compliance of operating personnel with prescribed policies and procedures and (b) state the basic causes of deficiencies noted, including possible weaknesses or failures in internal controls, and recommend corrective actions to cure the causes of the deficiencies as well as the specific deficiencies.

We also noted that many of the audit guides in use by the internal auditors were obsolete and that in some areas internal auditors had not been provided with audit guides. Up-to-date audit guides provide a basis for uniformity of approach, completeness of coverage, and fulfillment of objectives, particularly on recurring reviews and multiregional reviews conducted by several area audit offices.

We proposed that the Director of the Audit Division assign to specific members of his staff responsibility for (a) reviewing and analyzing all changes in GSA policy, organization, operation, and accounting handbooks on a current basis to evaluate their possible effects on existing internal controls and audit instructions, (b) revising audit guides whenever audit instructions are rendered obsolete by organizational and procedural changes in GSA operations, and (c) providing audit guides in those areas where they have not been provided.

139. Action on internal audit reports--In January 1967 we reported to the Congress on the disposition made of certain questions raised by the internal audit staff of the Bureau of Employment Security, Department of Labor. We stated that in many instances the Bureau did not take appropriate action to correct the conditions disclosed by its internal auditors in their audits of State employment security agencies. We expressed the belief that, in the majority of those instances where the State expenditures were allowed to stand, the questions raised by the internal auditors were valid and that the Bureau did not take sufficient action to examine into the underlying causes of the conditions reported or to obtain appropriate correction by the States.

In our examination we found several expenditures which the internal auditors had questioned on the basis that State law had been violated but we noted that the Bureau had not taken appropriate action to resolve their legality. We noted also that the Bureau had no prescribed procedures to be followed in processing and resolving audit findings involving expenditures which may be contrary to State law.

We recommended that the Secretary of Labor require the Bureau to strengthen its administrative procedures for following up internal auditors' findings and to provide that the underlying causes of questioned expenditures be appropriately identified and resolved. Subsequently, the Secretary of Labor advised us that the audit function had been centralized under the supervision of the Assistant Secretary for Administration who would monitor required follow-up actions and that Department audit policy would contain adequate safeguards to ensure the application of appropriate financial management practices, including independent follow-through on audit reports and audit recommendations.

COLLECTION ACTIVITIES

140. Billings for foreign surface-transit mail--The Post Office Department receives revenues from foreign countries for carrying foreign surface-transit mail across United States territory or on United States vessels in accordance with the provisions of multilateral Universal Postal Union conventions. Amounts billed for transit services are based on test counts of transit mail taken every 3 years. Billings for calendar years 1966 through 1968 will be based on the test made in 1967.

In our review of the International Accounts segment of the Post Office Department's accounting system, we found that the Department's procedures for calculating transit revenue billings to foreign countries provided for reducing the billings by 10 percent to cover the weight of mail sacks and items exempt from postage. Such a reduction factor was provided for in the Universal Postal Union convention signed at Ottawa in 1957, but no such reduction factor exists in the Universal Postal Union convention signed at Vienna in 1964, which became effective as of January 1, 1966.

We discussed this matter with officials of the Department, and the procedures for calculating transit revenue billings were changed to

eliminate the provision for reducing billings by 10 percent. Had the Department reduced transit revenue billings by 10 percent, as originally provided for in its procedures, underbillings of about $120,000 a year could have occurred for the years 1966 through 1968 and thereafter for the term of the convention.

141. Charges for training and familiarization services provided to foreign nationals–We noted that the Federal Aviation Administration (FAA) was not recovering from Federal agencies, foreign countries, and international agencies the costs incurred in providing on-the-job training and familiarization tours to foreign nationals at FAA installations. On the basis of the lowest charges made by other Federal agencies which incur and recover such costs, we estimated that for fiscal year 1965 such recoveries would have amounted to about $180,000. Of this amount, $138,000 would have been recovered from other Federal and international agencies and $42,700 would have been recovered from non-Federal entities and would have served to reduce the Government's expenditures.

In commenting on our findings, the FAA Administrator informed us in December 1966 that FAA was in the process of amending its policy to require recovery of appropriate costs for the training of non-Federal parties. He stated that FAA (a) was of the opinion that it was not incurring significant costs as a result of this program and that its costs would not necessarily be similar to those incurred by other agencies and (b) would reexamine the training program for foreign nationals to determine whether any additional costs were being generated and, upon completion of the examination, would establish fees, if appropriate.

With regard to the Administrator's statement that the examination would determine whether any additional costs were involved, we note that regulations of both the Bureau of the Budget and the Federal Aviation Administration provide that reimbursement from non-Federal parties should be obtained for all costs involved, irrespective of whether such costs would have been incurred if the goods and services had not been provided to them.

We therefore recommended that FAA give consideration to these regulations in its examination into the costs of providing on-the-job training and familiarization services to foreign nationals. In June 1967, the Administrator stated that full consideration would be given to all applicable legislation, Bureau of the Budget circulars, and FAA regulations prior to the issuance of any revised policy guidance in this area.

142. Customs duties on imported carpet wool designated as waste–Under revised regulations the Bureau of Customs, Treasury Department, should be able to increase revenues to the Government through more consistent application of duties on wool material designated as waste.

The Tariff Act of 1930 (as amended) allows carpet wool to be imported duty free when it is to be used in the manufacture of specified articles, principally floor coverings. Wool waste resulting from this manufacture is subject to duty if it is usable in the manufacture of articles specified by the act but is used instead for other purposes.

We reported to the Congress in June 1967 that the Bureau of Customs allowed wool waste resulting from the manufacture of specified articles to be sold to manufacturers of other articles, such as baseballs and clothing, without assessment of duty, even though the wool waste could have been used for the manufacture of articles not subject to duty requirements. We estimated that, in the two Customs districts where we made our review, the Government could have realized additional revenues amounting to as much as $453,000 for fiscal year 1964.

Subsequent to our review, the Commissioner of Customs ruled that waste from carpet wool, with certain exceptions, is dutiable. We have been informed that Customs now requires that a determination be made that wool material designated by manufacturers as waste is not usable in the manufacture of the specified articles, before permitting its use or sale without the assessment of duties. The action taken should result in strengthened administrative controls over the utilization and

disposition of wool waste, in consistent duty treatment of wool waste, and in additional revenues to the Government.

143. Billing for items produced and stored for customers--During our review of inventories of engraved and printed matter at the Bureau of Engraving and Printing, Treasury Department, we noted that certain types of securities produced for the Bureau of Public Debt, Treasury Department, and stored at the Bureau of Engraving and Printing had been on hand for a number of years and represented several years' supply. These securities, which had an inventory value of about $400,000, had been processed to the stage of completion as requested by the Bureau of Public Debt, but the Bureau of Public Debt had not been billed for them. As a result, working capital of the Bureau of Engraving and Printing that otherwise would have been available for other uses was tied up in this inventory.

We recommended in November 1966 that the Bureau consider the feasibility of billing ordering agencies for the cost of producing securities or other engraved products to the stage of printing and processing ordered by them, even though such products are to be stored by the Bureau pending receipt of notification to complete the work. In January 1967, we were informed that action had been taken to bill ordering agencies for the cost of engraved stocks produced and stored by the Bureau.

144. Crediting funds to the account of the Treasurer of the United States--In a report issued to the Fiscal Assistant Secretary of the Treasury Department in January 1967, we pointed out that, because a Federal Reserve bank (FRB) was not adhering to depositary arrangements, the availability of the total amount of funds deposited by two Government agencies was delayed. We estimated that, had the funds deposited by these agencies been credited in accordance with the FRB's schedule of availability, the balance of funds available for use by the Treasurer would have been increased by about $925,000 daily and that this would have reduced interest costs to the Government by about $35,000 annually.

The Fiscal Assistant Secretary advised that, in response to our suggestions, consideration was being given to analyzing the accounts in all Federal Reserve banks and branches to ensure that Government receipts are credited to the account of the Treasurer of the United States at the earliest possible time.

In the same report we pointed out that the commercial bank designated as the authorized depositary for internal revenue collections in Detroit, Michigan, was not transferring funds to the account of the Treasurer of the United States in a branch of a Federal Reserve bank in accordance with the time schedule specified in the agreement with the Treasury Department. We estimated that, if the time schedule agreed upon had been used by this bank in transferring funds to the Treasurer's accounts with the FRB, the availability of funds to the Treasury could have been increased by about $4.6 million daily for the 3-month period covered by our review and that interest costs of about $44,000 could have been saved during this period of time.

Bank officials agreed to take corrective action, and we have been advised that the Treasury has recouped all losses sustained by virtue of the bank's incorrect handling of the account.

145. Nonresident student tuition receivable--In a report submitted to the Congress in January 1967 on our review of the administration of the District of Columbia Nonresident Tuition Act, we stated that not all tuition payable for nonresident students had been collected and that there was a lack of compliance with the prescribed procedures regarding the nonpayment of tuition. A listing prepared by the Board of Education subsequent to the issuance of our report showed that about $677,000 in tuition was not collected for students enrolled since the inception of the Nonresident Tuition Act in January 1961 through June 1967.

Our examination showed that, at the end of the school year 1964-65, (a) tuition had not been collected for 209 nonresident students who had been permitted to continue in attendance for all or part of the school year and for 234 nonresident students for periods prior to

their withdrawal or dismissal from school and (b) tuition had been suspended for 263 nonresident students pending consideration of claims for exemption from the payment of tuition.

We found that bills had not been issued promptly; that the prescribed procedures for reporting delinquent cases for further collection action and for dismissal of nonresident students for nonpayment of tuition had not been followed; and that there was no central source of data which was needed for control over tuition receivables, for taking prescribed collection action, and for taking--in the event of noncollection--prescribed dismissal and notification actions.

The Superintendent of Schools stated in July 1966 that, in accordance with our suggestion, consideration was being given to developing a comprehensive system of control over nonresident student tuition receivables.

With respect to the unpaid tuition, the President, Board of Commissioners, stated that all of these students' parents resided outside the District of Columbia and that collection of such accounts naturally posed a difficult problem. He further stated that a suit would have to be filed to obtain a court ruling on the liability of local residents for the tuition of students in their custody and that this would establish a legal precedent and determine the District's future course of action.

146. Identification of students subject to tuition payment requirements--Our examination into the administration of the District of Columbia Nonresident Tuition Act showed that not all students subject to the tuition payment requirements of the Act had been identified. On the basis of our tests of residence records, we estimated that in school year 1964-65 as many as 400 nonresident students may not have been identified as such. The lack of identification of some students was attributed by public school officials, for the most part, to the failure of principals to identify nonresident students during their annual review of residence records and to comply with applicable procedures.

We recommended in our report to the Congress, issued in January 1967, that the District of Columbia Board of Education consider requiring reviews to be made to ascertain whether students indicated by their residence records to be nonresident students have been properly identified by the various principals. Subsequently, we were informed that the office of the Deputy Superintendent would conduct periodic reviews at the schools to determine whether all nonresident students have been identified and reported as such. After the issuance of our report, instructions were issued by the Superintendent of Schools to require that the principals certify annually that they have complied with the identification procedures.

147. Collection of judgments, fines, penalties and forfeitures--In May 1964 we reported to a subcommittee of the Congress on certain weaknesses in the policies and procedures of the Department of Justice and the United States Attorney for the District of Columbia concerning the collection of judgments, fines, penalties, and forfeitures. Since then the Department has increased its collections substantially. However, a subsequent review of collection policies, procedures, and practices followed by the Department and four selected United States attorney offices showed a need for more effective effort in collecting debts owed to the Government. In June 1967 we reported to the Congress on this situation.

In the subsequent review, we found numerous instances where (a) prompt and persistent follow-up collection actions had not been taken, (b) suits had not been filed promptly, (c) adequate credit data had not been obtained, (d) judgment liens had not been renewed, (e) garnishment proceedings had not been used, and (f) adequate attempts had not been made to collect criminal fines. We found also that some cases with current or future collection potential had been closed as uncollectible and that cases involving criminal fines had been closed without authority.

We expressed the opinion that the principal causes of these deficiencies were the lack of adherence by the United States attorney offices to the Department's collection policies, procedures, and guidelines and the lack of adequate supervision, both at headquarters and at the United States attorney offices, to ensure adherence to existing instructions.

We found also that (a) no division or office within the Department had been assigned the responsibility for reviewing and evaluating Departmentwide collection activities, (b) financial control over outstanding debts had not been established, (c) improvement was needed in monthly reports of impositions and collections, and (d) duplication in recordkeeping existed with respect to some collections.

The Department expressed general agreement with recommendations which we made to improve collection activities. It stated that several of our proposals were being considered and that certain corrective actions had been taken.

148. Identification and control of refunds due for unused transportation tickets--In April 1967, we reported to the Peace Corps Director that the agency (a) was not identifying and obtaining refunds for transportation tickets issued to prospective trainees who did not report to training sites and failed to return the tickets, (b) was not reducing the backlog of unused transportation tickets to be processed for refunds, and (c) was not adequately accounting for these receivables.

The Peace Corps advised us in May 1967 that (a) the application of a procedure suggested during our review had enabled the agency to identify and request refunds from carriers for the unreturned tickets, (b) procedures were being implemented to establish a system of accounting control for unused tickets, (c) procedures were being developed for automated processing of unused tickets by a computer, and (d) the Director of the Peace Corps was reviewing staffing needs in this area.

149. Increasing effort to collect or otherwise settle debtors' accounts--In January 1967 we reported to the Congress that there was a need for the Farmers Home Administration (FHA), Department of Agriculture, to develop a plan for the systematic servicing of certain debtors' accounts (called collection-only accounts) and to establish necessary review procedures to ensure that the plan is adhered to. Such action would result in substantial benefits to the Government through recoveries of amounts owed and from elimination of the administrative expenses which are incurred when accounts are maintained that could be collected or otherwise settled by compromise, adjustment, or cancellation.

On the basis of our review of selected collection-only accounts in six counties in the State of Texas, we estimated that, of the total of $3.2 million of such accounts in these counties, accounts totaling about $274,000 could have been collected in full and some portion of accounts totaling about $948,000 could have been collected through other settlement actions. In addition, we found that many accounts had no potential for recovery and therefore should have been canceled as soon as cancellation was permitted under applicable regulations.

FHA advised us that the agency agreed in general with our recommendations and issued detailed instructions requiring that increased effort be made to collect or otherwise settle such accounts. The new instructions issued by the agency as a result of our report should, if properly implemented, result in significant benefits to the Government.

150. Collection of amounts due from patients--Applicable laws provide for charging patients of Saint Elizabeths Hospital, Department of Health, Education, and Welfare, for their care if they have the ability to pay. The Hospital, which has custody over the funds of some of its patients, makes semiannual reviews of the balances in patients' accounts to determine whether there are any funds excess to their needs which can be applied to their indebtedness for Hospital care.

During our review, we noted that a number of patients who owed substantial amounts for hospital care had been permitted to retain balances of $1,000 or more, and there was no record explaining this condition. Further inquiry indicated that the guidance provided to Hospital officials was not specific as to when such funds should be applied to payment of patients' debts. Also, with respect to patients acquitted of crimes by reason of insanity, Hospital officials were not sure of their legal authority to apply patients' funds to their debts for Hospital care.

In April 1967, we proposed to the Superintendent of the Hospital the adoption of more specific guidelines regarding the use of patients' funds and the resolution of the uncertainty involving the Hospital's legal authority. In September 1967 we were informed that the Hospital had established policy guidelines for collecting fees from patients. We were informed also that the Hospital had resolved the question regarding its legal authority and had collected $37,000 from accounts of insane patients.

151. Expediting deposit of collections--In a March 1967 report to the Executive Vice President of Commodity Credit Corporation (CCC), Department of Agriculture, we suggested that CCC could reduce its interest costs by expediting the deposit of certain collections. We estimated that implementation of our recommendations would result in interest savings of at least $125,000 annually.

CCC borrows funds from or repays funds to the United States Treasury on a day-to-day basis, depending on its need for operating funds, and pays interest on the amount borrowed. The deposit of CCC collections enables CCC to reduce its Treasury borrowings or avoid additional borrowings. So that interest costs may be kept to a minimum, all collections should be deposited as soon as possible.

In our report, we recommended that provision be made for county offices of the Department to deposit funds collected under CCC's grain price-support programs with the nearest Federal Reserve Bank (FRB) rather than exclusively with the Kansas City FRB. We also recommended that arrangements be made for food processors purchasing wheat marketing certificates from CCC to send their remittances directly to the nearest FRB rather than sending them to a Department of Agriculture office in Kansas City for deposit with the Kansas City FRB.

The Acting Executive Vice President, CCC, acknowledged that savings could be effected by adopting the recommended procedures. Subsequently, procedures were revised with the objective of having collections deposited at banks where the shortest mailing time would be involved.

UNITED STATES BALANCE-OF-PAYMENTS POSITION

152. Decrease in commercial dollar sales of agricultural commodities to foreign countries--In August 1966 we reported to the Congress that, after foreign countries started receiving certain commodities purchased for local currencies under title I of Public Law 480, they decreased their commercial dollar purchases of the same type commodities. We estimated that, over a period of approximately 9 years, such commercial dollar purchases would total about $715 million less than those which the countries would have made had they maintained the level of their purchases prior to the initiation of title I programs.

Title I of Public Law 480 provides that, in negotiations of sales agreements with foreign governments, reasonable precautions be taken to safeguard usual marketings of the United States. The purpose of this provision is to avoid having sales for foreign currencies under title I displace normal commercial sales of United States agricultural commodities for dollars. Foreign currencies received from title I sales were not as valuable as dollars to the United States because, in many countries receiving commodities under title I, the United States had accumulated foreign currencies which were surplus to its requirements and because, for the most part, the foreign currencies received were not convertible into dollars and were generally restricted to the uses stipulated in sales agreements entered into between the United States Government and the foreign governments.

We expressed the opinion that the decrease in dollar purchases could be attributed, in part, to the fact that the United States Government had negotiated title I sales agreement ments which did not include terms and conditions designed to avoid such decreases. The Associate Administrator, Foreign Agricultural Service, Department of Agriculture, informed us that, although he believed that the title I program had been operated in accordance with the legal requirement to take reasonable precautions to safeguard usual marketings of the United States, a further tightening up on safeguards had taken place within the past few years.

In view, however, of the manner in which the statutory provision had been implemented and the doubt which we believed existed as to whether the Department of Agriculture's interpretation thereof was in accordance with the legislative intent, we suggested that the Congress might wish to express its views concerning the Criteria to be applied in carrying out the law.

In addition, we expressed the belief that certain procedures had not been adequate for determining and obtaining compliance by foreign governments with the terms and conditions of negotiated agreements. In this connection, the Administrator, Foreign Agricultural Service, indicated that, in line with our proposal, certain corrective action would be taken.

153. Balance-of-payments aspects of diamond barter contracts--In August 1967 we reported to the Congress on our examination of the balance-of-payments aspects involved in a package of barter contracts amounting to $83.1 million. The barter contracts provided for the acquisition of industrial diamonds for the stockpile, the conversion of a dollar contract for uranium purchases from South Africa, and the offshore procurement of military supplies and services.

The report showed that $27.7 million worth of proceeds from the barter of agricultural commodities had been used to acquire industrial diamonds not needed by the United States. This acquisition was made as an inducement to barter contractors in converting the uranium contract from a dollar payment basis to a barter basis, which was an exception to the general policy that barter not be used to acquire quantities of strategic materials that are in excess of stockpile objectives. The exeception was made on the bases that balance-of-payments savings would be achieved and foreign policy objectives would be served.

The $83.1 million barter transaction yielded the United States a $55.4 million balance-of-payments advantage. However, in our opinion, the overall result of the transaction was to deprive the United States of an opportunity to favorably affect its balance-of-payments position by an additional $27.7 million.

Under present program operating concepts, the total level of barter transactions is kept under constraint to minimize the possibility of displacing commercial sales of agricultural commodities. This total level is much less than the amount of barter proceeds which are needed and which can be used to pay for goods and services that must be acquired abroad with dollars. Under these conditions, it is logical to conclude that, in this acquisition of unneeded industrial diamonds, an opportunity was lost to use barter as a device for paying for essential goods and services being acquired abroad with dollars.

In commenting on this aspect, the Department of Agriculture indicated general agreement with the concept that each dollar of barter exports devoted to the acquisition of unneeded materials tends to decrease the net balance-of-payments benefit to be derived from the barter program.

The foreign policy considerations involved in this transaction appear to have been more of a by-product than a motivating factor. Available evidence points to a conclusion that the principal benefits expected from the transaction were balance-of-payments benefits. In commenting on the foreign policy aspects, the Department of State informed us that it had played no role in the decision to acquire the industrial diamonds. We were informed that, once the executive branch had decided to acquire the diamonds, the Department of State had requested that they be obtained specifically from the Republic of the Congo. We believed, therefore, that this transaction should be judged principally on its economic merits.

We expressed the belief that there were continuing possibilities for obtaining balance-of-payments advantages by applying the principle, wherever possible, that barter should be restricted to transactions directly benefiting the United States balance-of-payments position, and we so recommended in this report. We were advised that our recommendations will be followed.

We issued this report to inform the Congress of ways in which the barter program could make an even greater contribution to the Government's efforts to cope with continuing balance-of-payments deficits.

ACQUISITION OF AUTOMATIC DATA PROCESSING SYSTEMS

154. Installation of computer systems before correction of operating system weaknesses--Data processing equipment at supply depots was replaced by the United States Army, Pacific, during 1965 and 1966 with large-scale computer systems before certain supply management problems had been solved and corrective steps had been taken. As a result, a large percentage of the supply transactions could not be routinely processed by the computers and continued to be manually processed as had been done in the past.

In view of the problems that would have accompanied withdrawal of the computers, we did not recommend that course of action. We did point out, however, the need for correcting basic weaknesses in operating systems if effective use of automatic data processing equipment is to be realized. In our report issued to the Congress in April 1967, we recommended that the Secretary of Defense bring this matter to the attention of military operating agencies.

155. Merger of automatic data processing operations--In July 1967, we reported to the Department of State (State) and the Agency for International Development (AID) that, although both agencies were continuing to utilize separate automatic data processing (ADP) facilities to process information for housekeeping activities and were planning to separately apply ADP to their substantive activities:

a. The existing ADP systems were largely oriented toward essentially similar financial and statistical data.

b. The planned substantive applications, which in many cases were unique with respect to the agencies' activities, nevertheless would not involve incompatibility in terms of their adaptation to ADP.

c. The geographical locations of the respective agencies' activities were such as to permit full service to both by a merged ADP facility.

We pointed out that substantial efficiency and economy could be accomplished by merging the separate ADP operations of State and AID in an ADP service center installation designed to serve the needs of both agencies.

In fiscal year 1965, although a joint State-AID study of the feasibility of merging the two systems was under way, State issued a letter to a computer company for a more sophisticated new generation computer configuration having much greater capacity than those in use by State and AID. We therefore wrote a letter to responsible State and AID officials on March 30, 1965, regarding the feasibility of merging the separate operations, in which we pointed out that the plans for acquisition of the advanced equipment had not included consideration of the possibility of merger and recommended that they explore such possibility before making a firm commitment for new equipment. State, however, procured and installed the new computer configuration in November 1965.

State and AID advised us that they agreed in principle with our suggestion for a shared State-AID ADP facility and had been looking to such a common utility in the future but that they did not believe this action was feasible or desirable at that time. They stated that the tentative conclusion of a joint study of information management by the agencies concerned with foreign affairs activities and the Bureau of the Budget indicated that a master ADP facility might eventually be used by the foreign affairs agencies and that several agencies might find it essential to maintain ADP installations, compatible with and satellite to this central system, to meet agency-unique data processing problems.

We suggested that State and AID jointly reconsider the merger of the administration, management, and other operations of their data processing activities to achieve more economical and effective utilization of ADP equipment without unnecessary proliferation and to improve systems design and programming leading to more effective management of ADP operations. We believe that prudent management dictates prompt efforts in order that the advantages of joint application to the presently compatible agencies' activities may be

realized. Such joint application could be extended later to other appropriate areas, in view of the incipient plans for substantive applications.

156. Centralized evaluation of needs in purchasing equipment-- In our review of selected aspects of automatic data processing activities of the Department of Agriculture, we noted that the Department was planning to place its leased electronic accounting machines (EAM) under a purchase lease-back arrangement with a third-party leasing company.

With regard to the method of selecting the equipment for purchase lease-back, we noted that each agency in the Department had been requested to review its leased EAM equipment and determine whether such equipment should be purchased outright or leased under the purchase lease-back arrangement. We noted that each agency's request to purchase or continue leasing EAM equipment had been based on its own equipment needs and circumstances and that a Department-level evaluation of the agencies' requests in terms of the overall needs of the Department had not been made. We concluded that savings could result if a Department-level evaluation and decision were made on this matter.

We suggested to the Assistant Secretary for Administration that consideration be given to performing a Department-level evaluation. Subsequently, the Assistant Secretary informed us that such an evaluation had been made. This resulted in the purchase by one departmental agency, which had planned to procure EAM equipment for $98,000, of similar equipment for $68,000 that was being leased by another departmental agency; as a result, savings of about $30,000 were realized.

157. Adequacy of studies made prior to acquisition of ADP equipment-- We found that in 1964 the Bureau of Employment Security Department of Labor, had approved the replacement of two computer systems by the California Department of Employment (CDE) with two, more costly, larger capacity computer systems, although CDE had not justified, to the Bureau's satisfaction, the immediate need for such replacement. CDE did not utilize a significant portion of the capacities of the more costly systems during a period of at least 8 months after their acquisition.

We believe that, if the Bureau had studied CDE's automatic data processing (ADP) equipment needs more closely or had required CDE to do so, such a study might well have indicated that the acquisition of one of the larger systems could have been deferred and that the deferment could have resulted in savings in rental costs of about $35,000 to the Federal Government and about $7,000 to the State government.

We found also that, in March 1966, the Bureau approved the replacement of IBM 1400 series computers with faster, larger capacity IBM 360 computers, without having required that a study, of sufficient scope, be made to ascertain whether the capacities of the replacement computers would be fully utilized.

In a report to the Secretary of Labor in September 1966, we recommended that the Bureau reappraise its supervision and control over the acquisition of ADP equipment by State agencies and that the Bureau undertake an immediate study of CDE's ADP operations to satisfy itself that the IBM systems on hand were being used to the fullest extent practicable before it proceeded with its planned acquisition of a third IBM system. Subsequently, the Secretary advised us that he concurred with our conclusions and recommendations and that the Bureau had scheduled a review of CDE's facility. He advised also that the Bureau was continuing to improve standards and budgetary controls to assure that State agencies provide their services by the most economical means available.

We were subsequently advised that the CDE acquired the third IBM system in January 1967. The Bureau reviewed the operation of the system in April 1967. As a result of the review, the Bureau and CDE agreed that the third system would be released, probably about January 1968, and that additional equipment would be added to the two other IBM systems.

UTILIZATION OF UNITED STATES OWNED OR CONTROLLED FOREIGN CURRENCIES IN LIEU OF DOLLARS

158. Reduction of dollar expenditures through the use of United States owned or controlled Brazilian currency--We examined into the use by the Agency for International Development (AID) of dollars rather than foreign currency to finance the local costs of five development projects in Brazil. These projects were being financed by five development loans totaling $69.8 million of which an estimated $44 million was to be converted into Brazilian currency (cruzeiros) to finance part of the local costs of these projects.

During our review we questioned the need to use dollars to finance the local costs of the above-mentioned projects since, in our opinion, United States owned or controlled cruzeiros were available, were not being utilized, and could have been used for this purpose.

Since 1955 about $572 million worth of surplus agricultural commodities have been sold to Brazil under title I of Public Law 480, and the sales agreements provided for the reservation of the equivalent of about $468 million of the cruzeiro funds generated by the sales, which are owned by the United States, for loans and grants to Brazil for development purposes. From April 1963 to December 1964, AID made three program or balance-of-payments loans to Brazil, which generated the equivalent of $225.5 million of cruzeiro funds. All three of the loan agreements provided that the counterpart funds so generated be used for mutually agreed upon development purposes.

Since it appeared that cruzeiro funds were or would become available in sufficient amounts to finance the local costs of the five projects, we proposed to AID that, among other things, the five loan agreements be amended to permit the use of cruzeiros to pay local costs under these loans, subject to the availability of cruzeiros at the time loan disbursements were to be made, and that future AID budgets fully disclose to the Congress the extent to which dollar funds are used to finance the local costs of AID programs, with explanations of the reasons.

In commenting on the first of these proposals, AID stated that it did not believe it feasible to amend the loan agreements since there had been an unexpected reduction in Public Law 480 cruzeiro funds. AID did not comment directly on our proposal of full disclosure to the Congress of dollar financing of local currency costs.

With regard to our proposal that these loans be amended, we were inclined to agree that little would be accomplished by taking such action since (a) there was a decline in the availability of United States-owned cruzeiros that could have been used in lieu of dollars and (b) expenditures under these loans increased substantially during the last year. Irrespective of the action taken on these loans, however, we believe it essential that, as a matter of continuing policy, AID provide in loan agreements for the use of local currency for local costs to the extent that such currency is available at the time disbursements are made and that local currency owned or subject to control by the United States not be considered as unavailable by being tied up on general commitments that are unsupported by firm project undertakings.

We noted that AID adopted a policy providing that AID dollar funds not be used to finance the local costs of AID projects in excess or near excess foreign currency countries where the primary purpose of the AID country program is the completion of specific projects rather than provision of foreign exchange. Effective implementation of the new AID policy should reduce the unwarranted furnishing of balance-of-payments assistance under the guise of project assistance.

159. Use of United States-owned foreign currencies to pay ocean transportation costs--Our report to the Congress in December 1966 revealed that the United States had, in a recent 12-month period, paid ocean carriers about 1.9 million

in dollars for transporting military assistance program materiel to four countries instead of paying them in United States-owned foreign currencies which would have improved the United States balance-of-payments position and reduced interest costs on the national debt. It appeared that no positive action had been taken to use excess foreign currencies for this purpose because of a previous unsuccessful attempt by the Department of Defense to reach agreement with ocean carriers to accept foreign currencies.

Our examination revealed that ocean carriers would be willing to accept United States-owned foreign currencies in payment for transporting military assistance cargoes, provided they would not receive more than could be used to pay for expenses incurred in any particular country concerned. It appeared that carriers of military assistance cargoes would not accumulate more foreign currency than they could utilize since, in a 12-month period, those carriers covered by our review spent dollars or other hard currencies for in-country expenses, which we believe could have been paid for in foreign currencies, in amounts considerably greater than the amounts of foreign currencies they would have received in payment of their military assistance transportation vouchers.

In view of the potential for realizing dollar savings by using United States-owned excess foreign currencies for payment of ocean transportation costs of military assistance cargoes, we proposed that the Secretary of Defense make a determined effort to work out whatever arrangements would be necessary to accomplish this.

The Department of Defense advised us of its concurrence in the purpose of our proposal and stated that action had been taken to reexamine the feasibility of utilizing United States-owned excess or near-excess foreign currencies to pay for the ocean transportation of not only military assistance program cargoes but also other Department of Defense cargoes. Subsequently, the Department, in revised instructions, enunciated the policy set forth by the Bureau of the Budget governing the utilization of United States-owned excess or near-excess foreign currencies. Procedures leading to the payment of ocean transportation costs in foreign currencies had not been established at that time.

PLANNING

160. Evaluation of optimum utilization of manpower--Our examination into the utilization of manpower by a Military Assistance Advisory Group (MAAG), in administering the military assistance program in a recipient country, revealed that the Department of Defense planned to continue the operation of the MAAG with reductions in staff although the military assistance grant-aid program for the recipient country had been virtually completed and although available information indicated that other United States organizations in the country could perform the essential residual functions.

Substantial reductions had been made by the Department of Defense in the size of MAAG as the work load had decreased because of reductions in the military assistance program. We believe, however, that greater reductions in personnel and resultant savings could have been effected had a realistic evaluation been made of the need to continue operation of functions and duties as carried out in recent fiscal years and had a determined effort been made to phase out MAAG and reassign responsibilities for essential functions to other United States organizations.

We proposed that the Secretary of Defense take action to (a) reduce the staff of MAAG commensurate with its present diminished duties, (b) proceed with a plan to eliminate unnecessary functions and transfer necessary continuing functions to other existing United States organizations, and (c) terminate the activities of MAAG at the earliest practicable time.

The Assistant Secretary of Defense, International Security Affairs, agreed that further reductions might have been possible but not as large as envisioned by us. Although the Assistant Secretary agreed in principle with our recommendation that the activities of MAAG be terminated at the earliest practicable date, he considered it advantageous to continue the operation of MAAG with reductions in the number of personnel assigned. We were subsequently advised of a reduction in the manpower authorization as of July 1, 1966.

161. Custodial and engineering staffing levels in public schools--In a report submitted to the Congress in June 1967, we stated that our review of the staffing of custodial and engineering forces in District of Columbia public schools shows a need for the adoption of guidelines for use in determining staff requirements in these categories.

The need for adopting suitable guidelines was indicated by apparent overstaffing of custodial and engineering forces; the cost of which could amount to as much as $1,200,000 annually.

Our views were based on a comparison of the number of custodial and engineering employees in the District's schools with the number that would be required under the staffing standards published by the Department of Health, Education, and Welfare. The comparison showed that the District's 179 elementary and secondary schools had 316 more employees than the number computed by the formula standards.

We also compared the District schools' custodial and engineering costs per pupil with such costs per pupil in various States, urban school districts, and adjacent or nearby communities. The comparison showed that the District public schools' custodial and engineering costs per pupil were higher than the average school custodial and engineering costs in any of the 45 states for which data were available and that they were higher than the average of such costs in most urban school districts with populations of 100,000 or more. Overall, the District schools' custodial and engineering costs were about 85 percent higher than the 45-State average.

As a result of these findings, we proposed to the Board of Education that a study be made of the District's staffing requirements in these categories, that standards of performance be established for use in staffing, and that periodic reviews of school operations be made to ensure that the standards are upheld.

The President of the Board of Commissioners, although not in full agreement with our findings, concurred in our proposal and stated that the Board of Education would make a study of its custodial and engineering

needs and would establish standards of performance consistent with standards in cities comparable to the District in size and in conformity with special requirements of the District.

162. Coast Guard Reserve Training Program-- We reported to the Congress in June 1967 that, to a large extent, the Coast Guard Reserve Training Program, which cost about $23.5 million in fiscal year 1966, was not meeting its objective of providing the qualified enlisted personnel that would be needed in the event of mobilization. We commented on the need for the Coast Guard to explore, with appropriate committees of the Congress, the feasibility of increasing the number of reservists who would receive active duty training for periods longer than 5 months and on the need to correct certain weaknesses in the training provided by reserve units.

The Acting Commandant of the Coast Guard concurred with our conclusion that certain weaknesses existed in the training provided by reserve units and indicated that he recognized the inability of the Coast Guard Reserve to meet stated mobilization requirements. He stated that our report should assist the Coast Guard in gaining recognition for its Reserve Multi-Year Plan, which is considered by the Coast Guard to be essential if an effective and efficient trained reserve is to be maintained.

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CONTRACT ADMINISTRATION

163. Costs charged to Government contracts for transportation by contractor owned or chartered aircraft--Our review of nine defense contractors who used company operated and chartered aircraft extensively, indicated that the additional cost, as compared with commercial air transportation, in most cases outweighed the benefits. In a report issued to the Congress in August 1966, we pointed out that, inasmuch as a very high percentage of the work of these contractors was under Government contracts, the Government bore practically all of the additional cost. The military departments primarily concerned agreed and made certain disallowances in negotiating overhead costs.

Also, the Armed Services Procurement Regulation Committee undertook revision of the Regulation (ASPR 15-205.46, Travel Costs) to limit allowability of costs incurred for travel by aircraft owned, leased, or chartered by contractors. On December 1, 1966, the Regulation was revised to provide that such costs are allowable, if reasonable, to the extent the contractor can demonstrate that use of aircraft owned, leased, or chartered by the contractor was necessary for the conduct of his business and that the increase in cost, if any, in comparison with alternative means of transportation is commensurate with the advantage gained.

164. Costs charged to Government contracts for bidding and related technical efforts--Many contractors are engaged simultaneously in the preparation of bids and proposals and in the conduct of independent research and development. Costs of independent research and development chargeable to Government contracts are generally limited by advance agreements with the contractors. Advance agreements generally are not made, however, to limit bid and proposal costs chargeable to the Government.

Both functions require similar technical effort. Therefore it is difficult to distinguish between those costs which pertain to independent research and development and are subject to limitation and those costs which pertain to preparation of bids and proposals and are not subject to limitation. Although the Armed Services Procurement Regulation (ASPR) provides a basis for limiting charges to contracts for bidding costs and related technical costs incurred by contractors, its provisions are not sufficiently clear and are variously interpreted.

We found that about half the $3.8 million of bidding and related costs claimed by a contractor in 1 year under contracts with the Department of Defense and the National Aeronautics and Space Administration either were similar to independent research and development costs or were not, in our opinion, clearly necessary to support the contractor's bids and proposals. In our report issued to the Congress in March 1967, we stated that the items in question included costs incurred (a) after the Government had indicated it was not interested in a proposal, (b) before the Government had requested a proposal, (c) after a bid or proposal had been submitted, and (d) to develop capability for response to anticipated future requests for proposals.

We proposed to the Department of Defense and the National Aeronautics and Space Administration that interim guidance be provided with respect to allowability of bid and proposal costs pending completion of a study, then in process, on combining the cost of independent research and development and bid and proposal technical effort into a single package. We were informed that the package concept had been dropped, that a new study would be undertaken and that it would not be feasible to provide interim guidance.

We recommended that the proposed study be given high priority. As of November 30, 1967, the study was still in process.

165. Administration of change orders--In our review of the United States Civil Service Commission's administration of contracts totaling a cost of about $143,000 for the design and fabrication of a joint Federal agency science and engineering exhibit, we noted that certain changes costing a total of about $50,000, made in the contracts were not supported by written change orders prior to completion of the work, cost estimates were not sufficiently

detailed to permit appropriate analyses to determine a reasonable price adjustment, and documentation was not available to support the reasonableness of contract price adjustments subsequently agreed to.

In a report to the Commission in January 1967, we pointed out that, to the extent feasible, contracting officers have the responsibility for making certain that proposed contract price adjustments arising from change orders are fair and reasonable in advance of performance of the work. We stated that it was essential that adequate and timely cost estimates be obtained and considered.

In line with our suggestion aimed at maintaining effective procurement operations, the Commission brought our findings and views to the attention of procurement personnel and took additional steps to strengthen its administration of contracts.

166. Conformance with contract standards--In a report submitted to the Congress in April 1967 concerning the construction of the Rayburn House Office Building, we stated that the pertinent records of the Architect of the Capitol indicated that certain construction work did not meet the standards specified in the superstructure contract. This work involved the compressive strength of a reinforced concrete wall, thicknesses of concrete slabs in the garage levels, uniform coloring of concrete in the garage levels, compaction of backfill, and condition of gypsum block walls in the subbasement. Reporting of these instances was not intended to imply that they were representative of the overall quality of the construction work. These instances however related to ordinary and regular construction work for which clear and precise standards had been established on the basis of considered engineering judgment.

In our analysis of the data underlying these instances, we noted some apparent inconsistencies which we could not reconcile either from available documentation or by inquiry of the responsible officials. We also took note of the fact that extended periods of time taken in efforts to resolve differences of opinion between contractors and owners regarding incidents of nonconformance and the continuance of construction in the meantime often create a situation wherein practical considerations dictate the acceptance of nonconforming work either as it is or with some improvised substitute, sometimes with a credit against the contract price.

It was our view that, as a means that might be conducive to minimizing incidents when they occur, the Architect should give particular attention to accelerating the negotiation or reported incidents of nonconformance with the contractor and, where warranted by the significance of any incidents should take such positive action, particularly the assertion of contractual rights, as will help to resolve the incidents quickly and satisfactorily.

CONTRACTING POLICIES AND PRACTICES

167. Administration of cost or pricing data requirements of law in award of supply and production contracts-- In a report issued to the Congress in January 1967, we pointed out instances of significant need for improving administration of the cost or pricing data requirements of Public Law 87-653 ("Truth in Negotiations" Act).

We made certain proposals to the Department of Defense designed (a) to improve identification of the cost or pricing data submitted and certified by contractors, (b) to ensure that contractors were requiring subcontractors to submit and certify cost or pricing data, and (c) to provide documentation of the circumstances leading to and the basis for any determinations by contracting officers or contractors that cost or pricing data were not required.

A special group was appointed, under the guidance of the Office of the Deputy Assistant Secretary of Defense (Procurement) to study our proposals. As a result of the study, the Department of Defense prepared and submitted to us for review and comment drafts of certain revisions of the Armed Services Procurement Regulation. We are working closely with the Armed Services Procurement Regulation Committee in reducing these proposed revisions to final form.

168. Administration of cost or pricing data requirements of law in award of construction contracts-- We found generally that, in the negotiation of prices of construction contracts and contract modifications by the Army Corps of Engineers and the Naval Facilities Engineering Command, the designated construction

agencies of the Department of Defense (a) sufficient cost or pricing data supporting the contractors' price proposals, as required by law, were not obtained, (b) cost analyses of contractors' price proposals to determine that the prices were fair and reasonable were not made as required by the Armed Services Procure-Regulation, and (c) related prescribed procedures for utilizing advisory audits were not followed.

In a report issued to the Congress in June 1967, we pointed out that the primary reason for noncompliance appeared to be the belief of the construction agencies that the requirements were not applicable to construction contracts because contractors' price proposals were evaluated on the basis of comparisons with the agencies' own cost estimates. Primary reliance was placed on such comparisons as a means of evaluating the reasonableness of prices.

We proposed to the Secretary of Defense that he emphasize to the construction agencies the need for improvement in their compliance with the requirements of the law in the negotiation of construction contracts and contract modifications. The Department of Defense agreed and in August 1967 advised us that instructions had been issued to emphasize the need for compliance.

169. Treatment of contractors' rentals under long-term leases in negotiation of contract prices--We found that a defense contractor had leased property for a 25-year period at a total rental of $46 million. The cost of the property was only $27 million. If the property continues to be used almost exclusively for Government work (as it has been used in the past), the Government will ultimately pay, through reimbursements of rent, about $19 million more than the cost of the property.

Such a leasing arrangement, although more costly to the Government, is advantageous to the contractor. The contractor avoids interest expense, not reimbursable under Government contracts, which otherwise would be incurred to finance ownership of the property. The contractor benefits also from the fact that the higher leasing costs are included in the cost base in establishing fees or profits on Government contracts. Furthermore, the contractor is allowed the same profit or fee consideration for furnishing the required facilities whether they be owned or leased. Current provisions of the Armed Services Procurement Regulation appear to provide an incentive for contractors to lease rather than purchase such property.

In commenting on our findings, the Department of Defense stated that (a) the Armed Services Procurement Regulation Committee would review the rental cost principle and (b) a profit review study was underway to develop guidelines for establishing fees and profits of contractors. The review and study had not been completed at November 30, 1967.

170. Statutory limitation on architect-engineer fees--In a report to the Congress in April 1967, we noted that major construction agencies contracted for architect-engineer services at fees in excess of the statutory provisions that limit fees payable to architect-engineers to 6 percent of the estimated cost of construction. Generally, Federal agencies have interpreted the limitation as applying only to that portion of the total fee relating to the production and delivery of designs, plans, drawings, and specifications. Under this interpretation, most of the architect-engineer contracts under which the total fee exceeded 6 percent would be in compliance with the limitation. In our opinion, however, the Armed Services Procurement Act of 1947 and the Federal Property and Administrative Services Act of 1949 impose the 6-percent fee limitation on all architect-engineer services.

We stated that, in our opinion, the present statutory fee limitation was impracticable and unsound because (a) the limitation is governed by estimated costs which do not necessarily relate to the value of the architect-engineering services rendered; (b) estimated construction costs may not be known at the time the limitation must be applied; (c) some architect-engineer contracts do not involve programmed construction projects; (d) the limitation may be partially avoided by agencies' having their in-house resources perform services that have generally been contracted to architect-engineer firms; and (e) architect-engineer fees in terms of percentage of construction cost vary widely and

thus render impracticable the establishment of a percentage at an appropriate level to effectively limit the fee for the majority of contracts.

We recommended that the Congress repeal the 6-percent limitation imposed on architect-engineer fees by sections 2306(d), 4540, 7212, and 9540 of title 10 of the United States Code and by section 304(b) of the Federal Property and Administrative Services Act of 1949, as amended (41 U.S.C. 254(b)). We expressed our belief that the present statutory requirements for competitive negotiation and the submission and certification of cost or pricing data, if properly applied to contracts for architect-engineer services, should provide adequate assurance of reasonable architect-engineer fees.

Representatives of the Federal agencies, the architectural-engineering professional societies, and the Bureau of the Budget informed us that they agreed with our recommendation for the repeal of the 6-percent limitation imposed on architect-engineer fees.

171. Competitive negotiation of architect-engineer contracts--In a report submitted to the Congress in April 1967, we noted that the procedures followed by Federal agencies in selecting contractors for architect-engineer services did not comply with the requirements of section 2304(g) of title 10, United States Code, or with the Federal Procurement Regulations. With certain exceptions, these requirements provide that, in all negotiated procurements in excess of $2,500, proposals be solicited from the maximum number of qualified sources consistent with the nature and requirements of the supplies or services to be procured and that written or oral discussions be conducted with all responsible offerors who submit proposals within a competitive range, price and other factors considered. Although most of the construction agencies of the Government are subject to this requirement, they generally solicit a proposal from the architect-engineer firm that is selected on the basis of technical ability. In our opinion, this procedure does not comply with the statutory requirement.

Agency representatives advised us that they were opposed to the concept of soliciting multiple competitive proposals. The architectural and engineering professional societies expressed their belief that the legislative history of Public Law 87-653, codified in section 2304(g) of title 10, constituted substantial ground for concluding that the competitive negotiation requirements of the act were not intended to apply to architect-engineer services. Additionally, they maintained that, even if architect-engineer services were subject to Public Law 87-653, the existing agency procedures were fully consistent with the spirit and purpose of the statutory requirement that proposals be solicited from the maximum number of qualified sources consistent with the nature and requirements of the services to be procured.

We reported that we found no statutory basis that would exempt architect-engineer contracts from compliance with the requirements of 10 U.S.C. 2304(g) and, therefore, were of the opinion that the existing negotiation procedures and practices did not conform with these requirements. Recognizing, however, that the problem of how architect-engineer services can best be obtained is a complex one, we advised the agencies that these procedures could be followed until the Congress had an opportunity to consider the matter.

We stated that, although we were of the opinion that the procurement of architect-engineer services were and should be subject to the competitive negotiation requirements of Public Law 87-653, we thought that, in view of past administrative practices in the procurement of such services, it was important that the Congress clarify its intent as to whether the competitive negotiation requirements were to apply to such procurements. We expressed our belief that, should the Congress determine that it did not so intend, the law should be amended to specifically provide for an exemption for this type of procurement.

172. Method of computing architect-engineer fees--In a report submitted to the Congress in April 1967, we pointed out that Federal agencies employ one or more of several methods in determining and negotiating fees for architect-engineer services. The most commonly used, however, are the detailed analysis method and the percentage-of-estimated-construction-cost method. We expressed our belief that use of the detailed analysis method is more

appropriate than use of the latter method because the detailed analysis method is based on the estimated value of architect-engineer services to be rendered. Furthermore, the percentage-of-estimated-construction-cost method has been attacked by several professional architectural and engineering societies.

We stated that, in our opinion, the requirement for the submission and certification by architect-engineer firms of cost or pricing data implicitly calls for the negotiation of architect-engineer fees in terms of estimated value of the architect-engineer services based upon due consideration of cost or pricing data submitted by the negotiating architect-engineer firm. We believe that this same concept is the underlying principle of negotiated contracting and should be followed in the negotiation of all contracts for architect-engineer services that are subject to the competitive negotiation requirements of 10 U.S.C. 2304(g) and the Federal Procurement Regulations.

173. Requirements for submission by professional services contractors of cost or pricing data--In a report to the Congress in April 1967, we stated that, with certain exceptions, the military departments, the National Aeronautics and Space Administration, and the Coast Guard are required by section 2306(f) of title 10 of the United States Code to obtain cost or pricing data in negotiating contracts and that, although the Federal Property and Administration Services Act of 1949, which applies to the remaining Federal agencies, had not been amended to require cost or pricing data, the General Services Administration had included a requirement for furnishing such data in the Federal Procurement Regulations similar to the requirement in section 2306(f). GSA had determined, however, that the requirement should not be applied to architect-engineer contracts because of their special characteristics.

Representatives of the Department of Defense informed us that the cost or pricing data requirements of section 2306(f) were being applied without distinction as to whether or not architect-engineer services were involved.

It was our view that the requirements of both section 2306(f) and the Federal Procurement Regulations for the submission and certification of cost or pricing data apply to architect-engineer contracts. We therefore expressed the belief that such data should be required by all agencies in contracting for architect-engineer services.

Subsequently, a representative of GSA informed us that consideration would be given to revising the Federal Procurement Regulations to require the submission of cost and pricing data in negotiating architect-engineer contracts. The Bureau of the Budget informed us informally that it agreed with our views in the matter.

174. Use of civil service employees rather than contractor-furnished employees--In a report submitted to the Congress in June 1967, we stated that our review of the relative costs of using civil service personnel or of using contractor-furnished personnel to perform engineering and related technical support services at the National Aeronautics and Space Administration's (NASA) Goddard and Marshall Space Flight Centers showed that estimated annual savings of as much as $5.3 million could be achieved with respect to the contracts we reviewed if these services were performed by civil service personnel.

We pointed out that the indicated savings were attributable, for the most part, to the elimination of many contractor supervisory and administrative personnel, which would result from a conversion to civil service staffing, and to the elimination of the fees paid to contractors.

We expressed the view that the Space Administration's policies relating to the use of support service contracts were not sufficiently clear as to the consideration which should have been accorded to relative costs in determining whether to use contractor-furnished or civil service personnel. In this regard, we were advised that the Space Administration, although believing that contracting for the services involved had been in the best interest of the Government, recognized the need for more specific guidance on cost considerations than had been provided and that such guidance would be part of any redefinition of policy resulting from a current review of agency experience in the use of support service contracts.

Because the action to fully correct the situation discussed in our report would require a significant change in the Space Administration's policy relating to the use of support service contracts and because of the potential effect that a significant change might have on the Administration's civil service personnel requirements, we stated that the Congress might wish to consider the policy aspects of this matter in further detail with agency officials.

In addition, we pointed out that the Congress might wish also to explore with the Space Administration the impact that cost considerations should have in determining whether to use contractor or civil service personnel in those cases where either contractor or civil service personnel could carry out the operation equally well.

175. Formal advertising for automotive tires and tubes--In April 1967 we reported to the Congress that use by the General Services Administration (GSA) of negotiated contracts for the Government's automotive tire and tube requirements did not result in maximum price competition. We stated that, on the basis of our review, we had concluded that, for items having the greatest dollar volume, GSA could use advertised rather than negotiated contracts because all the essential elements were present for successful formal advertising.

To obtain an indication of the savings that could be achieved by advertising for the Government's tire and tube requirements, we compared the prices obtained by four State and two city governments through formally advertised contracts with the prices obtained by GSA through the negotiated method of contracting. On the basis of price comparisons of 174 tire and tube items, we estimated that the Government could realize annual savings of about $1.4 million by purchasing these items through formal advertising.

GSA has advised us that formal advertising will be used for 87 high-volume tire and tube items. Also, as a result of our proposals, GSA plans to reestablish an item simplification study, with the objective of reducing the number of tires and tubes carried in the supply system, which will probably result in lower prices because a greater sales volume per item can be offered. GSA also agreed to give continuing attention to using formal advertising contracting methods and the commercial distribution system of the tire manufacturing industry when that method is determined to be the most practical and economical.

176. Revision of method of supplying commercial rental cars--We reported to the Congress in April 1967 that car rental rates obtained under General Services Administration (GSA) contracts were substantially lower than the rental rates obtained under informal arrangements made by Government agencies and their contractors with commercial rental firms. On the basis of our review, we concluded that more favorable rates were obtained under GSA contracts primarily because such contracts were usually awarded through formal advertising and provided for a larger volume of potential rental business. We estimated that savings up to $350,000 annually could be realized if cars being rented under informal arrangements were rented, by the using agencies and contractors, directly from the commercial firms at GSA contract prices.

In October 1966 GSA informed us that it concurred with our proposals to:

a. Reexamine, in consultation with major using agencies, its present role in the rental of commercial cars for Government use, with a view to making a better response to agency needs.

b. Increase the relative share of such rentals made under its contracts.

We were advised also by GSA that, despite its having some reservation with respect to our proposal that rentals be made directly from commercial firms, it would include the matter in a full-scale in-depth study to be made of ways and means to achieve greater economy and efficiency in supplying rental cars to Government agencies. GSA advised us also of its agreement with our proposal that it expand its present contracting for car rentals to cover all areas where such action would result in savings or benefits to the Government.

177. Utilization of local office machine repair firms--In a report submitted to the Congress in

February 1967 on our review of the program of the General Services Administration (GSA) for obtaining repair and maintenance services for selected Government-owned office machines, we pointed out that opportunities existed for savings through the use of contracts with local machine repair firms instead of through the use of national Federal Supply Schedule contracts with machine manufacturers. Our review showed that prices paid for repair and maintenance services for adding machines, calculators, comptometers, and electric typewriters under national contracts were higher than prices charged for the same types of services under regional contracts and under separate arrangements made by Federal, State, and local government activities and commercial concerns with selected local repair firms.

GSA, in July 1965, encouraged Federal agencies to study and analyze their office machine servicing needs as part of a project to establish Government-wide guidelines for obtaining service for office machines. However, because of the lack of agency responses, GSA took no further action. On the basis of our review, we concluded that services furnished under regional contracts and under separate arrangements were satisfactory and that the price differences between them and the national contracts were not justified by service considerations. We estimated that Federal agencies could have saved up to $1.2 million during fiscal year 1965 for repair and maintenance services for selected office machines by using local repair firms instead of Federal Supply Schedule contractors.

GSA informed us in August 1966 that it agreed with our proposals to (a) expand the use of regional contracts for servicing office machines and aggressively stimulate their use by Government agencies and (b) review the status of the project to establish criteria and guidelines to assist Government agencies in determining the best method of obtaining services for office machines.

178. Architect-engineering fees--In a report to the Congress in April 1967 concerning the Rayburn House Office Building, we stated that the fee payable for architectural services relating to certain segments of the construction was significantly more--$3,613,143 as compared with $3,207,935--than the General Services Administration (GSA) probably would have authorized under its criteria at the time (1955) the contract for these services was negotiated by the Architect of the Capitol. The fee was based upon 5½ percent of the total construction cost for the Tiber Creek sewer relocation, the foundation, the structural steel, and the superstructure of the Rayburn House Office Building and provided for architectural and engineering services related thereto. The rate was in line with recommended minimum rates approved by the Washington-Metropolitan Chapter of the American Institute of Architects in June 1947.

GSA architect officials advised us that GSA's table of rates which was in effect in 1955 would be generally applicable to the Rayburn Building and that, although the basic rate in the case of the Rayburn Building would be about 3½ percent of the estimated construction cost, they were of the opinion that a rate of 4 percent would be reasonable, predicated on the complexity and the extensive detail involved in designing the Rayburn Building and subject to the comparability of the architectural services required under the Rayburn Building architect-engineer contract with those required by GSA.

The Architect of the Capitol stated that his long experience had indicated that congressional committees or commissions overseeing various projects are interested in obtaining the best architectural-engineering talent available and in paying a fair fee for services rendered; thus the Architect and such committees and commissions have generally accepted the guidelines of the American Institute of Architects in establishing fees. He stressed that the design of buildings constructed on Capitol Hill differed considerably from the design of those constructed by GSA in more recent years and that the more intricate design of the Capitol Hill buildings resulted in more costly architect-engineering fees.

We expressed our belief that the allowance of a proper fee giving a fair profit is not unique to the Architect of the Capitol, for it is a basic objective in contracting by all Federal agencies. We pointed out also that complex design generally is reflected in higher construction costs which in turn increase the architect-engineering fee apart from an increase in the rate, in those cases where the fee

is based on a percentage of construction costs. In the case of the Rayburn Building, this effect was particularly apparent because of the extensive use of marble, granite, and other high-priced materials which of themselves augmented or intensified the architects' services out of proportion to what they would have been if less of these materials had been used.

179. Need to keep contract changes to a minimum--In a report to the Congress in April 1967 concerning the construction of the Rayburn House Office Building, we stated that costs of changes which had been formalized into change orders numbered about 1,450 and totaled approximately $8 million at June 30, 1965, and that, according to the Architect of the Capitol's records, proposals by contractors for changes not formalized at that date totaled a cost of about $668,000. Some of these changes represented items which the House Office Building Commission had considered during the design and planning stages but had excluded from the basic construction contracts as awarded, and other changes were approved to meet certain situations which developed subsequent to award of the basic contracts.

Certain of these changes aggregated a cost in excess of $2 million and included the cafeteria, gymnasium annex, women's health facilities, clocks in members' offices, operation and maintenance of building equipment, and procurement of additional furnishings. Certain other changes totaling a cost of about $2.2 million resulted from the decision of the Architect to proceed with some segments of construction, principally the foundation, before the plans for other segments were finalized, a procedure not generally followed in construction.

We reported that we also found many changes for which (a) the contractors' proposals were not sufficiently specific to permit a judgment as to the reasonableness of the proposals and (b) the documentation supporting the review by the Architect was not sufficiently informative to determine the effectiveness of the Architect's reviews of contractor proposals and the reasonableness of the prices agreed upon. These conditions related principally to the verification of unit prices and material quantities, labor rates and hours, equipment rental rates and hours of usage, and details of price adjustments resulting from negotiations.

We concluded that (a) the added costs which are implicit in contract changes may be substantially reduced in future construction if the significant features that should be included in a construction project can be decided upon before finalization of the plans and specifications in such a conclusive manner as will minimize extensive changes; (b) an effective system is needed by the Architect to ensure adequate documentation for the various elements of contract changes; and (c) the Architect should consider the practices generally followed in Government and private construction that, in the absence of compelling circumstances, plans and specifications for all segments of construction should be finalized and integrated before any construction is started and that bids for construction should be solicited and awarded on the basis of single contractor direction and responsibility.

180. Consolidation of requirements for small office machines--We noted that, during fiscal year 1964, the Post Office Department issued 63 purchase orders for 1,895 typewriters and 183 purchase orders for 2,919 adding machines and calculators. We also noted that, in fiscal year 1964, the General Services Administration (GSA) made only one procurement of small office machines for the Department, consisting of 405 typewriters for third-class post offices. GSA used competitive procurement procedures in acquiring these typewriters and obtained a price which was 17.5 percent less than the lowest price available, after discount, for similar typewriters under the Federal Supply Schedule contract with the same company.

In an April 1966 report to the Postmaster General, we recommended that the Department determine its annual requirements for small office machines in advance, by machine capacity, and submit these requirements to GSA for competitive procurement.

By letter dated June 1, 1966, the Department advised us that it had taken action to implement our recommendation. Subsequently, the Department submitted its fiscal year 1967 requirements for typewriters, adding

machines, and calculators to GSA for competitive procurement. GSA acquired these machines at a total cost of about $266,200, which was about $83,000 less than if the machines had been procured on the basis of the lowest prices available under the Federal Supply Schedule.

181. More timely replacement of motor vehicles--In a report submitted to the Congress in August 1966, we expressed the belief that the Post Office Department could achieve substantial savings if action were taken to obtain more timely replacement of older vehicles.

Our analysis of the repair and maintenance costs of selected vehicles of ¾-ton and 1-ton capacities showed that vehicles that were 6 or more years old had been substantially more costly to maintain than newer vehicles. We estimated that the costs for operating overage vehicles at the facilities we reviewed was $110,000 greater in calendar year 1964 than the cost would have been for operating newer vehicles for the same number of miles. If the conditions found in the seven facilities we reviewed are typical of the conditions at other locations, there may be substantial additional costs attributable to the operating of overage vehicles throughout the postal service.

The Department had continued to operate vehicles beyond their scheduled replacement dates primarily because the ordering of new vehicles had been delayed and because, when vehicle requirements had been established, full consideration had not been given to administrative and production lead time. We found that, although the Department generally had anticipated receiving new vehicles in the same fiscal year in which funds for these vehicles were made available, the Department did not receive the vehicles when anticipated.

We brought these matters to the attention of the Postmaster General and recommended that the Department strengthen its procedures to provide greater assurance that vehicles are replaced when it is most economical to do so and that vehicles required for new service routes are obtained in a timely manner.

The Postmaster General agreed that the Department should strengthen its program for replacement and procurement of motor vehicles. He informed us that, subsequent to our review, there had been an improvement through the requisitions being submitted earlier to the General Services Administration. He stated also that the General Services Administration was devoting considerable effort to expediting contract awards and securing on-time contract performance. He further informed us that the Department would continue studies to reduce the time required to complete delivery of vehicles and that requests for funds would recognize reasonable production lead times.

182. Purchase vs. lease of motor vehicles--In a May 1967 report to the Postmaster General, we pointed out that significant savings could have been realized by the Government by owning rather than leasing motor vehicles for use in the transportation of mail.

Our review at three of the Post Office Department's 15 postal regional offices indicated that savings of about $200,000 probably could have been achieved in calendar year 1965 if Government-owned instead of leased vehicles had been used in the transportation of mail. We concluded that there was a need for the Department to emphasize to cognizant regional officials the importance of submitting more realistic requests for new Government-owned vehicles to replace leased vehicles; moreover, there was a need for the Department's headquarters to review more closely the requests submitted by the postal regions.

We recommended that the Department issue instructions requiring the postal regional offices to specify in their annual requests for new vehicles the number of proposed Government-owned vehicles that are for replacing leased vehicles.

In July 1967 the Deputy Postmaster General advised us that our recommendations had been adopted and that appropriate instructions for implementing them had been issued.

183. Criteria for purchase of safes, vaults, and other protective equipment--In a report to the Postmaster General in June 1967 we pointed out that there were considerable differences in the types, quantities, and costs of the safes, vaults, and other protection equipment being used by different post offices having

essentially similar protection requirements. We found that safes frequently were being used inside vaults, although other less expensive types of equipment such as wire screen inner separations and storage cabinets probably would provide adequate protection for stamp stock, cash, and other valuables. We pointed out also that the Post Office Department did not have adequate criteria regarding the quantities and types of protective equipment authorized for use in post offices of different sizes and protection requirements.

During fiscal year 1966, the Department purchased 17 different types of protective equipment at a cost of about $1.2 million. In our report, we expressed the opinion that considerable savings could be achieved throughout the postal service by determining the quantities and types of equipment needed for providing adequate protection and by utilizing the equipment found to be excess to reduce future procurements of protective equipment.

We also expressed the opinion that, in view of a recent decision by the Department to discontinue purchasing the types of protective equipment previously considered as standard equipment and to commence a long-range program of gradual replacement of existing equipment with new, more costly types, both the adequacy of protection and the utilization of protective equipment would be improved through the development, issuance, and enforcement of specific criteria or standards regarding the types and quantities of protective equipment to be used in post offices of different sizes under various operating conditions.

We recommended that the Department take necessary actions to develop, issue, and enforce specific criteria regarding the types of protective equipment to be used in post offices of different sizes, taking into consideration the costs of the equipment in relation to the risks involved.

The Department concurred with our recommendations and informed us that action had been initiated to develop, issue, and enforce specific criteria regarding the types of protective equipment to be used in post offices of different sizes, taking into consideration the equipment in relation to the risks involved and the use of existing vaults for safeguarding the Department's assets.

184. Negotiated procurements for professional services--In August 1966 we reported to the Congress on our review of the contracting practices followed by the Land and Natural Resources Division of the Department of Justice in negotiating contracts for the employment of appraisers to value land in Indian claims litigation. We found a need to improve contracting by strengthening contracting procedures and establishing guidelines to aid in determining the reasonableness of appraisers' proposed fees. We found that uniform procedures or guidelines had not been prescribed for aiding attorneys who select appraisers; management had not effectively reviewed contracting actions; appraisers had not been required to furnish such basic data as estimated man-days, per diem rates for personal services, travel, outside fees, printing, overhead, or other expenses in support of their bid proposals; and there was usually an absence of negotiations between attorneys and appraisers.

In response to our proposals and recommendations, the Department (a) issued formal contracting procedures to govern the procurement of appraisal services, (b) requires appraisers to furnish financial or other fee information in support of bid proposals, (c) prescribed criteria to guide attorneys in determining the reasonableness of appraisers' proposed fees, (d) requires contracting officials to negotiate with appraisers after receipt of initial proposals, and (e) provided for periodic reviews of contracting activities to determine that prescribed policies and procedures are being effectively carried out.

185. Use of in-house costs in contract pricing--In August 1967, we reported to the Congress that the Corps of Engineers (Civil Functions), Department of the Army, needed to improve its policies and procedures for estimating contract costs, evaluating contract bids, and awarding contracts for dredging.

Our review indicated that some Corps dredging was not accomplished as economically as possible and, in our opinion, the Corps' practices in awarding contracts for dredging did not comply with the law and resulted in some contracts being awarded at prices in excess of stautory limitations.

The law under which the Corps awards contracts for dredging stipulates that appropriated funds shall not be used to pay for any work done by contract if the contract price is more than 25 percent in excess of the estimated cost of the Government's doing the work with its own equipment and crews (in-house). Our review showed that the Corps generally does not prepare in-house estimates but, rather, awards contracts for dredging to the contractor whose bid price is low and is not more than 25 percent in excess of the Corps' estimate of fair and reasonable cost to a contractor, exclusive of profit.

We examined dredging costs incurred under 32 contracts for one large dredging project and compared these with our estimates of the costs that the Corps would have incurred if it had done the same work in-house. We believe that 11 of the contracts were awarded at prices that were about $2.1 million in excess of the statutory limitation. We believe also that these contract prices were about $4.4 million in excess of the costs that would have been incurred if the work had been done by the Corps itself.

We recommended that the Secretary of the Army direct the Chief of Engineers to revise the Corps' regulations to require that the Corps award future dredging contracts in compliance with the law.

The Department of the Army disagreed with our findings and stated that present policies and practices of the Corps are in accordance with the policies and intentions of both the Congress and the administration; that civil works projects are being conducted in a manner most economical and advantageous to the Government; and that the longstanding practical interpretation and application by the Corps of the law should not now be overturned.

We brought our finding to the attention of the Congress in the event that it wished to express its views regarding present policies followed by the Corps in awarding contracts for dredging. We suggested that, if the Congress should determine that the Corps' present policies and procedures applicable to its dredging operations are to be continued, consideration be given to revising or repealing the provision of law previously referred to--section 624 of title 33, United States Code.

FACILITIES, CONSTRUCTION, AND LEASING

186. Management procedures for inspection of public buildings construction--We reported to the Congress in May 1967 that inspection practices employed by the General Services Administration (GSA) were not adequate to ensure compliance with contract specifications in regard to the water content of concrete delivered to a construction site in Washington, D.C. The water content of concrete is one of the most critical factors in obtaining quality concrete. Our report also showed that there were discrepancies in the use of concrete curing compound and in the performance of concrete testing.

Although our review was confined to three projects in Washington, D.C., our findings indicated weaknesses in GSA policy and procedure matters affecting inspection of construction, which we believe has applicability to GSA construction in general. In our report we made certain proposals to GSA in respect to these weaknesses.

GSA concurred generally with our proposals and advised the Committee on Government Operations, House of Representatives, that, as a result of our recommendations, various actions had been or would be taken to improve its testing and inspection procedures.

187. Development of soil mechanics and foundation engineering capability--In a review of 28 contracts for the construction of public buildings administered by the General Services Administration (GSA), we found that, in 15 of the contracts, the Government had encountered construction difficulties because of foundation design problems and unanticipated soils conditions.

In a report submitted to the Congress in May 1967, we discussed foundation problems encountered by GSA and expressed our opinion that, if GSA's engineering staff had included specialists trained in soil mechanics and foundation engineering, certain of the difficulties could have been anticipated and avoided and the costly effects of other difficulties could have been minimized.

In view of the wide scope of the GSA construction program and the significance of

foundation problems encountered, we proposed to the Administrator of General Services that soil mechanics and foundation engineering capability be developed within GSA. In January 1967 the Administrator advised us of various actions that were being taken in an effort to minimize soils and foundation problems.

188. Determining space requirements--In April 1967 we reported to the Congress that the Federal Aviation Administration (FAA) was incurring additional costs because its leased medical research facility at the Aeronautical Center in Oklahoma City was larger than needed. We found that, in planning for the building, FAA did not establish reasonably firm staffing requirements before deciding upon the size of building to be constructed. We believe that, if staffing requirements had been reasonably established, a smaller structure could have been built and leased, and FAA would have realized a substantial reduction in space rental costs which, under the existing arrangements, will amount to about $8.5 million over the 20-year term of the lease.

We proposed that the FAA Administrator direct that appropriate agency officials study the prospects of improving the utilization by either FAA or by other Government agencies of available space in the research building at Oklahoma City.

The FAA Administrator informed us that FAA recognized the space utilization problem at the research building and he indicated that efforts had been or would be made to locate research-oriented activities in the building. We recommended that, if these efforts did not materialize, FAA consider the feasibility of locating nonresearch activities in the building.

We noted also that FAA was planning the construction of three technical and administrative buildings at the National Aviation Facilities Experimental Center, Atlantic City, New Jersey. The buildings, then in the design stage, were expected to comprise about 482,000 square feet of space and house about 1,100 employees. The estimated construction cost was $15 million. On the basis of our review of FAA's planning of space requirements for the research buildings at the Oklahoma City Aeronautical Center, we proposed that agency plans for these buildings be based on reasonable estimates of its staff requirements.

The FAA Administrator informed us in November 1966 that he would issue guidelines for measuring technical or special purpose space needs and that he would require that such needs reflect reasonable estimates of staffing needs expressed in terms of space requirements.

189. Space standards for administrative offices--The Post Office Department has sole responsibility for planning the space for facilities to be acquired under its leasing authority. A question existed, however, as to whether the General Services Administration (GSA) or the Department was responsible for establishing standards for the administrative office space to be occupied by the Department in federally owned buildings; the Department had used its own space standards in planning administrative offices for both leased and federally owned buildings.

In the 10 major leased postal installations we reviewed, the Department's space standards provided for administrative office space which averaged about 32 percent more than would have been provided under standards established by GSA for offices of employees of other Federal agencies having similar grades or responsibilities. The GSA space standards were developed, with the cooperation and concurrence of more than 60 Federal agencies, on the basis of studies made to determine the amount and type of space required for efficient operations.

In a report to the Congress in December 1966, we estimated that, if the 10 leased facilities included in our review had been planned on the basis of GSA space standards, savings in rentals amounting to about $88,000 annually, or about $2.6 million over the lives of the leases, might have been realized. Since the Department has a continuing program for acquiring new facilities to meet its expanding needs, we concluded that substantial savings to the Government would result if office space were planned on the basis of standards comparable to those established by GSA.

We recommended that the Congress give consideration to enacting legislation that would make GSA responsible for establishing or approving standards to be used by the

Department in planning administrative space in both leased and federally owned buildings.

In commenting on our report, the Postmaster General stated that the Department proposed to adopt office space standards more in line with current needs and GSA's allowances. In a subsequent letter to the Director, Bureau of the Budget, the Postmaster General stated that the Department had received an invitation from GSA to participate in a joint effort to issue an Occupancy Guide or something comparable for the Department's administrative office space. He stated further that the Department planned to work with GSA on the proposal.

In March and April 1967, in comments on bills proposing to extend the Postmaster General's 30-year leasing authority, we advised the Senate Committee on Public Works and the House Committee on Post Office and Civil Service that, if an Occupancy Guide were developed for the Department's administrative office space under the standards used by GSA in developing Occupancy Guides for other Federal agencies, we believed that there would be little or no need for legislation that would make GSA responsible for either establishing or approving the standards to be used in planning the office space to be provided for the Department's administrative activities.

190. Subleasing office space--The Post Office Department usually plans major leased postal facilities on the basis of the requirements for administrative office space for 20 future years, with the result that most new facilities contain substantial amounts of unneeded office space during the first few years after the facilities are constructed. This excess space is generally dispersed throughout the administrative sections as unassigned offices or as part of offices designated for organizational groups whose functions are expected to increase in the future.

In December 1966 we reported to the Congress that, with adequate advance planning, much of the excess office space could be consolidated in one area so as to facilitate subleasing until the space is needed by the Department. We estimated that, for 8 of the 10 leased facilities included in our review, the Government could reduce rental costs by about $147,500 annually by subleasing the planned excess office space to other Government agencies that lease space. A portion of these savings would be offset by the moving and partitioning costs. We pointed out that, in view of the Department's continuing program for constructing new facilities, the savings resulting from subleasing could be substantial.

We proposed that the Postmaster General adopt a policy of subleasing excess space in postal facilities to the maximum extent practicable. The Postmaster General concurred with our proposal and informed us that appropriate procedures would be established to implement this policy.

191. Construction vs. lease of major postal facilities--In a report submitted to the Congress in November 1962, and in various subsequent reports, we pointed out that significant savings were available to the Government by owning rather than leasing major postal facilities. We found that, although larger Government expenditures would be required during periods of construction if facilities were being constructed for Government ownership, overall fund requirements would be substantially less than total rental payments over the terms of the leases. In addition, under leasing arrangements the Government was committed to large annual rental expenditures, without acquiring any equity in the facilities.

We recommended that, in view of the significant savings available to the Government by ownership of postal facilities, the Post Office Department consider a policy of ownership except in specific cases where the cost of leasing is clearly justified by other factors.

The Department initially disagreed, with our conclusions regarding the advantages of Government ownership over leasing, but subsequently reconsidered its position and concluded that, in most cases, Government ownership of major postal facilities would be more economical than leasing.

At June 30, 1967, the Congress had approved the construction of 14 major postal facilities for Government ownership. These facilities, which will contain about 4 million square feet of interior space, are to be

constructed by the Department pursuant to a delegation of authority by the Administrator of General Services under the Public Buildings Act of 1959, as amended. The Congress appropriated $50 million for starting the program in fiscal year 1968.

We computed the savings that would be achieved during the basic period of the leases as a result of constructing the facilities for Government ownership instead of leasing them. Our computations, which were based largely on GSA estimates of rental and construction costs supporting the prospect uses for the 14 facilities, indicated that the savings would amount to about $22.3 million.

The Department has informed us that in the future most major postal facilities will be proposed for construction for Government ownership. Thus, the additional future savings from this policy could be quite substantial.

192. Controls over lease-construction of postal facilities-- In reports submitted to the Congress, congressional committees, and the Postmaster General during calendar years 1962 through 1965, we pointed out that (a) the costs to be incurred by the Post Office Department through leasing facilities for initial terms of 20 and 30 years substantially would exceed the costs that would be incurred if the facilities had been constructed for Government ownership and (b) the Post Office Department generally had awarded contracts for lease-construction of new facilities, without determining whether the needed postal space could have been provided in new Federal buildings constructed under the authority of the Public Buildings Act of 1959, as amended.

As originally enacted, the Department's authority under 39 U.S.C. 2103 to lease postal facilities for periods of up to 30 years was limited to a period of 10 years ended July 22, 1964. This authority initially was extended until December 31, 1966, and subsequently was extended a second time until April 30, 1967. In reporting on the bill that authorized the first of these extensions, the Senate Committee on Public Works stated that the Committee believed it prudent that the authority be given a limited extension to permit a more detailed evaluation of the 30-year leasing authority and of other methods of space acquisition that might be applied.

During 1964, 1966, and 1967, in comments on bills proposing to extend the Department's 30-year leasing authority and in testimony before the Subcommittee on Buildings and Grounds, Senate Committee on Public Works, we referred to our previously reported findings relating to the Department's lease-construction programs and recommended the establishment of certain controls over the Department's leasing activities.

Public Law 90-15, approved May 8, 1967, extended the Department's leasing authority under 39 U.S.C. 2103 until June 30, 1972, and revised the leasing requirements to provide controls similar to those that we had recommended. Among other things, these controls:

a. Require the Postmaster General, before entering into a lease agreement under the authority conferred by section 2103, to determine, after consultation with the Administrator of General Services, that it is not desirable or feasible to construct a postal facility under the provisions of the Public Buildings Act of 1959, as amended; and

b. Require the Postmaster General, at least 30 days before entering into a lease agreement under either section 2103 or section 2102 of title 39 for a special-purpose post office building having gross floor space exceeding 20,000 square feet, to transmit to the Senate Committee on Public Works and the House Committee on Post Office and Civil Service a report which includes a full and complete statement concerning the need for such an agreement and the facts relating to the proposed transaction.

We believe that the above controls will achieve the objectives of our recommendations.

193. Use of all available data in the planning and design of construction projects-- On the basis of our review of the planning of the size of the New Second Lock at Sault Sainte Marie, Michigan, by the Corps of Engineers (Civil Functions), Department of the Army, we estimated that the cost of designing and constructing the lock was increased by about $651,000 because

the Corps decided to increase the authorized size of the lock without first adequately establishing the maximum size of ships that could be expected to use the new lock.

Existing regulations and procedures provide general guidelines to be used in the planning and designing of locks, and we did not recommend that these be revised or that more detailed guidelines be established, because we recognized that numerous factors are involved in determining the size of a lock and that these factors vary depending on the type of vessels and traffic that will use the lock. Since, as in the case of the New Second Lock, the decision as to the size of each lock to be constructed involves the exercise of judgment, we believe that it is particularly important that the information compiled during the lock-size studies, and the recommendations made by the district engineers on the basis of these studies, be critically reviewed and evaluated by responsible officials in the division and in the Office of the Chief of Engineers.

In a report submitted to the Congress in October 1966, we recommended that, in order to minimize the possible occurrence of similar situations, the Chief of Engineers bring this report to the attention of certain employees associated with the development of civil works projects to stress the importance of conducting thorough studies and of critically evaluating these studies prior to building new locks.

Subsequent to the issuance of our report, the Chief of Engineers issued a directive, together with copies of our report, emphasizing the necessity for thorough consideration of all elements contributing to the design of a project.

PROCUREMENT PROCEDURES AND PRACTICES

194. Lease in lieu of purchase of commercial two-way radio equipment--As of June 30, 1965, the military services were leasing commercial two-way radio equipment from three manufacturers at an annual cost of about $9.5 million. It is generally accepted that the useful life of such equipment is 5 to 7 years and that technological obsolescence is not a serious factor. In a report submitted to the Congress in January 1967, we stated that the Department of Defense could save about $12 million over the 5-year minimum useful life of the equipment if it were purchased rather than leased.

The Armed Services Procurement Regulation (ASPR) provides that the decision to lease or purchase be made on a case-by-case basis. However, this provision has not been uniformly applied. Although all of the military services use the same type of equipment and acquire it from the same manufacturers, the Air Force leases its equipment almost exclusively while the Army and Navy purchase the greater part of their equipment.

We proposed, and the Department of Defense agreed, that (a) the military services be required to justify their decisions to lease or purchase on the basis of the criteria provided in the ASPR, (b) since two-way radio equipment is common to all services, a single procurement office be designated to consolidate requirements, and (c) when funds are not available to purchase all of the equipment needed to fill requirements, the equipment be purchased on an incremental basis.

195. Lease in lieu of purchase of motor vehicles for use by contractors--Various contractors performing work at Vandenberg Air Force Base had been arranging for their own intrabase transportation. In August 1962, the Air Force began the practice of leasing vehicles and furnishing them for use of the contractors. In a report issued to the Congress in September 1966, we stated that, had the vehicles been purchased rather than leased by the Government, savings of about $800,000 could have been realized over a 3-year period.

The Department of Defense had been under the impression that restrictions described in the United States Code (5 U.S.C. 78) precluded its purchasing vehicles other than those specifically authorized in annual appropriation acts. We expressed the opinion that the restrictions of 5 U.S.C. 78 pertained only to vehicles to be purchased for use by Government agencies and departments and did not apply to the purchase of vehicles for use of contractors in performing work for the Government.

The Department of Defense accepted our interpretation of the statute and issued a memorandum to this effect to the military departments requesting them to conform their regulations with the revised policy.

196. Procurement of aircraft spare parts from airframe manufacturers in lieu of parts manufacturers--The stated policy of the Department of Defense is to purchase parts competitively or directly from parts manufacturers whenever feasible. We found, however, that spare parts for the initial support of certain aircraft weapon systems were being purchased by the Navy from the airframe manufacturer although most of the parts were manufactured by other sources and could have been obtained from them at lower prices. In our report issued to the Congress in February 1967, we stated that, had the parts been purchased from other sources, about $2.3 million could have been saved on the RA-5C and A-6A aircraft and about $1.5 million still could be saved on the A-7A aircraft.

We were informed that sufficient time was not available to permit purchase from the other sources. However, we believed that the problem could have been overcome by adequate planning and made certain proposals, with which the Navy agreed, to improve planning.

197. Use of rented vehicles in lieu of vehicles from the Government's interagency motor pool--The stated policy of the Department of Defense is that, in lieu of renting vehicles from commercial firms, vehicles from the interagency motor pool system, managed by the General Services Administration, be used to the extent feasible. However, the military departments have not specifically required their personnel to follow the policy. We found at six military installations in the Washington, D.C., area that personnel who needed vehicles in connection with temporary duty assignments generally rented them from commercial firms. In a report issued to the Congress in March 1967, we stated that savings of 10 to 50 percent could be realized through use of vehicles from the motor pool.

The Department of Defense and the General Services Administration, in response to a report of our findings and conclusions, agreed to coordinate their efforts toward greater use of motor pool vehicles in lieu of rented vehicles.

198. Use of commercial service stations in lieu of Government gasoline outlets--The military departments spend about $5 million annually for credit-card purchases of gasoline from commercial service stations. The cost of this gasoline is from 10 to 16 cents a gallon more than the cost of gasoline obtainable from Government outlets. In our report to the Congress issued in July 1966, we stated that, although we were not able to arrive at a firm estimate of the potential savings through greater use of available Government outlets, we believed the potential savings to be substantial.

The Department of Defense expressed general agreement with our findings and our proposals for obtaining maximum feasible use of Government gasoline outlets in lieu of credit-card purchases.

199. Procurement of printing of technical manuals--We found that the cost to the Department of Defense for printing technical manuals furnished by selected contractors amounted to about $2.2 million in fiscal year 1964. In a report issued to the Congress in November 1966, we pointed out that, on the basis of price estimates obtained from the Government Printing Office (GPO), about $770,000 (35 percent) of the $2.2 million could have been saved if the printing had been procured from commercial sources under contracts awarded by GPO. We estimated that the total expenditures for such printing during the fiscal year was between $25 million and $30 million and that about $8 million of the expenditures could have been saved.

The Department of Defense concurred with our recommendation that, to the extent consistent with cost economy and operational effectiveness, printing of technical manuals be procured through the Government Printing Office. In December 1966 the Department advised us that it was proceeding toward this objective in close cooperation with the Joint Committee on Printing.

200. Multiple-year subscriptions to periodicals--It is the policy of many publishers of periodicals to offer multiple-year subscriptions at lower rates than 1-year subscriptions. The regulations and procedures of the military departments provide that subscriptions to periodicals may be purchased for periods in excess of 1 year when it is more economical to do so.

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We found, however, that the military departments were not taking full advantage of the potential savings in their procurement of periodicals.

In our report issued to the Department of Defense in November 1966, we recommended that (a) instructions be issued to emphasize the need for the military departments to consider procurement of periodicals under multiple-year subscriptions when it was more economical to do so and (b) consideration be given to the feasibility of establishing a centralized procurement program for periodicals needed by the military departments.

In January 1967 the Department of Defense replied to our report and expressed agreement with our recommendations. The Department stated that, with respect to feasibility of centralized procurement, it would consider requesting the General Services Administration to establish a Federal Supply Schedule for periodicals. In February 1967 the Bureau of the Budget advised us that, inasmuch as our recommendations had Government-wide application, it had referred the matter to the General Services Administration for consideration.

201. User review and approval of purchase description prior to contract award--The Department of the Army incurred costs of about $1 million to buy for and deliver to Thailand, under the military assistance program, locomotives which were unable to meet Thailand's requirements for main-line use, the purpose for which furnished. We found that the Army officials had not obtained clarification of contradictory technical requirements but, instead, had prepared a purchase description and initiated procurement of the locomotives before ascertaining whether the locomotives would be able to perform the functions for which they were intended.

The locomotives procured, which were adequate only for switching and yard work, were being replaced with main-line locomotives costing about $2,305,000. The replacement locomotives were expected to be delivered to Thailand in December 1966.

In response to our proposal that the Army utilize the replaced locomotives for other potential requirements, we were advised that potential outlets were being explored.

The unsuitable locomotives might not have been procured if the Army officials had obtained clarification of the technical requirements. We believe that such clarification would have been facilitated by management procedures requiring the user's review and approval of a purchase description for complex, nonstandard items prior to the award of a contract.

In view of significant unnecessary costs that could be incurred in similar cases throughout the Defense establishment, we recommended, in our report to the Congress in January 1967, that the Secretary of Defense require the military departments to establish procedures providing for user-activity review and approval of a purchase description for complex, nonstandard equipment when there is doubt as to the exact nature of the intended equipment.

The Department of Defense comments indicated that existing procedures were believed to be adequate and that inherent in procurement was the requirement that a buyer should purchase exactly what the user wants.

We noted, however, that the United States Army Materiel Command issued to all its activities with procurement responsibilities, a letter specifying procedures similar to those that we recommended.

202. Improvement in procurement and supply activities needed--In May 1967 we issued a report to the Congress on our survey of the United States construction activities in the Republic of Vietnam. The combined construction programs in Vietnam amounted to $1.3 billion as of October 1966 and was being accomplished by the construction units of the military services and by contracts with various civilian firms for the Departments of Defense and State and the Agency for International Development. As about three fourths of the total work was being performed under a Department of the Navy contract, our survey included primarily the performance of this contract and the administration exercised by the various commands of the Naval Facilities Engineering Command, the contracting agency.

Construction under the contract in support of United States operations in the Republic of Vietnam began in January 1962, at which time the scope of the work entailed about $21.5 million principally in military assistance program funds. When the buildup of United States military forces began in April 1965, the contractor had the only significant construction capability then in Vietnam. As force levels increased, with resultant pressures for major increases in facilities, the need for expanding the construction capability became apparent and the contractor was directed to mobilize to the capability of accomplishing $40 million worth of work a month by October 1966.

Our survey indicated that neither the Navy nor the contractor had been adequately equipped to handle the massive expansion of the construction program in late 1965 and the first half of 1966; as a result, the cost of the program was increased to a considerable extent, although there was no way to reliably measure the extra cost sustained. During the period of the escalated mobilization, normal management controls were virtually abandoned and major problems were experienced. Following are illustrations of these conditions.

a. Construction material and equipment were procured without a sound basis for computing reasonable requirements, without knowing what was already on hand or on order, and without preparing the most economical purchase specifications.

b. Military construction units in Vietnam had procurements of material and equipment unrelated to contract construction made for them by the contractor rather than having the procurements made through the military supply system.

c. Effective management of procurement and utilization of material became virtually impossible because accountability in Vietnam over the mountainous supplies of construction material was lost.

Although we emphasized the problem areas noted during our survey, we stated that it was not intended that the report should detract from the accomplishments of the contractor as evidenced by the physical construction in place and the construction capability which the contractor had mobilized in Vietnam.

In commenting on our report, representatives of the Department of Defense agreed that there were a number of opportunities for improvement, as identified in the report, and pointed out that those responsible for the planning and execution of the construction program were fully cognizant of the fact that such an accelerated operation inherently included many shortcomings. We were informed that measures had been taken and much progress had been made toward eliminating imperfections and that it was recognized that more must be done before an optimum operation could be achieved.

The contractor reported to us that, overall, the report appeared to be a reasonable evaluation of the program and many of the problems involved, but he emphasized that the facts presented in the report did not justify any conclusion that the program was mismanaged. The Department of Defense, in its comments to us, also stressed that, in view of the conditions under which the program had to be carried out and the remarkable construction performance attained, it did not consider that the management of the program could be considered wasteful or inefficient.

203. Obtaining manufacturing drawings and technical data and use of negotiating procedures-- Certain weaknesses in procurement procedures relating to the initial development-type contract and to the subsequent noncompetitive procurements of portable echo sounders by the Coast and Geodetic Survey, Environmental Science Services Administration, Department of Commerce, were identified in an internal audit report prepared by the agency. The Coast and Geodetic Survey proposed to take certain corrective actions with a view toward (a) making a specific determination on each future development-type contract as to the desirability of obtaining manufacturing drawings in order to facilitate competition on follow-on procurements and (b) establishing adequate competition or other basis for ensuring the reasonableness of the prices for future procurements of echo sounders.

Our review revealed that the basic weaknesses in procurement procedures which were identified by the internal audit report still existed and that there was a need for more positive action to implement the proposed corrective actions. Therefore we made certain suggestions to the effect that (a) guidelines be formally established for determining when it is in the Government's best interest to obtain manufacturing drawings and technical data under development-type contracts and (b) if adequate competition could not be developed, the prices for future procurements of the portable echo sounders be negotiated with the supplying contractor on the basis of cost or pricing data certified by him to be accurate, complete, and current.

The Assistant Secretary for Administration advised us that action was being taken generally consistent with our specific suggestions. Our report on these matters was submitted to the Secretary of Commerce in September 1966.

204. Obtaining gasoline from Government outlets rather than from retail outlets--We found that substantial savings could be achieved if the General Services Administration (GSA) and agencies using GSA vehicles were to use Government gasoline outlets to the maximum extent practicable. The cost of gasoline purchased from retail outlets averaged 9 cents a gallon more than the cost of gasoline that could have been obtained from Government outlets. We estimated that, if our findings at seven selected motor pools were typical nationwide, the Government could save about $600,000 annually by using Government outlets to the maximum extent practicable.

Government agencies had been encouraged to fuel their vehicles at Government outlets operated by the military services, GSA, Post Office Department, Veterans Administration, and other civil agencies when such facilities were available and more economical. We found, however, that neither GSA nor using agency operating officials had taken action to determine the location and availability of Government outlets and to issue instructions requiring drivers of Government vehicles to use these outlets when practicable.

As a result of our proposals, GSA urged that (a) agencies operating gasoline pumps make their facilities available for the use of other agencies and for the use of vehicles operated by agency contractors in connection with Government contracts, (b) agencies not having such facilities make arrangements for their employees and contractors to use Government outlets where operationally or geographically practical, and (c) all agencies advise motor vehicle operators of the location of facilities in the areas customarily traveled.

205. Use of General Services Administration supply sources by operating contractors--In a report submitted to the Congress in September 1966, we pointed out that savings of about $309,000 might have been achieved during the period extending from fiscal year 1963 through the latter part of fiscal year 1965 if contractors operating facilities for the Atomic Energy Commission (AEC) had procured selected operating supplies and equipment through the General Services Administration (GSA) rather than directly from commercial suppliers. We found that the emphasis placed on promoting the maximum use of GSA as a procurement source varied considerably among operations offices, with the result that additional costs were being incurred which could have been minimized.

We proposed that AEC's General Manager reemphasize to the operations office officials the importance of making thorough reviews of operating contractors' practices and procedures relating to the use of GSA as a procurement source. Also, we proposed that the General Manager instruct the operations offices to require the contractors to include in their records written documentation in support of decisions to purchase from sources other than those of GSA, common-use items for which there is a continuing need. AEC took action to implement our proposals.

206. Procurement of security covers for nuclear weapons--In a report submitted to the Congress in September 1966, we stated that, in evaluating the continued need for security covers for nuclear weapons in 1960 and 1961, the Atomic Energy Commission (AEC), in our opinion,

did not adequately consider the reduced requirements of the military services in determining future procurement of covers. In 1960 the external dimensions of several types of nuclear weapons were declassified, thus reducing the need for security covers–a fact not adequately considered in subsequent procurements. We believe that, had AEC and the Defense Atomic Support Agency adequately considered the need for security covers by the military services in their initial evaluation of procurement requirements, a substantial portion of the approximately $650,000 spent for security covers between January 1961 and March 1965 for the four systems included in our review could have been avoided.

As a result of our review, AEC and the Defense Atomic Support Agency reviewed their security cover procurement policies, giving particular emphasis to the needs and requirements of the using military services, and concluded that the ratio of security covers to weapons delivered to certain military services could be reduced. Subsequently, the remaining production of security covers for two of the weapons included in our review was canceled, with an estimated saving of about $16,000, and procedures were established to evaluate the requirements of the military services in determining future procurement of covers.

Action was also initiated to authorize the Department of Defense to dispose of certain security covers which were determined to be no longer of use in the weapons program. Security covers for the four weapons which we reviewed were included on the proposed surplus list.

207. Control over expenditures--In May 1967 we reported to the Congress that the Pacific Region of the Federal Aviation Administration (FAA) had expended about $267,000 for goods and services which either were unnecessary or were justifiable only in part, considering conditions existing at the time and the very negligible benefits that accrued to the Government.

a. A sound/alarm system for the Pacific Region headquarters building in Honolulu was leased for 10 years at an annual rental of about $10,600, or $106,000 for the 10-year period. According to FAA, this procurement was justified by the need for sounding the alarm signal for possible fire, tidal wave, or enemy attack, and for transmitting official messages and background music throughout the building. Inasmuch as (1) the lessor of the sound/alarm system had also installed a fire alarm system in the building and (2) the State of Hawaii had installed a civil defense warning system near the building, we questioned the need for the lease of the sound/alarm system.

b. The Region purchased 148 clothes dryers at a cost of about $12,500 for use by employees housed in Wake Island. Because of inadequate planning, the dryers remained in storage for about a year. An additional $25,000 had to be spent to modify and properly equip the housing in order to use the dryers.

c. On June 29 and 30, 1964, the Pacific Region placed orders totaling about $15,600 for library books under conditions indicating that the principal objective was to obligate available funds prior to the end of the fiscal year rather than to order books for which there was real or urgent need.

d. Numerous other purchases–totaling about $46,000–were made at the end of fiscal years 1963 and 1964, the necessity of which appeared questionable.

e. Various items of equipment and supplies for major repairs were purchased for Canton Island at a cost of about $27,000, even though complete phase-out of the installation had been under consideration for sometime.

f. The Pacific Region incurred costs of over $30,000 directly related to ceremonies dedicating new facilities at three FAA locations. We questioned whether the dedication ceremonies provided benefits to the Government commensurate with their costs.

Prior to the issuance of our report in May 1967, the Acting FAA Administrator informed us that, in response to our proposals (a) the lease for the sound/alarm system at the Pacific Region headquarters building would be canceled, which would result in savings of more than $70,000 over the remaining term of the lease, (b) FAA's requirements for

detailed resumés used as a basis for making procurement decisions would be expanded to cover all procurement requests and that all future procurement requests would require review and approval at levels commensurate with the complexity and type of procurement, and (c) FAA would develop criteria for procurement of the types of goods and services cited in our report. The Acting Administrator stated that the effectiveness of these actions would be evaluated by management reviews and internal audits.

The Acting Administrator stated also that guidelines and procedures were being developed to prevent the recurrence of unduly expensive expenditures for dedication ceremonies.

208. Bulk purchases of gasoline and oil for motor fleets--In a report submitted to the Congress in February 1967, we expressed the opinion that the Post Office Department could achieve substantial savings in vehicle operating costs through the establishment of gasoline outlets at many postal installations which were purchasing all, or almost all, of their gasoline requirements from commercial service stations.

During fiscal year 1965 the Department purchased about 63.3 million gallons of gasoline and about 2.5 million quarts of motor oil for the use of its vehicle fleet. About half of this gasoline and much of the motor oil were purchased in bulk quantities for dispensing through outlets located at the Department's 268 vehicle maintenance facilities and at a few post offices. The balance of the gasoline and motor oil was purchased principally from commercial service stations. The cost of the gasoline and motor oil purchased from commercial service stations was considerably higher than the cost that would have been incurred if the gasoline and motor oil had been purchased in bulk quantities and dispensed through Government-owned outlets.

On the basis of our reviews at 103 postal facilities, we estimated that savings of about $80,000 annually would result from the installation and use of gasoline outlets at 41 of these facilities. We advised the Department of our belief that, if the conditions found at these installations were typical of the conditions at other locations, significant additional savings could be achieved by the establishment of gasoline outlets throughout the postal service.

We proposed that the Department (a) develop criteria for determining the feasibility of establishing gasoline outlets at postal facilities which procure gasoline and motor oil from commercial retail sources, (b) require the appropriate officials of the postal regions to use the developed criteria in selecting the existing or planned facilities where the use of gasoline outlets would result in savings in operating costs, and (c) take such other actions as might be necessary to arrange for the timely installation and operation of gasoline outlets at such facilities.

The Postmaster General agreed with our proposals and directed responsible officials to collaborate in developing criteria for determining the feasibility of establishing gasoline outlets. These criteria were issued in June 1967 along with instructions for their implementation.

209. Utilization of competitive bidding to obtain commercial moving services--In a report issued to the Department of Labor in July 1966, we expressed our belief that potential savings were available to the Department through use of the services of commercial movers procured on the basis of competitive bidding. We pointed out that the Department had procured moving services for 3 years almost exclusively from one commercial mover without a formal contract between the company and the Department.

Instead of advertising for bids, the Department had purchased services at rates specified in a contract awarded through competitive bidding by another Government agency, even though the Department's requirements materially differed in nature from those of the other agency and the mover's rates were higher than those of other firms whose rate schedules were on file in the Department.

We were informed that moving services were obtained from General Services Administration (GSA) when the Department could provide sufficient advance notice but that most moves were made on short notice and it

was therefore necessary to obtain the services from other sources. Further, we were informed that sudden expansion of the Department's programs in fiscal year 1963 had brought about such urgent need for space and relocation of employees that the Department did not have sufficient time to advertise for bids. However, we expressed the belief that the Department had had opportunity for anticipating moves and that, therefore, it should have arranged for competitive procurement of moving services.

We recommended that requirements for moving services which cannot be fulfilled by GSA be obtained by the Department through advertised competitive procurement or, alternatively, that the Department explore with GSA the possibility of GSA's entering into suitable contracts to take care of the Department's needs.

Subsequently, the Deputy Administrator, GSA, advised us that our recommendation had been discussed with representatives of the Department of Labor and that, through the agreements reached, GSA believed that it would be able to assist the Department in the great majority of its scheduled moves and to satisfactorily implement the recommendation in our report.

210. Use of digital recorders for implementing automation of water data records--In a report submitted to the Congress in July 1966, we stated that the Geological Survey, Department of the Interior, had purchased and installed digital recorders to automate water data records while, during the same period, it continued to purchase new strip-chart recorders of the type being replaced by digital recorders. We stated that, in our opinion, the Survey knew or should have known that, prior to completion of the automation program, other strip-chart recorders would be available periodically to meet the needs of the various district offices. Nevertheless, the Survey purchased new strip-chart recorders costing about $155,000, most of which were of the type being replaced by digital recorders while at the same time it was generating a surplus of used strip-chart recorders.

We noted also that the Survey procured a substantial number of the batteries needed to operate the digital recorders from local suppliers even though comparable batteries were available on the Federal Supply Schedule at a lower cost. We estimate that, when the conversion to the digital recorders is completed in fiscal year 1968, the Government can save about $13,000 annually if the batteries needed to operate digital recorders are procured through the Federal Supply Schedule.

After we brought these matters to the attention of the Department, we were advised that the Geological Survey would develop a plan for stronger central control and coordination of procurement and distribution of water data collection equipment. We were advised also that the Geological Survey had agreed to issue revised instructions to require field personnel to purchase digital recorder batteries through the Federal Supply Schedule as proposed. The instructions were issued November 22, 1965.

211. Procurement of house trailers--In a report issued to the Secretary of the Interior in March 1967, we stated that the Bureau of Land Management, Department of the Interior, had procured 36 house trailers costing about $100,000 for use by its field offices, although it did not have adequate evidence that a valid need existed for the trailers at the time of the procurement. From our study of the need for 14 of these trailers, it was our belief that the determination by the Bureau's central office had not been based on valid requirements.

The Bureau's field offices usually make the initial determination of their requirements for equipment, including house trailers, in accordance with the Bureau's programming system. In this instance, however, the need for the trailers was initially determined by the central office. On the basis of the information obtained in our review, we concluded that the central office did not have sufficient information to make a realistic determination that 36 trailer replacements were needed. At the time the central office initiated the procurement action, it had not determined which trailers would be replaced or to which field offices the trailers would be assigned.

We proposed that, prior to initiating procurement action, the Bureau be required to

adequately determine and justify the need for equipment replacements–considering both the condition of the equipment being replaced and the need for the equipment to accomplish the Bureau's current programs. The Department advised us that the problem appeared to have been the lack of documentation in support of the Bureau's action and that this defect had been remedied. The Department further advised us, however, that the Bureau had (a) provided an equipment utilization specialist in each of its two service centers to make continuous and independent surveys of equipment use and requirements and (b) instituted various methods for obtaining prompt and reliable use data, which would facilitate the assignment of equipment to areas of greatest need.

CONTROL OVER PROPERTY

212. Stock levels of aeronautical spare parts at depots in the Pacific area–We found at five Pacific Air Forces bases that about $16 million worth of the stock of aeronautical spare parts on hand was excess to needs and that about $19.9 million worth of unneeded stock was on order from depots in the United States. In our report issued to the Congress in March 1967, we pointed out that much of the unneeded material had been shipped to the bases by air at a time when there was a critical shortage of such transportation to handle high-priority cargo.

The excess stocks on hand and on order resulted when base supply personnel (a) circumvented established controls for precluding ordering of unneeded stock, (b) did not follow prescribed procedures for periodic review of outstanding orders, (c) did not identify interchangeable stock, and (d) did not review the need for certain special stock levels.

As a result of our review, the Air Force took action to cancel about $8 million of outstanding orders and to redistribute about $5 million of the unneeded stock on hand. Also, in accordance with our recommendation that increased surveillance over base activities be exercised by Headquarters, Pacific Air Forces, a new supply improvement program was implemented to ensure that supply problems were brought to the attention of appropriate levels of command and that reviews were made of major areas of supply operations.

213. Stock levels of aeronautical spare parts at aircraft maintenance activities–In our review of supply management at four aircraft maintenance activities of the Army, we found substantial stocks of repair parts in excess of requirements. In a report issued to the Congress in April 1967, we stated that, on the basis of the Army's criteria for establishing stock levels, about 50 percent ($1.5 million) of the repair parts inventories at the four locations was in excess of the prescribed stock levels. We identified procurements totaling about $447,000 which could have been avoided or deferred had the excess stocks been released to meet requirements at other locations.

Officials of the aircraft maintenance activities did not appear to be familiar with the Army regulations governing computation of stock levels. Shortages of personnel also precluded performing the prescribed periodic recomputations and reviews of the stock levels. The Army agreed with our findings and with our proposals for corrective measures and took action to establish local controls to ensure that stock levels were based on past experience and were held to a minimum as required by Army regulations.

214. Procedures for reporting of excess military supplies in Europe–Because of weaknesses in the reporting procedures and practices of the Army, excess stocks in Europe were not being redistributed to other areas where urgently needed. As stated in our report issued to the Congress in April 1967, we found about $3.2 million worth of excess combat vehicle repair parts and electronic components on hand that were needed in the United States and in the Pacific area. After we called the attention of management officials to this matter, about $2.1 million worth of the items were redistributed and about $1.1 million worth were scheduled for redistribution.

In reporting our findings to the Army, we made certain proposals for improving the reporting of excess stocks to United States inventory control points. The Army concurred in our findings and proposals and stated that the stocks in Europe would be incorporated into the records of the United States inventory control points by December 1, 1967.

215. Inventory procedures for construction and maintenance materials–Our review of accounting and related controls over construction and maintenance materials valued at about $325,000, at the National Institutes of Health, Public Health Service, Department of Health, Education, and Welfare, showed that inventory records and related procedures required considerable improvement if they were to

provide the safeguards generally provided by an effective internal control system.

Three conditions contributed to ineffective control procedures, namely: (a) similar line items subject to physical inventory verification were not all counted during the same cycle; (b) data entered on storeroom requisition cards were not checked for accuracy before the data were entered in the computerized inventory records; and (c) deficiencies in the computer program, indicated by numerous inaccuracies in quantities and/or dollar amounts in the inventory records.

After we submitted our report to the agency in December 1966, we were informed by NIH officials that action would be taken to correct these conditions.

216. Purchasing versus leasing of an airplane--We found that the Environmental Science Services Administration (ESSA), Department of Commerce, had leased two aircraft for use in its aerial photography work without determining whether the cost to the Government would be less if it purchased the aircraft. Our review indicated that substantial savings could be realized if ESSA would obtain congressional authorization to buy and would then purchase one of the two aircraft, the Grand Commander. Savings through purchase of the other aircraft, the Aero Commander, would be minimal. We estimated that over a 10-year period the savings on the Grand Commander would total about $271,800 after providing for operating and maintenance costs and interest on the Government's investment.

We were advised by ESSA officials that authorization to purchase the Grand Commander had been requested in the agency's 1968 budget submission but that the request was deleted at the departmental level. On the basis of our review, we recommended in our February 1967 report to the agency that ESSA further consider requesting authorization for purchasing a Grand Commander airplane or other suitable airplane that might be purchased and maintained at a lower long-term cost than would be incurred by continuing to lease the Grand Commander now in use.

217. Controlling supplies and reporting on activities--In a report to the Interstate Commerce Commission in August 1966, we commented that adequate control was not being maintained over reproduction paper and supplies, the cost of which amounted to about $100,000 annually, and that reports to management and to the Joint Committee on Printing concerning reproduction activities contained incorrect and unsupported data.

We noted that the Commission had not maintained accountability records over the paper and supplies to ensure the maintenance of inventories at planned levels, that the quantities of some items appeared excessive on the basis of the length of time they had been on hand, and that the storage of paper stocks in corridors accessible to the public did not provide for adequate physical control over the stocks.

In response to suggestions in our report, the Managing Director of the Commission informed us that action had been taken to obtain storage space that would permit physical control of supplies. He also advised us that accountability records for supplies would be established, the procedures for preparing records and reports would be revised and reissued, and the Joint Committee on Printing would be furnished corrected information.

218. Coordination and control of inventory transfers--In May 1967 we reported to the Congress that our review of hand tool and paint inventories at Department of Defense (DOD) supply depots after management responsibilities had been assumed by the General Services Administration (GSA) showed that there were significant amounts of GSA-owned stocks on hand that were not recorded on GSA inventory records. Consequently, these stocks were "lost" to the supply system. After we brought this situation to the attention of GSA and DOD officials, complete physical inventories were taken at these depots and about $4 million worth of stocks were found which were not recorded, but which should have been listed on GSA inventory records. During the period when these inventories were "lost," GSA procured about $1.1 million worth of stocks that were identical to the unrecorded stocks.

We proposed that future stock transfer agreements between DOD and GSA require that, at the time of transfer, detailed physical inventories be taken of all stocks to be transferred, inventory records be reconciled to the physical counts, and warehouse stock locator cards be updated. We also proposed that, prior to future transfers of supply management responsibility, a joint committee be made responsible for providing operating procedures to carry out the transfers, acting as liaison and coordinators, and settling problems related to inventory shortages during the transfers.

DOD advised us that it had provided for complete physical inventories and stock reconciliation prior to the next scheduled transfer of stocks to GSA and that GSA had been requested to participate in the inventories. GSA agreed that physical inventories should be taken and advised us that a provision for such inventories had been included in jointly approved procedures for future transfers. GSA also agreed that a joint committee was essential to the implementation of stock transfers and advised us that a committee had been established to coordinate and monitor all future transfers between the two agencies.

219. Accountability for and physical control over motor vehicle license plates--In a report issued in July 1966, we stated that a comparison of the number of District of Columbia motor vehicle license plates received from the supply source with the number of plates issued, destroyed, and on hand indicated that, for the registration years of 1963-64, 1964-65, and 1965-66, there were 1,924 plates unaccounted for. We stated also that, because of the lack of adequate accountability records evidencing the reliability of the statistical data on the number of plates issued, it was impossible to determine whether the 1,924 plates were actually unaccounted for.

After we brought the matter to the attention of the Director, Department of Motor Vehicles, we were informed that corrective action had been taken by installing a perpetual inventory record for controlling the number of plates received, issued to registration personnel, destroyed, and on hand. We suggested that a similar accountability be developed for license plates in the custody of registration personnel for issuance to motor vehicle owners. The Chief, Vehicle Control Division, stated that action would be taken along the lines of our suggestion.

Our report also pointed out that license plates were stored in areas which were accessible to persons other than those responsible for their custody. Subsequent to our discussing this matter with departmental officials, we were informed that various actions had been taken to secure the storage areas.

220. Control over inventory level and use of stores items--In a report issued in April 1967, we pointed out that at June 30, 1965, the Argonne National Laboratory (ANL) stores inventory, which is maintained for use in connection with work performed under a cost-type contract with the Atomic Energy Commission, was about $496,000 in excess of the amount that would have been on hand if the quantities of numerous stores items had not exceeded minimum desirable stock levels.

We expressed the belief that the overstocking had resulted, at least in part, from the manner in which ANL was replenishing its inventory through use of an "economic order quantity" procedure. ANL was reordering on the basis of inventory quantities on hand at a central warehouse without regard to quantities on hand at field storerooms, which resulted in the placing of orders for items that were actually in long supply. We noted that the situation was aggravated by the fact that there was no control over stocking levels at the field storerooms and that these storerooms had accumulated many items far in excess of current needs.

Our review also showed that the usage of certain stores items varied significantly and corresponded to the amount of control exercised. We noted numerous instances where the use of an item increased considerably when the controls over its issuance were removed and then declined significantly when the controls were again established. Also, we found that certain items were being transferred, without documentation, between the various warehouses, storerooms, and users.

After discussions with representatives of ANL, action was initiated to correct the weaknesses disclosed by our review. This action

included reduction of inventory levels at storerooms to a 30-day supply and institution of a system whereby all items removed from stock are signed for by the user.

221. Use of funds and lands at reservoir projects--Our review of selected reservoir projects of the Corps of Engineers (Civil Functions), Department of the Army, revealed several matters which we believe require attention, including (a) the need for the Corps to audit the financial records of local government agencies licensed to develop Federal lands at reservoir projects and to require local government agencies to audit records of their concessionaires and (b) the need for district offices to discourage the investment of substantial sums by private interests for construction of private recreational facilities on Federal lands that have been reserved for future public use.

Our review showed that, although Corps instructions do not require an audit or review of the financial records of local government agencies nor require local government agencies to audit records of their concessionaires, two Corps districts had established the practice of auditing the records of local government agencies. In one of the districts, the audits revealed that, in a number of instances, revenues, a portion of which possibly would have been paid to the Corps, were being used for purposes other than those specified in the terms of the Corps' agreements with the local government agencies and were not being collected from third party concessionaires.

Our review showed also that, although the Corps had a policy of using to the fullest extent possible reservoir land for public recreational purposes, some districts had permitted private interests exclusive use of Federal lands reserved for future public use. We believe that the rights to use this land in the future for public recreation may be jeopardized because private interests have been permitted to spend substantial sums for development of private recreational facilities and therefore may be reluctant to vacate the area.

In a report to the Secretary of the Army dated August 1966, we recommended that the Chief of Engineers be directed to (a) establish a program to audit, to the extent appropriate, the records of local government agencies, (b) require local government agencies to audit records of their concessionaires, and (c) issue instructions to the district offices to discourage the investment of substantial sums by private interests for construction of private recreational facilities on land reserved for future public recreational use so that the area will be more readily available for public use when needed. Subsequent to the issuance of our report, the Corps issued instructions in accordance with our recommendations.

MAINTENANCE, REPAIR, AND OVERHAUL

222. Maintenance of aircraft--On the basis of an earlier review, we estimated that the Navy could have maintained the equivalent of 23 additional F-4 aircraft in serviceable condition in fiscal year 1964 if certain improvements had been made in the supply and maintenance support of the aircraft. We so advised the Navy. We found in a follow-up review that, although the F-4 aircraft availability had increased, many of the earlier problems continued to exist.

In a report issued to the Congress in June 1967, we pointed out that the principal problems involved (a) delays in purchase of needed repair parts, in distribution of repair parts to locations where needed, and in repair of unserviceable aircraft components and (b) loss of control over the inventory of certain repair parts.

In response to our findings and proposals for corrective measures, the Navy advised us that various command structures had been reorganized to consolidate the aircraft support functions and to aid in the improvement of the aircraft support system and that several programs had been initiated to improve aircraft logistics support.

223. Maintenance of combat vehicles--We found that Army determinations to rebuild tanks of the M48 series and other combat vehicles were based on visual inspections--generally without even starting the engines--rather than on tests of the various components. As a consequence, virtually all major components were completely dismantled, repaired, and reassembled.

In a report issued to the Congress in September 1966 we pointed out that substantial savings could be achieved if the vehicles were tested with available diagnostic equipment and if other techniques were used to determine what work was actually necessary. We estimated that the cost of unnecessary work performed averaged more than $1,700 per vehicle.

The Army stated that it had revised its applicable technical bulletin to provide, among other things, that test equipment be used to determine assembly and sub-assembly reliability, quality, and performance and that unnecessary disassembly of assemblies and sub-assemblies not be made

224. Exchange of information on equipment common to several military departments--We found a need for closer coordination among the services in the exchange and use of information on management problems relating to identical or similar items of equipment.

The Navy and the Air Force each use rocket catapults (for aircraft ejection seats) which are functionally the same and are similar in size and construction. These catapults have a limited service life because of the deterioration of certain of their components. The Air Force followed the practice of restoring its over-age catapults to serviceable condition by replacing the deteriorated components. The Navy produced new catapults to replace those that became over-age.

In a report issued to the Congress in August 1966, we stated that adoption by the Navy of the Air Force practice could have resulted in cost savings of between $218,000 and $719,000 in the 3-year period covered by our review.

We recommended that a program be established in the Department of Defense that would ensure the exchange and use of information among the individual military services concerning the management and operating policies and practices for the same or similar items of equipment.

In reply the Department of Defense advised us that the Navy had completed an engineering study which showed that over-age catapults could be remanufactured to an acceptable reliability at less cost and that the Navy's plans for production of new catapults would be adjusted accordingly. The Department of Defense also agreed, in principle, with our recommendations and stated that there were many programs in being, which provide a means of exchanging information among the services on management and logistic support of similar equipment. The Department expressed the belief that these programs, and other programs and efforts currently underway, would continue to improve logistics procedures.

225. Modification of aircraft engines--We found that two technical orders covering major modifications of the J57 engine were not performed on a timely basis. One of the orders covered replacement of support weldments; the other covered replacement of fuel manifolds. Faulty weldments and manifolds had been found to be the causes of several aircraft crashes.

The Air Force had established special projects in May 1961 and November 1962 to implement the two technical orders. We found that, as late as February 1965, the replacements had not yet been made on a significant number of the engines. However, by June 1966 the replacement work had been virtually completed. During the period of delay, one aircraft crashed because of the defective weldments (March 1964) and another crashed because of the defective fuel manifolds (September 1963).

In our report issued to the Congress in August 1966, we pointed out the need for (a) greater accuracy in the reports and records relating to technical order actions, (b) clarification of the lines of authority and responsibility for implementation of technical orders, (c) better coordination between logistics and maintenance activities, and (d) improvement in accountability for modification kits and control over modification scheduling. In response to our report, the Air Force advised us of specific corrective measures taken in these areas.

226. Use of more economical fuels for heating--In a report submitted to the Congress in

August 1966, we estimated that the Veterans Administration (VA) could realize savings of about $133,000 a year at four VA field stations and a substantial amount nationwide if the boiler plants at certain of its field stations were converted to enable the plants to use more economical fuels. The costs of converting the plants would be recovered from savings in fuel and other operating costs.

Although the VA has been aware for many years of the economies available from converting the boiler plants at certain of its field stations, the procedures followed by the VA in selecting projects for annual funding did not give adequate consideration to the economies of self-liquidating projects such as these. We found that, in formulating the annual budget, self-liquidating projects were not programmed systematically and were not set out separately but were commingled with all other improvement projects. This procedure, together with the large backlog of improvement projects and overall fund limitations, has resulted in self-liquidating projects being deferred.

We proposed that the VA take action to identify all field stations where savings may be available by converting the boiler plants to enable the use of more economical fuels and that procedures be established to provide that adequate consideration be given to self-liquidating projects in the budget process. We proposed further that self-liquidating improvement projects be shown as a separate category in the budget presentation so that they could be evaluated by the Bureau of the Budget and the Congress in the light of their costs and benefits.

The VA agreed that the most economical fuels were not being used at some field stations and stated that the VA was in general agreement with our proposals.

Subsequent to the issuance of our report, we were informed by VA officials that, while there had been no self-liquidating fuel conversion projects since our proposals, $2 million was planned for use in fiscal year 1968 for 22 self-liquidating fuel conversion projects.

UTILIZATION AND DISPOSAL OF PROPERTY

227. Use of excess stocks as substitutes for desired supplies.—In October 1962 the Army made certain changes in its mobilization plans. Recomputations of supply requirements showed that a significant quantity of beds was excess to needs of the Army. In March 1963 the Defense General Supply Center (DGSC), inventory manager of the beds, proposed to the Defense Supply Agency (DSA) that the Army beds, which were of a different type from those used by the Navy and the Air Force, be issued to the other services as substitutes for the beds they preferred. The DSA endorsed the proposal in principle but instructed the DGSC that this not be done without the prior concurrence of the requisitioning services.

The requisitioning services refused to accept the Army beds as substitutes and in May 1963, the DGSC took action to dispose of about 521,000 beds.

Following our inquiries into this matter, 271,000 of the excess beds were withdrawn from disposal and were subsequently requisitioned by the military services. The remainder (250,000 beds) had already been disposed of. Withdrawal of the 271,000 beds from disposal resulted in savings of about $10.6 million. In our opinion, additional savings of about $9.4 million could have been realized had the 250,000 beds which had been disposed of been used to fill requirements of the Navy and the Air Force. In our report on this finding issued to the Congress in August 1966, we concluded that the DSA, in its desire to maintain good relationships with the military services, had not adequately evaluated the reasons of the Navy and the Air Force for refusal to accept the Army beds as substitutes.

We proposed, and the Department of Defense concurred, that refusals by the military services to accept substitute items of a nonmilitary type be supported by written justification in instances where significant savings can be realized and that the Defense Supply Agency document the basis for its decisions to acquiesce to the refusals.

228. Utilization of materials-handling equipment.—We found that, on the basis of prescribed

criteria for retention of forklift trucks, warehouse tractors, and commercial-design trucks, each of three Marine Corps installations we reviewed had excess quantities on hand. The excess equipment represented a value of about $1.6 million. Assuming our findings to be representative, the total excess equipment of this type in the Marine Corps could be as much as $5 million.

In a report issued to the Congress in September 1966, we expressed the belief that there was adequate policy guidance for the proper assignment and use of the equipment but that this area of responsibility was not given the attention it warranted. Management officials at both the installation and headquarters levels either failed to evaluate properly the need for the equipment on hand or failed to act when the rates of utilization, shown in periodic management reports on the equipment, did not justify retention of the quantities on hand.

The Navy concurred, with certain reservations, in our findings and advised us that the Marine Corps instructions that existed at the time of our review had been revised. The Marine Corps made certain improvements in its procedures for identifying excess equipment and emphasized to appropriate personnel the necessity for complying with existing instructions.

229. Aircraft engines used in ground training programs--We made a follow-up review of management by the Air Force of aircraft engines used in its ground training programs in order to evaluate the effectiveness of actions taken to correct the deficiencies we had found and reported to the Congress in November 1962. The earlier review had disclosed that the Air Training Command was using engines that were needed by other commands for operational use, although older-series engines were available and suitable for ground training purposes.

We found in our follow-up review, as stated in our report issued to the Congress in September 1966, that the Air Force had made significant improvements. However, available substitute engines were still not being used to the maximum extent to release engines needed by other commands. We identified specific instances of this which resulted in the release of 31 engines, valued at about $3 million, for use by other commands.

The Air Force stated that our follow-up review had generated a revitalization of its management procedures and that, in addition, the Air Force Inspector General would include in his inspections the matter of control and utilization of aircraft engines by the technical training centers.

230. Unutilized items received with or furnished on major items of equipment--In a report issued to the Congress in October 1966, we stated that the Army had procured more ground handling wheel assemblies for the UH-1 helicopter than were needed to support its planned inventory of the helicopters. This occurred because using units were not required to report on those major items of equipment furnished them which were not being used because they were unnecessary or oversophisticated or were received in quantities greater than needed. As a result of our review, action was taken to establish more realistic requirements for these assemblies. Procurement orders for 117 assemblies ($43,700) were canceled and the possible future procurement of an additional 4,800 assemblies ($2.1 million) was averted.

In response to our proposal, the Army has established procedures requiring using units to report to higher authority when items received with or furnished on major items of equipment are unutilized because they are unnecessary or oversophisticated or when they are received in quantities greater than needed.

231. Alternative use of excess stock of cotton duck cloth and webbing--As of March 1966 the Defense Personnel Support Center had on hand about $15.7 million worth of cotton duck cloth and webbing which was excess to the needs of the Department of Defense. We found that an economical alternative use could have been made of this stock. Substantial portions of the stock could have been used by the Army as Government-furnished material under various contracts for production of covers for vehicles. This would have resulted in savings of about $4.6 million.

In our report issued to the Department of Defense in September 1966, we pointed out that the Army had refused to use any of the stock as Government-furnished material under a given contract unless the Support Center could supply full quantities, and in the widths desired, of all the duck cloth or webbing required under the contract. Following our discussion of this matter with Army officials, they agreed to furnish periodically to the Support Center forecasts of their requirements for duck cloth and webbing and to use the excess stocks whenever possible.

In December 1966 the Department of Defense advised us that, after our review, substantial quantities of duck cloth and webbing had been issued and that there was no longer any excess stock of this material on hand.

232. Retention of fuel oil on inactive ships--We reported to the Secretary of Defense our finding that about 70 million gallons of fuel oil was being retained on ships assigned to the Atlantic and Pacific Reserve Fleets. The fuel oil was being retained for use in the event of reactivation even though fuel oil was readily available from nearby Navy or commercial sources. In response to our report, the Navy revised its policy to provide that fuel oil not required for ballast be removed from ships prior to or at the time the ships were inactivated.

233. Use and pricing of nonperishable foods--On the basis of our review of certain nonperishable food items used by the military services for feeding of troops and for sale to commissary stores, we estimated that about $2 million could have been saved in fiscal year 1964 (a) had maximum use been made of foods packaged in large-size, more economical containers and (b) had foods sold to commissary stores been priced at actual cost.

In a report issued to the Congress in November 1966, we stated that the Department of Defense had agreed with our proposal that a program be established for the periodic review of food items used by the military departments to identify and correct uneconomical practices.

234. War reserve stocks of items readily available from commercial sources--The requirements of the Army and Navy for war reserve stocks of packaged petroleum products were estimated at about $22 million as of March 1966. We found that the petroleum industry was in position to meet a large portion of these requirements on a timely basis in the event of an emergency and that the war reserve stocks on hand could, therefore, be correspondingly reduced.

In a report issued to the Department of Defense in April 1967, we recommended that a study be made to determine the ability of the petroleum industry to deliver packaged petroleum products in suitable containers when and where needed in the event of an emergency and that the war reserve stocks be reduced accordingly. We recommended also that consideration be given to other supplies where the war reserve stocks could be similarly reduced. The Department of Defense concurred in these recommendations.

235. Periodic reviews of motor pool operations to ensure economic operation--During our review of administrative activities of the United States Embassy and a selected consulate in the United Kingdom, we estimated that savings of about $10,000 would result if the Embassy reduced its motor pool operations to the minimum level of chauffeurs and vehicles required to provide its transportation needs. After bringing this matter to the attention of Embassy officials, we were advised that certain reductions in the motor pool operation would be made.

Our review of vehicle utilization for a 12-day period, including 7 days which we were advised represented "peak" periods, disclosed that on 8 of the 12 days a maximum of 9 vehicles were being used at any one time. On the other 4 days there were only 9 hours when more than 9 vehicles were being used at any one time and at no time were more than 12 vehicles required. We noted further, that there was only limited utilization and consequently little need of vehicles during the period between 7:00 p.m. and 1:00 a.m. Because the purpose of the trips made by motor pool vehicles was not shown on the vehicle trip reports, we were unable to evaluate the

need for the trips. We therefore included all trips made by the motor pool vehicles in our test.

At the time of our review, there were 16 chauffeurs and 16 passenger vehicles assigned to the Embassy's motor pool operation. The work schedule provided that 14 of the 16 chauffeurs were on duty for various shifts between 7 a.m. and 7 p.m. and that the two other chauffeurs were on duty between 5:00 p.m. and 1:00 a.m.

We discussed the results of our review with Embassy officials and suggested that the Embassy's needs could be met by revising the motor pool schedule to provide a maximum of nine vehicles during normal working hours and by curtailing the motor pool operations after 9 p.m., which would permit a reduction in the number of chauffeurs and vehicles. The Embassy, after a thorough and searching review of the motor pool operation, advised us that the complement of chauffeurs would be reduced from 16 to 13 and that a commensurate reduction would be made in the number of vehicles. These reductions should result in annual savings of about $7,500.

236. Use of high-endurance vessels--We reported to the Congress in January 1965 our belief that the Coast Guard did not consider actual operational data in developing its plans for replacing 22 high-endurance vessels assigned to the eastern area and that, on the basis of our review of operating experience of the existing fleet of high-endurance vessels, the stated requirements for these vessesl could be reduced. We recommended that the Commandant of the Coast Guard reexamine the planned replacement program and consider reducing proposed acquisitions so that they would conform more closely to needs, as indicated by actual vessel utilization data and current operating standards.

After reexamining the need for maintaining a high-endurance vessel on standby for search and rescue in the area of Bermuda (a segment of the eastern area), the Coast Guard discontinued high-endurance vessel operations there in August 1966. The equivalent of two ship-years annually was previously used in accomplishing the search and rescue mission at Bermuda; therefore, by discontinuing vessel operations there, the Coast Guard reduced its requirement for high-endurance vessels for search and rescue in the eastern area by two vessels. The time previously spent on the Bermuda mission is now being devoted to oceanographic research, thereby enabling the Coast Guard to meet certain of its oceanographic requirements without requesting funds for additional vessels and related operating expenses.

We estimate that the Coast Guard's action resulted in annual savings in operating costs of about $2.4 million and a reduction in future replacement costs of about $30 million.

237. Use of electrical accounting machine equipment--In our review of the utilization of electrical accounting machine (EAM) equipment which was being rented by the United States Civil Service Commission for certain data processing operations, we noted that the Commission could achieve economies in the cost of equipment rentals if it availed itself of the opportunity to release to the manufacturer certain rented EAM equipment which had become excess to the Commission's operating needs. Our views on this matter were presented to responsible officials of the Commission who then took appropriate action to discontinue the rental of certain EAM equipment. This resulted in savings in equipment rentals of $12,540 annually.

To achieve economical utilization of rented EAM equipment, we suggested that the Commission emphasize the importance of timely determinations as to whether rented equipment is excess to current operating needs, so that such equipment may be returned to the manufacturer at the earliest practicable date.

In December 1966 the Executive Director of the Commission stated that the delays that were encountered between the identification of potential surplus equipment and the actual disposition of such equipment had resulted from the uncertainties of the Commission's data processing workloads. He noted that action was taken as soon as the Commission could proceed with confidence to dispose of the excess equipment.

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238. Utilization of interagency motor pool vehicles--We found that the number of Government-owned and leased vehicles on hand in the Cape Kennedy area at the time a motor pool was established there substantially exceeded the number needed because (a) the National Aeronautics and Space Administration (NASA) renewed certain long-term vehicle lease contracts with a commercial leasing firm, although substantial economies could have been achieved by obtaining transportation support from the General Services Administration (GSA) and (b) GSA, about 2 years before the expiration of the leases and without a proper determination as to whether the leases could be terminated without penalty to the Government, established the motor pool at Cape Kennedy and purchased additional vehicles to provide transportation support. After the pool was established, the number of vehicles assigned to NASA by the Cape Kennedy Motor Pool continued to substantially exceed the number of vehicles required to efficiently and economically satisfy automotive needs.

Before our review was completed, actions were taken by GSA and NASA to reduce the number of unnecessary vehicles. Further, as a result of our recommendation, GSA revised its nationwide rate structure for sedans and station wagons rented from interagency motor pools by customer agencies. The new rates are designed to discourage agencies from requesting cars on a full-time basis when there will be only a low utilization of such cars.

239. Disposal of Government-owned facilities--The Virgin Islands Corporation entered into an agreement on May 28, 1965, for the sale of its electric power and salt water distillation facilities to the Government of the Virgin Islands for $6.5 million, the amount at which the facilities had been appraised by a private engineering firm employed by the General Services Administration. The price was later adjusted to $7.3 million to reflect changes in plant investment and current assets between the appraisal cutoff date and the transfer date.

In a report submitted to the Congress on March 2, 1966, we stated that, in our opinion, this sale was an unauthorized disposal of corporate assets because section 4(f) of the Virgin Islands Corporation Act, which authorizes the Corporation to acquire and dispose of property in the ordinary and normal course of conducting its business affairs, could not be considered as authority for the Corporation to sell assets when the sale resulted in the termination of an authorized corporate activity. Subsequently, the Corporation requested the General Services Administration to attempt to accomplish the sale of the water and power facilities under the provisions of the Federal Property and Administrative Services Act of 1949, as amended. The Governor of the Virgin Islands and the General Services Administration renegotiated the original sales price on the basis of comments by our Office and the Chairman of the Government Activities Subcommittee, House Committee on Government Operations, concerning the reasonableness of the appraisal of the facilities at an estimated fair market value of $6.5 million.

On January 26, 1967, the General Services Administration agreed to sell the facilities to the Government of the Virgin Islands for $9.5 million, or about $2.2 million more than the original transfer price. In view of the reconveyance of the facilities to the Government of the Virgin Islands in accordance with provisions of the Federal Property and Administrative Services Act of 1949, as amended, we reported in February 1967, that we believed the sale now had legal authority.

TRANSPORTATION ACTIVITIES

TRAFFIC MANAGEMENT POLICIES AND PROCEDURES

240. Utilization of space available on administrative military aircraft--In a report issued to the Congress in September 1966, we pointed out that substantial savings in air travel costs could be realized through more stringent control of travel authorizations by making maximum use of available passenger space in military aircraft maintained for mission-support service at Air Force installations. The Air Force agreed and issued a letter to its major commands outlining the policies to be observed in use of space available.

241. Overseas volume movements of household goods--In March 1967, we released a report to the Congress concerning volume movements of household goods from overseas points to the continental United States. Our review of three such movements showed that the Department of Defense (DOD) could have saved about $225,000 in transportation and storage costs by using more accurate cost data as a basis for negotiating lower volume rates with the forwarders, or by procuring the underlying services directly.

We brought our findings to the attention of the Secretary of Defense and made several recommendations which we felt would substantially reduce the Department's cost of transporting household goods. The actions proposed by DOD in response to our recommendations should substantially reduce the overall cost of transporting household goods in volume lots. Subsequent discussions with officials of the Department indicate that these actions are being actively pursued.

242. Air transportation of dependent children of Department of Defense personnel-- In April 1967, we issued a report to the Congress regarding the use of air service for the transportation of dependent children of DOD personnel between the continental United States and overseas areas. The report shows that nearly $300,000 could have been saved during a 19-month period ending September 1965. We proposed that DOD regulations be revised to ensure that Government Transportation Requests would be issued in such a manner to utilize regular commercial children's fares instead of fares published in special military tariffs for air transportation of DOD personnel.

We brought our findings to the attention of the Secretary of Defense in November 1966 and made proposals for improving the administration of air transportation for dependent children. The Director for Transportation and Warehousing Policy, Office of the Assistant Secretary of Defense (Installations and Logistics) replied in January 1967 and advised us that the Department of Defense had concurred generally with our conclusions and recommendations, had initiated actions to comply with our proposals, and would revise its regulations accordingly. We plan to review the revised regulations when issued.

243. Accessorial charges for overseas household goods shipments--In June 1967 we issued a report to the Congress concerning a review of charges for accessorial services on overseas household goods shipments. We identified savings of about $165,000 that DOD could have realized in appliance-servicing costs and storage-in-transit costs during the 12-month period ended February 28, 1965. We recommended that adequate controls be established to preclude payment for these services which were either not authorized or not performed. The action proposed by the Department in response to our recommendations would strengthen controls to ensure that DOD pays only for the accessorial services it actually authorizes and receives on overseas household goods shipments. Regulations incorporating the new procedures became effective in July 1967.

244. Shipments of supplies to hospitals and stations--In our letter report to the Director of Supply Service, Department of Medicine and Surgery, Veterans Administration, issued in June 1967, we pointed out potential savings in freight costs on shipments of supplies to hospitals and stations when the depot utilized the services of both rail and motor carriers to effect delivery of supplies. These savings were not being realized because the depot's cost estimates for rail freight service did not consider the cost of drayage from railhead to consignee's receiving dock at destination as a part of the aggregate shipping cost subject to payment by the Government.

We also pointed out instances of shipments made direct to Public Health Service hospitals, which might have been consolidated with truckload shipments to VA hospitals in the same locale, with a reduction in applicable freight costs.

We were later informed by an agency official that drayage costs were being applied for the purpose of making rail and motor rate comparisons to determine the most economical method of delivery to the stations' receiving docks. We were advised that shipments to VA and PHS installations being consolidated and stop-off privileges were being applied when practical.

245. Shipments subject to special Government rates--During Fiscal Year, 1967, we issued three letter reports to the Commander, Military Traffic Management and Terminal Service (MTMTS), concerning savings of about $100,000 which could have been realized had a number of shipments of Government freight been moved subject to lower rates offered by certain carriers. The large volume of repetitive shipments involved had either been improperly routed or been moved prior to the effective dates of the lower rates, and were therefore not eligible for the lower rates.

We pointed out that improper routing of shipments was a continuing traffic management problem and resulted in the payment of excess transportation charges. We suggested that all MTMTS routing organizations be alerted to the importance of proper routing. We also suggested that, if the lower rates available had been intended to cover the shipments reported, the carriers might agree in negotiation to retroactive application of lower rates.

MTMTS officials agreed with our suggestions and took immediate steps to negotiate with the carriers. Their negotiations were successful and resulted in the recovery of about $79,500 from the carriers and, in addition, precluded payment of about $19,500 in potential claims against the Government.

246. Shipments of processed commodities--In May 1967, we advised the Administrator, Agricultural Stabilization and Conservation Service, Department of Agriculture, of possible savings in transportation costs through more effective scheduling and routing of shipments and through modification of other operating practices relating to transportation activities of the Minneapolis Commodity Office.

Our review showed that savings in transportation costs could be realized by: (a) utilizing improved transportation equipment, (b) loading cars to capacity to take advantage of incentive rate provisions of tariffs, (c) improving coordination of purchasing activities with traffic management functions, (d) establishing a management review system for continuous evaluation of traffic decisions made by routing technicians, (e) establishing procedures to ensure that routing technicians are informed of rate reductions, and (f) improving other traffic management practices.

Officials of the Minneapolis Commodity Office generally agreed with our findings and took action to improve their traffic operations.

COMMUNICATIONS SERVICES

247. Use of Federal Telecommunications System--In our review of activities at the Government-owned National Center for Atmospheric Research, Boulder, Colorado--operated by a private nonprofit corporation under a cost-reimbursement contract with the National Science Foundation--we noted that the Federal Telecommunications System (FTS) was not being utilized at the Center, although it was economically feasible to use FTS for long-distance telephone calls.

Although the Foundation and the contractor had considered using FTS as early as February 1965, and General Services Administration (GSA) approval had been received, the FTS was not installed because of a faulty cost analysis which indicated that FTS was not economical for use at the Center. Our review indicated, however, that FTS service would be less expensive.

As a result of our inquiries, the Foundation initiated steps to have FTS installed. In June 1967 the Foundation informed us that it was being installed and that GSA had estimated that annual savings would amount to about $26,200. The contractor estimated additional annual savings of about $2,200 in equipment costs. Since the contract for operation of the Center had about 4 years to run, the savings to the Government over the remaining life of the contract could amount to about $115,600.

USER CHARGES

248. Establishment of fees for furnishing abstracts of medical records and related services--The Public Health Service (PHS), Department of Health, Education, and Welfare, had furnished to private individuals and organizations without charge abstracts of medical records of patients who received care and treatment at PHS medical facilities. Related services, such as furnishing photocopies of medical records, certifying abstracts, and searching medical history files, also were performed without charge. These services appeared to be within the intent of legislation enacted in 1951 (5 U.S.C. 140) which states that an agency should charge a fair and equitable fee for providing services to any person who derives a special benefit therefrom. We estimated that PHS, by establishing a fee for furnishing medical abstracts comparable to the fee charged by another hospital under the Department's jurisdiction, would have received about $100,000 annually.

The Department concurred in our finding and initiated a study to develop criteria for making charges and determining costs incurred. The resulting regulations and fee schedule were published in the Federal Register on May 4, 1967, establishing a Service-wide policy, effective June 1, 1967, on charging fees for medical abstracts and related services.

249. Proposed criteria and contracts for uranium enrichment services--At the request of the Joint Committee on Atomic Energy, we reviewed the proposed criteria and contracts for uranium enrichment services by the Atomic Energy Commission (AEC). Our report, submitted to the Committee in August 1966, contained for the Committee's consideration our observations on (a) the AEC policy applicable to certain fixed costs relating to excess plant capacity, (b) the potential for accommodating future changes in AEC policy by contract amendments, (c) the financial consequences to AEC in the event of cancellation of contracts by customers, and (d) the limitations on AEC for entering into contract commitments for uranium enrichment services in excess of its present productive capability.

These matters were discussed at hearings held by the Joint Committee and later were the subject of correspondence between the Joint Committee and AEC. As a consequence, AEC made a number of changes designed to strengthen and improve the program.

One of the changes made by AEC, in establishing charges for uranium enrichment services related to the inclusion of additional costs of depreciation and interest on investment amounting to an estimated $42 million. AEC also revised its proposed contract for toll

enriching services (a) to permit AEC to initiate negotiations for amendments or revisions to restrictive provisions in the contracts and (b) to increase from 3 to 3-1/2 years the contract termination notice period to provide better assurance that no costs will accrue to the Government for any electric power cancellation caused by customer contract terminations. Finally, AEC agreed to establish mechanisms for recording and for reporting annually to the Joint Committee as to its commitments and available capability to meet such commitments.

OTHER AREAS OF OPERATIONS

250. Administration and enforcement of reporting and bonding provisions of law--We submitted a report to the Congress in March 1967 on our review of the effectiveness of the policies and procedures of the Department of Labor with respect to the administration and enforcement of certain reporting and bonding provisions of the Welfare and Pension Plans Disclosure Act and the Labor-Management Reporting and Disclosure Act of 1959. We stated that specific improvements were needed to:

a. Develop and maintain up-to-date lists of entities on which reporting is required under the two disclosure laws.

b. Update mailing lists so that reporting entities will receive the forms necessary for reporting the information required.

c. Follow up on reports known to be delinquent.

d. Promptly incorporate into disclosure files changes in plan descriptions.

e. Make a more effective verification of reported data.

A primary objective of the two disclosure laws is to protect the interests of participants in the plans and of members of labor organizations through the public disclosure of financial and other information.

We stated also that our review showed that the Department had not required the reporting entities to report information on the nature and extent of mandatory bonding coverage so that the adequacy of bonding could be considered by the Department. Both disclosure acts require that all persons handling funds and other property covered by the acts must be bonded in certain specified minimum amounts. Information published by the Department of Labor shows that about 25,000 labor organizations and about 31,000 welfare and pension plans are subject to bonding requirements under the two laws.

In commenting on our findings, the Department informed us that, although it believed that compliance with the acts to the last detail could not reasonably be achieved, it had no major disagreement with our proposals for various corrective actions and that certain corrective actions were either being taken or to be taken. We believe that the specific corrective measures indicated by the Department, if properly implemented, should assist materially in improving administration and enforcement of the two disclosure laws.

A series of questions relative to the bonding provisions for welfare and pension plans are now included in revised reporting forms; however, we were informed that the Department lacked authority to require reporting of bonding coverages under the Labor-Management Reporting and Disclosure Act of 1959 or to make appropriate investigations of coverage under the Welfare and Pension Plans Disclosure Act.

We therefore recommended that the Secretary of Labor seek appropriate legislative authority from the Congress to require reports on bonding coverage from organizations covered under the Labor-Management Reporting and Disclosure Act of 1959 and to make site investigations of compliance with the bonding requirements set forth in the Welfare and Pension Plans Disclosure Act.

251. Administration of congressional policy on sale of telephone service--Congressional policy, as expressed in the United States Code (10 U.S.C. 2481) does not permit the military departments to sell certain utility services if the needed services are available from other local sources. We found, however, as reported to the Congress in January 1967, that the military

departments sold telephone services to a substantial number of occupants of military family housing although commercial service was available.

The Department of Defense agreed with our findings and stated that Government-operated telephone service would be sold only where commercial service was unavailable and when it was determined to be in the interest of national defense or the public interest.

252. Management of technical manuals--In a report issued in April 1967 to the Joint Committee on Printing and to the Subcommittee on Department of Defense, House Committee on Appropriations, we pointed out several opportunities for savings in the management of technical manuals within the Department of Defense. We expressed our belief that savings could be realized through (a) single management of identical joint-use manuals, (b) consideration of changes in requirements for manuals in negotiating target costs for incentive-type contracts, (c) elimination of duplicate numbering systems, (d) increased use of certified mail in lieu of registered mail to transmit manuals, and (e) improved interservice coordination.

In September 1967 the Assistant Secretary of Defense (Installations and Logistics) furnished comments to the Chairman of the Subcommittee on the matters discussed in our report. The comments indicated that the Department of Defense was generally receptive to our suggestions for achieving savings in the management of technical manuals.

253. Charges for Government-furnished transportation to and from work--Our review of administrative activities of the United States Embassy in Taiwan disclosed that the Embassy was not charging employees a sufficient amount for Government-furnished transportation to and from work. We also noted that certain of the employees receiving Government-furnished transportation had privately owned vehicles which were shipped to Taiwan at Government expense.

Beginning November 1, 1965, the Embassy established a charge of $10 a calendar quarter for furnishing to-and-from-work transportation to certain employees. A review of vehicle cost records indicated that, to provide this transportation, the Embassy incurred costs of about $46 a quarter for each employee. Departmental regulations (6 FAM 236.2, 1b) recognize that transportation to and from work is normally the responsibility of an employee and direct that each chief of mission impose a charge for such transportation, except where he determines that unusual or unique circumstances exist which justify waiving the charge. The regulations state that the average cost of transportation in the United States is 20 cents per one-way trip and that this amount should be used as a guide in establishing the amount of charge. The current charge being made to employees in Taiwan amounts to less than 10 cents per one-way trip and less than 5 cents if the employee makes 4 one-way trips a day.

In July 1965, our Office reported to the Congress on certain disparities existing in the transportation furnished overseas personnel to and from work at Government expense. We stated that the practice of providing free transportation to and from work to employees on a worldwide basis was resulting in substantial unrecovered costs to the United States Government. We stated also that a number of persons at the posts we visited were receiving free Government-furnished transportation to and from work daily even though their privately owned vehicles had been transported to their posts at Government expense. In commenting on this report, the Department informed us that it planned to levy a charge for to-and-from-work transportation except in unusual and unique circumstances.

It was our view that the Embassy in Taiwan was not charging employees a sufficient amount for Government-furnished transportation to and from work. Existing departmental regulations appeared to provide appropriate guidance for determining an adequate charge for transportation services. Therefore, we recommend that the Embassy increase to at least 20 cents per one-way trip the charge for transportation services being provided to Embassy employees in Taiwan.

The Department, in commenting on our report, informed us that the Embassy was increasing the charge from $10 a quarter to $5 a month.

SUMMARY OF FINANCIAL SAVINGS ATTRIBUTABLE TO THE WORK OF THE GENERAL ACCOUNTING OFFICE IDENTIFIED DURING FISCAL YEAR 1967

COLLECTIONS AND OTHER MEASURABLE SAVINGS

000 omitted

	Collections	Other measurable savings	Total
DEPARTMENTS			
Army	$ 1,482	$ 10,526	$ 12,008
Navy	2,031	12,471	14,502
Air Force	751	20,684	21,435
Defense	1,237	21,559	22,796
Agriculture	38	2,263	2,301
Army Corps of Engineers (civil functions)	-	10	10
Commerce	7	638	645
Health, Education, and Welfare	722	1,132	1,854
Housing and Urban Development	-	411	411
Interior	15	3,370	3,385
Justice	1	-	1
Labor	-	563	563
Post Office	1	83	84
State (including AID, Peace Corps, and USIA)	21	3,253	3,274
Transportation	230	36,850	37,080
Treasury	9	10,019	10,028
AGENCIES			
Atomic Energy Commission	30	42,194	42,224
Civil Service Commission	2	15	17
District of Columbia Government	1	31	32
General Services Administration	-	212	212
National Aeronautics and Space Administration	10	318	328
National Science Foundation	1	39	40
Panama Canal Company	113	27	140
Railroad Retirement Board	39	-	39
Veterans Administration	85	36	121
Legislative and other	2	25	27
Total for audit of departments and agencies	6,828	166,729	173,557
Transportation audit	12,963	-	12,963
General claims work	3,627	-	3,627
Total	$23,418	$166,729	$190,147

DETAILS OF OTHER MEASURABLE SAVINGS

Details of other measurable financial savings including additional revenues attributable to the audit work of the General Accounting Office during the fiscal year 1967, totaling $166,729,000, are listed below. Approximately $21 million of the savings or additional revenues are recurring in nature and will continue in future years. The items listed consist 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 in operating costs (estimated annual savings, $2,400,000) and reduction in replacement costs (nonrecurring, $30,000,000) resulting from Coast Guard's reduction of its stated requirements for high-endurance vessels	$ 32,400,000
Cancellation of plans to procure equipment in excess of needs (nonrecurring)	16,403,000
Excess ammunition recovered from military assistance program countries to satisfy other United States needs (nonrecurring)	14,884,000
Cancellation of requisitions for unneeded "Hi-Valu" aeronautical parts (nonrecurring)	8,077,000
Redistribution of unneeded aeronautical material on hand overseas to locations at which needed (nonrecurring)	5,273,000
Return of excess spare parts and support equipment from the Korean Air Force to United States control for redistribution or disposal (nonrecurring)	3,000,000
Avoidance of procurement through reinstating excess or obsolete stocks (nonrecurring)	2,196,000
Avoidance of procurement through reduction of requirements and redistribution of inventories (nonrecurring)	2,100,000
Avoidance of procurement through interservice transfer of items urgently required (nonrecurring)	1,900,000
Avoidance of procurement by furnishing Government-owned items to contractors (nonrecurring)	1,791,000
Avoidance of procurement through discovery of available items (nonrecurring)	1,623,000
Adjustment of prices under existing contracts or proposed amendments (nonrecurring)	1,483,000
Cancellation of plans to procure or repair unneeded electronic equipment (nonrecurring)	984,000
Procurement of less expensive items than planned (nonrecurring)	728,000
Return of excess spare parts and supplies from the Greek Air Force to United States control for redistribution (nonrecurring)	579,000
Savings on recomputation of erroneous profit rate in a contract (nonrecurring)	388,000

Action taken or planned	Estimated savings
Supply Management--Continued:	
Savings from use of excess hardware resulting in cancellation of purchase requisitions by Government contractor--National Aeronautics and Space Administration (nonrecurring)	$ 318,000
Cancellation of outstanding requisitions for spare parts and support equipment not needed to support the military assistance program for the Korean Air Force (nonrecurring)	314,000
Savings through recovery of items previously planned for disposal (nonrecurring)	254,000
Savings realized from transferring material excess to Federal Aviation Administration requirements to Department of Defense (nonrecurring)	253,000
Cancellation of outstanding requisitions for spare parts which were not needed to support the military assistance program for the Turkish Air Force (nonrecurring)	227,000
Avoidance of procurement through reworking of old items (nonrecurring)	183,000
Savings resulting from returning to active inventory certain items prematurely scheduled for disposal--General Services Administration (nonrecurring)	148,000
Savings through use of Government vehicles instead of the contractors' vehicles (nonrecurring)	114,000
Cancellation of outstanding requisitions for spare parts which were not needed to support the military assistance program for the Greek Air Force (nonrecurring)	88,000
Savings resulting from purchasing aviation gasoline through centralized Government procurement sources--Agriculture (estimated annual savings)	86,000
Savings through competitive procurement of certain small office machines --Post Office Department (estimated annual savings)	83,000
Savings through use of old configuration of an item instead of repairing new configuration (nonrecurring)	64,000
Cancellation of unnecessary procurements of mess trays--General Services Administration (nonrecurring)	42,000
Reduction in procurement of supplies and reduced operating costs due to increased utilization of radio program recording tapes (estimated annual savings)	3,000
Other items--various agencies (estimated annual savings, $31,000; nonrecurring, $52,000)	83,000
Payments to Government Employees, Veterans, and Other Individuals:	
Savings resulting from termination of benefit payments to widow beneficiaries who remarried--various agencies (estimated annual savings)	$ 66,000
Reduction in the rate of premium compensation paid to fire protection personnel--Veterans Administration (estimated annual savings)	12,000
Other items--various agencies (estimated annual savings, $3,000; nonrecurring, $4,000)	7,000
Loans, Contributions, and Grants:	
Reduction of grants awarded to institutions of higher education as a result of amending grant agreements to conform with the provisions of approved State plans--Health, Education, and Welfare (nonrecurring)	412,000
Reduction in noncash grant-in-aid credit for a public school--Housing and Urban Development (nonrecurring)	300,000
Reduction of grants as a result of adjustments for ineligible items included in development cost--Health, Education, and Welfare (nonrecurring)	273,000
Reduction in Federal financial participation in the cost of administering federally assisted public assistance programs--Health, Education, and Welfare (nonrecurring)	215,000
Withdrawal of a claim for noncash grant-in-aid credit for an ineligible fire station--Housing and Urban Development (nonrecurring)	100,000
Utilization of computer services which grantee had paid for but had not planned to use--Health, Education, and Welfare (nonrecurring)	38,000
Reduction in Federal participation in the cost of certain land to be used for a Federal-aid highway and a State park--Transportation (nonrecurring)	37,000
Other items--various agencies (nonrecurring)	24,000
Interest Cost:	
Changes in the Internal Revenue Code requiring self-employed individuals to pay estimated self-employment taxes on a quarterly basis rather than on an annual basis thereby making funds available to the Government at an earlier date and with resultant savings in interest cost on Government borrowings--Treasury (estimated annual savings, $5 million to $31 million)	5,000,000
Savings in interest costs resulting from changes in the Internal Revenue Code establishing an interest-free processing period for making refunds to taxpayers who delay filing their return under granted extensions of time--Treasury (estimated annual savings)	5,000,000
Reduction in interest cost to the Government by deferring United States Treasury borrowings until funds are needed for disbursement--Agriculture (estimated annual savings)	548,000

Action taken or planned	Estimated savings
Interest Cost--Continued:	
Savings in interest costs resulting from revised procedures for advancing Government funds to Maritime Administration general agents (estimated annual savings)	$ 239,000
Imputed interest savings to the Government as a result of preventing a 1-year delay in starting the repayment of an interest-free Federal loan--Interior (nonrecurring)	202,000
Interest savings to the Government because of establishment of criteria resulting in disapproval of a small reclamation loan--Interior (estimated annual savings)	121,000
Savings in interest charges realized by liquidating debt--District of Columbia Stadium (nonrecurring)	31,000
Leasing and Rental Costs:	
Savings through purchasing rather than leasing certain office copiers--Atomic Energy Commission (estimated annual savings)	81,000
Savings through utilization of a reduced-rate leasing plan for office copying machines--Commerce (estimated annual savings)	72,000
Savings resulting from terminating contract for unnecessary equipment--Transportation (nonrecurring)	65,000
Savings resulting from other Government agencies terminating more costly leases and utilizing space excess to Federal Aviation Administration needs (estimated annual savings)	36,000
Other items--various agencies (estimated annual savings)	14,000
Rental Income and Fees:	
Establishment of fees for furnishing abstracts of medical records and related services to private individuals and organizations--Health, Education, and Welfare (estimated annual savings)	100,000
Additional revenue due to changes in rental rates and utility charges for Government-owned quarters--various agencies (estimated annual savings)	99,000
Increased revenues to the Government resulting from charging airplane landing and parking fees at a Federal Aviation Administration-operated airport in Alaska (estimated annual savings)	31,000
Other items--various agencies (estimated annual savings)	19.000
Construction, Repair, and Improvement Costs:	
Savings in vessel construction costs by using Coast Guard personnel rather than commercial contractor (nonrecurring)	130,000
Savings in construction costs by using less costly material in certain Coast Guard vessels (nonrecurring)	$ 55,000
Manpower Utilization:	
Reduction of manpower required to administer military assistance program activities in a Far East country (nonrecurring)	700,000
Utilization of U.S.-owned Foreign Currency:	
Dollars rather than U.S.-owned foreign currencies were being used unnecessarily to pay United States administrative expenses in Korea. [The Agency for International Development reached agreement with the Government of Korea to make increased amounts of foreign currency available for this purpose beginning in January 1967. AID officials estimate that a savings of $3,150,000 will be realized in calendar year 1967 and that continuing savings will be realized in future years, depending on the level of United States assistance and country-to-country negotiations.]	3,150,000
Dollars rather than U.S.-owned foreign currencies were being used for annual rental payments to Poland for space at the Poznan International Fair (estimated annual savings)	100,000
Transportation:	
Savings through use of airlift service instead of airmail for overseas military mail (estimated annual savings)	1,128,000
Elimination of overseas transportation by cancellation of orders for unneeded material (nonrecurring)	204,000
Other Items:	
Additional costs to be recovered by the Federal Government from charges that included certain additional depreciation and return on investment for uranium enrichment services (review made at request of chairman, Joint Committee on Atomic Energy) (nonrecurring)	42,000,000
Savings resulting from the termination of a long-term medical research project on aging of aviation personnel--Transportation (nonrecurring)	3,800,000
Increase in price at which electric power and salt water distillation facilities owned by the Virgin Islands Corporation were sold to the Virgin Islands Government (nonrecurring)	2,391,000
Savings by averting the distribution of commodities to ineligible families removed from the rolls in the commodity distribution program--Agriculture (nonrecurring)	665,000

Action taken or planned	Estimated savings
Other Items--Continued:	
Additional proceeds resulting from revision of regulations under the wheat marketing allocation program--Agriculture (estimated annual savings)	$ 650,000
Reduction of labor costs resulting from more realistic wage rate determinations under contracts for construction of certain federally assisted housing projects--Labor (nonrecurring)	563,000
Reduction in costs through improved coordination in geodetic surveying activities within the Federal Government --Interior (estimated annual savings)	420,000
Reduction in construction-differential subsidies resulting from policy change by the Maritime Administration allowing waiver of previously required performance and payment bonds on certain ship construction contracts (estimated annual savings)	316,000
Reduction in operating costs by transfer of general purpose motor vehicle fleet into General Services Administration Interagency Motor Pool System--Interior (estimated annual savings)	233,000
Personnel savings through consolidation of supply activities in Japan (estimated annual savings)	107,000
Savings resulting from the reduction in the number of fire department employees and the consolidation of the fire and guard management staffs--Atomic Energy Commission (estimated annual savings)	106,000
Savings through cancellation of plans to convert to another type of computer (nonrecurring)	$ 91,000
Additional revenue resulting from the inclusion of by-product values in the appraisal of timber offered for sale by the Forest Service (estimated annual savings)	90,000
Savings in transportation costs by increasing the lot-size of shipments of Government-donated print butter and frozen beef to State agencies--Agriculture (nonrecurring)	85,000
Savings through revision of method of computing travel time of reserve officers (estimated annual savings)	71,000
Savings through elimination of unneeded copies of certain preinduction medical reports (estimated annual savings)	64,000
Additional billings for materials furnished under the cooperative logistics programs (nonrecurring)	52,000
Additional revenue from revised log scaling procedures which will more accurately determine and record the volume of national forest timber sold--Agriculture (estimated annual savings)	45,000
Savings attainable by use of Federal Telecommunications System rather than commercial telephone service--National Science Foundation (estimated annual savings)	39,000
Miscellaneous items--various agencies (estimated annual savings, $156,000; nonrecurring, $107,000)	$ 263,000
Total other measurable savings	$166,729,000

ADDITIONAL FINANCIAL BENEFITS 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 1967 are described below.

CHANGES IN AGENCY POLICIES, PROCEDURES, AND PRACTICES

Utilization of Available Stocks of the United States Army in Europe for Requirements of Other Commands

Our report to the Congress in April 1967 disclosed that repair parts and electronic components which exceeded requirements in Europe were not redistributed to meet urgent needs in other areas because of weaknesses in the Army's inventory reporting procedures and practices. Our limited review identified combat vehicle repair parts and electronic components valued at about $3.2 million, that could have been used to satisfy urgent requirements in the United States and in the Pacific area. The availability of these items, however, had not been reported to the appropriate inventory control points in the United States and, in the absence of such information, procurements and repair programs were initiated and redistribution of the available stocks was not made to meet known requirements. After these items were called to the attention of management officials, the repair parts and components valued at $3.2 million were either transferred to other commands or scheduled for redistribution subsequent to our review. Also, some repair programs were canceled and procurements deferred. The action taken resulted in significant, though not readily measurable, savings.

We recommended that the Secretary of Defense require that the Army's existing stock status reporting system be revised to include a requirement for periodic reporting to national inventory control points of all inventory stocks of items considered to be in short supply by such inventory control points, which exceed current overseas operating and reserve requirements.

By letter dated June 16, 1967, from the Assistant Secretary of Defense (Installations and Logistics) we were informed that the Department of Defense concurred in our recommendation. In addition, we were informed that the Department is invoking a system wherein overseas depot assets will be incorporated in their entirety on the records of the inventory manager. Managers at inventory control points will then have current and complete information on all levels of stocks and would be in a position to make an appropriate choice between available alternatives such as procurement, rebuild, or redistribution of stocks to fill requirements expeditiously. Thus, substantial savings can be achieved through the utilization of available stocks instead of having to procure or rebuild items to fill requirements.

Savings by Consolidation of Field Organizations and Facilities for Recruiting Military Personnel

We reported to the Congress in June 1966 that the four military services were maintaining separate recruiting organizations and facilities substantially in excess of their combined needs. In this connection, we expressed the belief that if these separate organizations and facilities were consolidated millions of dollars could be saved annually and the effectiveness of the recruiting mission would be improved.

In a draft of our report which we submitted to the Department of Defense for comments on December 16, 1965, we proposed that the Secretary of Defense direct that a field test of consolidation of military recruiting organizations be conducted. By letter dated February 28, 1966, the Assistant Secretary of Defense (Manpower) advised that a Defense-wide study had been initiated of recruitment facilities in all locations in which the military services have recruiting offices in separate locations. The study was to aid the Department in developing a plan for relocating recruiting offices in the same building and, where practicable, in the same area within the building.

During fiscal year 1967, the Department of Defense, with the Chief of Engineers acting as executive agent, issued procedures and implementing instructions to co-locate recruiting offices and main stations in 14 large metropolitan areas. In this connection, it is planned that the number of locations will be reduced from 524 to 198 and the number of offices from 722 to 699. This action should result in significant savings although the amount of the savings is not readily determinable.

Savings in the Procurement of Periodicals by the Military Departments

In our review of the policies, procedures, and practices relating to procurement of periodicals by the military departments, we found that periodicals were generally being procured by each department on an annual rather than a multiple-year basis and the departments were not taking full advantage of cost savings in multiple-year procurement of periodicals. In most cases, periodicals were subscribed to for 1-year periods, principally because the departments did not make sufficient funds available to obtain multiple-year subscriptions.

The Army and the Navy used local purchase procedures in procuring periodicals, whereas the Air Force used a centralized procurement method, filling most of its periodical needs through contracts with subscription agencies. It was not feasible to estimate the effect of procuring periodicals annually, Defense-wide, because of the procurement methods used by the Army and the Navy. However, we estimated that the Air Force could have saved $127,000 over a 3-year period for periodicals subscribed to in calendar year 1964 had it obtained subscriptions to those periodicals for multiple-year periods rather than for 1-year periods.

We recommended to the Secretary of Defense in our report of November 9, 1966, (1) that budgets be submitted and funds be allocated for multiple-year subscriptions; and (2) that Defense-wide instructions be issued, emphasizing the need for the departments to procure periodicals under multiple-year subscriptions in those instances where it is advantageous to the Government.

We were informed by letter dated January 13, 1967, from the office of the Assistant Secretary of Defense that the military departments and the Defense Supply Agency were being requested to emphasize to their personnel

engaged in requesting, budgeting, and procuring periodicals, the desirability of funding and purchasing multiple-year subscriptions where there is a continuing need and it is otherwise advantageous. Letter instructions dated January 24, 1967, were also issued by Headquarters, Air Force Logistics Command, to various Air Force organizations and activities directing that multiple-year subscriptions for periodicals be procured where possible and practicable, and that additional fund requirements be included in the fiscal year 1968 financial plan to cover multiple-year subscription costs. The actions should result in substantial future savings.

Increase in Internal Audit and Inspections Relating to United States Activities in Vietnam

Our survey of the internal audit and management inspection efforts by United States agencies in Vietnam through March 1966 showed a need for greater audit and review effort by agencies because of the magnitude and vulnerability to operational and management deficiencies of United States programs in Vietnam.

In May 1967 we reported to the Congress that there had been significant increases in the number and scope of internal audits and management inspections in Vietnam subsequent to March 1966. Improved programs of audit have been initiated and put into effect and the DOD has revised their prior prohibition against their own auditors going into Vietnam.

These actions result in major preventive benefits and dollar savings, although the latter are not measurable in specific dollar terms. The agencies' audit efforts increase the potential for significant continued improvement in the management controls which are so important at this stage of the activities in Vietnam.

We believe that the momentum of the agencies' audit and inspection efforts, described above, represent major improvement action and was achieved in part because of our work resulting in reports to the Congress in July 1966 and May 1967.

Elimination of Certain Severance Benefits to Former Foreign Service Officers

In a report to the Congress in January 1967, we presented our finding that Foreign Service officers who were involuntarily separated from service and accordingly received certain severance benefits were immediately thereafter reemployed by the Federal Government at salaries equal to their salary at the time of separation. The severance benefits are equivalent to 1 month's salary for each year of service, not to exceed 1-year's salary. In our opinion, the payment of severance benefits under such circumstances was unreasonable.

As a result of our review, the Department of State revised its regulations in such manner as to preclude former Foreign Service officers reemployed with the Department from receiving concurrent payment of severance benefits and salaries.

Increased Tax and Duty Revenues

In a report to the Congress in November 1966, we pointed out that, on the basis of our test of Federal tax refunds, a high percentage of taxpayers were not voluntarily reporting, as taxable income, interest received on their tax refunds. The extent of such nonreporting could not be reasonably estimated by us because of our limited access to records. Considering the amount of interest paid by the Internal Revenue Service annually--$88.5 million in fiscal year 1964--we expressed our belief that considerable taxable income had not been reported. In accordance with our proposals, IRS informed us that certain corrective measures were being taken which we believe, if effectively implemented, should improve the reporting of interest received on tax refunds as taxable income.

The Tariff Act of 1930, as amended, allows carpet wool to be imported duty-free when it is to be used in the manufacture of specified articles, principally floor covering. Wool waste resulting from this manufacture is subject to duty if, though usable in the manufacture of articles specified by the act, it is used instead for other purposes.

In a report to the Congress in June 1967, we stated that the Bureau of Customs, Treasury Department, allowed wool waste, resulting from manufacture of specified articles, principally floor covering, to be sold to manufacturers of other articles, such as baseballs and clothing, without assessment of duty, even though the wool waste could have been used for the manufacture of articles not subject to duty requirements. We estimated that, in the two Customs districts where we made our review, the Government could have realized additional revenues amounting to as much as $453,000 on 1.2 million pounds of carpet wool waste for fiscal year 1964. Imports of conditionally duty-free carpet wool in these two districts amounted to about one third of the 145 million pounds of wool imports for fiscal year 1964.

Subsequent to our review, the Commissioner of Customs ruled that waste from carpet wool, with certain exceptions, is dutiable. We have been informed that the Bureau of Customs is now requiring that a determination be made that wool waste is not usable in the manufacture of floor coverings or other enumerated articles before allowing it to be exempt from duty. The action taken should result in strengthened controls over the utilization and disposition of wool waste, consistent duty treatment, and additional revenues to the Government.

Improved Effort to Collect or Otherwise Settle Certain Debtors' Accounts

We reported to the Congress in January 1967 that our review of selected debtors' accounts in six counties in the State of Texas showed that there was a need for the Farmers Home Administration (FHA) to increase its effort to collect or otherwise settle such accounts. The accounts reviewed are known as collection-only accounts which are classified as such when all of a debtor's security property has been liquidated and the debtor still owes a balance on his loan. We estimated that of accounts totaling about $3.2 million, $274,000 could have been collected in full and some portion of accounts totaling about $948,000 could have been collected through other settlement actions. Further, we found that many accounts had no potential for recovery and therefore should have been canceled as soon as applicable regulations had permitted and thus eliminate the administrative costs of maintaining them. At the time of our review, about $18 million of a nationwide total of about $70 million of collection-only accounts were applicable to the State of Texas.

After we brought these matters to the attention of agency officials, FHA issued instructions requiring that increased effort be made to collect or otherwise settle collection-only accounts. The new instructions should, if properly implemented, result in significant benefits to the Government.

Reduction in Dependency Allowances Payable to Recipients

At the time of our review, the National Science Foundation's (NSF) dependency allowance entitlement criteria provided that a fellowship recipient could request dependency allowances for spouse and for children who would "in fact" be dependent upon him for support during the tenure of his fellowship. It was left to the fellowship recipient to determine whether the spouse or children were "in fact" dependent, except that NSF officials generally did not intend to award a dependency allowance for a spouse with an income equaling or exceeding the fellowship stipend. Our review of 55 selected fellowship awards in a given year showed that, in close to one-half of the cases, however, NSF had approved the dependency allowance claimed for the spouse notwithstanding evidence disclosed in our review indicating that the spouse's income exceeded NSF criteria.

Subsequent to our discussions with NSF officials, NSF informed us in March 1967 that it had established a maximum annual amount of $2,000, or a prorata amount for shorter or longer periods, that a spouse may earn before becoming ineligible as a dependent.. Provided that the results of our test review were indicative of all dependency allowances awarded in fiscal year 1964, about $600,000 or 40 percent of the total dependency allowances of about $1.5 million may not have been warranted on the basis of the revised criteria.

Adoption of Policy of Government Ownership Instead of Leasing Major Postal Facilities

In a report to the Congress in November 1962 and in various subsequent reports to the Congress and to the Postmaster General, we recommended that, in view of the significant savings available to the Government by ownership rather than leasing of postal facilities, the Department consider a policy of ownership except in specific cases where the cost of leasing was clearly justified by other identified factors. On several occasions in 1964, 1966, and 1967, in comments to the Senate Committee on Public Works and/or the House Committee on Post Office and Civil Service, on bills to extend the Department's 30-year leasing authority, we recommended that the Department be required to submit written justifications to the appropriate committees of the Congress before entering into any lease agreement for a major facility.

The Post Office Department had disagreed, generally, with our conclusions regarding the advantages of Government ownership over leasing. It subsequently reconsidered its position, however, and, in testimony before the Subcommittee on Buildings and Grounds, Senate Committee on Public Works, in May 1966, Department officials presented data supporting the Department's conclusion that construction of large postal facilities for Government ownership, generally, would be more economical than obtaining the use of such facilities under lease-construction contracts. At June 30, 1967, the Senate and House Public Works committees had approved the construction of 14 facilities for Government ownership, and the Congress has appropriated $50 million for starting this program during fiscal year 1968.

The General Services Administration's prospectuses for the 14 postal facilities showed that the facilities are to contain a total of about 4 million square feet of interior space and that, over the 50-year estimated lives of the facilities, substantial savings would be realized as a result of constructing 13 of the facilities for Government ownership instead of leasing them. Savings were not shown for one small facility.

Because the Post Office Department generally leases major facilities for 30-year basic terms, we computed the savings that would be achieved during a 30-year period as a result of constructing the 14 facilities for Government ownership instead of leasing them. Our computations, which were based largely on GSA's estimates of rental and construction costs, indicated that such savings would amount to about $22.3 million.

The Postmaster General recently proposed a $5 billion program for modernizing the postal plant and equipment over the next 5 years. Under this program, about 94 million square feet of new interior space would be acquired at a cost of about $3.7 billion. Officials of the Department have informed various Senate and House committees that in the future most major postal facilities will be proposed for construction under Government ownership. Thus, the future savings from the Department's change in policy could be quite substantial.

Criteria to be Established for Use of Protective Equipment

In a report to the Postmaster General in June 1967 we pointed out that there were considerable differences in the types, quantities, and costs of the safes, vaults, and other protective equipment being used by different post offices having essentially similar protection requirements. We found that safes frequently were being used inside vaults, although other less expensive types of equipment probably would provide adequate protection. We pointed out also that the Department did not have adequate criteria regarding the quantities and types of protective equipment authorized for use in post offices of different sizes and protection requirements. We expressed the opinion that, in view of a recent decision by the Department to discontinue purchasing the types of protection equipment previously considered as standard equipment and to commence a long-range program of gradual replacement of existing equipment with new, more costly types, considerable savings could be achieved throughout the postal service by determining the quantities and types of equipment needed for providing adequate protection and by utilizing the equipment found to be excess to reduce future procurements of protective equipment.

The Department concurred with our conclusions and recommendations and informed us that action had been initiated to develop, issue, and enforce specific criteria regarding the types of protective equipment to be used in post offices of different sizes, taking into consideration the costs of the equipment in relation to the risks involved and the use of existing vaults for safeguarding the Department's assets.

CHANGES IN REGULATIONS OF GOVERNMENT-WIDE SIGNIFICANCE

Armed Services Procurement Regulation

Costs of contractor operated and chartered aircraft charged to Government contracts.-- In a report submitted to the Congress in August 1966, we pointed out that the use by Government contractors of their own or chartered aircraft, in lieu of commercial air transportation, resulted in additional costs which in most cases outweighed the benefits. In response to our report, the Department of Defense on December 1, 1966, revised the Armed Services Procurement Regulation. The revision (sec. 15-205.46) provides that such costs are allowable, if reasonable, to the extent the contractor can demonstrate that use of aircraft owned, leased, or chartered by the contractor is necessary for the conduct of his business and that the increase in cost, if any, in comparison with alternative means of transportation, is commensurate with the advantage gained. (Charges to Defense Contracts for Use of Company Operated and Chartered Aircraft, Department of Defense, B-146948, August 9, 1966.)

Right to examine contractors' records relating to inventions.--We had reported to the Congress in a prior year that a basic chemical milling invention developed by a Government contractor had been classified by the contractor as not being subject to the patent rights provisions of the contract. Royalties were charged to the Government for its use. The terms of the contract were subject to varied interpretations but, in our opinion, a reasonable interpretation would have granted the Government a royalty-free license to use the invention. In response to our proposal that the matter be settled on equitable grounds, an agreement was reached which provided the Government a rebate of one-half of the royalties paid and a grant of royalty-free licenses on certain of the contractor's inventions.

We had proposed, also, that the Armed Services Procurement Regulation be revised to provide a right of access to records necessary to determine compliance by a contractor with the requirements of the patent rights clause. On October 1, 1966, the Armed Services Procurement Regulation was revised (sec. 9-107.5(a)) in response to our proposal. The revision requires inclusion, in the patent rights clause, of a statement that the contracting officer or his authorized representative shall, until the expiration of 3 years after final payment under the contract, have the right to examine any books, records, documents, and other supporting data of the contractor which the contracting officer or his authorized representative shall reasonably deem directly pertinent to the discovery or identification of subject inventions or to compliance by the contractor with the requirements of the patent rights clause. (Royalties Charged to the United States Government for Use by Government Contractors of Chemical Milling Inventions, Department of the Air Force, B-133386, April 12, 1966.)

Federal Property Management Regulations

Guidance in acquiring office copying equipment.-- We reported that excessive costs were being incurred by the Government because Federal agencies were leasing rather than purchasing office copying equipment under Federal Supply Schedule contracts negotiated by the General Services Administration. We estimated that savings of about $6.5 million would be attainable by the Government over a 5-year period after their purchase if certain office copiers in use at the time of our review were purchased rather than leased and that further substantial savings would be attainable because the productive life of the copiers might be expected to extend beyond the 5-year period. We proposed certain corrective action. In June 1967, GSA announced the publication of a new GSA handbook, FPMR 101-6, Copying Equipment. The handbook provides guidance to Government agencies on the selection and use of document copiers to meet agency rapid-copy requirements and is intended to aid Government officials having responsibility for selecting, operating, and controlling document copiers. The handbook includes excerpts from FPMR 101-25.5, issued in February 1966 to provide detailed guidelines and criteria to be used by Federal agencies in determining whether office copying equipment should be acquired by lease or purchase. The provisions of the new handbook are in general agreement with our proposed corrective actions. (Potential Savings Available Through Purchasing Rather Than Leasing Certain Office Copying Machines, Federal Supply Service, General Services Administration, B-146930, Oct. 19, 1964.)

Utilization of motor vehicles.-- Our review showed that the General Services Administration motor vehicle low rental rates encouraged agencies to request the assignment of interagency motor pool vehicles for low-mileage requirements. The rates were designed to recover the average costs of the entire interagency motor pool fleet and did not recover the full cost of individual vehicles that were operated at annual mileages below the average. We concluded that the establishment of a more realistic rental rate structure that required low-mileage users of assigned vehicles to make payments comparable to the actual cost of owning and operating the vehicles would (1) provide using agencies more incentive to use dispatch vehicles or other more economical sources of transportation for low-mileage requirements and (2) improve vehicle utilization and thus reduce the average cost per mile in interagency motor pools throughout the country.

In January 1967, GSA issued Bulletin FPMR No. G-26 which implements our recommendation that it revise motor vehicle rental rates to provide for a flat rate to cover the fixed costs that are incurred by the passage of time plus a mileage rate to cover the variable costs that are related to the miles driven. (Utilization of Motor Vehicles in the Cape Kennedy Interagency Motor Pool, General Services Administration and National Aeronautics and Space Administration, B-159210, Nov. 30, 1966.)

Servicing of office machines.-- We estimated that Federal agencies could have saved up to $1.2 million during fiscal year 1965 for repair and maintenance services on adding machines, calculators, comptometers, and electric typewriters through the greater use of reliable local repair firms instead of through use of national Federal Supply Schedule contracts with the machine manufacturers. We also pointed out that, although Government and independent studies indicated that the per-call basis was the least expensive method for obtaining services, most of the Federal expenditures had been for the more costly maintenance method at fixed annual fees. As a result of our proposals, we were informed that GSA would revise its regulations to provide guidelines and criteria concerning the

relative advantages and disadvantages of the per-call and the annual maintenance contract methods for servicing office machines. In October 1966, GSA issued FPMR 101-25.106, effective Nov. 4, 1966, to require Federal agencies to determine and consider all relative factors (such as costs, number of machines needing service, degree of reliability needed, and standard of performance required), prior to determining whether to use annual maintenance contracts or per-call arrangements for the servicing of office machines. (Savings Available Through Expanded Use of Regional Contracts for the Repair and Maintenance of Selected Office Machines, General Services Administration, B-160419, Feb. 23, 1967.)

Generic versus brand name drugs.-- We found that prices for selected brand-name drugs and other medical items purchased by Federal agencies under negotiated contracts based on contractors' catalogs or price lists were substantially higher than prices for like items purchased by generic name through contracts awarded on an advertised low-bid basis and through other Government contracts where price competition had been obtained under definite quantities. Of the $36.6 million of drugs and other items purchased annually by Federal agencies under the Federal Supply Schedule, about $36 million are purchased by brand name and the remaining $600,000 are purchased by generic name. After we brought this matter to the attention of the General Services Administration, the agency revised FPMR 101-26.409 in August 1966 to require that Federal agencies obtain their drugs on a generic name basis unless bona fide technical or professional reasons can justify the procurement of the more expensive brand name items. (Report to GSA on Examination Into Contracting for Drugs and Pharmaceutical Products, June 29, 1967.)

Standardized Government Travel Regulations

Reimbursement of Federal employees for use of privately owned cars on official business.-- We found that mileage rates established by Government agencies to reimburse employees for using their privately owned cars on official business frequently exceeded the costs for operating General Services Administration interagency motor pool cars at high-mileage levels. Our review showed that Federal agencies had not been furnished information on the cost of operating motor pool cars at the various mileage levels and therefore were not in a position to adequately consider the alternative of providing motor pool cars to high-mileage drivers. If the mileage patterns we observed at selected field offices of three agencies were typical, the annual nationwide costs to these agencies of reimbursing high-mileage drivers for official travel exceeded the cost of operating interagency motor pool cars by about $1.6 million. As a result of our proposals, the Bureau of the Budget revised the Standardized Government Travel Regulations, effective April 10, 1967, to provide policy guidelines for determining (1) whether it is feasible and advantageous to the Government for employees to use their own cars for official travel and (2) the reimbursement for which employees are entitled if they are authorized to use their cars on official business for their own convenience. (Potential Reductions in Cost of Automotive Travel by Federal Employees Where Use of Government-owned Vehicles Is Feasible, B-158712, Aug. 23, 1966.)

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