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Subcommittee on Economy in Government

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STATEMENT OF
MR. ELMER B. STAATS
THE COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
JOINT ECONOMIC COMMITTEE
MONDAY, MAY 8, 1967

With Attachments

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss some of the significant aspects of the work of the General Accounting Office during the past year. I know of no more effective means available to us each year to outline for the Congress and focus its attention on the broad scope of our efforts in the far-reaching areas of Government activities, particularly the management of its resources.

This type of hearing, in which the Comptroller General appears as the agent of Congress in the same forum with principal policy makers and resource managers of the executive branch of Government, has become an annual event for this Subcommittee. We believe such a review makes a substantial contribution to good Government.

The total impact of the Government's vast operations on the nation's economy is significant. In calendar year 1966, the Federal Government procured \$77 billion worth of goods and services. This amounts to 10.4 percent of the Gross National Product, which was \$739.5 billion in 1966. Federal procurement for defense purposes represented 8.1 percent, while nondefense purchases of goods and services equaled 2.3 percent of the GNP.

The role of the General Accounting Office does not involve policy determinations as to the volume or purposes of Government spending. As you know, our function, briefly stated so far as is pertinent here, is to evaluate the manner in which Government agencies carry out their authorized programs and to report our findings and recommendations to

agencies and to Congress. Included in this duty is the responsibility for determining that financial transactions are carried out within the laws enacted by the Congress. It is our function also to prescribe proper principles and standards to be employed by executive agencies in accounting for the Government's financial and physical assets.

Refunds, collections, and other measurable financial savings or additional revenues resulting from the recommendations of the General Accounting Office in fiscal year 1965 amounted to \$186,780,000 and in fiscal year 1966, \$130,637,000. Of the totals, actual refunds and collections made by or through our efforts during 1965 amounted to \$24,949,000 and in 1966, \$17,192,000. Substantial amounts of the savings or additional revenues are recurring in nature and will continue in future years. The principal area in which the greatest measurable financial savings were realized occurred in supply management of Government-owned materials.

The audit and review work we are discussing today was performed by three of our operating divisions--the Civil Division, the Defense Division, and the International Division. The International Division is our newest. Organized in 1963, it has the responsibility for audit of State Department programs and the oversea programs of all agencies and departments. The Civil Division is responsible for the audit of domestic programs and operations of all other agencies of Government except the Department of Defense; the Defense Division covers that department and the three military departments.

To save time we have included as attachments to my statement much of the detail on some of the subjects we will cover today, as well as other subjects not discussed in the text. We have furnished copies of this material for each member in advance of the hearings so they might identify areas of interest.

We have conducted several special surveys and reviews during the past year covering Department of Defense activities in which your Subcommittee has expressed particular interest. I will discuss the results of that work first.

RESPONSIVENESS OF THE MILITARY SUPPLY SYSTEMS
IN MEETING OPERATIONAL NEEDS

The United States military supply systems involve the greatest diversity of items and the largest inventories to be found in any organization in the world. Approximately four million different items are classified, identified, and catalogued within the Department of Defense. Inventories on hand are valued at about \$37 billion, excluding aircraft, ships, and supplies and equipment in the hands of using units.

Last year, we advised you of our plans to undertake a broad long-range Defense-wide survey of supply systems' responsiveness to military needs. Our survey was conducted at various military installations and activities in the continental United States as well as overseas. The survey was performed with close cooperation from the Office of the Secretary of Defense. The Department's active participation contributed materially toward the completion of the survey in a compressed period

of time, has served to expedite consideration of our observations, and at the same time has assured that our presence did not hamper military operations.

We have provided the Secretary of Defense with a summary of our over-all observations which, in our opinion, warrant high level and long-range consideration and management attention. Our major observations are as follows:

1. At the present time there is no one organization within the Army with the over-all responsibility for inventory management and design of supply systems. As a result, there is a loss of control over material, supply practices and procedures are not standardized, maximum use is not made of skilled personnel, and supply support is not as responsive to the demands of combat units as it should be.

2. The standard DOD requisitioning system, as presently implemented by the Army, is not permitting the processing of large volumes of transactions in a timely manner during periods of rapid force changes. We believe that a large part of the problem with the system is attributable to an unnecessarily large number of Federal catalog changes and the lack of adequate training on the part of supply personnel at the requisitioning level.

3. The stock fund method of financing the acquisition of supplies by using units is not sufficiently responsive to the needs during periods of rapidly increasing demands. Accordingly, we believe that certain modifications to the stock fund system are necessary with respect to their application to combat support units.

4. Practices involving the incremental funding of procurement requirements need improvement in order to preclude delays and increased costs in the purchasing of critically needed material.

5. There is a need to provide better service to requisitioning activities by improving transportation management and the reliability of the communications system.

6. The utilization of the productive capacity of contractors in the aircraft industry requires, in our opinion, further study for the purpose of determining methods for increasing that capacity available to the military departments.

7. Information regarding increased force levels and flying hour programs needs to be provided to responsible inventory management officials more promptly in order to effect timely requirement determinations and procurement actions.

8. Increased attention needs to be given to the distribution and training of logistics personnel and the ratio of logistics units to tactical and other units supported.

In addition to the above, we identified 82 further opportunities for improving the supply systems at various operating levels. They involve requirements computations, inventory controls, requisition processing, and supply manpower management, as well as others.

At the direction of the Secretary of Defense, a procedure was developed within the Department to review each of the above recommendations and to report to the Secretary and the Comptroller General on actions taken.

Progress reports received from the Department of Defense indicate that corrective actions have been taken and are complete in 58 of the areas, and are in process in the other 24. We plan to conduct a follow-up review of the effectiveness of the improvement actions within the next few months.

ADEQUACY OF INVENTORY CONTROLS

There is approximately \$10.4 billion in spare parts, components, and supplies held in 43 major depots of the military departments in the continental United States. Annual issues from these depots amount to over \$7 billion.

During the past year, we have performed considerable work within the area of inventory controls at the United States depots of the military services and the Defense Supply Agency. Our findings indicate that increased emphasis and attention are needed at all management levels to improve the usefulness of stock records for control of inventories.

We found in our review, for example, that significant differences existed between stock record balances and the actual quantities of items in depot inventories throughout the supply systems. This was evidenced by frequent and voluminous adjustments being made to the stock records by the services. The depot supply activities in the Department of Defense adjusted inventory records up or down, that is, gross adjustment, an average of \$2.4 billion annually in fiscal years 1965 and 1966. For instance, at one location with an average inventory of \$442 million, approximately 61 percent of the records for the 239,000 items physically inventoried during fiscal years 1965 and 1966 contained significant errors requiring gross inventory adjustments totaling \$33 million.

Factors which we feel contributed to the significant amount of inventory adjustments were (1) inaccurate stock locator cards; (2) physical inventories frequently made without proper control of documentation for receipts and issues occurring during the period of the inventory; (3) lack of proper reconciliations between the physical inventory counts and the stock records at the completion of these

inventories and determinations as to the causes of the imbalances; and (4) failure of supply personnel to follow inventory control procedures.

We are suggesting to the Secretary of Defense that he establish a group, made up of representatives from the military departments and Defense Supply Agency, whose sole function would be to study inventory controls in depth. The objective of this study should be the determination of broad basic causes for inadequate inventory control with a view toward making recommendations for improvements. We plan to continue our work also and, in order to avoid duplication of effort, we plan to coordinate our efforts with those of any such groups designated by the Secretary of Defense.

CONTROL OVER GOVERNMENT-OWNED
PROPERTY IN THE POSSESSION OF DEFENSE CONTRACTORS

In the report of the Subcommittee on Federal Procurement and Regulation released in May 1966, it was recommended that the General Accounting Office cooperate with the Department of Defense in the development of an adequate contractor inventory accounting system and that a thorough review be made of any misuse or unauthorized use of Government property in the hands of contractors.

We have devoted a considerable amount of time to these areas during the past year, but there is more work to be done.

Property accounting systems

Records of the Department of Defense indicate Government-owned facilities and material in the possession of contractors approximate

a value of \$11 billion located at about 5,500 plants. This does not include the value of special tooling, special test equipment, and military property as the Department does not require contractors to report the value of such property in their possession.

The Armed Services Procurement Regulation places responsibility on the contractor for maintaining official records of Government property in its possession under a property accounting system approved by the property administrator. The property administrator is required periodically to test the contractor's system to ensure that adequate control over Government-owned property exists.

We found the approval process to be of questionable value. For example, at one location we found that the contractor's system had been approved in August 1962. Selective floor checks subsequently conducted by the Government property administrator disclosed numerous instances where commercial work was performed with industrial plant equipment for which the contractor had not requested advance approval as prescribed. Although corrective action was promised, the incidence of discrepancies rose from 7.5 percent of items tested during late 1964 and early 1965, to 13.5 percent of items tested during the first 9 months of 1966. The approved status of the contractor's system had not changed.

Many contractors did not maintain financial control accounts for Government-owned material and special tooling. For example, at one contractor's plant the Government, about 12 years ago, acquired

\$55 million in special tooling. The value and quantity of such tooling now on hand cannot be readily determined. The contractor indicated that, to identify Government-owned special tooling, a physical inventory would have to be taken and that such an inventory would take 20 men one full year to complete.

Many of the contractors we visited either were not taking periodic physical inventories, or applied improper inventory procedures. For example, at one location the same contractor personnel that had custody of the material also took inventories, and in addition, maintained the stock records. We believe that appropriate segregation of the duties of personnel taking physical inventories is essential to good property control.

For the past 1½ years, relatively few audits have been made of the effectiveness of property administration at all of the contractors' plants having Government-owned property.

We have made a number of recommendations for improvements in controls over Government-owned property in possession of contractors and many revisions to the ASPR are in process to effect improvements. However, the work requested by your Subcommittee has not been fully completed. We will continue to cooperate with the Department in its efforts to implement the numerous changes to property regulations which are now in process.

Utilization of Government-owned property

We were unable to determine the usage of equipment at many contractor plants we visited because most property accounting systems did

not include utilization records. However, at certain locations where limited utilization records were maintained, we questioned retention by contractors of 328 items of industrial plant equipment costing an estimated \$15.9 million. We questioned retention where no use had been made of the equipment over an extended period of time, where 75 percent or more of the equipment use had been for commercial work, or where usage of the equipment was low.

None of this equipment had been reported as idle and available for relocation. Further, our examination of records at the Defense Industrial Plant Equipment Center revealed that 81 of the items we questioned were in critical or short supply.

The Office of Emergency Planning in July 1957, established a requirement for contractors to request advance approval to use Government-owned machine tools on commercial work exceeding 25 percent of the total usage. This procedure was established primarily to prevent contractors from obtaining a favored competitive position. We found that, generally, contractors were not requesting such advance approval. For example, in one case an 8,000 ton press, costing \$1.4 million, was installed in a contractor's plant on the basis that less efficient Government-owned 4,000 ton presses at the plant could not handle all Government orders for jet engine blades. During a subsequent 3-year period, 78 percent of the use of the large press was for commercial work, without approval of the Office of Emergency Planning having been obtained and the majority of Government blades

were produced on the small presses.

We found a lack of uniformity in the rates charged for rental of Government-owned equipment. In some cases, this resulted in inequities between contractors. We also found cases where negotiated rentals were below the prescribed rates. For example, at one contractor's plant, rent applicable to a Navy standby facility is based upon 2 percent of the sales price of the products. We estimated that determination of the rent based upon prescribed uniform rates would have increased the annual rental from \$83,000 to about \$194,000.

A program for replacement of Government-owned machine tools was initiated in 1956 for the purpose of maintaining such tools in a modern condition. Expenditures amounted to about \$50 million in fiscal year 1966 for modernization and replacement purposes. The trend of expenditures has shown a continuous increase over prior years. While the Department of Defense policy is very restrictive as to the conditions under which new Government facilities will be furnished to contractors, the Department's program for modernization and replacement of machine tools appears to provide a means to acquire new machines for older ones under different and less restrictive criteria.

The program, as presently administered will, in our opinion, perpetuate the large Government investment in general purpose machine tools in possession of contractors, and thus defer indefinitely the time when contractors would furnish all facilities, in accordance with the Department's basic policy, for performance of Government contracts.

PROGRAM FOR OBTAINING INCREASED COMPETITION
IN PROCUREMENT OF PARTS AND COMPONENTS

The Department of Defense and the military departments have initiated well conceived programs placing increased emphasis on achieving competition to the maximum practicable extent in the buying of spare parts.

However, many of the problems we identified in our previous work in the area of aeronautical replacement spare parts still prevail. These problems were reported to the Congress in 1961 and 1963, and were discussed in hearings before interested congressional committees. Our recent survey indicates that incomplete or inadequate technical data still contribute significantly to the award of noncompetitive procurements.

Our survey showed that of about \$2 billion worth of aeronautical spare parts bought in fiscal year 1966 by four major purchasing centers, about \$425 million or 21.5 percent was reported to have been purchased competitively. Of this amount \$114 million, or less than 6 percent of the total was accomplished by use of advertising while \$311 million or 16 percent was procured by competitive negotiation wherein the number of firms requested to bid was somewhat limited.

A large percentage of the actions which were classified and reported to higher management levels within the Department of Defense as competitive procurements, in our opinion, were in fact made without competition.

The primary cause for misclassifying procurements as having been awarded on the basis of price competition appears to stem from the

criteria in the Armed Services Procurement Regulation. The regulation permits a contract award to be classified as competitively priced, even when only one response is received, as long as two or more proposals were solicited and the accepted proposal meets certain other evaluation tests.

In addition, the Armed Services Procurement Regulation permits purchases of \$2,500 and under to be reported as competitive even though many are not. The four locations we visited reported in the fiscal year 1966 a total of about \$80 million in procurement actions of \$2,500 and under as being awarded on the basis of price competition. Of the total amount, however, an estimated \$55 million, or 69 percent, represented noncompetitive procurements.

We are proposing changes in the Armed Services Procurement Regulation to provide additional guidance to contracting officers for classifying and reporting of negotiated contracts.

Our survey tests of \$174 million in procurements classified as noncompetitive showed that about \$103 million or 59 percent was procured noncompetitively because of determinations that technical data were either not adequate or not available. To illustrate the inaccuracy of some of these determinations:

On March 9, 1966, the Army awarded a contract valued at almost \$150,000 to a prime contractor for 879 filters for use on a helicopter. This noncompetitive award was made on the basis that it was impossible to draft adequate specifications for the part in time for the procurement.

However, we found that adequate technical data to support a competitive procurement was on hand. When we

advised the contracting officer of this fact, he canceled the contract and solicited bids from three companies of which two responded. In August 1966 a new contract was awarded at a price of about \$81,000 or at a savings of about \$69,000 when compared with the initial sole-source price obtained from the prime contractor in March 1966 for the same number of filters.

Other principal reasons given by the centers for awarding contracts without competition, although not nearly as predominant as inadequate technical data, included critical manufacturing techniques, urgency of the requirement, and administrative expediency relative to awards of \$2,500 and under.

Mr. Chairman, we turn next to a discussion of certain work we have performed in the civilian agencies, in which we believe the Committee has a strong interest. The first subject concerns the progress being made in the development of a National Supply System. This was the first recommendation in the Subcommittee's report last year.

NATIONAL SUPPLY SYSTEM

An important step toward the development of a national supply system was taken with the transfer of about \$65 million worth of hand-tool and paint stocks from the Department of Defense to the General Services Administration. The transfer was substantially completed in 1966.

The management responsibility for 52 other Federal Supply Classifications is scheduled for transfer in July 1967.

We reviewed handtool and paint inventories at the Defense Department depots after management responsibility had been assumed by GSA

and found that there were significant quantities of GSA-owned stocks on hand which were not recorded on the GSA inventory records. As a result, these stocks were "lost" to the supply system.

After we brought this situation to the attention of Defense and GSA officials, complete physical inventories were taken at the Defense depots and about \$4 million worth of stocks were found which had not been--but which should have been--recorded on the GSA inventory records. During the period when the stocks were unrecorded, GSA purchased about \$1.1 million worth of stocks that were identical to the unrecorded stocks.

In our opinion, the transfer difficulties would have been largely avoided if:

1. Defense inventory records had been accurate when the stocks were transferred.
2. Effective controls had been maintained over GSA-owned stocks in Defense depots after the transfers.
3. GSA and Defense had cooperated more closely in solving their mutual problems.

In January 1967, we proposed to the Secretary of Defense and the Administrator of General Services that certain steps be taken in future stock transfers to eliminate these difficulties. We proposed that detailed physical inventories be taken of all stocks to be transferred, the inventory records be reconciled to the physical counts, and the warehouse stock locator records be updated. We proposed also that, prior to the transfer of management responsibility, a joint committee be made responsible for providing operating

procedures to carry out the transfers, acting as liaison and coordinators, and settling promptly any problems relating to inventory shortages during the transfers. Defense and GSA have agreed with our proposals.

COMPETITION IN PROCUREMENT

As in the case of aeronautical spare parts procured by the Defense Department, we have noted several instances where competition-- in this case, formal advertising--could have been used to an advantage in the procurement of common use items and services by the General Services Administration.

For example, about \$17 million worth of automobile tires and tubes are purchased annually under negotiated Federal Supply Schedule contracts. We suggested to GSA that the formal advertising method of contracting could be used for procuring the bulk of the Government's requirements since the essential elements for advertised contracts are present, that is, Federal specifications have been established, items meeting such specifications are widely sold on the commercial market, and there are a sufficient number of potential suppliers to permit effective competition for the bulk of the Government's requirements.

The GSA has now advised us that formal advertising will be used for high volume tire and tube items and that consideration would be given to advertising for other tires and tubes. We estimate that savings will exceed \$1 million per year.

In another case, we found that the prices paid for repair and maintenance of office machines under national contracts negotiated by GSA with machine manufacturers were higher than the prices charged for the same types of services under regional contracts awarded on an advertised basis.

The Administration agreed to expand the use of regional contracts and to encourage their use by Government agencies. We estimate that savings of up to \$1.2 million annually will result from the actions being taken.

Also, we found that the Government incurs costs of about \$1.9 million for short-term rental of cars under informal arrangements made by Government agencies with commercial rental firms. Similar cars are rented by GSA under contracts awarded generally through formal advertising. We estimated that savings as much as \$350,000 annually could be realized if cars being rented under informal arrangements were rented at GSA contract rates.

The Administration is studying the matter with a view to increasing the relative share of such rentals made under GSA formally advertised contracts. We intend to continue our work in this area.

CIVIL AGENCY CONSTRUCTION

In the past year, we have intensified our audit efforts and have reported on a wide range of subjects relating to construction directly managed by Federal agencies. Our reviews have led to recommendations that:

--the Department of the Interior make a study to determine the full extent of the differences in transmission line construction practices of the Bureau of Reclamation and Bonneville Power Administration to determine the degree of construction coordination necessary and practicable, and adopt more uniform construction practices where possible.

--the Post Office Department use standards comparable to those established by the General Services Administration for determining the office space needs of other Federal agencies in planning of office space in new postal facilities.

--the Federal Aviation Agency amend its orders and issue appropriate instructions to clarify its policy relating to the selection of designs for use in the construction of airport traffic control towers.

--the General Services Administration develop soils and foundation engineering capability within the Public Buildings Service to assist in avoiding or minimizing construction difficulties and related costs associated with foundation design problems and unanticipated soils conditions.

--the General Services Administration (1) strengthen controls over on-site inspection of building construction to help assure compliance with contract specifications related to delivery and placement of concrete and (2) revise its policies and procedures so that laboratories engaged to test concrete for compliance with specifications would be responsible directly to the Government rather than to the contractor.

--the Bureau of Indian Affairs revise their school construction standards to avoid excess seating capacity in school dining facilities.

--the Corps of Engineers formally amend its existing regulations to require that field requests for permission to enter into fixed-price contracts for major relocations be supported by detailed cost analyses or other justifications to enable the headquarters office to properly evaluate the circumstances requiring a deviation from the prescribed procedures.

In general, we have found agency management receptive to our suggestions. Actions have been taken or planned in response to most of our recommendations which, if effectively implemented, should result in significant improvements and economies in construction activities.

In a closely related area, we recently reported on our review of the interpretation by Federal agencies of statutory limitations on fees paid for architect-engineer services and related matters. I have included a summary of the results of our review in Appendix No. 11. In brief, we concluded that the present limitations are impracticable and unsound and we recommended that they be repealed by the Congress. We believe that the requirements for competitive negotiation and the submission and certification of cost or pricing data under Public Law 87-653, should, if properly applied, provide adequate assurance of reasonable fees. However, because the agencies concerned and the professional architectural and engineering societies do not agree with us that the competitive negotiation provisions of the statute are for application in the procurement of such services, we suggested that the Congress clarify its intent in this regard.

AUTOMATIC DATA PROCESSING

As indicated in the hearings last year, we are conducting Government-wide studies of present and planned uses of ADP systems in the Federal Government with particular emphasis on compatibility and standardization of such systems and equipment, including related communication facilities. These studies include further inquiry into the trend and development, use, and cost of ADP systems in relation to flow of data and information within Government systems and between Government and industry systems.

For example, we are looking into various possibilities for sharing through use of service centers or other arrangements which

would provide for increased utilization of computer resources already acquired. Our studies are also directed at such questions as how to achieve greater interchange of data automatically between ADP systems and how to reduce duplication of effort in the development and use of ADP systems.

We intend to continue our efforts to review the need, application, and utilization of ADP equipment by Federal departments and agencies as well as the effects of Defense Procurement Circular No. 52, issued on March 24, 1967, on the purchase of such equipment by Defense contractors. This subject is discussed more fully in Attachment No. 12. We will keep the Committee advised of our studies in this area.

INTERAGENCY COORDINATION TO IMPROVE
ADMINISTRATION OF COMMON ACTIVITIES

Mr. Chairman, in your letter of April 27, 1967, you referred to "programs for the improved administration of common activities." You referred to timber sales under this category and this is indeed a good example of a common activity which can be improved by closer coordination between the agencies involved.

In a review we made, we found significant differences in the appraisal practices followed by the Forest Service, Department of Agriculture, and the Bureaus of Indian Affairs and Land Management, Department of the Interior, to arrive at minimum selling prices for standing timber. Differences had continued to exist despite a statement of congressional intent in 1956 and a Bureau of the Budget request in 1959 for consistency in such practices.

While the timber management agencies had taken action to eliminate some of the differences in their appraisal practices, maximum uniformity in the best interests of the Government had not been achieved. We recommended that the Director of the Bureau of the Budget take action to ensure that the agencies jointly develop and apply the most desirable set of appraisal procedures. We have been informed that the Departments have agreed to develop uniform appraisal methods.

Closer coordination between agencies can be of benefit in other ways. We have found opportunities for savings in situations where the program of one agency could be modified so that it would also serve the needs of another.

Two such situations were discussed by us in reports issued during the past year. One report involves research projects by the Federal Aviation Administration and the Public Health Service on the effects of aging on pilots; the other concerns activities of Federal agencies in the establishment of geodetic control points. I have included more detailed discussion of these reports in Attachment No. 13.

AUDIT WORK OVERSEAS

Besides the subject of military supply systems which we discussed earlier, our efforts in oversea areas have been concentrated for the most part on the military construction and economic assistance programs in Viet Nam; economic and military assistance programs in South American and certain other countries; and operation FRELOC--the relocation of United States and NATO forces from France.

In view of the increased United States Government activity in Viet Nam and the surrounding area, we have during the past year increased the application of our audit manpower in Southeast Asia. We have established offices in Saigon and in Manila under the direction of our Far East Branch in Honolulu. We are also in the process of establishing an office in New Delhi under the direction of the European Branch in Frankfurt.

Our audit work in Viet Nam has included a survey of the \$1.2 billion United States construction program, on which we expect to submit a report to the Congress before the end of May; a survey of the commercial import program administered by the Agency for International Development, on which we plan to send a report to the Congress within the next month; and reviews of the adequacy of the internal audits and management inspections of these and other major U. S. programs in Viet Nam. The results of our initial survey on these audits and management inspections was reported to the Congress last July. A few days ago we submitted a further report on the progress made and areas of continuing need. This follow-up report showed that there had been significant increases in the number and scope of internal reviews, but that there remained a need to maintain and increase management surveillance over United States activities in Viet Nam.

We have continued to review the administration of United States foreign assistance programs in other parts of the world, including

South America. In addition to audits of selected segments of the economic assistance, military assistance, and Food for Peace programs in various countries, we are endeavoring to broaden our audit coverage by reviewing on a more comprehensive basis all of the major United States programs in a given country. Some of the countries where we have either segmented or more broadly-based reviews in process or planned are Chile, Peru, the Dominican Republic, Tunisia, Nigeria, Turkey, Korea, and India.

With regard to operation FRELOC, we plan to examine into whether the best interests of the Government are being protected in connection with the disposal of about \$550 million worth of U. S. real property in France, including surplus commodity housing.

Also, a recent survey indicates that over \$100 million worth of new construction is planned, mostly in Germany. We plan to review the requirements for the construction of these new facilities and the adequacy of procedures followed in contracting for the construction.

In connection with supply operations under the FRELOC program, most of the physical inventories at military installations in France have been transferred to other sites in Europe. In the past, when mass movements of inventories have occurred, inventory controls have tended to weaken or break down. We plan to look into whether adequate stock control procedures were in effect for the FRELOC operation and whether any great loss of assets occurred. We will also review selected disposal actions.

In conclusion, Mr. Chairman, and with reference to your request for our ideas on programs requiring priority attention in the future, we believe that all of the areas we have discussed need further attention by the administrative agencies. As we have pointed out, the agencies have responded favorably to most of our findings and recommendations but increased effort must be applied continuously if permanent and far-reaching improvements are to be expected. The extent of our own work in those areas will depend on the rate of progress we observe in improvement of the administration of the programs.

One other area to which we are giving more emphasis is the revenue collecting activities of the Internal Revenue Service. On the basis of limited work there, we have successfully recommended some improvements both in the law and procedures.

The control of short shelf-life items also continues to need attention. While progress has been made in this area, there is more to be done. Other areas no doubt exist and some perhaps will develop during our discussions here today. Also, we will be glad to work closely with your staff in identifying subjects for consideration by the Subcommittee for future inquiry.

This concludes my prepared statement. We will be glad to answer any questions you may have.

LIST OF ATTACHMENTS

1. Identification and Disposal to the Highest Economic Use of Federal Government Real Properties No Longer Needed by the Holding Agencies
2. Defense Logistics Services Center Facilities for Promoting Greater Interservice Utilization of Excess Stocks
3. Maintenance of Idle Production Equipment Reserves by General Services Administration, Department of Defense, and National Aeronautics and Space Agency
4. Requisitioning of Small Quantities of Low-Value Material from the Defense Supply Agency
5. Activities of the Defense Contract Administration Services, Defense Supply Agency
6. Use of General Services Administration as Sources of Supply by Government Contractors
7. Defense Supply Agency Management of Supply Items Having Little or No Demand
8. Potential Savings by Consolidation of Field Organizations and Facilities for Recruiting Military Personnel
9. Opportunities for Savings in Contracting for the Printing of Technical Manuals and in Other Aspects of the Management of Technical Manuals in the Department of Defense
10. Military Facilities and Construction
11. Government-Wide Review of the Administration of Certain Statutory and Regulatory Requirements Relating to Architect-Engineer Fees
12. Automatic Data Processing
13. Modification of Agency Activities to Meet Needs of Other Agencies

IDENTIFICATION AND DISPOSAL TO THE HIGHEST ECONOMIC
USE OF FEDERAL GOVERNMENT REAL PROPERTIES NO
LONGER NEEDED BY THE HOLDING AGENCIES

We share the Committee's interest in the identification and disposal of Federal Government real properties which are no longer needed by the holding agencies and which do not serve the highest economic use nor contribute to the tax base.

It is to be recognized, however, that there is no specific requirement of law that Federal property be used to take advantage of its highest potential value. Policy guidelines, however, are set forth in Bureau of the Budget Circular A-2, dated April 5, 1967. It is stated in the Circular, so far as pertinent to situations where high-value property is used, that real properties or portions thereof generally should be declared excess when:

"b. Substantial net savings to the Government would result if properties used for essential purposes could be sold at their current market value and other suitable properties of substantially lower current values substituted for them xxx."

Within the past few years we have reported to the Congress on two instances where we believe land could be disposed of by the Department of Defense and result in either (1) a substantial return to the Government through sale of the land involved, or (2) a reduction in Government expenditures for maintenance and operation of the properties. These reports dealt with the questionable retention of high-value land for use as a golf course at Fort Gordon, Georgia, and the use of high-value land for recreation, reserve forces training, and military housing purposes at Fort DeRussy, Waikiki Beach, Hawaii.

In each of these cases the Department of Defense disagreed with us, generally on the basis that the properties involved were needed to provide recreational facilities for military personnel and their dependents. We do not question the need for recreational facilities for military personnel. We believe, though, that adequate alternate military or private facilities were available in the locations involved.

Your Subcommittee has expressed particular interest in our report on the operation of a dairy farm by the United States Naval Academy (B-156167, March 23, 1966). On the basis of the results of operations during 1964, we estimated annual savings of about \$84,000 would be realized by the Government if the Academy dairy farm was sold and the Academy's milk products obtained from commercial sources.

Since our report was issued, staff members of the House Committee on Government Operations have spent considerable time in investigating the matter. As a result, we have recently agreed to conduct a review of current cost data on the dairy farm operation being developed by the Navy to see whether it is still in the best interest of the Government to close the dairy.

A special Subcommittee of the Committee on Armed Services also inquired into the proposed disposal of the Naval Academy dairy farm and issued a report on October 6, 1966. The Subcommittee recommended that no disposal actions be instituted by the Secretary of the Navy.

On April 5, 1967, the Bureau of the Budget issued a revised and expanded version of Circular A-2 on the utilization, retention and acquisition of Federal real property. A significant improvement in the Circular is a requirement for an annual review of real property holdings by the agencies. We also believe that the revised Circular provides more specific guidance to the agencies as to the need for the retention of real property. The extent of progress made, however, will be subsequently determined on the basis of the effectiveness of the agencies in implementing the policies and objectives outlined in the Circular.

We have been associated with matters concerning the substance of Bureau of the Budget Circular A-76 for a number of years. It is a complicated matter. It concerns problems not only of cost analyses but also other important factors, such as decisions to make or buy, the need for maintaining in-house capability, and the effects of Government competition with business.

Consistent interpretation and implementation of the principles of Circular A-76, as well as A-2, are most difficult to achieve and, many times, deep emotions are involved. This is true particularly with respect to activities which have been carried out many years by the Government. New starts are much more easily dealt with.

We feel that A-76 is sound but needs further improvement because it is important that all agencies operate under the same guidelines. Differing operations and interpretations cause confusion. We do not agree with the feeling by some that there is need for separate guidance in this area for differing kinds of services being procured. This is not a matter which can be dealt with on a formula basis. What is needed is a good criteria.

Recently, we made several suggestions to the Bureau of the Budget for the purpose of clarifying certain parts of Circular A-76. One of the greatest difficulties in administering Circular A-76 concerns the question as to whether State and local taxes should be included in the cost comparisons and what differential should apply. State and local taxes are not a cost of the Federal Government except in a very remote sense, but this is compensated for somewhat by such Federal programs as aid to schools in impacted areas, sharing revenues, etc. We are still looking into this problem.

DEFENSE LOGISTICS SERVICES CENTER
FACILITIES FOR PROMOTING GREATER
INTERSERVICE UTILIZATION OF EXCESS STOCKS

We are currently inquiring into materiel utilization operations at the Defense Logistics Services Center at Battle Creek, Michigan, and at selected activities of the military services. Our preliminary work at these installations indicates that the potential exists for increased utilization of available assets within the Department of Defense.

We believe that increased utilization can be obtained if improvements are made in the PLUS (Procedures for Long Supply Asset Utilization Screening), program. In this connection, we have found that most of the needed improvements have been previously identified by Defense study groups and internal auditors, but program operations have not improved significantly.

Under the PLUS program, the various military inventory control points report excess materiel and existing requirements for materiel to the Defense Logistics Services Center for centralized mechanical screening. When excess assets of one inventory control point are matched with requirements of another, the Center informs the requiring activity of the available materiel. The effectiveness of this program is dependent on the accuracy of data included in the mechanized file at the Defense Logistics Services Center and the propriety of decisions made by the services regarding potential transfers of available materiel.

The Defense study of the Materiel Utilization Program, dated January 1965, identified five broad problem areas and more than 20 sub-areas in need of management improvement. The study report contained

83 basic recommendations outlining future courses of action for optimum reutilization of materiel within DOD. The findings that we are developing in the course of our current work are directly related to one or more of the problem areas discussed in this latest of the Defense studies on materiel reutilization.

1. In the area of Asset Knowledge, the study pointed out that the systems used by the military services to determine asset positions--quantities of stock in various categories of need--vary widely. Some provide complete knowledge of all quantities on a world-wide basis, while others provide periodic information on only those quantities in the wholesale depot system. As a result, present asset reporting systems are often deficient in terms of either the depth or currency of information necessary for effective operations of Program PLUS.

Deficiencies in asset knowledge reflect on the accuracy and validity of computed requirements and, therefore, on the accuracy and validity of interserviceable net requirements and net releasable assets. Deficiencies in asset knowledge serve to inhibit item manager decisions on the release of assets to other service users and/or delay such decisions pending the availability of the latest data.

2. Regarding the Validity of Requirements and Stratification of Military Stocks, the study acknowledged that reliable identification of net requirements is precedent to effective interservicing of available excess materiel. One of the more significant deficiencies in the operation of the PLUS Program is the high rate at which offered assets are being rejected by requiring Inventory Control Points of other services.

Discrepancies between acceptable quantities of available assets and reported requirements often arise because of the use of different programs for determining valid requirements and for reporting requirements (often inflated) to be screened under Program PLUS--or difference between the formulas used for reporting requirements and that used in making decisions on the acceptance of materiel which has been offered. In other words, different data is often used in determining requirements reported under the PLUS Program and in determining quantities to be accepted under the program.

For example, requirements or available assets are often reported based on mechanized computations, but acceptance or rejection of subsequent offers of materiel are based on current manual recomputations. Mechanically determined requirements should coincide with manual computations used in accepting or rejecting offered assets.

3. In the section on Releasable Assets, the study indicates that Inventory Control Points do not report all releasable assets. Certain service policies preclude the reporting of system-wide releasable assets which are not in the wholesale supply system. The study recommends that interservicing computations for use in Program PLUS include all assets used by the Inventory Control Points in their requirements computations, and that differences between reported asset availability and released assets have an auditable basis.

The study also recommends that (1) the cyclic stratification of stocks, to identify long-supply or excess assets for interservicing under Program PLUS operations, coincide with the periodic computation of requirements, (2) all requirements and releasable assets be reported at the time of semiannual supply management reviews, and (3) all stocks above the procurement objective should be releasable.

4. In the area of Item Intelligence, the study establishes that item management data in the master catalog file at the Defense Logistics Services Center is incomplete and therefore all items, whether identified in the file as being used by more than one service or not, must be considered for interservicing.

The study also pointed out that under the present mechanized interservicing system, a presumption is made that interservicing actions are accomplished within specified time frames unless advise to the contrary is received. Consequently, available assets are often incorrectly removed from further consideration under Program PLUS when the results of a potential transfer (that did not occur) is not reported to the Defense Logistics Services Center.

In this connection, it was recommended that positive advice of potential transfer be reported. Further, to provide greater motivation for participation in the PLUS Program, credit under the Cost Reduction Program should be provided to activities releasing assets simultaneously with the establishment of credit for savings accruing to the receiving activity.

5. In an audit report issued by the Defense Supply Agency, Auditor General, on 30 June 1966 relative to the PLUS Program, it was indicated that the services were not providing information to timely and accurately update the PLUS records to facilitate mechanical screening of available assets. Consequently, the effectiveness and efficiency of the program was adversely affected.

In addition, program accomplishments were substantially overstated. It was estimated that reported accomplishments in terms of reutilized materiel was overstated by as much as 75 percent because of incorrect assumptions that potential transfers actually occurred.

As stated earlier, we are identifying in the course of our current work essentially the same problem areas as were identified in the Department of Defense study. Although Defense officials have been aware of the matters discussed in the study for some time now, major improvements in the PLUS Program are not apparent.

We are of the opinion that an improved PLUS Program would contribute significantly towards increased utilization of available assets and would minimize the potential for concurrent buying and selling of similar items in the Department of Defense. We believe that the most significant contribution to program improvement would be the elimination of present asset reporting deficiencies that exclude consideration of world-wide asset data.

MAINTENANCE OF PRODUCTION EQUIPMENT
RESERVES BY GENERAL SERVICES ADMINISTRATION,
DEPARTMENT OF DEFENSE, AND NATIONAL
AERONAUTICS AND SPACE AGENCY

We inquired into the reserves of idle production equipment maintained by the Department of Defense, the General Services Administration and the National Aeronautics and Space Agency.

The Department of Defense had the following inventories of industrial plant equipment reserves as of December 31, 1965:

	<u>Number of pieces of equipment</u>	<u>Assigned values (000 omitted)</u>
Idle equipment	25,200	\$280,210
Laid away in production packages for mobilization requirements	<u>41,151</u>	<u>551,790</u>
	66,351	\$832,000

The idle equipment, which is managed by the Defense Industrial Plant Equipment Center, a Department of Defense agency, consists of Department of Defense owned equipment which has been declared excess by its former user and is either awaiting redistribution to another user, is being retained as a reserve to support current Department of Defense production requirements, or is in the process of being disposed of by the Department of Defense.

The items laid away in production packages for mobilization requirements are items of industrial plant equipment maintained for the purpose of producing specific military end items or components at production rates required by mobilization schedules. Each package must be reserved for the use of a specific contractor or Government plant and must be approved by the Department of Defense. The Defense Industrial Plant Equipment Center maintains an inventory of this equipment and its responsibility is primarily one of record-keeping since the owning service has the authority to place items into a package or release items from a package. In the event of a high priority requisition the Defense Industrial Plant Equipment Center may screen the packages and if an item is available, the requestor is

notified of the availability and the requestor must proceed to process his request to obtain the item through the Secretary of the owning service.

The General Services Administration is responsible for administering the National Industrial Equipment Reserve. Public Law 883, 80th Congress, cited as the National Industrial Reserve Act of 1948, provided for the establishment of this reserve for immediate use to supply the needs of the armed forces in time of national emergency. The reserve consists of industrial production equipment, primarily metal-working machinery, selected by the Defense Industrial Plant Equipment Center, from lists of such property declared excess to the needs of the Department of Defense and other Government agencies. As of June 30, 1966, the National Industrial Equipment Reserve inventory was valued at about \$86 million, of which about \$17,325,000 was on loan to nonprofit educational institutions and training schools for use in vocational training programs as provided by the law.

A recent study of the management of industrial plant equipment within the Department of Defense, conducted by the Defense Supply Agency with the approval of the Assistant Secretary of Defense (Installations and Logistics) identified the duplicate nature of the National Industrial Equipment Reserve and the reserves maintained by the Department of Defense. The report on this study which was issued in December 1966, pointed out the benefits and cost savings available from the elimination of duplicate management functions and reduction of facilities. It recommended that the Assistant Secretary of Defense (Installations and Logistics) initiate negotiations with the General Services Administration to merge the National Industrial Equipment Reserve with the Department of Defense industrial equipment reserves under Department of Defense management. We intend to follow this subject closely and particularly the action taken on this recommendation.

The National Aeronautics and Space Administration does not maintain any reserve of industrial plant equipment. Government-owned equipment held by contractors awarded contracts by various National Aeronautics and Space Administration centers is declared excess at the time it is no longer needed by that contractor. A list of such equipment is then circulated to the other National Aeronautics and Space Administration centers and if the equipment is not needed it is declared excess and disposed of through the General Services Administration.

REQUISITIONING OF SMALL QUANTITIES OF LOW-VALUE
MATERIAL FROM THE DEFENSE SUPPLY AGENCY

Last year we told the Subcommittee that we were looking into the practice of the services ordering small quantities of low-cost material on a repetitive basis. We have since issued a letter report to the Secretary of Defense on the results of our examination at four Defense Supply Agency supply centers--the Construction, Electronics, General, and Industrial Supply Centers.

We estimated on the basis of our review that about 60 percent of the requisitions processed by these four centers during fiscal year 1965 were \$10 or less in amount. About 6.6 million requisitions fell into this category. From information given to us by the military services and the Defense Supply Agency, we estimated that about \$6 per requisition was expended in preparing, processing, and controlling requisitions and in handling material at the support depot and receiving activity.

Our review of requisitioning practices at three installations in each of the military services indicated that this large volume of low value requisitions was due, in large part, to the practice of the services of repetitively requisitioning small quantities of low value items instead of submitting less frequent requests for larger, more economical quantities. We were informed that fund limitations at the user levels have contributed to the lowering of stock levels for Defense Supply Agency material. In the interest of conserving funds, the services limited or reduced their ordering levels which, in turn, prevents the requisitioning of economical quantities.

For example, during an 8-month period, one location submitted 9 requisitions to the Defense Supply Agency for a total of 21 insulators costing 55 cents each, at a total cost of \$11.55. The average amount of the 9 requisitions was only \$1.28. At another location, during a 9-month period, 8 requisitions were submitted to the Defense Supply Agency for a total of 470 bolts costing four cents each, at a total cost of \$18.80. The average amount of the 8 requisitions was only \$2.35.

On the basis of our review, we believe that significant costs are being incurred by the military services and the Defense Supply Agency as a result of repetitive requisitioning of small quantities of low-value material from the Defense Supply Agency. We, therefore, recommended to the Secretary of Defense that he examine into the practices being followed by the military services in requisitioning low-value material from the Defense Supply Agency giving special emphasis to the allocation of funds to support the ordering of economical quantities of such material.

The Assistant Secretary of Defense (Installations and Logistics) commented on our report in a letter dated April 13, 1967. Regarding the limited funds problem mentioned in our report, it is the position of the Department of Defense that funding has been adequate. However,

it was also stated that at times available funds at lower levels have been strained for a variety of reasons. In summary, the Department of Defense is in general agreement with our report, fully supports the economic ordering quantity concept which has been expressed as Department of Defense policy, and has stated it will take additional steps to obtain more complete compliance with that policy.

4.

ACTIVITIES OF THE DEFENSE CONTRACT ADMINISTRATION
SERVICES, DEFENSE SUPPLY AGENCY

The Defense Contract Administration Services was established in June 1964, under the Defense Supply Agency, to eliminate duplicate efforts among the various Defense Agencies that were performing contract administration and to establish a single Defense organization as the sole representative in dealing with a contractor. As June 30, 1966, the organization had a Headquarters office and 11 regional offices with a staff of 21,500 personnel providing contract administration for 180,750 contracts at 17,500 contractor plants.

In our survey we observed a number of areas which we believe warrant management attention. Management was aware of some of the problems we noted and corrective action was being taken to achieve improvements.

Assignments of Contract Administration

Although the Department of Defense has the responsibility for making plant assignments for contract administration services and has established criteria for this purpose, it had not performed periodic reviews to ensure that its criteria had been met.

Under the criteria a military department may be assigned a plant for contract administration responsibility where contracts being performed at the plant are for a major system of such critical military importance that the program manager needs to retain close technical direction. Of the 508 plants assigned to the military departments 49 plants involved contracts for major systems.

In our tests at two of these plants located in Michigan, we found that the Army program managers were not performing the contract administration services but had delegated these functions to other Army components. Under the Department of Defense criteria, these plants should have been assigned to the Defense Contract Administration Services.

Further, under the Department of Defense guidelines, a procuring agency, at its option, may retain certain contract administration functions at plants assigned to the Defense Contract Administration Services. We observed differences and inconsistencies among and within military departments in retaining such functions. We found that a procuring agency in the Chicago area retained administration of contracts with seven contractors that could have been assigned to the Defense Contract Administration Services. At five of the contractors' plants the Defense Contract Administration Services was also performing services for other contracts. At these locations, therefore, two different organizations were responsible for similar contract administration functions.

Payment of Contractors' Invoices and Lost Discounts

As of November 30, 1966, the regional offices reported that they had on hand about 85,000 unpaid invoices, which included about 20,000 invoices on hand for 30 days or longer. Our survey at the Philadelphia office indicated that invoices were on hand for 30 days or longer principally because inspection reports evidencing acceptance of supplies had not been received. Other reasons were delays in receipt of contract documents and internal delays in processing invoices for payment.

For the 12-month period ended November 30, 1966, Defense Contract Administration Services regional offices reported lost discounts totaling about \$2.3 million.

We were advised that the Defense Supply Agency internal auditors expected to complete a review of lost discounts at all regional offices by the fall of 1967, and to identify causes and determine whether recommended corrective actions have been taken to minimize lost discounts in the future. On the basis of their findings at one regional office, the lost discounts may be considerably higher than the \$2.3 million reported.

Quality Assurance

Our survey of quality assurance activities was performed at the agency's Detroit regional office, having responsibility at about 300 contractors' plants. Generally, the agency relies on selective inspection based on the effectiveness of the contractors' procedures for controlling product quality and tests of the acceptability of supplies and services.

However, at 47 of the plants in the Detroit Region, the procuring officials had imposed specific mandatory inspection requirements and the agency's records indicated that about one-third of all inspection man-hours was expended on these mandatory inspections. Agency inspection personnel considered that certain requirements imposed by the procuring officials could be eliminated. Some of their recommendations have been adopted. It appears that continued evaluations of the need for mandatory inspection requirements and relaxation of such requirements could result in savings in inspection manpower.

Delinquent Deliveries

The Defense Contract Administration Services' industrial specialists are responsible for analyzing contract performance to anticipate and correct circumstances that may result in delinquent deliveries. As of August 1966, the agency was administering about 17,200 contracts, of over \$5,000 each, which were classified as delinquent because supplies had not been delivered as of the date specified in the contract.

Our survey at the Chicago office, which reported about 2,200 delinquent contracts, indicated that delivery delinquencies may be caused by material

and personnel shortages, engineering and quality problems, poor production planning, and unrealistic delivery schedules. Our tests indicated that during 1966 the number of such contracts had increased. As a result the specialists were doing little work to anticipate and head off additional delinquencies and apparently were devoting their main efforts to correcting existing delinquencies.

Furthermore, we found that corrective actions being taken by the industrial specialists were not properly documented so that management could determine whether adequate action had been taken.

Technical Evaluations of Price Proposals

Technical personnel of the Defense Contract Administration Services and other components of the military departments are requested by contracting officials to evaluate various technical aspects of contractors' price proposals, including the need for types and quantities of material and labor.

We found in our survey of the agency's Chicago office, technical evaluations of contractors' price proposals were not adequately supported by records of work performed and conclusions were not supported in the reports. Similar deficiencies were noted in another review of 101 contracts awarded under the provisions of Public Law 87-43 where technical evaluations were performed by personnel of the military components, as well as the Defense Contract Administration Services. Since the Defense Contract Administration Services plays a major role in performing technical evaluations, it may be feasible to have it establish uniform requirements for these evaluations to be used throughout the Department of Defense.

* * * * *

We recognize that the establishment of a consolidated contract administration agency for the military services is a tremendous undertaking. Much has been accomplished in a relatively short period. However, as indicated by our survey findings, there is a need for improvement in the agency's operations.

USE OF GENERAL ADMINISTRATION SERVICES AS
SOURCES OF SUPPLY BY GOVERNMENT CONTRACTORS

Our reviews of procurement contracts negotiated by the Department of Defense indicates that the Government could realize substantial savings, if contractors engaged primarily in defense contract work had been authorized and required to procure office furniture and common operating supplies through the General Services Administration rather than from more costly commercial sources.

Specifically, in 1965 we reported to the Congress three instances (see note, page 2) when the Government should have been able to save as much as \$1.5 million annually, if the two contractors cited in these reports were authorized and required to procure certain office furniture and common operating supplies at prices that were no higher than the prices available to Government agencies for similar items from the General Services Administration.

For several years, these two contractors had been engaged almost exclusively in the design, development, and production of certain weapons and space systems for the Government. Over 98 percent of their work had been performed under numerous cost-reimbursement-type contracts and essentially all the remaining work was performed under other types of negotiated Government contracts. Under these contracts, the contractors had procured, for their own account, significant amounts of office furniture and common operating supplies from commercial sources at prices higher than the prices contained in General Services Administration schedules. The prices paid by the contractors were indirectly charged, through overhead, to Government contract costs.

The Armed Services Procurement Regulation provides for granting authorization for the use of General Services Administration supply sources to contractors performing under individual cost-reimbursement-type contracts. However, although the regulation provides for the use of General Services Administration sources by contractors where items obtained are charged direct to specific cost-reimbursement-type contracts, these sources cannot be used by contractors that have essentially all cost-reimbursement-type work under a number of contracts where the items are not charged direct to individual contracts but are charged to these contracts through overhead.

The Department of Defense has consistently expressed opposition to contractor procurements from General Services Administration sources under fixed-type contracts and for cost-type contracts when the items are to be procured under a number of contracts and charged to Government contract costs through overhead.

BEST DOCUMENT AVAILABLE

ATTACHMENT 6. - page 1

The General Services Administration has proposed a change in Federal Procurement Regulations. Under this proposal, contractors and subcontractors would be permitted, subject to conditions and limitations prescribed by the contracting agency, to use the Administration's supply sources where agencies determine it is in the best interest of the Government for contractors to utilize these sources in performing Government cost-reimbursement contracts and other types of contracts when a substantial dollar portion of a contractor's contracts are of a cost-reimbursement nature. The proposed regulation would provide for use of GSA services when items are procured and charged to Government contracts through overhead.

The Department of Defense has recently reconsidered the proposed change and advised us on April 26, 1967, that it would not recommend expanding the use of General Services Administration sources of supply by contractor.

Note:

B-132992, dated February 9, 1965, entitled Potential Savings Through Procurement of Operating Supplies From General Services Administration Sources by Martin-Marietta Corporation, Denver Division, Denver, Colorado.

B-146975, dated April 30, 1965, entitled Potential Savings Through Procurement of Office Furniture From General Services Administration Sources by Lockheed Missiles & Space Company, Sunnyvale, California.

B-146975, dated May 13, 1965, entitled Potential Savings Through Procurement of Operating Supplies From General Services Administration sources by Lockheed Missiles & Space Company, Sunnyvale, California.

DEFENSE SUPPLY AGENCY
MANAGEMENT OF SUPPLY ITEMS
HAVING LITTLE OR NO DEMAND

We sent a letter report on March 30, 1967, to the Secretary of Defense advising him of the large volume of inactive and low demand items being managed by the Defense Supply Agency (DSA). In our November 1966 draft report regarding a similar situation in the Navy, we stated that potential savings were available either by elimination from the supply system or transferring those replacement parts that have little or no demand to decentralized management.

We indicated in our recent letter report that almost one-half of the DSA inventory since 1963 has been composed of inactive items-- those having no demands within the past 21 months. The observations presented therein were based on a limited survey into the DSA program to eliminate items with no demand from its supply system. Under this program the Defense Supply Centers refer inactive items to military users, who either advise that they have no further need for the item(s) or verify that a continuing requirement exists.

Our work disclosed that although some form of inactive item review program has been in existence in the Defense Supply Agency since 1963, the number of inactive items centrally managed by this Agency ranged from 44 to 56 percent of the total inventory. We believe the principal cause for the slow progress is that military users often lack the technical capability to determine whether an item should be deleted or retained. In this connection, for example, the Air Force is returning all referrals coded for retention, as are certain activities of the Army. It is our opinion that, until the military services are fully capable of performing an adequate review of items referred by DSA Centers, little if any progress will be made in eliminating inactive items from the DSA supply system.

In addition to the problem of managing volumes of inactive items, DSA also manages thousands of low unit value/low demand type items. According to DSA reports for fiscal year 1966, over 390,000 items, or 56 percent, of the total active items managed by the four Defense Supply Centers, had a unit price of \$10 or less and an annual cumulative demand of \$100 or less.

The total demand value for the 390,000 active items amounted to \$9.6 million which is less than one percent of the total demand value for all items managed by Defense Supply Centers. It is evident that after DSA was established as the integrated manager for common usage items, it acquired many low unit value and low demand type items from the military services, as reported by the Assistant Secretary of Defense (Installations and Logistics) in the "Study of the Interface Between the Military Services and the Defense Supply Agency."

The DSA is currently preparing to introduce a completely new management system (Standard Automated Material Management System). The cost of procuring and installing new-data processing equipment for this type is approximately \$25 million. DSA informed us that the requirements for the new system are predicated on the present inventory stratification and no program is planned to expedite the elimination of inactive or slow moving items prior to the implementation of the new standard management system. The primary purpose for this new management system, according to DSA, is to provide uniformity in Supply Center operations and provide a basis for future improvements and growth in agency operations.

In commenting on our earlier Navy report of November 23, 1966, on inactive and low-demand items, Department of Defense officials advised us that, while they agree that inactive items should be eliminated from the supply systems when there is evidence of no future needs, they are of the opinion that the Item Entry Control Program, the Standardization Program, as well as the Inactive Item Review Program, are capable of reducing the number of items in the supply systems. While we believe that these programs will, in future years, lead to more effective controls over the number and types of items required to be managed, it is our opinion that more aggressive action is required to eliminate inactive items from the system until such a time the cited programs attain full effectiveness.

In this connection, we suggested that the Secretary of Defense consider granting the Defense Supply Agency reasonable discretionary authority to take unilateral action to delete inactive items without referral to the services. Although this approach could result in some subsequent reactivations, we believe that the advantages to be gained by reducing the volume of inactive items will more than offset the costs involved in reactivating some items.

With respect to the high percentage of low-cost, low-demand items in the Defense Supply Agency inventory, we believe some alternatives to the need to continue the present degree of centralized management of these items, even on an automated basis, should be studied by the Department of Defense.

POTENTIAL SAVINGS BY CONSOLIDATION OF FIELD ORGANIZATIONS
AND FACILITIES FOR RECRUITING MILITARY PERSONNEL

In a report to the Congress in June 1966, we pointed out that the four military services were maintaining separate field recruiting organizations and facilities substantially in excess of their combined needs. We recommended that the Secretary of Defense direct that a field test of consolidation of military recruiting organizations and facilities be undertaken and completed as expeditiously as feasible.

On February 28, 1966, we were advised that action had been taken to have the 70 Armed Forces Examining and Entrance Stations conduct mental tests and physical examinations of all categories of personnel for all the military services and to have these stations also process qualified applicants into all the services. We were also advised that the Army had undertaken a reorganization of its recruitment function, the first phase of which resulted in some reductions in recruiting organizations and facilities, and that further consolidations were under consideration.

The Department of Defense agreed with our recommendation for conducting a field test of consolidations to the extent only that it refers to co-location of local recruiting offices in jointly occupied space and to consolidation of certain administrative, support and logistical functions where feasible and economical.

On September 26, 1966, the Department of Defense issued DOD Directive 5160.58 establishing uniform DOD policies and procedures for providing adequate space for use by recruiting offices and stations and for co-locating such facilities to the maximum extent practicable. In this connection, the Secretary of the Army was designated as Executive Agent for real property management connected with the acquisition, disposal, and maintenance of space needed for recruiting offices and stations. By memorandum dated November 19, 1966, the Department of the Army, as Executive Agent, was requested by the Assistant Secretary of Defense (Manpower) to initiate facility surveys in 14 metropolitan areas for the purpose of establishing reasonable target dates for accomplishing the proposed co-locations which were identified as a result of the four Services re-evaluating their recruiting office requirements. (The Services have tentatively proposed to reduce the number of locations in 14 metropolitan areas from 524 to 198.)

On December 1, 1966, the Secretary of the Army re-delegated its authority to the Chief of Engineers who is now designated the Executive Agent for recruiting facilities. In this connection, the Chief of Engineers issued implementing procedures and instructions to the Services and plans to report the results of its surveys, including reasonable target dates for accomplishing the proposed co-locations, by early May 1967.

OPPORTUNITIES FOR SAVINGS IN CONTRACTING FOR THE PRINTING OF
TECHNICAL MANUALS AND IN OTHER ASPECTS OF THE MANAGEMENT OF
TECHNICAL MANUALS IN THE DEPARTMENT OF DEFENSE

A report on our review regarding the opportunity for savings by the Department of Defense in the procurement of the printing of technical manuals was released to the Congress in November 1966. This review was made in cooperation with the Joint Committee on Printing which had requested that we examine the practices followed by the military departments in the procurement of printing.

On the basis of the review we concluded that in most cases the military departments can achieve significant savings by contracting for the printing of technical manuals with commercial printers under formally advertised contracts awarded by the Government Printing Office in lieu of procuring such printing from the manufacturers of the equipment to which the manuals relate. Based on our limited tests, we estimate that this savings could have amounted to about \$8 million for fiscal year 1964.

In April 1967 a report on our survey of the management of technical manuals within the Department of Defense was made to the Joint Committee on Printing and to the Subcommittee on Department of Defense, House Committee on Appropriations.

Our survey indicated that savings might be realized by single-service management of identical manuals that are used by two or more services. For designated items of equipment used by more than one military service, procurement responsibility has been assigned to one service. However, each service is responsible for the printing and distribution of its own technical manuals. For example, where an identical manual is required by both the Navy and the Air Force, the service responsible for procurement of the equipment purchases two sets of negatives--one set for each service. Then each service independent of the other incurs costs for the printing of its own technical manual requirements. As a result duplicate costs are incurred for negatives and for preparation of presses for two separate printing runs. We concluded that, in those situations where identical manuals are used by more than one service, the assignment of management responsibility to one service should be considered.

Our survey also indicated that savings might be realized by: considering the effect that reductions in requirements for technical manuals have on the prices established under negotiated contracts; eliminating duplicate numbering systems; increasing the use of less expensive certified mail in lieu of registered mail to

transmit technical manuals classified as "confidential" within the continental United States; and increasing interservice liaison so that all the services will be currently informed of joint-usage manuals that are considered obsolete by any one service before disposal action is authorized.

We are working very closely with the Joint Committee on Printing in its efforts to achieve broader coordination and economy in the total printing effort of the Federal Government.

MILITARY FACILITIES AND CONSTRUCTION

Last year we established within our Defense Division a Facilities and Construction staff which is responsible for the accounting, auditing, and investigative work of the General Accounting Office involving real property in the Department of Defense, including the Departments of the Army, Navy and Air Force. These responsibilities include, but are not necessarily limited to, operation, management, maintenance and construction of facilities, barracks, quarters and family housing. In addition, the staff is responsible for reviews of award and administration of contracts for construction, management or maintenance of facilities; acquisition and utilization of real property; research into improvement of construction and facilities management practices; disposal of facilities and real property; and other matters involving facilities for training, communication, medical, reserve and active duty forces; and financial accountability for such real property.

Among the areas to which the efforts of this functional staff are being directed is the area of possible savings from joint utilization of common-type facilities by the military services or consolidation of activities relating to maintenance and construction of facilities.

Military contracts for construction are executed under the jurisdiction and supervision of the Corps of Engineers, Department of the Army, or the Naval Facilities Engineering Command, Department of the Navy, unless the Secretary of Defense or his designee determines that, because such jurisdiction and supervision is wholly impracticable, such contracts should be executed under the jurisdiction and supervision of another department or Government agency. These two agencies generally act as the construction agents for the Department of Defense except for construction of Department of the Air Force family housing in which case the Air Force acts as its own construction agency.

With regard to interservice use of facilities, none of our work has reached a stage of firm conclusions. Some of the specific matters that we are looking into or planning to look into in the near future are:

1. The management and operation of motion picture and photographic activities. The study among other things will cover the feasibility of improved efficiency by more joint utilization of facilities, and consolidation and interservice coordination of the activities.

2. The feasibility and economy of establishing a defense, or single service, public works center on Oahu, Hawaii, that would provide maintenance type services to installations of all the military departments. The Navy has consolidated a number of its installation maintenance activities at various locations into public works centers and claims the consolidations have resulted in substantial savings. Under this program a public works center was established in Oahu. There are, however, a number of Army and Air Force installations on the same island that are maintaining their own maintenance activities.
3. The construction of military hospitals and medical facilities. A major aspect to be reviewed in this survey will be whether in the requirements determinations maximum consideration is given to interservice use of the facilities.
4. The policies and procedures used in determining the requirements for family housing, bachelor officer quarters and barracks. There appear to be indications of a need for better coordination within and among the services, particularly in geographical areas of military concentration. Improved coordination should result in a better identification of common needs and combined existing facilities to meet such needs.
5. The validity of the need for training and other facilities included in recent military construction programs (particularly from the viewpoint of maximum interservice utilization).
6. The pricing of recently awarded military construction contracts and modifications.
7. Construction aspects pertaining to the move of United States forces out of France. Over \$100 million of new military construction is planned in Europe largely as a result of this move. We are planning to review the proposed construction projects to determine (1) whether all existing facilities have been considered for possible use, (2) whether stocks have been properly screened to eliminate any excesses and thus reduce storage facility requirements, and (3) the adequacy of the contracting procedures.

In the near future, we are planning to issue a report to the Congress on the compliance with Public Law 87-653 and implementing regulations in the negotiation of military construction contracts and modifications. This is our third report in 1967 informing the Congress of various specific steps that need to be taken in the Department of Defense in order to fulfill the purposes of Public Law 87-653, the "Truth-in-Negotiations" Act of 1962. This report concerns our review of 237 contract actions negotiated since November 1964 and totaling about \$128 million.

We found generally that, in the negotiation of prices of construction contracts and modifications: (1) sufficient cost or pricing data supporting the contractors' proposals were not obtained, as required by the law, (2) cost analyses of contractors' proposals to determine that the prices were fair and reasonable were not made, as required by the regulations, and (3) related prescribed procedures for utilizing advisory audits were not followed.

GOVERNMENT-WIDE REVIEW OF THE ADMINISTRATION
OF CERTAIN STATUTORY AND REGULATORY REQUIREMENTS
RELATING TO ARCHITECT-ENGINEER FEES

Our review of the interpretations and applications by Federal agencies of the statutory 6-percent fee limitations on architect-engineer fees under Government contracts and of certain related statutory and regulatory requirements was made in response to the request of the House Committee on Science and Astronautics and the Senate Committee on Aeronautical and Space Sciences.

We found that the major construction agencies contracted for architect-engineer services at fees in excess of the statutory provisions which limit the fees payable to architect-engineers to 6 percent of the estimated cost of construction. Generally, agencies 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. However, in our opinion, the military procurement statute and the Federal Property and Administrative Services Act of 1949 impose the 6-percent fee limitation on all architect-engineer services.

In our opinion, the present statutory fee limitation is impractical and unsound, and we recommended that the Congress repeal the 6-percent limitation imposed on architect-engineer fees by the United States Code (10 U.S.C. 2306(d), 4540, 7212, and 9540) and by section 304(b) of the Federal Property and Administrative Services Act of 1949, as amended (41 U.S.C. 254(b)). Representatives of the Federal agencies, the architectural-engineering professional societies, and the Bureau of the Budget advised us that they agree with this recommendation.

During our review, we examined into whether the agencies were requiring architect-engineer contractors to submit cost or pricing data prior to the award of negotiated contracts as required by Public Law 87-653 which applies to the Department of Defense, the National Aeronautics and Space Administration, and the Coast Guard and by the Federal Procurement Regulations which apply to the remaining Federal agencies. Although the Federal Property and Administrative Services Act of 1949 has not been amended to require cost or pricing data, the General Services Administration has included a requirement for furnishing such data in the Federal Procurement Regulations similar to the requirement in Public Law 87-653. The General Services Administration determined, however, that the requirement should not be applied to architect-engineer contracts because of their special characteristics.

Representatives of the Department of Defense advised us that the cost or pricing data requirements of Public Law 87-653 are being applied without distinction as to whether or not architect-engineer services are

involved. A representative of the General Services Administration advised us that consideration will be given to revising the Federal Procurement Regulations to provide for such application. We believe that cost or pricing data should be required by all agencies in contracting for architect-engineer services. The Bureau of the Budget advised us informally that it agrees with our views in the matter.

We also examined into the requirement of Public Law 87-653 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 discussions be conducted with all responsible offerors whose proposals are within a competitive range, price and other factors considered. The General Services Administration has included a similar requirement in the Federal Procurement Regulations. Although most of the construction agencies of the Government are subject to this requirement, they generally solicit a proposal only from the architect-engineer firm selected on the basis of technical ability. In our opinion, this negotiation procedure does not comply with the above statutory requirement.

Agency representatives advised us that they are opposed to the concept of soliciting multiple competitive proposals. The Department of Defense advised us that it believes that its present architect-engineer selection procedures constitute the maximum competition consistent with the nature and requirements of the services being procured. The Department of Defense also stated that, until the architect-engineer community demonstrates that it is prepared to countenance competition on price as well as on other factors, the Department, believing that it is complying with Public Law 87-653, would intend to proceed as before.

Representatives of the architect-engineer professional societies advised us of their belief that the legislative history of Public Law 87-653 constitutes substantial ground for concluding that the competitive negotiation requirements of the act were not intended to apply to architect-engineer services.

We find no present statutory basis which would exempt architect-engineer contracts from these requirements. Therefore, we are of the opinion that the present negotiation procedures and practices do not conform with these requirements. Recognizing, however, that the problem of how architect-engineer services can best be obtained is a complex one, we have advised the agencies that present procedures may be followed until the Congress has had an opportunity to consider the matter.

Although we are of the opinion that the procurement of architect-engineer services is and should be subject to the competitive negotiation requirements of Public Law 87-653, we think that, in view of past administrative practices in the procurement of such services, it is

important that the Congress clarify its intent as to whether the competitive negotiation requirements of the law are to apply to such procurements. Should the Congress determine that it is not so intended, we believe that the law should be amended to specifically provide for an exemption for this type of procurement.

Absent a clarification of congressional intent, we are of the opinion that the Department of Defense should appropriately revise the Armed Services Procurement Regulation to reflect a proper implementation of Public Law 87-653. Also, we are of the view that the General Services Administration should similarly revise the Federal Procurement Regulations so as to ensure uniform procedures with reference to the procurement of architect-engineer services.

Further, we examined into the methods employed by Federal agencies to compute an estimate of the architect-engineer fee for purposes of negotiation. The most commonly used methods are the detailed analysis method and the percentage-of-estimated-construction-cost method. We believe, however, that the detailed analysis method is more appropriate and should be used by all agencies in lieu of the percentage-of-estimated-construction-cost method.

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AUTOMATIC DATA PROCESSING

The Federal Government has been in the forefront of computer technology since its beginning and is the world's largest user of computers. Current expenditures for Government ADP activities are estimated to be running at a rate of about \$3 billion annually.

The billions of dollars already invested in this field by the Government for the development and use of this equipment have led to the widespread use of computers and computer-related equipment, including data communication systems throughout the Government and industry. Almost all disciplines, and certainly almost all large-scale data-handling activities of the Government, have been affected to some extent so far. The future portends even greater impact through new developments and the wedding of computers and communication systems in advanced systems. The uses of computers range across the spectrum of all disciplines from education to medical research and from routine data-handling to scientific decisionmaking.

Because of the high costs involved, the extent and significance of this development, and its impact on Federal Government activities, we have, from time to time, reported to the Congress on Government-wide developments in this field. Currently, we are conducting Government-wide studies of present and planned uses of ADP systems in the Federal Government with particular emphasis on compatibility and standardization of such systems and equipment, including related communication facilities. These studies include further inquiry into the trend and development, use, and cost of ADP systems in relation to flow of data and information within Government systems and between Government and industry systems.

One of our studies that is nearing completion involves consideration of the various concepts under which computer systems are being utilized. We are concentrating, in this study, on the use of third-generation computers in relation to what has come to be known as the "public utility concept" wherein multiple users time-share equipment through the use of communication facilities. We are also considering, in this study, various possibilities for increased sharing of computer resources. For example, we are looking into various possibilities for sharing through use of service centers or other arrangements which would provide for increased utilization of computer resources already acquired.

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Our studies are also directed at such questions as how to achieve greater interchange of data automatically between ADP systems and how to reduce duplication of effort in the development and use of ADP systems.

In our statement before the Subcommittee last year, we pointed out that significant economies were being achieved because of the increased emphasis being placed on purchasing rather than leasing of ADP equipment in Government agencies.

The Bureau of the Budget has estimated that over 50 percent of currently installed equipment is now owned by the Government and in its February 23, 1967, report to the President on computer management in the Federal Government the Bureau reported the avoidance of approximately \$200 million in annual rental costs by the selective purchase of computers, many of which were purchased within the past 3 years and have already been amortized.

As we pointed out during the hearings last year, we believe also that substantial savings can be achieved through purchasing rather than leasing of ADP equipment by Government contractors. The Bureau of the Budget has informed us that it considers that the criteria set forth in its Circular No. A-54 of October 14, 1961, prescribing conditions under which determinations are to be made by Government agencies as to whether to buy or rent ADP equipment, also should be applied to cost-reimbursement-type contracts.

Subsequently, on March 24, 1967, the Department of Defense issued its Defense Procurement Circular No. 52 which contains a revision to the Armed Services Procurement Regulation which provides new policy and procedural guidance on the acquisition of ADP equipment by Department of Defense contractors.

Previously, in commenting to the Department of Defense on the proposed revision to the Armed Services Procurement Regulation, we expressed certain reservations regarding the limited coverage provided by the proposed regulation and suggested that the provisions of the regulation should be broadened to cover a wider range of contractor ADP acquisition activities. However, until we have had an opportunity to review the system in actual operation, we will not be in a position to determine the effectiveness of the regulation.

We intend to continue our efforts to review the need, application, and utilization of ADP equipment by Federal departments and agencies and we will keep the Committee advised of our studies in this area.

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MODIFICATION OF AGENCY ACTIVITIES
TO MEET NEEDS OF OTHER AGENCIES

Report on Review of Long-Term Medical
Research on Aging of Aviation
Personnel (B-158515; April 12, 1966)

We reviewed a long-term project for medical research on the aging of aviation personnel, which was being financed by the Federal Aviation Agency.

The objective of the Federal Aviation Agency's efforts in this 25-year research project was to develop methods for measuring the physiologic age, as distinguished from the chronologic age, of aviation personnel. The Public Health Service, Department of Health, Education, and Welfare, also was supporting a project through a research grant to learn more about the process of physiological aging and its progress in relation to chronological age. The latter project was using pilots as a study group and was expected by the grantee to continue for a total of 30 years. The projects, which were being funded at annual rates totaling about \$365,000, would have cost the Government \$9.7 million (\$5 million for the Federal Aviation Agency and \$4.7 million for the Public Health Service) if financed to completion.

In our opinion, the need for the Federal Aviation Agency to undertake a separate long-term project on the aging of pilots and other aviation personnel was questionable because (1) the general objectives of each project are similar and each project is based on the same planning study and (2) the information being developed under the Public Health Service-supported research project could, it seems, have been adapted to meet the objectives of the project which the Federal Aviation Agency had recently initiated.

In 1960 the Federal Aviation Agency awarded a contract to the Lovelace Foundation for Medical Education and Research, Albuquerque, New Mexico, for a research planning study of aging criteria. The Lovelace Foundation advised the Agency that an extensive planning study was necessary before any long-term project on aging could be effectively initiated. Prior to the award of the contract, the Subcommittee on Independent Offices of the Committee on Appropriations, House of Representatives, expressed concern that the Federal Aviation Agency was about to undertake research in an area already being studied by the Public Health Service and by other Government agencies. The Agency informed the subcommittee that, to its knowledge, neither the Public Health Service nor any other research group was conducting research on aging related to the task of piloting. Subsequently, the Agency learned that the Foundation intended to apply to the Public Health Service for a grant to support a long-term project on the aging of pilots. However, the Agency proceeded to make the first examinations in its long-term aging project.

We concluded that, upon being advised of the Foundation's intention to apply to the Public Health Service for a grant to conduct long-term

research on the aging of pilots, the Federal Aviation Agency could have formally communicated with the Service and the Foundation to determine whether one long-term project could be devised to meet the needs of both agencies.

In commenting on our findings, the Agency acknowledged that there were no formal procedures for coordinating research between it and the Public Health Service and advised us that it would establish such procedures for coordinating new research projects.

Subsequent to the issuance of our report on this matter, the Federal Aviation Agency discontinued its research project. This action will save an estimated \$3.8 million.

Report on Review of Geodetic Surveying
Activities within the Federal Government
(B-113188; January 25, 1967)

We made a review of the geodetic surveying activities of selected agencies of the Federal Government.

Geodetic surveys are basically land surveys made for the purpose of determining the precise position of specific points on the earth's surface in terms of latitude, longitude, and elevation. Once the positions are identified and monuments are established to mark the positions, the area is considered to be under geodetic control. Our report concerned primarily horizontal control which identifies positions of known latitude and longitude. 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 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 Bureau of Public Roads, Department of Commerce, in its highway programs--also establish geodetic control points. These geodetic control points generally are established, however, only to standards required for individual program needs and, for the most part, do not meet the standards of accuracy required to extend the national network. Consequently, the Environmental Science Services Administration plans to resurvey most of the same areas to establish geodetic control points that will meet the standards of the national network.

We believe 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 under its highway programs would total about \$30 million and by the Geological Survey under the topographic map program would total about \$15 million.

The Bureau of the Budget, in June 1966, agreed that it should continue to press for improved coordination and efficiency in the conduct of the Government's Geodetic control activities but doubted that it was either desirable or possible to ensure that all geodetic control work would extend the national network. Subsequently, 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 whereby horizontal geodetic control to national network standards would be achieved as a part of the Geological Survey's topographic map program.

The agreement provides that, where other requirements are equal, preference in the authorization of mapping will be given to an area which has been basically controlled over an area which does not contain basic control. The Geological Survey will continue to advise the Environmental Science Services Administration of its mapping plans so that it may accomplish as much of the basic control as possible. In situations where a portion of a large uncontrolled area must be mapped, however, the Geological Survey will establish horizontal control to national network standards, with proper connections to existing control points.

We believe that this agreement is an important step in the right direction. In our opinion, however, a more economical arrangement may be possible by requiring Geological Survey to perform all the basic control required for those areas which are presently uncontrolled and which it plans to map under its current mapping program. Such an arrangement would result in only one field operation by the Geological Survey, whereas, if the Environmental Science Services Administration performs the control prior to the time the Geological Survey does its mapping, 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.

The various agencies, in commenting on this matter, did not indicate that any specific action would be taken to improve the coordination of the geodetic surveying activities of the Bureau of Public Roads and other Federal agencies 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 nationwide geodetic control plan and whenever such control would eliminate the need for the Environmental Science Services Administration to resurvey the same area.

Accordingly, 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 would be economically feasible to have such surveys, when undertaken in uncontrolled areas, performed to standards which would extend the national network of geodetic control. This recommendation contemplated that the Environmental Science Services Administration will continue to provide for the direction and coordination necessary for

establishment of a national network of geodetic control and that consideration will be given to having it fund the additional costs incurred by other Federal agencies to bring their surveys up to the national network standards.

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