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**REPORT TO
THE CONGRESS OF THE UNITED STATES**

**COMPILATION OF
GENERAL ACCOUNTING OFFICE
FINDINGS AND RECOMMENDATIONS
FOR IMPROVING GOVERNMENT OPERATIONS
FISCAL YEAR 1962**



**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES**



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

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

Herewith for the information of the Congress is the fourth annual compilation of General Accounting Office findings and recommendations for improving Government operations. This compilation relates for the most part to the fiscal year 1962. The purpose of this report is to provide the Congress with a convenient summary showing the nature, extent, and variety of matters which the General Accounting Office examines into in its audit activities.

The findings and recommendations included in this compilation were made in connection with our responsibilities under the Budget and Accounting Act, 1921, and other laws which require us to independently examine for the Congress the manner in which the departments and agencies are discharging their financial responsibilities.

The compilation also describes the actions taken by the departments and agencies of the Federal Government as a result of our recommendations. It is not always possible to measure in financial terms the savings and benefits resulting from these actions. However, collections of \$48,219,000 were made during the fiscal year 1962 through the efforts of our Office. In addition, actions taken by the departments and agencies during the same year as a result of our findings and recommendations resulted in either definite, measurable savings or possible savings of over \$114 million. A summary statement of these collections and savings appears on page 88 of the report.

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

A copy of this report is being sent to the President of the United States.

A handwritten signature in cursive script, which appears to read "W. Ross Campbell".

Comptroller General
of the United States

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TO THE READER:

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COMPILATION OF
GENERAL ACCOUNTING OFFICE
FINDINGS AND RECOMMENDATIONS
FOR IMPROVING GOVERNMENT OPERATIONS
FISCAL YEAR 1962

DEPARTMENT OF DEFENSE
AND DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

REVIEW OF INTERSERVICE SUPPLY

1. Central agency established to provide coordinated and more economical management of supply systems--Although the Department of Defense had created a number of supply agencies with responsibility, among other things, for promoting coordination among the services in selected areas of supply management, this approach to the problem had not achieved the fullest practicable use of defensewide inventories to satisfy defensewide requirements. Military departments in many instances procured new material to meet their individual needs even though other military departments had excess stocks of similar material. We believed, and so recommended in various reports on our reviews of this aspect of supply management, submitted to the Congress in the fiscal year 1962 and in prior years, that consideration should be given by the Secretary of Defense to the establishment of a centralized agency within the Department of Defense which would have the responsibility and appropriate authority to provide coordinated management of material common to two or more military services.

Following a study of the problems inherent in management of supplies common to two or more services, the Secretary of Defense established on October 1, 1961, a Defense Supply Agency under his direct control for the purpose of providing centralized supply management of those commodities which are common to the military departments and are determined to be susceptible of integrated management by a single agency. Certain commodities, principally those previously managed by "single managers" in the military departments, had been assigned to the Defense Supply Agency by June 30, 1962. These commodities included such general-use supplies as food, clothing and textiles, medicines, and petroleum products. Other commodities were being studied to determine the feasibility of assigning them to the agency.

In May 1962 the Military Operations Subcommittee, House Committee on Government Operations, held hearings to examine in detail the mission, concept, organization, and operations of the Defense Supply Agency. The Chairman stated that such an examination was appropriate, even though the agency was not fully operational and would not be so for a number of years, because the initial

REVIEW OF INTERSERVICE SUPPLY (continued)

decisions on the important matters of authority and scope of operations would determine the type of improvements, efficiency, and economy to expect from this new agency. At its request, we made a statement before the Subcommittee which summarized some of the more significant matters disclosed in our reviews of the types of activities that had been consolidated into the Defense Supply Agency or were under consideration for such consolidation. We concluded our statement with the expression of our belief, which we had consistently maintained, that really effective interservice utilization of common-use items would best be attained by consolidating, rather than attempting to coordinate, all involved functions and organizations.

2. Procurement avoided by transfer of supplies and equipment from military departments in long supply to military departments in short supply--Our reviews of interservice supply management of aeronautical spare parts, aircraft engines, and spare parts obtainable from excess aircraft engines showed that coordination among the military services in supply matters failed to achieve the fullest practicable use of defensewide inventories to satisfy defensewide requirements. As a consequence, the military departments procured or planned to procure new material to meet their individual needs even though other military departments had excess stocks of similar material. After we brought our findings to the attention of agency officials, materials costing many millions of dollars were transferred and procurements were reduced. Following are illustrative findings.

We identified \$21.3 million worth of stock, in long supply or excess to the needs of individual military departments, which had not been transferred to fill existing requirements in other military departments. This stock included such items as spare parts for aircraft engines, jet engine blade assemblies, carburetors, and various types of instruments for flight and engine control. After we apprised appropriate officials of this, the stock was transferred. The transfers enabled the recipients to terminate \$2.2 million worth of procurement contracts, to reduce procurement plans by \$4.7 million, and to cancel scheduled repairs which would have cost about \$578,000. However, about \$2.4 million worth of procurement contracts could not be terminated because the material, although not needed, either had already been delivered or was in advanced stages of production.

We found also that the military departments incurred costs of \$4.2 million for procurement or conversion of aircraft engines to meet their individual needs while excess engines of a similar type were on hand in another military department. As a result of our finding, 487 engines valued at \$15 million were transferred from those services which had excess engines to other services which had

REVIEW OF INTERSERVICE SUPPLY (continued)

current or future need for the engines. The transfers enabled the Navy to cancel its immediate plans to procure 101 engines, at an estimated saving of \$4 million.

Similarly, we found that the military departments incurred costs of \$2 million for procurement of spare parts which, through more adequate interservice coordination, could have been obtained by disassembling excess engines on hand in the other military departments. Our analysis of selected excess engines on hand indicated that about \$4 million worth of spare parts then needed by the Air Force and the Navy could be reclaimed from those engines at a cost of only about \$350,000 for disassembly and for restoring the parts to serviceable condition. After we brought this matter to the attention of appropriate officials, action was taken to reclaim the parts.

3. Action taken to preclude premature introduction of new styles of clothing and textile supplies--The military departments introduced new styles of clothing and textile items into the central supply system and caused such items to be procured, even though large quantities of items of the older style were still on hand. One such instance involved the procurement, at a cost of \$5.5 million, of a new lightweight uniform for the Air Force. At the time of the procurement there was on hand about \$51.2 million worth of a heavier weight uniform and related fabric. The introduction of the new uniform reduced the demand for the older uniform. We estimated, on the basis of the reduced demand, that the inventory of the older uniform would meet normal peacetime needs for about 10 years and that a significant loss would result if it became necessary to accelerate reduction of the inventory by sales to military personnel at prices below cost or by disposal as surplus material. On June 14, 1962, the Assistant Secretary of Defense (Installations and Logistics) informed us that procedures had been adopted to assure that plans for the introduction of new styles provide for an orderly disposition of the older items being replaced.

4. Responsibility for computation of food supply requirements centralized--Forecasts of future requirements for nonperishable food items, prepared by the military departments and reported to the Military Subsistence Supply Agency (MSSA), were frequently unreliable. As a consequence, unnecessary costs were incurred by MSSA through (1) procurement in uneconomical quantities, sizes of containers, or types of pack, (2) supplemental procurement after the planned seasonal buy, and (3) handling and transportation costs for redistribution of stock. Although we identified about \$1 million of such unnecessary costs, we did not attempt to establish the full magnitude of the excess costs inasmuch as MSSA agreed with us on the seriousness of the problem and the need for corrective action.

REVIEW OF INTERSERVICE SUPPLY (continued)

In bringing our findings to the attention of the Department of Defense, we suggested that reliability of the forecasts of requirements would be improved if the computations were made by MSSA, rather than by the individual services, on the basis of pertinent information furnished MSSA by the services as to the factors affecting their future requirements. On January 30, 1962, we were advised by the Assistant Secretary of Defense (Installations and Logistics) that MSSA had been assigned the responsibility for computing requirements and the military services had been instructed to furnish to MSSA their projections of strength, deployment, and other information affecting computations of requirements.

5. Need for the military departments to agree to maximum practicable standardization of clothing and textile supplies--We estimated that, for the 57 items of clothing and textiles included in our review, the Government was incurring unnecessary costs of about \$2.8 million annually because the military departments had not resolved minor differences in specifications as to size ranges, design, fabric, and shades of color. For example, about \$682,000 of unnecessary costs were being incurred annually because of disagreement among the services as to size ranges and design of men's woolen trousers. Disagreement as to design involved such minor matters as width of belt loops, design of waist and seat, and degree of straightness of legs. The Office of the Assistant Secretary of Defense (Installations and Logistics) advised us, during the course of our review, that actions have been initiated by the military services which will result in annual savings of about \$1 million through greater standardization of men's woolen trousers and cotton dress shirts.

The Subcommittee on the Department of Defense, Senate Committee on Appropriations, expressed an interest in our report and requested that it be kept informed on the progress of the actions being taken to achieve maximum practicable standardization. We have scheduled a follow-up review, to begin in January 1963, for the purpose of examining into the progress made since issuance of our report.

6. Need for centralized management of photographic supplies and equipment--We found that the photographic supplies and equipment in the supply systems of the three military departments, about 27,300 different items valued at about \$150 million, were substantially in excess of requirements for adequate supply support in terms of both number of items and quantity of stock. The excess supply caused unnecessary expenditures for storage, handling, transportation, and other related expenses as well as avoidable losses through obsolescence or expiration of shelf life of the stock. Many of the items in stock were common to two or more departments. We identified about \$1.9 million worth of items which

REVIEW OF INTERSERVICE SUPPLY (continued)

had been procured or were about to be procured by the individual departments even though adequate quantities of the items were already on hand within the Department of Defense. Further, at least 5,000 of the items in the supply systems were of a type readily available in the commercial market and need not have been carried in the supply systems. Purchases of such items by the using organizations as needed would result in substantial savings in the cost of handling and storage.

We proposed to the Secretary of Defense that consideration be given to merging the photographic supply management activities of the individual military departments into a single organization within the Department of Defense. On March 17, 1962, we were informed by the Office of the Assistant Secretary of Defense (Installations and Logistics) that responsibility for integrated management of photographic supplies had been assigned to the Defense Supply Agency and that the problems of managing photographic equipment would be studied for feasibility of integrated management.

REVIEW OF PROCEDURES FOR DETERMINING SUPPLY REQUIREMENTS

7. Procedures strengthened by Department of Defense to avoid procurement of clothing and textile supplies in excess of requirements--Because of weaknesses in its procedures for determination of requirements, the Military Clothing and Textile Supply Agency (re-designated the Defense Clothing and Textile Supply Center on January 1, 1962) procured substantial quantities of material in excess of foreseeable needs. We identified about \$20.4 million worth of unnecessary procurement which resulted from such things as (1) arbitrary procurement, in quantities which substantially exceeded those needed to maintain stocks at the established economical levels of supply, in order to take advantage of what the agency considered to be economical market conditions, (2) projection of future requirements without adequate consideration of the rates of usage experienced in the past, and (3) failure to reduce or terminate outstanding supply contracts in response to reductions in requirements.

We proposed corrective measures designed to assure (1) that decisions to procure quantities in excess of those necessary to maintain stock at normal levels of supply are documented and are based on consideration of all pertinent factors and (2) that changes in requirements result in prompt review of procurement in process and, where economically feasible, prompt cancellation of the procurement no longer required. On August 28, 1962, the Assistant Secretary of Defense (Installations and Logistics) advised us that actions in line with the measures we proposed either had been or were being taken by the Defense Clothing and Textile Supply Center and that the Defense Supply Agency would maintain constant surveillance over the actions to assure their effective implementation.

8. Action taken by the Navy to make more reliable determinations of its needs for shipboard equipment and repair parts--We identified about \$838,000 worth of shipboard equipment and repair parts which had been or were being purchased unnecessarily because erroneous factors had been used in determining requirements. These factors also caused unnecessary transportation and handling costs to be incurred in unwarranted redistributions of stock among the various field installations of the Navy. In many instances the redistributions involved transcontinental shipments and frequently required further redistribution at a later date. The erroneous factors included such things as (1) overstated usage experience as a basis for projecting future usage, (2) allowances for equipping certain ships which either were already equipped or were not to be equipped, and (3) duplicated allowances for material needed in planned ship construction and conversion work. These findings were brought to the attention of the Navy during the course of our review, and the Navy terminated orders or reduced its planned procurement for shipboard equipment and repair parts by about \$364,000

REVIEW OF PROCEDURES FOR DETERMINING SUPPLY REQUIREMENTS
(continued)

and took action to improve its methods and procedures for determining requirements. On June 11, 1962, the Office of the Secretary of the Navy advised us that implementation of the corrective actions had been completed.

9. Action taken by the Navy to make more reliable determinations of its needs for ordnance supplies and equipment--We found in our review of the Navy's management of ordnance supplies and equipment that (1) about \$870,000 worth of stock was procured unnecessarily because of inaccurate requirements computations, failure to cancel or reduce items on order when requirements were reduced, or failure to repair and re-use existing items to meet requirements, (2) about \$379,000 was unnecessarily expended or planned to be expended for repair of unserviceable stock while quantities of serviceable stock then on hand were more than adequate to meet requirements, and (3) about \$1 million was unnecessarily expended for salvage of stock which either was not needed or was to insignificant in value to warrant the expense. The Navy agreed with our findings and proposals for corrective action and took steps to strengthen its control procedures.

10. Action taken by the United States Army, Europe, to make more reliable determinations of its needs for ordnance supplies and equipment--Our review of selected requisitioning actions of the Ordnance Supply Management Agency (OSMA), Maison Forte, France, showed that material valued at \$9.4 million in excess of the then current requirements was ordered by OSMA from the continental United States because of unreliable determinations of requirements. We found evidence that many of the orders for unneeded material had been placed because of errors in management reports and failure of OSMA to review the reports adequately. One such report indicated that requirements existed for certain items which were actually in an excess stock position. Had OSMA made an adequate review, it could have readily determined from other information in the report that the quantities indicated as shortages were in fact the quantities of excess stock of the items on hand. After we brought the deficiencies to the attention of OSMA officials, they made a review of their requisitions to determine the full extent of overordering and subsequently canceled orders amounting to \$7.4 million; but \$2 million worth of orders could not be canceled because the material was either in transit or already on hand.

We recommended measures to help overcome the deficiencies in computing material requirements, and on December 18, 1961, the Assistant Secretary of the Army (Installations and Logistics) advised that the Army agreed with the measures we recommended.

REVIEW OF PROCEDURES FOR DETERMINING SUPPLY REQUIREMENTS
(continued)

11. Need for the Navy's Aviation Supply Office to improve its procedures for use of automatic data processing equipment in computations of requirements--Although the Navy's Aviation Supply Office (ASO) was one of the first military agencies to use high-speed electronic computer equipment in its operations, the first computer having been installed at ASO in March 1954, we found that the system had not made its fullest contribution to improved aviation supply management. The deficiencies were attributable primarily to lack of effective planning and preparation for use of automatic data processing equipment and failure to correct deficiencies of which ASO had been made aware either through its own experience or through reviews made by other organizations. As a consequence, the supply requirements computations produced under the automatic data processing system were inaccurate and resulted in procurement of excess quantities of aeronautical assemblies and parts in some instances and permitted stock shortages to develop in other instances.

The Navy informed us that it had initiated a program for correcting the deficiencies we found in our review. We were informed also that the Office of the Secretary of Defense will make a performance evaluation at ASO in the near future which will include a current appraisal of ASO's automatic data processing system.

REVIEW OF STOCK CONTROLS

12. Action taken by the Navy to obtain needed spare parts by disassembling excess aircraft engines--The Navy procured about \$3.2 million worth of spare parts which could have been obtained by disassembling excess R3350-26WA engines on hand in its supply system. Further, the Navy's records at June 30, 1961, indicated an additional need for about \$5.3 million worth of spare parts which could have been obtained from the 972 excess engines then on hand. We discussed this matter with Navy officials during the course of our review, and the Navy advised us on November 7, 1961, that, because of the need to augment its ready reserve capability, the number of engines considered to be excess was being restudied. Subsequently, the Navy arranged to reclaim needed spare parts from 380 of the excess engines. It was estimated that about \$4.9 million worth of such parts would be obtained at a cost of \$285,000 for reclamation.

13. Procedures strengthened to avoid premature disposal of excess ship repair parts--We found that, because of premature disposal of certain ship repair parts as excess to its foreseeable needs, the Navy later found it necessary to procure about \$700,000 worth of new stocks of identical items. Our findings were brought to the attention of the Navy, and the Navy strengthened its procedures by providing for an expanded technical review of the potential needs for excess stocks and by reclaiming needed subassemblies and parts from excess equipment. We were subsequently advised that the Navy, through its changes in procedures, had salvaged about \$1,330,000 worth of ship repair parts from assemblies earmarked for disposal.

14. Action taken to strengthen control over signal supply operations of the United States Army, Europe--We found that the Signal Supply Control Agency (SSCA), Maison Forte, France, was not performing its supply mission in an economical and efficient manner because of inadequate supply practices, procedures, and management controls. Our review of selected items disclosed that (1) stocks valued at about \$5 million had been ordered from the United States unnecessarily because SSCA had failed to consider the use of acceptable substitute items, (2) additional orders valued at \$8.1 million for reserve requirements were substantially overstated because of erroneous computations, (3) stocks valued in excess of \$4.2 million were reserved for special purposes without sufficient justification and were thereby not available to meet other needs in Europe and other areas, (4) operating stock levels were overstated by \$1 million for some items and understated by \$1 million for others, and (5) SSCA failed to fill requisitions from Seventh Army units for signal items for extended periods of time although in most cases sufficient stocks were on hand in the depots. SSCA took action on some of the specific matters identified during our

REVIEW OF STOCK CONTROLS (continued)

review. It canceled or suspended orders valued at about \$11 million, but there was not sufficient time to cancel an additional \$2.1 million worth of unnecessary orders.

The conditions we found in the Signal Supply Control Agency were substantially the same as those we found in an earlier review of signal supply operations in Europe despite assurances by the Department of the Army at that time that corrective action would be taken. Therefore, we reiterated certain of our earlier recommendations and recommended additional improvements. On January 16, 1962, the Acting Secretary of the Army (Installations and Logistics) advised that action had been taken to improve supply management and summarized the specific organizational and procedural changes that had been made to meet the objectives of our recommendations.

15. Action taken by a naval air station to reduce need for reconditioning of shelf stock--Contrary to existing instructions, the Naval Air Station, Pensacola, Florida, permitted older stocks to deteriorate on the shelves while newer stocks of like items were issued and used. In the fiscal years 1960 and 1961, about \$2 million worth of stock had to be inspected, tested, and reconditioned, at a cost of about \$400,000, because the period during which the material could have been safely used had expired. We found that much of this work would not have been necessary and the related costs would not have been incurred had the air station followed the practice of issuing oldest stock first. Our findings were discussed with officials of the air station and they took vigorous steps to assure implementation of existing instructions.

We had found a similar deficiency in an earlier review of supply operations at this air station. The Navy advised us at that time that instructions had been issued prescribing procedures to be followed to correct the situation. Our findings in the later review illustrate that it is not sufficient simply to issue instructions. It is essential that action also be taken to assure that the prescribed corrective measures are actually put into practice.

16. Need to improve reliability of Navy's inventory records of high-value repairable aviation assemblies and equipment--We found, with respect to a limited number of items of high-value repairable aviation assemblies and equipment we selected for review, that excessive quantities were procured--perhaps as much as \$9 million worth--because the full quantities of stock actually on hand were not reflected in the inventory records. We reconstructed the inventory records for 50 selected items and made physical counts of the quantities on hand at selected locations. Our reconstructed records and our physical counts showed that the stock on hand for

REVIEW OF STOCK CONTROLS (continued)

31 of the 50 items was understated in the Navy's inventory records by about \$47 million. This situation arose primarily from the Navy's system of maintaining stock records. Responsibility for keeping accurate records of the stock was left entirely to air stations, supply centers, and other field installations which had physical custody of the stock. These installations issued periodic reports to the Navy's Aviation Supply Office (ASO) which showed the quantities of stock on hand at the close of the reporting period but did not show the receipts, issues, transfers, or other transactions which occurred during the reporting period. Thus the ASO was not able to detect errors or omissions in the reports received or to challenge the accuracy of the data reported.

We concluded that our findings indicated a need for basic changes in the Navy's inventory management methods for stocks of high-value repairable assemblies and equipment and recommended that the Navy undertake centralized monitoring of the accounting for such stocks to provide more effective control. The Assistant Secretary of the Navy (Installations and Logistics) informed us on August 28, 1962, that a system for centralized monitoring was being developed.

17. Need for the Navy to avoid delay in termination of supply contracts--We found that the Navy had bought, or was in the process of buying, about \$8.5 million worth of spare aviation parts and assemblies which were excess to its needs. Most of this overbuying resulted from failure to terminate, or delay in terminating, outstanding contracts or purchase requisitions when requirements had been reduced and it had become apparent that the material on order was no longer required. After we brought our findings to its attention, the Navy terminated about \$2.5 million worth of outstanding contracts and purchase requisitions, transferred about \$1.8 million worth of its unneeded stocks to the Air Force, and took corrective measures to preclude recurrence of the conditions we observed in our review. The effectiveness of the corrective measures is dependent upon the care exercised by the individuals responsible for carrying them out. Therefore, we recommended that the Department of Defense and the Navy maintain surveillance over this area of operations. On July 5, 1962, the Assistant Secretary of the Navy (Installations and Logistics) advised us that a new system for determination of requirements, put into effect July 1, 1962, includes safeguards against failure or delay in terminating procurement when requirements are reduced.

REVIEW OF CONTRACTING POLICIES AND PRACTICES

18. Legislation enacted requiring contractors and subcontractors to certify that data submitted in support of price proposals are accurate, complete, and current--Our continuing reviews of the negotiation of prices for selected major contracts and subcontracts awarded by the military departments and their prime contractors disclosed many instances of excessive prices resulting from the use in price negotiations of cost data which were inaccurate, incomplete, or not current. Although the Armed Services Procurement Regulation was revised October 1, 1959, to provide that in the absence of effective competition contractors and subcontractors be required to submit certified cost and pricing data in support of price proposals for negotiated procurement expected to exceed \$100,000, the revision was not implemented effectively.

Our review of the records of negotiation at major procurement agencies of the military departments and at the plants of selected prime contractors revealed that in a significant number of instances the military departments failed to obtain the required certifications from prime contractors and the prime contractors failed to obtain certifications from their subcontractors. Our findings were used by the Subcommittee for Special Investigations, House Committee on Armed Services, in deliberations on proposed legislation to amend the Armed Services Procurement Act. We stated our belief that administration of the Regulation would be more effective if there were a statutory requirement for pricing certifications under negotiated contracts. Subsequently, we worked with both the House and the Senate Armed Services Committees in connection with the proposed legislation. This legislation was passed by the Congress and signed into law on September 10, 1962 (Public Law 87-653). The law amends the Armed Services Procurement Act to require with certain exceptions that, where price competition is lacking under negotiated contracts and subcontracts, cost or pricing data be submitted in procurements over \$100,000 and be certified by the contractor and subcontractor as accurate, complete, and current. The law provides further that in these procurements the contract contain a clause permitting the Government to recover any significant increases in the price that resulted from the submission of inaccurate, incomplete, or noncurrent cost or pricing data.

19. Need for more effective reviews of contractors' price proposals--Our reviews of negotiated contracts during the fiscal year 1962 continued to disclose instances of excessive costs to the Government because of failure to give sufficient consideration to cost data and other information available at the time the prices were negotiated. The military departments have given serious consideration to our findings and recommendations. The departments have taken appropriate steps, where possible, to obtain refunds from contractors or adjustments of contract prices and have taken action also to improve their negotiation processes. These actions

REVIEW OF CONTRACTING POLICIES AND PRACTICES (continued)

included strengthening the provisions of the Armed Services Procurement Regulation, reemphasizing departmental instructions, and bringing our findings to the attention of departmental officials who participate in contracting and auditing functions.

The following examples, selected from our reports issued during the year on reviews of contract prices established through negotiation, are illustrative of our findings of excessive costs to the Government.

In one instance a contractor and the Air Force negotiated firm fixed prices of \$2,991,200, for certain spare components of a communication system, which were excessive by about \$1,055,000. The negotiations were based on price proposals, certified as being accurate to the best of the contractor's knowledge and belief, which indicated the contractor's intent to buy the components from one of its suppliers. However, at the time of the negotiations with the Air Force, the contractor had already undertaken a program to make the items in-plant at substantially less cost than the supplier's prices. Furthermore, the supplier's prices included in the price proposals were not correct because they did not give effect to price reductions offered by the supplier and known to the contractor at the time of negotiation with the Air Force. Because the contractor's price proposals did not provide a proper basis for negotiating fair and reasonable prices, we referred the matter to the Department of Justice for action to obtain recovery from the contractor. Further, we requested the Secretary of Defense to have our findings in this case brought to the attention of contracting officials of the military agencies to illustrate the importance of thoroughly reviewing contractors' price proposals to assure that the cost data used are based on the method of contract performance contemplated by the parties at the time the prices are established.

In another instance, the Navy's reliance on a contractor's price proposal for the construction of destroyer escorts, without a review of the detailed support for the proposal, resulted in the negotiation of a price which was about \$417,000 in excess of the price that might have been negotiated. The contractor's proposal included an allowance for premium labor costs at a rate which was more than three times the rate previously experienced by the contractor. The proposal also included certain clerical errors which favored the contractor. Had the Navy reviewed the detail supporting the contractor's proposal, it would have become aware of the overstatement of costs and would have been in a sound position to negotiate a price about \$417,000 less than that established for the contract. In view of the circumstances surrounding the negotiation of this contract, we referred copies of our report to the Department of Justice with the recommendation that action be taken to obtain recovery from the contractor.

REVIEW OF CONTRACTING POLICIES AND PRACTICES (continued)

In still another instance, a contractor and the Air Force negotiated an incentive target price for airplanes which included duplicated and overestimated costs of about \$1,287,000 and, under the incentive terms of the contract, would have increased the contractor's profit by \$372,000. The review of the contractor's target price proposal by the Air Force did not disclose the duplications and overestimates of costs. At our suggestion, the Air Force made a detailed review of the incentive target price established under a preceding contract with this contractor and found similar discrepancies. Following this, the contractor and the Air Force negotiated adjustments under the two incentive-type contracts which will reduce the final prices by \$482,000. We recommended to the Secretary of Defense (1) that our findings in this case be brought to the attention of defense contractors and the military services, (2) that contractors be cautioned to exercise care in estimating costs and in certifying to agency contracting officials that all available information has been considered in preparing estimates, and (3) that agency contracting and audit officials be impressed with the need to perform a careful review and analysis of all significant amounts included in contractors' pricing proposals even though certifications as to the cost data used may have been submitted.

REVIEW OF CONTRACT ADMINISTRATION

20. Controls strengthened to preclude acquisition under fee-bearing contracts of property of the type that should be acquired under no-fee facilities contracts--The Air Force awarded to a contractor a series of negotiated cost-plus-incentive-fee contracts for the design, development, and production of aircraft and for the acquisition, at Government expense, of special tooling. We found that the Air Force had allowed the contractor to acquire, as "special tooling" under these fee-bearing contracts, hangar-type buildings and certain test equipment which should have been classified as "industrial facilities" and acquired under an existing no-fee facilities contract. As a result, the Government incurred unnecessary costs of \$382,200 in the form of an unwarranted fee to the contractor. Furthermore, procurement regulations prescribe higher standards for justification, review, and approval of proposed acquisition of industrial facilities than for special tooling. Therefore, classification of the items as special tooling not only resulted in the unwarranted fee to the contractor but, in addition, bypassed the prescribed procedures for control over acquisition of industrial facilities. The Office of the Secretary of the Air Force informed us that the Air Force has since amended its procurement instructions and has issued guidelines to assist contractors and Air Force personnel in classifying property acquired by contractors at Government expense.

We recommended to the Secretary of the Air Force that he take such action as may be appropriate and necessary to recover the unwarranted fee which resulted from classification of the industrial facilities as special tooling. We recommended, also, that the Secretary instruct appropriate Air Force officials to effect transfer of the facilities from the supply contract to the facilities contract in order to provide an accountability record of the items. In reply, the Assistant Secretary of the Air Force (Materiel) advised us that the facilities had been transferred to the facilities contract in accordance with our recommendation but that efforts to recover the unwarranted fee were unsuccessful.

21. Action taken to recover overpayments of rentals and to preclude further overpayments--Rentals for the use of automatic data processing equipment were overpaid by the military departments because personnel at the installations where the equipment was in use did not properly interpret and apply the contract provisions relating to computation of rental charges. We identified overpayments of about \$207,000 which occurred because the installations, in determining the operating time subject to rental charges, failed to exclude such nonchargeable time as setup time between programed operations, idle time of the component equipment not used in a given program, and official meal periods which were excludable even though the equipment was in use. Prior to the completion of our

REVIEW OF CONTRACT ADMINISTRATION (continued)

review, some of the installations had already revised their procedures to preclude future overpayments and had taken action to recover the overpayments made. The Assistant Secretary of Defense (Comptroller) informed us that corrective action would be taken and that all overpayments would be identified and recovered.

22. Need for closer surveillance of contractors' billings under cost-type contracts--Contractors' billings under cost-type contracts frequently include overcharges which are not detected by the military departments. Such overcharges may occur if the contractors' accounting practices are not closely controlled and the military departments' review of the billings is inadequate. In one instance, we found that a contractor was overpaid about \$104,000 as the result of overcharges which were not detected by the Air Force, the administrative agency for the contracts. The overcharges included (1) costs applicable to fixed-price portions of the contracts, (2) costs of items either not purchased or not used in connection with work under the contracts, (3) duplicated costs, (4) other costs which were not reimbursable, and (5) omission of certain credits which should have been applied as reductions in costs. Following disclosure of these overcharges, the contractor refunded the full amount to the Government. In another instance, we found that a contractor was overpaid \$139,000 as the result of overcharges which were not detected by the Navy, the administrative agency for the contracts. The overcharges in this instance resulted from failure of the contractor to make adequate reductions for cash discounts in determining the costs of materials chargeable to the contracts. After these overcharges were brought to the attention of the Navy and the contractor, the contractor refunded the full amount to the Government.

We recommended to the Secretary of Defense that our findings be brought to the attention of contracting and auditing officials of the military departments to illustrate the benefits that can be obtained by adequately reviewing transactions for which contractors have claimed reimbursement.

REVIEW OF DEVELOPMENT AND PROCUREMENT
OF NEW TYPES OF EQUIPMENT

23. Action taken to avoid unnecessary duplication of development efforts--The three military departments spent about \$1.6 million in developing aircraft crash fire trucks for use with medium and small aircraft or for missile support, with considerable duplication of development efforts and costs. In view of the failure of the military departments to coordinate their efforts effectively to hold development costs to a minimum in the past, we recommended that the Secretary of Defense take positive measures to assure close surveillance and control by his office of the programs of the three departments. We stated that, unless this was done, each service in all probability would continue to independently develop aircraft crash fire truck equipment as being unique to its own needs even though the vehicles developed were for support of categories of equipment used by the other departments. On July 16, 1962, we were advised by the Acting Assistant Secretary of Defense (Installations and Logistics) that current and future research and development programs pertaining to fire trucks were to be subject to the approval, control, and surveillance of the Office of the Director of Defense Research and Engineering in the Department of Defense.

24. Action taken to require performance tests of prototypes prior to procurement of production models--The Army procured fire trucks and the Air Force procured fuel tanks for purposes which later were found to be impossible to achieve. As stated below, the Army and the Air Force could have avoided these procurements had they made adequate tests of the prototypes.

The Army procured 135 fire trucks at a cost of \$9.4 million without adequate tests of the prototype that could have disclosed the impossibility of accomplishing the purpose for which the trucks were procured. The intended purpose of the trucks was to combat missile propellant fires. After substantial production costs had been incurred, it was determined to be impossible to control missile eruption fires in their initial stages. The failure to ascertain this fact in advance of volume production resulted in the procurement of vehicles which were not needed. Some of them were assigned to Army and National Guard units whose needs could have been met with smaller and much less costly fire trucks; others of them were on hand, unassigned and unused. The Assistant Secretary of Defense (Installations and Logistics) advised us that, for future fire truck procurement, the military departments had been directed to satisfactorily conclude qualitative performance tests prior to initiating procurement of production models.

The Air Force undertook a program to develop and procure unassembled, limited service, jettisonable fuel tanks in place of the assembled, continuous service, jettisonable tanks then in the

REVIEW OF DEVELOPMENT AND PROCUREMENT
OF NEW TYPES OF EQUIPMENT (continued)

supply system. The program was found to be not feasible and was abandoned after costs of about \$1.5 million had been incurred in producing the unassembled tanks and the related metal shipping containers. The production contracts were terminated when it was found that the unassembled tanks could neither be packaged in the containers nor be assembled within a reasonable time. The Air Force could have determined the impracticality of the program and avoided incurring unnecessary costs if, prior to award of the production contracts, it had evaluated adequately the available drawings and specifications and had tested the preproduction tanks and shipping containers obtained under the preceding development contract. We recommended to the Secretary of Defense that appropriate action be taken to assure that adequate tests and evaluations are made of newly developed items prior to award of contracts for their production. On June 19, 1962, the Office of the Assistant Secretary of Defense (Installations and Logistics) advised us that, after the time of the procurement discussed in our report, procedural changes had been made to meet the objectives of our recommendation and that this matter would continue to receive close attention by the Department of Defense.

25. Need to prevent unnecessary duplication of major items of military equipment--We found that failure of the Department of Defense to prevent the Air Force from developing and procuring a new type of helicopter caused the Government to incur additional costs of at least \$9.5 million. At the time the Air Force undertook the development and procurement program for this helicopter, the H-43B, there was evidence, and the Air Force so acknowledged, that an Army helicopter, the HU-1A, could have met the needs of the Air Force. The capacity and performance characteristics of the HU-1A, which was already in advanced stages of development and had been flight tested, were substantially the same as the specification requirements of the Air Force.

The record shows that the Air Force's main justification for the new program was its contention that the H-43B could be obtained more quickly and at less cost than the HU-1A. Our review disclosed that, on the basis of the information then available, the Air Force had no sound basis for this contention. The magnitude of the engineering problems involved in the development of the new helicopter was unknown. Therefore, the Air Force was not in position to make reasonably firm estimates of costs or delivery schedules of the H-43B. On the other hand, the development of the HU-1A had progressed to the point where engineering problems had been substantially resolved and there was a more sound basis for projecting costs and delivery schedules. The possibility that the Air Force could have obtained early delivery of the HU-1A was further

REVIEW OF DEVELOPMENT AND PROCUREMENT
OF NEW TYPES OF EQUIPMENT (continued)

enhanced by the Army's offer to share with the Air Force the initial delivery of the HU-1A.

The Department of Defense doubted the soundness and economy of the Air Forces' proposal to procure the H-43B and requested the Secretary of the Air Force to withhold procurement action. Despite this, the Air Force proceeded with the procurement. The record shows that the Department of Defense, while reiterating its doubts as to the economy of developing and procuring the new helicopter, eventually approved the procurement in order to avoid the cancellation costs that would have been entailed at that late date.

To prevent unnecessary duplication of major items of military equipment, we proposed that the Department of Defense fully exercise its management responsibility by precluding a military department from entering into contractual arrangements for the development of a major item prior to Department of Defense approval. The Assistant Secretary of Defense (Installations and Logistics) informed us that the Department of Defense fully concurred with the principle incorporated in our suggestion.

REVIEW OF MAINTENANCE, REPAIR, AND OVERHAUL

26. Action taken to reduce maintenance costs of aircraft of the Military Air Transport Service--The standards and practices for maintenance of transport aircraft of the Military Air Transport Service (MATS) were unnecessarily costly and complex in comparison with those of major commercial airlines for similar-type aircraft. We found that MATS hours of maintenance labor per flying hour were about double those being experienced by the airlines. In fiscal year 1960, MATS labor costs for maintenance were about \$13 million higher than would have been incurred under the standards and practices followed by the airlines. The higher costs resulted principally from more frequent and more detailed inspection and testing of aircraft structures, components, and accessories, and from replacement of accessories after shorter periods of operation. As a further consequence of these practices, 36 to 44 percent of the MATS transport fleet was in some stage of maintenance at any given time, and not available for operational use, compared with 11 to 18 percent experienced by the airlines.

There was evidence also of duplication of maintenance facilities. At McGuire Air Force Base, for example, the Air Force and the Navy had separate organizations to maintain the same type of aircraft.

On May 1, 1962, the Assistant Secretary of Defense (Installations and Logistics) advised us of progress toward implementation of our proposals for corrective action. He stated that actions already taken had significantly reduced maintenance labor per flying hour and that studies of the maintenance policies, standards, and practices were continuing with the assistance of technically qualified representatives of the airline industry and the Federal Aviation Agency. He pointed out also that consolidation of the duplicated maintenance facilities at McGuire Air Force Base was in progress. The consolidation is expected to result in a reduction of about 350 military personnel at an annual saving of about \$1.1 million.

27. Savings in overhaul costs resulting from use of stored engines--The Navy incurred unnecessary costs in overhauling aircraft engines by failing to remove and use the serviceable engines installed on aircraft in storage. Of the approximately 3,300 engines installed on the aircraft in storage at June 30, 1960, 1,253 had been operated less than half the number of flying hours normally expected during a service tour and many of them had had only nominal usage after the date of the last overhaul. While these serviceable engines remained idle, the Navy overhauled similar engines to meet current operating needs. In fact, 936 of the 1,253 low-time engines in storage at June 30, 1960, were of the type still in use by the Navy at that date. Use of the remaining life in the service tour for these 936 engines would have resulted in savings of more than \$5 million in overhaul costs.

REVIEW OF MAINTENANCE, REPAIR, AND OVERHAUL (continued)

We recommended that the Secretary of the Navy take appropriate action to provide that serviceable engines for which a need existed be removed from aircraft scheduled for storage and be used to satisfy operating requirements, thereby reducing engine overhaul costs. We recommended also that the study, undertaken by the Navy at our suggestion, of the low-time engines already in storage be completed as expeditiously as possible, inasmuch as engines become unacceptable for use after prolonged periods of inactivity. Our follow-up disclosed that the Navy had taken action on our recommendations and that, because of the availability of low-time engines installed on stored aircraft, the Navy had reduced its fiscal year 1962 program for overhaul of engines by about \$1.3 million.

28. Procedures strengthened for determining physical condition of track shoe assemblies requiring overhaul--The Army awarded a fixed-price advertised contract for rebuilding about 185,000 track shoe assemblies for combat vehicles. This quantity included almost equal proportions of used assemblies and deteriorated unused assemblies. Although it was known that the unused assemblies could be rebuilt at far less cost than the used items, the Army, without determining the quantities in each category, described them in the invitations for bid as being "to a large degree, used." As a result, evidently all bids, including the successful one, were submitted on the basis that all or practically all the items were used. We estimated that as much as \$585,000 would have been saved if the quantity of unused assemblies had been determined and had been separately treated in the invitations for bid. The Army agreed with our recommendation that track assemblies requiring rebuild be inspected prior to contracting for such services to determine the extent of work needed to be done or, if necessary, that provision be made in the contract for varying unit prices to be applied to units in accordance with the extent of the work to be performed by the contractor.

We found also, that track assemblies were rebuilt unnecessarily, at a cost of about \$60,000, because of failure to make adequate inspections to determine the physical condition of the stock. Additional costs of about \$138,000 were avoided when we brought this situation to the attention of appropriate officials of the Army.

29. Need for closer surveillance of practices in maintenance of tanks and tracked combat vehicles--We issued two reports, classified "secret," on our reviews of the Army's maintenance activities at Fort Bragg, North Carolina: the first on the maintenance of M48 and M48A1 medium tanks assigned to and reserved for the 4th Medium Tank Battalion, 68th Armor; and the second on the maintenance of other tracked combat vehicles. Our report on the

REVIEW OF MAINTENANCE, REPAIR, AND OVERHAUL (continued)

maintenance of the medium tanks was discussed during the hearings on the Department of Defense appropriations for 1963, held before the Subcommittee on the Department of Defense, House Committee on Appropriations. The Subcommittee questioned witnesses of the Department of the Army on the issues raised in our report and inserted the unclassified parts of the report in the record of the hearings.

In the unclassified portions of our reports, we pointed out that the deficiencies we found assumed added importance when considered in the light of the mission requirements of the combat troops to which the tanks and vehicles were assigned. While it was not practical to relate the maintenance deficiencies specifically to individual causes, our reviews indicated that they were attributable principally to lack of attention to or knowledge of the situation on the part of responsible commands. This was evidenced by (1) failure to perform required repairs, thereby allowing a large backlog of maintenance to accumulate, (2) inadequate management of maintenance practices at using troop levels, and (3) inadequate control over the operation of the tanks and vehicles.

The Assistant Secretary of the Army (Installations and Logistics) agreed that there was need for improvement and enumerated corrective actions that had been taken or were being taken in the areas of practices, procedures, training programs, and command management. He stated further that the Army was in the process of (1) testing a system designed to provide commanders at the user levels with better equipment control and improvement in maintenance management and (2) modifying the deadline reporting system to encourage objective and accurate reporting of vehicle condition and to provide for identification of serious problems at each level of command.

REVIEW OF SEMI-AUTOMATIC GROUND ENVIRONMENT (SAGE) SYSTEM

The Semi-Automatic Ground Environment (SAGE) system is an electronic air-warning and weapons-control system for detection, identification, and interception of supersonic aircraft and air-breathing missiles. Our review of the programming and procurement of selected operational equipment and communication services for the SAGE system and the utilization of certain technical personnel by the Air Force in the operation of the system showed that the Air Force expended about \$13 million unnecessarily in equipping and operating the SAGE system. This amount included about \$10.3 million for procurement of unnecessary equipment, about \$1.5 million in overpayments for unused leased communication services, and at least a half million dollars for training of SAGE operational personnel who thereafter were not fully used in performing the work for which they were specially trained.

The Assistant Secretary of Defense (Installations and Logistics) conceded that appropriated funds had been expended unnecessarily but minimized the amount in view of the magnitude, urgency, and complexity of the SAGE program. He stated also, in letters of August 2, 1961, and April 26, 1962, that the Air Force had taken action (1) to find alternative uses for the excess equipment, (2) to recover the overpayments for communication services, and (3) to improve utilization of personnel and equipment.

30. Action taken to find alternative uses for excess equipment procured for the SAGE system--About \$10.8 million worth of equipment was procured unnecessarily because of such things as (1) overprocurement of equipment for installation at new sites because of failure to take into account the experience gained at sites already in operation (\$5.6 million), (2) premature procurement and delivery of equipment, far in advance of scheduled dates for installation and before determination of firm requirements, which equipment was later found to be not needed (\$2.5 million), and (3) failure to terminate a contract when it became apparent that the equipment on order was no longer needed (\$2.7 million). The Assistant Secretary of Defense stated that the Air Force (1) had found a use for 92 excess display consoles (instruments indicating the position, speed, description, and heading of detected air-borne objects), which resulted in cancellation of equipment on order at a savings of \$1.7 million, and expected to use 17 more of the excess display consoles for projects which were in the planning stage, (2) would dismantle certain excess radars to obtain needed parts and components, and (3) was studying other potential requirements, including requirements for the military assistance program, for the remaining excess equipment.

31. Action taken to recover overpayments for unused leased communication services and to preclude further overpayments--The

REVIEW OF SEMI-AUTOMATIC GROUND ENVIRONMENT (SAGE) SYSTEM (continued)

Air Force overpaid about \$1.5 million for unused leased communication services because of its failure to determine the propriety of minimum service charges billed by lessor telephone companies. We found that, contrary to terms of the leases, the Air Force had paid the minimum charges for canceled or deferred communication services when the related facilities had been leased or assigned by the telephone companies to other users, including the Army. The Assistant Secretary of Defense informed us that the Air Force had collected \$1,227,000 of the overpayments, was continuing its review of the payments made, and had strengthened its procedures to preclude overpayments in the future.

32. Action to be taken to improve utilization of personnel--At least a half million dollars was spent for training of SAGE system operational personnel who thereafter were not fully used in performing the work for which they were specially trained. Airmen were selected for training even though it was known that they were scheduled for release from the Air Force shortly after graduation and some of the graduates were assigned to such nontechnical duties as truck driving and clerical work. The Assistant Secretary of Defense stated that personnel agencies of the Air Force would monitor the entire SAGE training program and take all possible actions to assure maximum return on training dollars invested.

REVIEW OF MILITARY ASSISTANCE PROGRAM

Our reviews of military assistance program activities included examinations of individual country programs administered by the United States advisory groups and special problem areas common to two or more recipient countries. These reviews covered the general areas of (1) the military departments' programing and delivery of equipment and providing essential supply support for the equipment and (2) the recipient countries' utilization, maintenance, and supply management of the delivered material. Although there appeared to be continued improvement in the programing procedures, in general, our reviews disclosed deficiencies similar to those reported in prior years. The following deficiencies are illustrative.

33. Delivery of unneeded material--Substantial quantities of the equipment and supplies delivered to recipients of military assistance were either excess to their needs or beyond their technical and administrative capability to use and manage effectively and economically. Because of deficiencies in their supply management, the countries frequently ordered material from United States sources without adequate information on the status of stocks already on hand, information on past usage, or a reasonable basis for projecting future requirements. In some instances the deliveries of excessive material could have been forestalled had timely action been taken after the countries had revised their requirements.

34. Ineffective maintenance of delivered equipment--Large quantities of the equipment delivered under the military assistance program were unserviceable because of ineffective maintenance by the recipient countries. Furthermore, the reports on equipment condition, submitted by operating units to the countries' military authorities and to United States advisory groups, failed to show the true condition of the equipment. In some of the less technically advanced countries, lack of maintenance caused the equipment to deteriorate to the point beyond economical repair. In one of the countries we found evidence of large-scale pilferage and diversion to other purposes of the assemblies and repair parts needed to maintain the equipment in serviceable condition.

In general, the deficiencies we found stemmed from conditions beyond the control of the United States officials. There were many areas, however, in which the United States advisory groups could have and should have exerted more effort through more adequate inspections of recipient countries' maintenance operations and through more accurate and meaningful reporting so that United States officials at appropriate levels of responsibility could recognize existing problems and develop programs for their solution.

35. Action taken by the United States Army to avoid unnecessary rebuilding of vehicle assemblies--The United States Army Logistical Depot, Japan (USALDJ), which is responsible for the supply

REVIEW OF MILITARY ASSISTANCE PROGRAM (continued)

support of Army equipment furnished under the military assistance program to countries in the Far East, was rebuilding vehicle assemblies at a cost of about \$1.3 million that were excess to the countries' current or foreseeable future requirements. The schedules for this unnecessary work were based primarily on the countries' usage of similar assemblies in the preceding period without considering the marked decline during the latter part of the period and without considering the fact that the countries had attained capability of doing a substantial portion of their own rebuild work, thus reducing their dependence on USALDJ. After we brought our findings and proposals for corrective action to the attention of appropriate officials, the Assistant Secretary of Defense (International Security Affairs) informed us that USALDJ had been directed to terminate all rebuild of major assemblies unless there was a specific requirement. We were also informed by USALDJ officials that, as a result of their reconsideration of the fiscal year 1962 rebuild program, plans to rebuild 29,000 assemblies were canceled at a savings of about \$1.7 million.

36. Action taken by the United States Army to screen its excess stocks against projected requirements for the military assistance program--About \$25 million worth of material recorded by the Army as being excess to its needs was not reserved to meet the projected requirements of the military assistance program. On the other hand, the Army had reserved for the military assistance program over \$100 million worth of its excess material which was not needed for the program. We estimated that the annual cost of storing and maintaining the unnecessarily reserved material amounted to about \$1.2 million. We were informed by the Office of the Assistant Secretary of Defense (International Security Affairs) that instructions were later issued to provide periodic screening of excess material, at least once a year, against the projected requirements for the military assistance program.

REVIEW OF MANPOWER UTILIZATION

37. Savings resulting from reduction in unnecessary proficiency flying in the Air Force--Proficiency flying is flying performed to maintain basic flying skills of personnel in flying status but serving in nonflying assignments. In our prior report (Compilation of General Accounting Office Findings and Recommendations for Improving Government Operations, fiscal year 1961), we discussed in some detail our finding that a significant portion of the proficiency flying in the Air Force was performed by officers who either were excess to stated Air Force requirements for personnel in flying status or were occupying positions where flying skills were not essential to effective performance of assigned duties. We questioned the necessity for proficiency flying by such officers and pointed out the potential for very substantial savings in the cost of maintaining and operating the aircraft used for proficiency flying. We pointed out also that the problem of excess proficiency flying had been of deep concern to the Congress and to the Air Force for some time but that the Air Force was reluctant to remove officers from flying status because, to many of them, the additional pay for proficiency flying was a significant part of their compensation.

In enacting the Department of Defense Appropriation Act, 1962, approved August 17, 1961, the Congress took action to reduce the cost of proficiency flying. Section 614 of the act provided that, without regard to any provision of law or Executive order prescribing minimum flight requirements, payment of flight pay may be made to certain members of the Armed Forces otherwise entitled to receive flight pay during the fiscal year (1) who have held aeronautical ratings or designations for not less than 15 years or (2) whose particular assignment outside the United States or in Alaska makes it impractical to participate in regular aerial flights. A similar provision is contained in section 514 of the Department of Defense Appropriation Act, 1963, approved August 9, 1962.

Our follow-up of the action taken by the Air Force showed that a program had been instituted to carry out this provision of law. Records of the Air Force indicated that there were 5,884 officers at June 30, 1962, otherwise entitled to receive flight pay, who had been excused from proficiency flying during the year and that the Air Force planned to excuse additional officers in fiscal year 1963. This action reduced proficiency flying and resulted in savings of costs which otherwise would have been incurred to maintain and operate the aircraft used for such flying. We estimated, on the basis of the records and projected plans of the Air Force, that savings of about \$13.3 million were realized in fiscal year 1962 and that about \$32.6 million should be realized in fiscal year 1963.

REVIEW OF MANPOWER UTILIZATION (continued)

38. Action taken to improve assignment and utilization of Ready Reserve personnel in the Army--A significant number of Army reservists who received pay for attending weekly drills and for annual active duty training periods were occupying positions unrelated to their previous military active duty training, civilian occupation, or educational background. In our review of selected Army Reserve units of the XV Corps, we found that many of the reservists in paid drill status were not qualified in their assigned positions and, in some cases, could not be retrained in the units to which they were assigned. The assignment of reservists to vacancies in reserve units irrespective of whether their qualifications met the needs of the units or whether they could be used more effectively elsewhere in the event of mobilization was caused to a great extent by the overriding emphasis placed by the Army on maintaining authorized paid drill strengths.

Failure to use reservists in positions for which they are best qualified results in waste of valuable skills and unnecessary expenditure of funds and manpower for retraining purposes. The seriousness of this deficiency was illustrated by the condition of units called to active duty during the partial mobilization in the autumn of 1961. Many of the reservists who had been in a paid drill status for lengthy periods and were included in the units mobilized were reported by the Army as not qualified in their military specialities. These reservists required extensive additional training after mobilization.

The Army agreed in general with our findings and informed us of measures taken or planned to improve classification and assignment of Reserve personnel. These measures did not include any change in the Army's policy of placing overriding emphasis on maintaining paid drill strength. Therefore, we recommended to the Secretary of the Army that reservists be placed on paid drill status for further training only when their military training, experience, and education can contribute to the mission of a reserve unit and that reservists who cannot be effectively used in paid drill positions be placed in Ready Reserve reinforcement pools pending assignment to fill appropriate vacancies in reserve units or assignment to mobilized units in the event of an emergency. In reply, the Deputy Under Secretary of the Army (Manpower) advised us on June 5, 1962, that corrective actions had been taken which are in consonance with our recommendation.

On May 10, 1962, following issuance of our report, we testified before Subcommittee No. 3, House Committee on Armed Services, in its hearings on the military reserve posture. We stated in our testimony that, although our report dealt specifically with the misassignment and ineffective utilization of Ready Reserve personnel in the XV Corps, we had found evidence of this problem in other Army Corps. We expressed our belief that the problem existed, in varying degrees, throughout the Army Ready Reserve.

REVIEW OF TRANSPORTATION MATTERS

39. Savings to result from more economical use of commercial air transportation--Our reviews of the practices of the Department of Defense in the use of commercial air transportation showed that substantial unnecessary costs were incurred because of uneconomical use of such transportation. The reviews covered overseas shipments of cargo for the military assistance program, overseas travel and shipment of unaccompanied baggage, and domestic travel in first-class accommodations.

With respect to overseas commercial air shipments of cargo for the military assistance program, we found that most of the 2,000 tons of such cargo shipped by the Air Force in fiscal year 1960 at a cost of about \$5.5 million was not of a critical nature and could have been shipped by surface transportation at a cost of about \$1 million without inconvenience to the consignees. We have been advised by the Office of the Assistant Secretary of the Air Force (Materiel) that measures have subsequently been taken to preclude unwarranted use of commercial airlift. These measures included (1) a revision of the Air Force supply priority system to prohibit supply depots from automatically upgrading low-priority requisitions to the airlift category in order to meet deadline dates for shipment of the material requisitioned and (2) greater use of the Military Air Transport Service, in lieu of commercial air carriers, for transportation of cargo eligible for airlift.

Our review of overseas commercial air travel and shipment of unaccompanied baggage showed that the Department of Defense spent over \$13 million for such transportation in fiscal year 1960, while at the same time there was ample space on scheduled military and contract flights of the Military Air Transport Service (MATS) to carry a substantial portion of the traffic at rates much lower than the published tariff rates paid to the commercial carriers. We estimated that several million dollars would have been saved in fiscal year 1960 had use been made of available space on scheduled MATS flights. In reply to our proposals for corrective action, the Assistant Secretary of Defense (Installations and Logistics) cited various actions taken to strengthen procedures for controlling the use of overseas commercial air service.

As to domestic air transportation, we found at most of the transportation offices we visited that more than 90 percent of the travel by military and civilian personnel of the Department of Defense was made in first-class accommodations. Many of the flights in first-class accommodations could have been made in lower priced accommodations at substantial savings to the Government without affecting the missions of the travelers. We recommended to the Secretary of Defense that instructions be issued requiring personnel to use less costly than first-class accommodations except when such

accommodations are not obtainable to meet firm travel itineraries effectively and economically. On May 8, 1962, the Department of Defense issued a statement of policy which requires all travelers to use less than first-class air accommodations to the maximum extent consistent with the successful accomplishment of missions.

40. Action taken to obtain reimbursement of transportation costs applicable to supplies furnished to commissary stores--We found that transportation costs of about \$600,000 annually, applicable to subsistence supplies furnished to commissary stores by the Military Subsistence Supply Agency (MSSA), were absorbed by the Government in contravention of regulations. At our suggestion, MSSA studied the problem and on July 1, 1961, began to apply a 7-percent transportation surcharge on shipments to commissaries. We were informed that the rate of surcharge would be reviewed and adjusted periodically to assure recovery of actual costs.

REVIEW OF HOUSING ALLOWANCES AND RENTALS

41. Savings resulting from reduction of excessive housing allowances paid to military personnel--We found that excessive housing allowances of more than \$2.3 million were paid to United States military personnel occupying rental guarantee housing projects in France. Although the payments were excessive, they were made at rates which were not legally questionable and there was no basis for recovery action. The overpayments occurred in the 4-year period from the time the housing projects were first occupied until December 29, 1960. The housing allowances were reduced as of December 30, 1960, after we brought our findings to the attention of responsible officials. This reduction effected an annual saving of more than \$750,000.

The Department of Defense also took action to improve its processes for establishing world-wide housing allowances. However, in order to assure the continuing validity of the allowances, we recommended in our report that the Secretary of Defense provide for periodic internal audits or inspections at the installation level.

42. Savings to result from adjustment of inadequate rental rates for Government quarters furnished civilian employees--Civilian employees of military installations in Alaska were not charged adequate rental rates for the Government quarters furnished them. This condition had existed since about 1952 and was the result of failure of the military departments to reappraise and revise their rental schedules periodically as required by law and regulations. We estimated that, at the time of our examination, the rents charged at the installations we visited were at rates of at least \$250,000 a year less than the rents that should have been charged. On August 29, 1962, we were advised by the Office of the Assistant Secretary of Defense (Installations and Logistics) that professional appraisers would be retained to establish new rental schedules which would be put into effect by March 1, 1963, and that the military departments had already put into effect an interim increase in rents as a first step in bringing the rents into line with comparable rental rates in Alaska.

REVIEW OF PAY AND ALLOWANCES

43. Action taken by the Navy to strengthen control over lodging and subsistence allowances paid to members of shore patrols--We found that the lodging and subsistence allowances paid to members of the Navy's shore patrols involved fraudulent claims and uneconomical practices. Our review at selected major shore patrol areas disclosed (1) a widespread practice by temporary duty members of the shore patrol of submitting fraudulent claims for lodging allowances, (2) the unnecessary payment of lodging and subsistence allowances through failure to assign temporary duty members to available Government quarters and failure to require members to use available Government messing facilities, and (3) the payment of subsistence allowances when orders were not properly endorsed to authorize such payments. We were advised by the Office of the Secretary of the Navy that possible fraudulent claims were being reviewed at major shore patrol areas and that the Navy's internal auditors had been instructed to test the authenticity of receipts for lodging allowances and to review compliance with the regulations governing the use of available Government quarters and messes. However, the instructions to the internal auditors did not cover the receipts presented to disbursing officers on ships. Since payments aboard ships constitute a substantial part of the total, we recommended that the Secretary of the Navy also make provision for testing the authenticity of those receipts.

44. Action taken by local management to strengthen control over pay and allowances at military installations, bases, and stations--Our reviews, at various installations, bases, and stations of matters relating to civilian pay and military pay and allowances disclosed many deficiencies in local policies, procedures, and practices. During fiscal year 1962, we issued to local management officials 196 reports on our findings and our recommendations for corrective action and the recommended measures were either taken or promised. Examples of the deficiencies most frequently disclosed in our reviews are summarized.

Civilian pay

1. Promotion of employees prior to completion of required periods of service.
2. Credits for leave at rates inconsistent with length of employees' service.
3. Inadequate support for absences attributed to military leave or to court leave.
4. Inadequate control over authorization of overtime and granting of compensatory time.

REVIEW OF PAY AND ALLOWANCES (continued)

5. Improper payments for holiday and night work.
6. Questionable granting of administrative leave.
7. Inadequate control over time and attendance recording and reporting.
8. Errors and omissions in retirement records.
9. Inadequate control over distribution of checks to payees.

Military pay and allowances

1. Overpayments of lump-sum leave, of re-enlistment bonus, and of allowances for travel, dislocation, and subsistence.
2. Omitted or inadequate charges for leave taken.
3. Excessive allowances for travel time in connection with change in stations.
4. Inadequate control over distribution of checks to payees.

REVIEW OF UTILIZATION OF FOREIGN CURRENCIES

45. Action taken to conserve dollars by maximum use of United States-owned pesetas--The United States Government had acquired substantial amounts of pesetas under the terms of various agreements with the Spanish Government. These pesetas were available for payment of certain types of obligations incurred by the United States in connection with economic and military aid programs in Spain, including payments to Spanish contractors. We found, however, that United States agencies in Spain had entered into agreements to pay with United States dollars obligations of the type that could have been paid with United States-owned pesetas. We identified about \$15.4 million worth of obligations paid or planned to be paid with dollars which should have been paid with pesetas. Following our discussion of this matter with appropriate United States officials, arrangements were made to liquidate with pesetas about \$4.8 million of the obligations then outstanding. In addition, the Departments of State, Defense, and the Treasury issued joint instructions providing for maximum use of United States-owned pesetas, in lieu of dollars, to defray costs incurred by United States agencies in Spain.

CIVIL DEPARTMENTS AND AGENCIES

REVIEW OF PROCUREMENT PROCEDURES AND PRACTICES

46. Procurement of milk in bulk will provide savings--In June 1962 we reported that the Coast Guard Reserve Training Center in Yorktown, Virginia, had been procuring all of its whole-milk requirements in one-half-pint containers. On the basis of the estimated yearly milk requirements of the Center, annual savings could be realized through the purchase of milk in bulk dispensers, with dispensing equipment furnished and serviced without charge by the milk supplier. Coast Guard officials took action to amend the contract existing at the time of our review to provide for the installation of dispensers and the furnishing of milk in bulk. We were informed that future contracts would be entered into on the same basis.

47. Contract specifications to be prepared in a manner to obtain maximum competition--In the 17th Coast Guard District and at the Coast Guard Aircraft Repair and Supply Base, we noted a number of instances where the specifications and purchase descriptions used in invitations to bid for certain material and equipment were drawn in a manner that generally limited competition. Some specifications incorporated a word-for-word description of what was in fact an individual manufacturer's product and did not allow for products by other manufacturers. In other instances, invitations to bid actually specified brand name products without including the provision "or equal" in the description. Coast Guard officials concurred with our findings, reported by us in July and September 1961, and stated that every effort would be made to prepare specifications to obtain maximum competition.

48. Need to communicate with firms not responding to bid invitations--The procurement procedures of the General Services Administration (GSA) do not require that regional offices communicate with nonresponsive firms to determine why they did not bid for Government business. At two GSA regional offices, we solicited and received comments from 200 firms regarding their reasons for not bidding. These comments were of such a nature that they would aid GSA in identifying procurement problem areas that should be corrected and in maintaining bidders mailing lists on a current basis. We recommended in January 1962 that GSA consider adopting procedures requiring regional offices to periodically ask nonresponsive firms why they did not bid for Government business.

49. Need for improved liaison between GSA and user agencies to prevent overstocking--In a report dated February 1962 on our review of procurement and storage of general-use hand tools for the Air Force, we pointed out that the hand tool inventory of the General Services Administration (GSA), valued at \$6.3 million at December 31, 1959, included a \$1.7 million, or 27 percent, overstock

REVIEW OF PROCUREMENT PROCEDURES AND PRACTICES (continued)

of tools. The quantities for 83 different hand tool items included in the inventory at January 28, 1960, were equivalent to a supply of 20 months or more; a 5-month supply is considered normal. GSA estimated that the annual cost of carrying the overstock was \$170,000. The disadvantages of overstocking hand tools include the employment of additional capital and extra warehouse space, the costs of reshipping and rehandling the tools moved from locations with overstocks to locations where the tools can be used, and the unnecessary risk of losses from obsolescence because of changes in agency operating programs and related supply requirements.

We believe that the overstocking of Air Force hand tools may be attributed at least in part to GSA's establishment of stock levels on the basis of an abnormal volume of orders that were received from the Air Force. In view of anticipated future procurement programs similar to the hand tool program, we recommended that GSA obtain from user agencies sufficient information on the agencies' planned requirements to effectively adjust procurement actions to needs.

REVIEW OF CONTRACTING PROCEDURES

50. Action taken to strengthen contract negotiation procedures
--Our review of several Atomic Energy Commission (AEC) negotiated fixed-price contracts disclosed that the contractor's price proposals included amounts for steel costs that were substantially in excess of prices quoted to the contractor by a supplier prior to the submission of the former's price proposals. In addition, the contractor did not inform AEC of a reduction in nickel-plating costs obtained during contract negotiations. If AEC had been aware of such reduction, it would have been in a position to negotiate a contract price amounting to about \$383,000 less than was negotiated. In November 1961, this matter was reported to AEC officials who subsequently issued instructions to emphasize that any changes in the basis for negotiation should be taken into account before agreement on contract terms is reached. Also, AEC adopted our recommendation that attempts be made to negotiate an equitable adjustment for excessive payments resulting from the overstatement of material costs.

51. Deficiencies in contracting for Post Office Department transportation service corrected--In our review of highway transportation activities of the Post Office Department, we noted cases where major changes in services provided under star route contracts were authorized without advertising for competitive bids. Star route services are maintained primarily for movement of mail between postal units. Although we believe that advertising generally is the best method of obtaining competitive prices, we recognize that in some instances negotiation with the existing contractor may be beneficial to the Government. We noted also that changes in existing star route contracts involving significant increases in the annual number of miles served were made in most cases at the existing contract rates per mile; it would seem, however, that a lower price per mile could be paid for additional mileage because there should be little or no change in the contractor's fixed operating costs in serving the route.

The Deputy Postmaster General agreed with the recommendations contained in our report, dated February 1962, that regional employees be instructed (1) to adequately document the justification for negotiation when negotiation with the existing contractor is considered beneficial and (2) to take action to acquire additional service at mileage rates lower than existing rates. Instructions to the regions to implement these recommendations were subsequently issued by the Department.

52. Policy established to limit travel and related payments under cost-reimbursable contracts--Travel and related costs paid by the Office of Saline Water, Department of the Interior, under one of its cost-reimbursable contracts for converting salt water into fresh water appeared to be extremely high when viewed in the light

REVIEW OF CONTRACTING PROCEDURES (continued)

of the extended length of stay of the contractor's employees at one location and in the light of provisions of the Government travel regulations applicable in similar circumstances. The contract did not define reasonable and allowable travel and related costs, and the Office of Saline Water had not established a policy that would limit the amount of such costs allowable under any of its contracts. We brought these matters to the attention of the Director of the Office in April 1962. As a result, the Office established a policy for determining the maximum travel cost that may be reimbursed to contractors, and we were informed that the excessive travel cost, noted in our review, had been recovered.

53. Need to obtain and consider audited costs under representative existing contracts in establishing future pricing policies recognized--In our report of March 1962 on selected aspects of the domestic uranium procurement program of the Atomic Energy Commission (AEC), we commented on the guaranteed price of \$8 a pound for uranium concentrates which was announced by AEC in May 1956, when the uranium industry was in its relatively early stages of development, and which was to be effective from April 1962 through 1966. Because of the incompleteness of the supporting documentation, we were unable to determine and evaluate the basis for establishing the \$8 price; however, we did determine that AEC had not made adequate audits of costs under representative existing contracts and thereby did not avail itself of basic information essential to the establishment of a guaranteed price. We emphasized (1) the significance of the differences existing in the mining costs and of the problem involved in guaranteeing a uniform price where major variations of costs are known to exist and (2) the need for AEC to carefully consider such costs in establishing its pricing policy for uranium procured after 1966.

In November 1962, AEC announced a new program for domestic uranium procurement for the period from January 1967 through December 1970. Under the new program, fixed prices payable by AEC for uranium concentrates, other than those to be received during the new period as the result of deferral of deliveries during the preceding period, will be determined in certain situations by applying a formula which will take into account allowable audited costs of production during the 1963-1968 period, with a maximum price of \$6.70 a pound.

REVIEW OF CONTRACT ADMINISTRATION

54. Rider to be included in negotiated fixed-price contracts and subcontracts giving AEC right to audit contractors' records--In our review of negotiated fixed-price purchase orders for certain electron tubes issued by a prime contractor of the Atomic Energy Commission (AEC), we commented on (1) the excessively high prices paid by AEC and (2) the subcontractor's refusal to furnish the prime contractor with cost breakdowns supporting the fixed prices charged for the tubes. AEC's procedures did not require that its contracts include a provision giving AEC the right to review records pertinent to negotiated fixed-price prime contracts, subcontracts, or purchase orders issued by AEC's prime contractors operating under cost-type contracts. In accordance with our proposal in November 1961, AEC issued a procurement directive requiring that a rider be inserted in all negotiated fixed-price prime contracts, subcontracts, or purchase orders, giving AEC the right to make audits of pertinent records. The directive provides also that audits shall be made when necessary to obtain reliable cost data before negotiating fixed prices for follow-on orders for the same supplies or services.

55. Changes in contracts for rental of electronic data processing equipment to be pointed out to using agencies--The General Services Administration (GSA) did not advise using agencies of changes in the annual contracts for the rental of electronic data processing equipment and of the nature of the necessary rental adjustments. We noted that a number of civil and defense installations had not made the rental adjustments required by the contract changes. After we brought this matter to the attention of responsible agency officials, they recovered, or instituted action to recover, rental fees totaling \$122,000. We proposed that GSA inform using agencies, at the time or shortly after new contracts are awarded, of any significant changes in the contracts from the previous year's contracts and indicate the nature of rental adjustments which should be made because of such changes. In December 1961, GSA informed us of specific actions it would take to notify agencies of contract changes from year to year and of necessary rental adjustments.

56. Need to strengthen contractual arrangements to reduce duplicate administration--In the joint Atomic Energy Commission and Department of the Navy project for building a large surface-ship, land-based prototype reactor, the advantages of the joint organizational arrangement were not fully realized to the extent that AEC and the Navy each awarded separately financed contracts to the same firms when the type of work was essentially the same and the materials purchased were often identical. This situation brought about uneconomical administration and inconsistent contract provisions.

REVIEW OF CONTRACT ADMINISTRATION (continued)

This matter was reported by us in January 1962, and AEC officials informed us that, wherever feasible and economical, AEC will make every effort to arrange for single contracting in future jointly funded construction projects.

REVIEW OF INVENTORY AND WAREHOUSING PROCEDURES

57. Unnecessary warehouse space released--In April 1962 we reported that, in the processing of series E United States savings bonds at its Parkersburg, West Virginia, office, the Bureau of the Public Debt, Treasury Department, had been incurring unnecessary costs to store both registration stubs and redeemed bonds. The unnecessary costs resulted from failure to test, on a timely basis, magnetic tapes and microfilms of bonds so that unneeded source documents could be destroyed. The Bureau later informed us that it had accelerated the completion of tests of microfilms and magnetic tapes, had destroyed unneeded source documents, and had released one of its warehouses at an annual savings of \$27,700.

58. Facility requisitioning responsibilities consolidated for improved supply management--The Federal Aviation Agency's (FAA) Facilities and Materiel Depot, Aeronautical Center, Oklahoma City, Oklahoma, did not attain the full benefits of a centralized supply system because of the establishment of stock allowances and requisitioning responsibilities at too low a level. The maintenance of stock inventories for each of FAA's many facilities--district offices, field offices, equipment centers, and component parts of an air navigation or air traffic control device--resulted in a large volume of paper work, including the preparation annually of about 15,000 facility allowance schedules and related vouchers for the material shipped to the requisitioning facilities. In addition, the inventories were replenished from time to time through non-scheduled requisitions; about 60,000 additional requisitions were prepared annually. These matters were commented on in a report issued in October 1961.

We discussed with Depot officials the possibility of reducing the number of facilities designated as requisitioning units by consolidating them at a higher level or by grouping the components of a facility at any one location. Subsequent to our discussions, an FAA evaluation study was undertaken and resulted in the issuance of a new property policy statement providing for a consolidation of inventory stocks and allowances and for placing requisitioning responsibilities at higher levels.

59. Control over core drill property and equipment strengthened--In our review of the Mobile District, Corps of Engineers (Civil Functions), we found that (1) loose industrial diamonds were not under stock card control, (2) procedures were inadequate for the inspection of loose industrial diamonds, (3) there was a lack of established procedures for reporting receipts, issues, and balances of diamond set drill tools, and (4) certain property held in support of core drill operations was excess to operating requirements. After the issuance of our report, the Corps advised us that corrective action had been taken on these matters. We were

REVIEW OF INVENTORY AND WAREHOUSING PROCEDURES (continued)

informed that contracting officers' representatives had been appointed to receive and inspect shipments of industrial diamonds, loose diamonds had been put under stock control, receipts and issues of drill bits would be numbered, and excess property had been disposed of.

REVIEW OF MANAGEMENT AND DISPOSITION
OF GOVERNMENT-OWNED REAL PROPERTY

60. Unnecessary costs for hazard insurance eliminated--To protect the interests of former mortgagors and mortgagees, the Federal Housing Administration (FHA) purchased hazard insurance on all properties which it had acquired as a result of foreclosures by the mortgagees. We expressed our opinion that FHA incurred unnecessary insurance costs for those properties which the agency had determined would be resold at a loss, inasmuch as there would be no insurable interest of the mortgagee and mortgagor. The insurance costs for properties estimated to be sold at less than FHA's investment totaled about \$335,000 for fiscal year 1960. We recommended that FHA limit the purchase of hazard insurance to those acquired properties for which there is a reasonable expectation that the proceeds from sale will be more than sufficient for FHA to recover its investment.

As of March 1, 1962, FHA terminated all hazard insurance on acquired one- to four-family houses and adopted a policy of assuming its own risks on those properties.

61. Need for changes in regulations regarding charges to mortgagees who tender small home properties to FHA in poor condition--The Federal Housing Administration (FHA) regulations governing charges to mortgagees who tender foreclosed small home properties to the agency in poor condition have not been revised since 1952 to give recognition to changes in FHA-insured mortgage characteristics and changes in economic conditions. As a result, FHA has borne, and is bearing, an increasing proportion of damage from "waste," defined as, damage over and above normal wear and tear. Under FHA's current regulations, mortgagees are not responsible for much of the waste that may occur on foreclosed properties transferred to FHA. Accordingly, in March 1962 we recommended that FHA revise its regulations with respect to financial responsibility for waste, giving recognition to changes in FHA-insured mortgage characteristics and present-day economic conditions. The Commissioner subsequently informed us that FHA was reexamining its policy.

62. Need to dispose of certain properties acquired by FHA--The Federal Housing Administration (FHA) has been unsuccessful in disposing of small home properties in the Savannah River, South Carolina, and Waverly, Ohio, areas. Since 1954 FHA had acquired over 3,000 dwelling units in these two areas and at June 30, 1960, still owned 2,762 units of which 1,915 were vacant. Fiscal year 1960 expenditures for maintaining these properties amounted to about \$620,000. In this same period the estimated realizable values of these properties had decreased by about \$3.9 million and various Government surveys showed that there was little expectancy of future demand for many of the properties.

REVIEW OF MANAGEMENT AND DISPOSITION
OF GOVERNMENT-OWNED REAL PROPERTY (continued)

In March 1962 we recommended that the FHA Commissioner dispose of those properties identified as having only potential salvage value and reappraise the potential market for the remaining properties and develop an effective plan for their prompt and economical disposal. The FHA Commissioner informed us that FHA was attempting to dispose of a portion of this surplus property to acceptable sponsors of housing projects for elderly people but that the agency eventually might have to consider demolishing a portion of this surplus housing.

63. Questionable need for retention of Coast Guard-owned land
--Coast Guard land holdings in the 12th District included land at three locations that was not being used by the Government and was being licensed, for inadequate monetary considerations, to municipalities or private parties for recreational or agricultural purposes. For example, about 55 acres of land were licensed to a city for use as a golf course for \$1 a year and for certain other consideration. We do not believe that the considerations received were in consonance with section 321 of the Economy Act of June 30, 1932 (40 U.S.C. 303(b)).

In another case, about 70 acres of land had, since 1945, been licensed by the Coast Guard for private farming at an annual rental of \$5 an acre. Despite a sevenfold increase in the estimated value of the property over the past 17 years, the rental rate had not been increased.

In our report of April 1962, we recommended that the Commandant reconsider the need for retention of the several properties and take action to dispose of those not needed. With respect to any land determined to be needed, we recommended that the Commandant take action to obtain a monetary consideration commensurate with its use value.

In June 1962, the Treasury Department informed us of several actions to be taken which may remedy several of the situations reported by us.

REVIEW OF GOVERNMENT-FURNISHED HOUSING

64. Operating costs reduced by change in policy relating to Government-owned housing--The rents charged by the Bureau of Prisons to Public Health Service (PHS) commissioned officers assigned to duty in Federal penal institutions were substantially lower than the amounts reimbursed to PHS for the quarters allowance paid to the officers. As a result, the Bureau of Prisons incurred unnecessary costs and the compensation of the PHS officers was unduly augmented. We recommended that the housing involved be designated as public quarters for occupancy without charge and that PHS be reimbursed only for the salaries of these officers.

As a result of our report, the House Committee on Appropriations directed the Bureau to take corrective action on this matter. Effective January 1962, the Bureau designated certain quarters for rent-free occupancy and discontinued reimbursing PHS for quarters allowances to the officers occupying those quarters. This action resulted in an estimated net savings to the Government of about \$10,000 for calendar year 1962.

65. Recommendation to discontinue use of certain officer family quarters--We found that officer family quarters and surrounding grounds not needed to meet operational requirements were being maintained for certain high-ranking Coast Guard officers at a cost substantially in excess of the quarters allowances payable to these officers if Government quarters had not been furnished. Government quarters are furnished for district commanders in only 4 of the 12 Coast Guard districts; commanders of the remaining 8 districts receive quarters allowances for obtaining private living accommodations.

We expressed the belief that the continued retention of such officer family quarters is not warranted because (1) the Government quarters are not needed to meet operational requirements, (2) maintenance expenditures are high and substantially exceed quarters allowances, and (3) adequate private living quarters are available. In our report issued in April 1962, we recommended that the Commandant of the Coast Guard discontinue the use of these properties as officers' quarters and, where appropriate, consult with other agencies as to better Government utilization or disposition of the properties.

The Treasury Department informed us in June 1962 that, in view of the practice of furnishing housing for high-ranking officers in all military departments, the Secretary could not agree to discontinue use of the housing as officers' quarters but that action was being taken to reduce the cost of maintaining the grounds.

REVIEW OF MOTOR VEHICLE ACTIVITIES

66. Steps taken to improve utilization of motor vehicles--The Communicable Disease Center, Public Health Service, Department of Health, Education, and Welfare, experienced generally low utilization of motor vehicles in relation to the utilization standards prescribed by the General Services Administration. Also, the use of Government vehicles for travel between residences and places of duty did not appear to be justified in some instances. In addition, the need for five aircraft was questionable in view of their low utilization and the nature of their use.

In October 1961, we proposed that action be taken to reduce the number of vehicles and aircraft to actual requirements, taking into consideration program objectives, cost of operations, possible alternative arrangements, and other pertinent factors. We were subsequently informed that the Center had significantly reduced its vehicle requirements, disposed of its aircraft, and established a policy forbidding use of Government vehicles between residences and places of duty.

67. Control over vehicle utilization to be strengthened--The Sacramento District, Corps of Engineers (Civil Functions), did not maintain adequate control over the utilization of vehicles on permanent assignment from the General Services Administration (GSA). Many of the assigned vehicles remained idle while additional vehicles were being dispatched by GSA to District personnel on a daily use basis. We recommended that utilization of all vehicles be reported on a day-to-day basis to the motor transport officer who would then utilize the permanently assigned vehicles more efficiently and reduce the number of dispatch vehicles obtained from GSA. In March 1962, Corps officials advised us that this recommendation had been implemented.

REVIEW OF CHARGES FOR GOVERNMENT-FURNISHED SERVICES

68. Surcharge rates billed by Bureau of Public Roads on procurement for foreign countries increased to recover administrative costs--Under agreements whereby the Bureau of Public Roads, Department of Commerce, procures equipment and materials for foreign countries, the Bureau added a 1-percent surcharge to the countries involved to recover its administrative costs. However, we found that the 1-percent surcharge rate was not based upon the Bureau's actual administrative cost experience and was substantially lower than rates charged by other Government agencies under similar circumstances. Accordingly, we suggested that the Bureau review the adequacy of the surcharge rate applicable to foreign procurement. In June 1962, the Bureau advised us that it had increased the surcharge to rates ranging from 2 to 6 percent. This action will result in estimated annual savings to the Government of from \$75,000 to \$100,000.

69. Deficient meter reading and billing procedures resulting in revenue losses corrected--In our report issued in April 1962 on the audit of the Virgin Islands Corporation, we pointed out that the Corporation sustained power revenue losses of over \$88,000 during the fiscal year 1961 because of deficient meter reading and billing procedures. Most of the revenue losses were the result of not sending out bills for electric service on a monthly basis as prescribed by the Corporation's power rate schedules. Because power rates decrease as larger quantities of electric energy are billed, most customers paid less for power than would have been the case had the Corporation sent out bills monthly. The President of the Corporation took prompt corrective action after we brought these deficiencies to his attention.

70. Action being taken to develop a system for compiling data for establishing fees--During our review of the Department of Licenses and Inspections, District of Columbia Government, we found that the Department had not installed cost records or made effective periodic cost studies for the purpose of establishing fees to be charged for issuing licenses, permits, certificates, and transcripts of records. We suggested that the Department utilize the District's accounting systems staff to develop and install a system that will provide for compiling data essential for the undertaking of an effective cost study for establishing license and permit fees on the prescribed "commensurate-with-cost" basis. In October 1961, District officials informed us that they concurred with our views and that a systems analyst had been designated to work with the Department for the purpose of developing a required system.

REVIEW OF ORGANIZATION

71. Establishment of a single tax compliance unit for the District of Columbia should be considered--The Government of the District of Columbia, in conducting its tax and other revenue collection activities, has dispersed the responsibility for enforcing compliance with District tax laws among three separate units; the Personal Property Assessment Section; the Income and Franchise Tax Section; and the Sales, Use, and Excise Tax Section. This dispersal of functions resulted in the same business concerns being visited by different officials of the several compliance units. Also, one of the compliance units made more field investigations than appeared to be necessary, whereas another unit made relatively few investigations. In our report issued in June 1962, we suggested that the District consider the feasibility of establishing a single compliance unit within the Department for the purpose of more effectively carrying out its compliance program.

REVIEW OF BUDGETING PROCEDURES

72. Premature requests for construction appropriations to be corrected--The Veterans Administration included in its appropriations requests funds for certain hospital construction projects which were not ready to be started. Some of these funds remained unobligated for several years. Funds were requested for hospital design work although the preliminary planning had not advanced to the point where this work could be begun upon receipt of the appropriation. Also, funds for financing supervision of construction were requested in a fiscal year prior to that in which funds for the construction itself were asked for; yet, the two activities are logically inseparable and should be financed concurrently.

In April and May 1962, the Administration informed us that it agreed with the principle that funding requests should be better coordinated with the ability to use the funds and that VA would continue its efforts toward obtaining more accurate predictions of fiscal-year funding requirements and improving the time of the use of appropriations.

73. Need to improve budget estimates--For the past several years the budget estimates of the Government of the Trust Territory of the Pacific Islands have, for certain programs, been deficient in several respects. We found that (1) emergency typhoon relief funds were requested for the repair and replacement of certain major facilities before realistic construction plans had been formulated to determine actual needs and cost estimates, (2) amounts requested for the replacement of facilities included the cost of items for which the Congress had already appropriated funds or for which action had been taken to acquire items from Federal excess lists without transfers of funds, (3) many construction projects included in the budget justifications and for which funds had been received were not built or were deferred, while others not included in the budget were built. Also, certain activities requiring substantial funds were not identified in the budget justifications, and estimated costs of some activities were consistently overstated or understated.

In March 1962, we recommended that the High Commissioner of the Trust Territory Government take certain steps to improve the preparation of budget justifications.

REVIEW OF FISCAL PROCEDURES

74. Changes made to improve control and administration of grants to States--In making grants to States for venereal disease control activities, the Communicable Disease Center, Public Health Service, Department of Health, Education and Welfare, allowed grantees to transfer unexpended grant balances from terminated projects in one fiscal year to grant projects of a different nature in another fiscal year, thereby circumventing annual appropriation limitations. Also disbursing procedures resulted in the accumulation of funds by States in excess of their immediate requirements.

Following our review the agency informed us in February 1962 that the practice of transferring unexpended balances of terminated grant projects had been discontinued and that future disbursements for grants would be based on actual requirements and past experience.

75. Payments to be consolidated--Numerous payments were being made each month by the Washington State Office of the Soil Conservation Service, Department of Agriculture, to individual payees for utility and communication services rendered and billed at various locations of the Service in the State. In March 1962, we pointed out that consolidation of payments, by payee, would reduce the administrative time, effort, and cost involved in processing the individual billings and in issuing the related payment checks.

We were subsequently informed by State office officials that arrangements for consolidating payments to one utility company had been completed and that efforts would be made to consolidate other utility payments.

REVIEW OF FINANCING POLICIES AND PROCEDURES

76. Need for SBA to reconsider its fee arrangements with lending institutions--In our report to the Congress in April 1962 on the fee arrangements between the Small Business Administration (SBA) and lending institutions that participate with SBA in making business loans to small concerns, we commented on the effects of the changes that were made to these fee arrangements by SBA on April 1, 1958. Under the revised fee arrangement, SBA (1) pays a service fee to banks servicing SBA immediate-participation business loans and (2) reduced by 50 percent a fee which banks pay to SBA for SBA's commitment to purchase a percentage of the unpaid balance of deferred-participation business loans. In the immediate-participation type of loan, SBA purchases a percentage of the loan from the participating bank at the time the loan is made; in the deferred-participation type of loan, SBA commits itself to purchase from a participating bank a percentage of the unpaid balance of a loan at such time as the bank may request.

The new fee arrangements cost the agency about \$1.8 million on new loans made during the first 3 years the new fees were in effect. SBA has also incurred additional costs of \$1.3 million as a result of its decision to voluntarily make the new fee arrangements applicable to loans outstanding at the time of the changes. Further, since the increased cost of the fee changes is of a continuing nature, the revised service fee and reduced participation fee will increase SBA's operating loss by an amount which we estimate will reach \$1.1 million annually by fiscal year 1963.

SBA's objectives in revising its fee arrangements were to increase bank participation in SBA business loans and to reduce SBA's loan servicing costs. In our report, however, we expressed the belief that, despite the costliness of the new fee arrangements, SBA has realized but limited success in attaining these objectives because, under the new arrangements, the amount of deferred-participation loans approved--the type of loans having the highest priority under the Small Business Act--decreased and, as noted above, the agency incurred significant additional costs. Accordingly, we recommended that the Administrator reconsider all phases of the agency's fee policy and make such changes as are appropriate.

77. Need for a more equitable arrangement with banks having tax and loan accounts--The Office of the Treasurer of the United States has for many years maintained substantial amounts of Government funds on deposit with commercial banks in special demand accounts, known as "tax and loan accounts." No interest is paid to the banks. Although the Treasury Department had consistently expressed the view that the cost of the services performed by the banks for the Federal Government largely offset the income produced by the tax and loan accounts, the Department had made no study to

REVIEW OF FINANCING POLICIES AND PROCEDURES (continued)

support its opinion. In April 1958, we suggested to the Secretary of the Treasury that a study of costs and other pertinent data for a selected number of representative banks having tax and loan accounts be made to determine whether the balances in tax and loan accounts may have produced income to the banks in excess of the cost of the services performed by them for the Federal Government. In accordance with our suggestion, supported vigorously by the Chairman of the Foreign Operations and Monetary Affairs Subcommittee of the House Government Operations Committee, the Treasury Department made a study of earnings on deposits in tax and loan accounts and of costs of services performed for the Federal Government by selected banks for the calendar year 1958.

The Department, in its report on the study dated June 15, 1960, indicated that in 1958 the cost of services rendered to the Government by the 11,095 banks having tax and loan accounts exceeded their earnings on deposits in such accounts by about \$5.3 million. The Department concluded in the study report that it would not be in the best interest of the Government to change the present arrangement with banks having tax and loan accounts and that the banks should not be required to pay interest on balances in those accounts.

In our report to the Congress in May 1962 on our review of the Treasury Department study, we pointed out that, if current earnings rates of banks having tax and loan accounts are considered, the arrangement appears to result in a substantial overall excess of the earnings from tax and loan accounts over the expenses incurred in providing services for the Federal Government. We also stated that our review indicates that, even on the basis of the earnings reported for 1958, the largest banks earned \$7.6 million in excess of expenses incurred for services performed for the Government. Accordingly, we recommended that the Congress consider the desirability of enacting legislation establishing a general policy requiring that the banks pay to the Government amounts approximating the excess of the earnings value to them of the tax and loan accounts over the cost of services rendered to the Government.

REVIEW OF OPERATING PROCEDURES

78. Optimum break-even point established for printing and binding operations--In our report of April 1962 to the Congress, we expressed our belief that a need existed for the Government Printing Office to establish an optimum break-even point for printing and binding operations; that is, to determine the maximum volume of printing and binding work which can be effectively processed through its plants at the lowest possible cost. We suggested that the Public Printer establish such an optimum break-even point and that it be used to the extent appropriate as an aid in setting rates at a level consistent with providing required service as economically as possible. We were subsequently informed by the Public Printer that an overall break-even point had been established and would be used to the extent that it may further the overall objectives of the Government Printing Office.

79. Deficiencies in enforcement of tax laws and other revenue-collection practices to be corrected--Our review of tax and other revenue-collection activities of the District of Columbia Government disclosed various deficiencies in the enforcement of certain provisions of the tax laws and in the collection of certain receivables. These deficiencies included the issuing of annual business privilege licenses without determining whether the applicants had paid all prior years' taxes as required by law; the failure of the Enforcement Division to attempt to collect from corporate officers or other responsible officers District personal income taxes withheld by corporations from wages of employees but not remitted to the District; and the transfer by the D.C. General Hospital of many unpaid accounts of patients to the Enforcement Division for collection without having made reasonable efforts to collect the accounts and without regard to the amount of the unpaid accounts. Our findings together with appropriate recommendations were reported in June 1962. District officials informed us that they generally concurred with our findings and that corrective action was being or would be taken.

80. Weaknesses in licensing and inspection activities of District of Columbia Government to be corrected--We noted inconsistencies in the administration of the District of Columbia Standard Weights and Measures Law. Notices of violation were issued to only 46 percent of the merchants who were found to be making sales which were short weight. In addition, about one-third of the notices issued were canceled and the number of violations cited in some of the remaining notices were reduced without written explanation for such action.

Also, the District Government did not make inspections, as frequently as required by law, of licensed multiple dwellings and of measuring and weighing devices used by business establishments.

REVIEW OF OPERATING PROCEDURES (continued)

In addition the records of the District did not disclose whether required inspections had been made of boilers and unfired pressure vessels covered by insurance. In our opinion, the Department's failure to make these inspections at the required intervals stemmed, in part, from its reporting system which does not provide management with information as to the status of the inspection work.

District officials informed us in October 1961 that they generally concurred with our findings and indicated that corrective action had been or would be taken.

81. Improved controls over paid money orders to be provided-- In April 1962 we reported on a follow-up review of the operation of the Post Office Departments' Money Order Center. We had previously reported that the system of auditing, reconciling and accounting for paid money orders by the Center did not, in some respects, provide or lend itself to the establishment of adequate physical and accounting controls over paid money orders. We had recommended to the Deputy Postmaster General that the Department consider substantially revising the system or replacing it with one that would provide adequate physical and accounting safeguards over paid money orders. We had recommended also that the Department study the feasibility of joint utilization of the Treasury Department's electronic data processing facilities.

A joint committee consisting of representatives from the Treasury and Post Office Departments was established in March 1960 to make such a study. The committee determined that the integration of the money order functions and the Treasury check processing functions, utilizing the electronic data processing facilities of the Treasury Department, was feasible. The study indicated that the integration of these functions would provide the essential controls needed over the auditing, reconciling, and accounting for paid money orders. The study indicated also that, after the system is in full operation, the Government will realize annual savings estimated at over \$650,000--about \$500,000 for the Post Office Department and \$150,000 for the Treasury Department. In January 1962, the Deputy Postmaster General informed us that the initial phase of the conversion program, involving about 12-1/2 percent of the volume of the Money Order Center's activities, would begin in June 1962 at certain post offices and that the Department's schedule provides for completing the conversion within 9 months of that date.

82. Inventory of facilities of small-business concerns to be updated--To assist small concerns desiring to participate in Government procurements, the Small Business Administration (SBA) maintains an inventory of small-plant facilities. In June 1962, we

REVIEW OF OPERATING PROCEDURES (continued)

reported that, because SBA regional offices did not keep the facilities inventory current, the inventory was not effectively serving SBA procurement representatives and Government procurement offices in obtaining information on small concerns. The facilities inventory is used by SBA as a means of identifying small concerns with specialized skills and equipment and furnishing names of potential small-concern bidders to Government procurement offices. SBA can thus assist registered concerns in obtaining Government contracts, either as prime contractors or subcontractors. The inventory is also useful in determining the Nation's manufacturing and industrial potential in case of mobilization for defense.

As a result of our review, the SBA Washington Office pointed out to the regional directors that the program covering the facilities inventory is mandatory and that manpower to carry out the program is provided for in annual appropriations of SBA. The Washington Office instructed the regional staffs to take the necessary action to update their inventories. Also, we were informed by SBA Washington officials that the facilities inventory would be centralized on automatic data processing equipment in the Washington Office.

REVIEW OF OPERATING ACTIVITIES

83. Action taken to obtain revenues from disposals of dredged material--In a prior year's report on the Corps of Engineers (Civil Functions) we commented that the Corps did not always adequately take into account the value of spoil (dredged material) arising from the construction and maintenance of navigation projects. We recommended that the Chief of Engineers take certain specified actions to obtain or participate in any revenues realized from the disposal of the spoil and thus reduce the Federal cost of the projects. Our subsequent review of selected activities at the Norfolk District Office of the Corps disclosed that, as a result of revised contracting procedures, that office had between June and September 1961 collected and deposited into the Treasury as miscellaneous receipts about \$120,000 from sales of spoil. District Office officials informed us that, in addition to these collections, a saving of about \$123,000 was realized in dredge operating costs because the spoil did not have to be delivered to more distant deep-water areas for disposal.

84. Administration of highway transportation activities corrected or to be corrected--In our February 1962 report on our review at four Post Office Department regional offices, we commented on certain deficiencies in the administration of highway transportation activities. At one regional office certain available Government-owned vehicles were not used to replace contract mail messenger service and thereby reduce the cost to the Government and there was unnecessary duplication of highway transportation service. At two of the regional offices we noted instances where highway transportation contract files did not show that required surveys had been made to determine whether the services performed by contractors were necessary or that the costs were fair and reasonable. At each of these regional offices erroneous payments were made to contractors, and at three regional offices the records of performance by highway transportation contractors were not adequate.

The Deputy Postmaster General informed us that the noted deficiencies were due mainly to employees not following existing instructions and that appropriate action had been or would be taken so that existing instructions would be complied with. He informed us also that certain overpayments disclosed during our review had been collected.

85. Duplication of hurricane forecasting functions to be eliminated--In our January 1962 report to the Congress on the Weather Bureau of the Department of Commerce, we stated that certain hurricane forecasting functions of the Department of the Navy at Miami, Florida, were an unnecessary duplication of Weather Bureau efforts and facilities. Both agencies agreed to establish a consolidated national hurricane warning center in Miami that would end much of

REVIEW OF OPERATING ACTIVITIES (continued)

the duplication in preparation, analysis, and maintenance of hurricane forecasting data and in maintenance of separate weather communications facilities. Concerning other activities, we recommended that the Secretary of Commerce explore with the Secretary of Defense the necessity for continued duplication by the two agencies in (1) preparing independent hurricane forecasts, (2) testing new hurricane forecasting techniques, and (3) preparing reports on analyses of past years' hurricanes and the results attained from forecasting techniques that had been used.

Our report contained a proposal that, in consideration of savings in personnel and equipment costs and increased operational efficiency that may be realized, the Weather Bureau consolidate two forecasting offices maintained in Miami, Florida. We were informed that the Bureau would combine the offices as soon as sufficient space became available.

REVIEW OF TRAINING ACTIVITIES

86. Action taken to improve direction and control of training activities--Training activities at the Communicable Disease Center of the Public Health Service, Department of Health, Education, and Welfare, lacked central direction and control; there was some overlapping of training effort by the various branches; and there were no written training policies and procedures. No single organization or individual was responsible for overall coordination and administration of all training activities.

In February 1962, we were informed that the Center had made several improvements in its training activities in line with our suggestions, such as, publishing a single training catalog and correlating the recording and reporting of all training. We were informed also that steps were being taken to allow the Training Branch chief to concentrate on overall training responsibilities and serve as director and coordinator of training and that material was being assembled for the publication of a formal Training Branch policies and procedures manual.

REVIEW OF FINANCIAL REPORTING PROCEDURES

87. Published financial statements redesigned to provide more complete disclosure--In 1960 the Saint Lawrence Seaway Development Corporation discontinued recording depreciation of Seaway plant, property, and equipment in its accounts and excluded this significant element of operating cost from its financial statements. In addition, bond interest expense was not considered in determining the net revenue shown on the comparative statement of operations for the calendar years 1960 and 1959. In our opinion, the financial statements prepared by the Corporation were misleading and did not provide a full, fair, and clear presentation of its financial position and results of operations.

In order to provide for a proper accounting for the use of Seaway facilities and to fully and clearly disclose the financial position and results of the Corporation's operations, we recommended in our audit report issued January 25, 1962, that the Administrator of the Corporation reinstate the practice of accounting for depreciation of Seaway plant, property, and equipment. We recommended also that the Administrator reexamine the Corporation's financial reporting with the objective of obtaining clear and complete financial statements. Subsequently, the Corporation resumed the practice of depreciation accounting and recorded depreciation applicable to prior years. In its published annual report for 1961, the Corporation disclosed both depreciation and bond interest as costs in an appropriate manner.

88. Recommendation adopted that Bonneville Power Administration prepare consolidated financial statements of the Columbia River Power System--The financial statements of the Columbia River Power System and Related Activities for the fiscal year 1961 were prepared, as in past years, by the General Accounting Office. In our audit report issued in November 1961 we stated that the continued preparation of these financial statements is desirable in order to disclose fully, on an integrated system basis, the financial position and the results of operations of the various activities that make up the Columbia River Power System. As, in our opinion, the preparation of these financial statements is more properly a function of the executive branch of the Federal Government, we recommended that the Bonneville Power Administration be assigned this responsibility. Our recommendation was adopted effective with the financial statements for fiscal year 1962.

89. Elimination of excessive reports through integration of accounting and financial reporting activities--The financial and statistical reporting activities of the Bureau of Public Roads, Department of Commerce, had not been effectively integrated with the Bureau's accounting operations. The principal reports utilized by management were prepared by an organizational unit that was separate and distinct from the Bureau's finance division and the

REVIEW OF FINANCIAL REPORTING PROCEDURES (continued)

reports were not completely reconciled to the official accounting records. The finance division was also responsible for preparing certain financial reports to management and the central agencies, indicating the possibility of excessive reporting.

We recommended that the Bureau review its recordkeeping and reporting activities with a view toward consolidating these activities so that all financial reports would be based on official accounting records and any overlapping of reporting would be eliminated or substantially minimized. In September 1961 we were informed by the Bureau that it had integrated certain reporting and accounting functions performed at its field offices, thereby eliminating the need for approximately 12,000 reports prepared by these offices each year. The Bureau estimated that the savings accruing from the integration of these functions amounts to about \$10,000 annually.

REVIEW OF ACCOUNTING PROCEDURES

90. Action taken to improve accounting and reporting procedures--We found that the accounting and reporting procedures of the Communicable Disease Center, Public Health Service, Department of Health, Education, and Welfare, did not provide for comparing actual costs of operating projects with budgeted costs. Also, inventories of diagnostic materials (reagents) valued at about \$1 million were not under financial accounting control; unreconciled differences had existed since 1955 between general ledger control accounts for stores inventory and the perpetual inventory records; and real property records were understated. Further, the Center did not have adequate procedures to accumulate the cost of service functions and to distribute such costs to benefiting projects; costs of personal services were not distributed on a systematic basis to benefiting projects or activities; duplication of fiscal records and reports existed between the financial management office and the operating branches; and financial reporting was not geared to management needs.

These matters were brought to the attention of agency officials with various suggestions for corrective action. In February 1962, we were informed that corrective action had been taken by the Center.

91. Revaluation made of helium stored in underground reservoir--The value placed on helium injected and stored underground by the Bureau of Mines, Department of the Interior, at March 31, 1960, was understated by an amount exceeding \$1,332,708 because the Bureau used a valuation basis of \$2 per thousand cubic feet (MCF) instead of the average production cost of \$9.80 per MCF. If a proper valuation is not placed on the helium stored underground, the current operating period is unjustly burdened with additional costs and the operating results of the period are distorted. Also, since the Bureau is required by law to establish selling prices that provide for the recovery of all costs, such a practice could result in abnormally high sales prices for the helium offered for sale. Subsequent to our audit the Bureau increased the valuation placed on helium stored underground to \$6.50 per MCF. Although this revision represents a more realistic valuation of the helium, we recommended that the Director, Bureau of Mines, use the average unit cost of production for valuing the helium stored underground to provide more accurate operating results and inventory valuation.

92. Improvement in method of allocating administrative expenses to operating programs--The Bureau of Public Roads, Department of Commerce, allocated administrative expenses to its several operating programs in accordance with a formula based on estimates of the amount of time to be expended on each program during the fiscal year. Our review of the Bureau's procedures showed a number of errors and weaknesses which gave rise to serious questions

REVIEW OF ACCOUNTING PROCEDURES (continued)

as to whether expenses were being equitably distributed to the various programs and supporting funds involved. We suggested that the Bureau consider the desirability of accumulating the actual time of administrative employees attributable to each of the several operating programs to serve as a basis for the expense distribution. In May 1962, we were advised by the Bureau that it would install procedures, effective July 1, 1962, in accordance with our recommendation, such procedures to be subject to a one-year trial period before final adoption.

93. Accounting system to be revised to account for depreciation--For several years the Bureau of Reclamation has excluded from its official accounts depreciation on that part of the Federal plant investment that is allocated to power operations. The production and sale of electric power from many Federal water resource projects are substantial revenue-producing operations, and depreciation of fixed assets applicable to these operations is material in amount and in relation to total operating costs. Financial reports on these activities should disclose fully the financial results in terms of revenues earned and costs incurred. The practice of the Bureau in not accounting for depreciation on its fixed assets devoted to commercial power production was contrary to the accounting principles and standards prescribed by the Comptroller General.

In our report to the Congress on the audit of the Columbia River Power System and Related Activities for fiscal year 1961, we strongly recommended that the Bureau's official accounting system be revised to incorporate appropriate accounting for depreciation of fixed assets applicable to commercial power operations. The Secretary of the Interior informed us in February 1962 that action would be taken to develop procedures for recording depreciation charges with respect to power operations in the accounts of the Bureau of Reclamation.

REVIEW OF UTILIZATION OF
AUTOMATIC DATA PROCESSING EQUIPMENT

94. Program for continuing review of electrical accounting machine requirements to be established--The Money Order Center of the Post Office Department at Kansas City, Missouri, did not have an adequate program for a continuing review and analysis of electrical accounting machine requirements. The Reconciliation Section employing 43 machines had generally low machine use and at least 4 of the 14 Model 285 accounting machines and 1 of the 2 Model 077 col-lators were excess to the Section's needs. The planned transfer of the Money Order Center's activities to the Treasury Department's electronic data processing facilities in Washington, D.C., will bring about a sharp reduction in electrical accounting machine requirements. Accordingly, in our report of April 1962, we recom-mended that an adequate program for a continuing review and analy-sis of accounting machine requirements be established and that ex-cess machines be disposed of in a timely manner.

We were informed that the Office of the Deputy Postmaster General, under its responsibility for the overall coordination of the Department's data processing program, was actively following up on these matters in connection with the transfer of the money order processing activities to the Treasury Department.

95. Need for overall machine study based on adequate formal Department policies and procedures--The Post Office Department in-stalled different automatic data processing (ADP) systems at sev-eral regional offices on an experimental basis without first making appropriate independent studies, including a determination of the Department's overall operating needs, prior to the acquisition and use of the equipment. Also, the Department had not prescribed ade-quate written policies and administrative regulations governing the use of the ADP equipment. The use of different systems for proc-essing similar financial and related data resulted in unnecessary costs and problems. Unsatisfactory equipment had to be returned, and additional costs were incurred in programing, training of per-sonnel, and other related activities. Also, the Department encoun-tered considerable difficulty in attempting to establish uniform and standardized procedures.

In our report of January 1962, we recommended that the Depart-ment establish formal policies and procedures governing the use of ADP equipment, recognizing the criteria and objectives set forth by the Comptroller General of the United States and the Director, Bu-reau of the Budget, and that a study be made of the Department's activities to determine a machine system best suited to its overall needs. The Department informed us of several actions taken to im-prove its management of ADP operations.

REVIEW OF UTILIZATION OF
AUTOMATIC DATA PROCESSING EQUIPMENT (continued)

96. Operating costs could be reduced through more efficient utilization of equipment--In our report, issued in April 1962, on the automatic data processing operations for United States Savings Bonds at the Parkersburg, West Virginia, office of the Bureau of the Public Debt, Treasury Department, we pointed out the possibility of reducing operating costs through better equipment utilization and releasing unneeded rental equipment. Excess equipment resulted from a lack of efficient scheduling of work and effective review of machine utilization records in order to identify items of equipment that might be released from rental. Subsequent to our review, equipment renting for \$11,660 a year was returned but we believed that additional equipment renting for \$15,550 a year could be released from the rental contracts. We believed also that a card-to-tape input converter could be released with annual rental savings of about \$28,000. Subsequent to our review, however, the Bureau replaced the electronic data processing system with another system, and we did not ascertain whether the converter would be needed for the new system.

REVIEW OF PERSONNEL UTILIZATION

97. Guidelines established for manpower requirements for cleaning small postal installations--At a number of postal installations having less than 20,000 square feet of floor space in two postal regions, we noted that the actual cleaning hours worked exceeded the hours needed according to regional manpower criteria. We estimated that substantial savings would result if the size of the cleaning force was reduced to that prescribed by the regions. The Post Office Department had not established criteria for determining manpower needs for cleaning small postal installations, and each of the four postal regions visited by us had established its own criteria. We recommended in our report of September 1961 that the Department have the directors of the two regions review the custodial staffing at small installations. We recommended also that the Department consider having departmental guidelines established for determining the manpower needs for cleaning small postal installations and having reviews made of the application of these guidelines by the regions.

We were informed that the Department completed a study and was drafting criteria on manpower requirements for cleaning small postal installations and that a revised form would assist the regions in evaluating the efficiency of building management operations. A handbook establishing guidelines for cleaning and maintenance management in smaller structures was subsequently issued by the Department.

98. Study to determine correct classifications of janitor and custodial laborer positions to be completed--The Post Office Department had been aware of the possibility that certain janitor and custodial positions had been misclassified, but our review showed that action ordered by the Department had not been completed by most of the postal regions to determine the extent of such misclassifications. We noted a considerable number of incorrect position classifications which increased annual payroll costs at one region alone by about \$87,000.

We recommended in our report of September 1961 that the regional studies be completed and that position reclassifications be adjusted wherever necessary. The Deputy Postmaster General informed us that the regions have been instructed to complete the classification study.

99. Need for more effective use of Small Business Administration personnel in reviewing agency actions under the set-aside program--Under cooperative agreements between the Small Business Administration (SBA) and major procuring agencies, SBA representatives are assigned to procurement offices in these agencies and screen proposed purchases to determine whether small concerns can

REVIEW OF PERSONNEL UTILIZATION (continued)

supply all or a portion of the required items or services at a reasonable price to the Government. Suitable procurements are then set aside, in whole or in part, to be awarded competitively to small concerns.

In our June 1962 report to the Administrator, SBA, we pointed out that SBA's requirement for such joint reviews resulted in unnecessary duplication of effort. We expressed the belief that certain military procurement offices had established adequate procedures and were sufficiently competent to make satisfactory set-asides without SBA participation in each proposed procurement.

Although SBA revised its set-aside procedures for one major procuring agency, the Department of the Army, to curtail detailed participation by SBA representatives in purchases of less than \$50,000, we recommended that the Administrator allow other procurement offices having an effective small-business program to set aside procurements on the basis of their own determinations. We proposed that the efforts of SBA representatives at these procurement offices be limited to evaluating the effectiveness of the set-aside program as conducted by the procuring agency and to reviewing procurements which have not been set aside. The time thus saved could be used to survey procurement offices which are not included in SBA's program but which show potential for a set-aside operation.

REVIEW OF PAYROLL PROCEDURES

100. Payment of basic allowance for subsistence discontinued where Government messes are available--We found that payment of basic allowance for subsistence, at the rate of \$2.57 a day, to 94 enlisted personnel assigned to the three air detachments located within the 8th Coast Guard District had been authorized, notwithstanding the fact that other military services operated Government messes which were available to Coast Guard personnel. Where a Government mess is available, enlisted military personnel are entitled to subsistence in kind or to a commuted ration allowance which, at the time of our review, was \$1.10 a day.

After we brought this matter to their attention, 8th District officials took steps to discontinue the payment of basic subsistence allowance in such cases. We estimate that this action will result in recurring savings of about \$47,000 a year.

Further, we were informed in April 1962 that a servicewide review had been made and that action had been taken to discontinue the payment of basic subsistence allowance at four other Coast Guard units, resulting in estimated additional recurring savings of about \$21,000 a year.

101. Need to revise Post Office Department procedures for payment of equipment maintenance allowances to special delivery carriers and messengers--The Post Office Department was making payment of equipment maintenance allowances to special delivery carriers and messengers, who were using personally owned vehicles, by separate check instead of combining these payments with the employees' payroll checks. We recommended in a report of October 1961 that, to eliminate the need for issuing separate checks, the Department consider processing the allowances through regular payroll procedures. We were informed that the Department was studying this matter.

REVIEW OF TRAVEL POLICIES AND PRACTICES

102. Improvements made in control over travel expenditures--Our review at the Denver field office of the Agricultural Stabilization and Conservation Service, Department of Agriculture, disclosed certain weaknesses in administrative controls over travel expenditures. We noted that inadequate justifications were presented for payment of per diem to certain employees for daily round-trip travel between their official and their temporary posts of duty when the period in travel status exceeded by only a few minutes the 10-hour travel time required to establish entitlement to per diem; that travel advances were approved in some cases for amounts in excess of travelers' needs, and outstanding travel advances were not always liquidated in a timely manner; that certain travel vouchers were paid prior to administrative approval; and that some travel vouchers did not contain sufficient information to provide a reasonable basis for determining the propriety of amounts claimed by travelers. We reported these weaknesses to the Administrator in May 1962 and were subsequently informed that corrective action had been or was being taken.

103. Management of travel advances and blanket travel authorizations improved--Employees of the Communicable Disease Center, Public Health Service, Department of Health, Education, and Welfare, had travel advances outstanding for over 1 year although they traveled only infrequently or not at all. Blanket travel orders had been issued to over 250 employees, many of whom performed administrative duties in the headquarters office and were in a position to readily obtain specific travel authorizations. We suggested that the Center establish more specific criteria for determining under what circumstances blanket travel authorizations and travel advances should be issued and that it reduce the number of blanket authorizations and the amounts of travel advances. The agency informed us in February 1962 of improved controls which had been instituted in line with our suggestions.

104. Administration of employees' field conferences strengthened--In our review of certain policies and practices relating to employees' field conferences held by the Bureau of Old-Age and Survivors Insurance, Social Security Administration, Department of Health, Education, and Welfare, we noted certain weaknesses which we believed indicated the need for better central office direction and control to assure that conference activities were conducted as economically as possible. Our review, which was completed in May 1962, disclosed that the Bureau's policy of holding such conferences in areas located away from the distractions of day-to-day business led to the selection of conference sites that either were not centrally located or were not easily accessible by public transportation, for the majority of the employees who attended, thereby increasing both the cost of official travel and the time during which conference participants were absent from their regular

REVIEW OF TRAVEL POLICIES AND PRACTICES (continued)

work. Certain other practices tended to have a similar effect: (1) full workdays were not scheduled for conferences, (2) the number of employees designated to attend conferences may have been excessive, and (3) early arrivals at conferences increased travel costs.

We recommended that the Bureau Director (1) establish guidelines emphasizing the need for selecting the most economical conference locations, consistent with conference objectives, (2) schedule normal work hours at conferences, (3) objectively evaluate proposed conference attendance of field office employees as well as central office employees, and (4) establish controls to assure that early arrivals at conferences be authorized only when necessary. The Secretary of Health, Education, and Welfare subsequently issued Department-wide criteria for holding conferences which were substantially in line with our recommendations.

Also, we noted that controls over payment of per diem for overnight stays at conferences close to official duty stations needed strengthening. The Bureau Director informed us that vouchers would be given a stricter review to assure that adequate justification is shown on the travel voucher when per diem is paid for overnight stays at conferences held close to official duty stations.

105. Use of first-class air accommodations to be limited--The Washington, D.C., office of the Bureau of Public Roads, Department of Commerce, had authorized extensive use of first-class accommodations for its employees although other suitable and less costly accommodations could have been used. This practice is contrary to policy pronouncements of the Bureau of the Budget, the Department of Commerce, and the Bureau of Public Roads. In view of the substantial sums of money being expended on travel, we recommended that the Federal Highway Administrator issue instructions requiring the use of other-than-first-class accommodations by all Bureau personnel, except when such accommodations are not obtainable to meet travel requirements effectively and economically, and that appropriate approval procedures be established to promote compliance with the instructions.

The Federal Highway Administrator informed us in June 1962 that the attention of Bureau employees would again be directed to the Bureau's policy statement urging the use of less costly accommodations. Also, the Bureau's operating procedures were revised to require written approval in all instances where first-class airline accommodations are requested or used on flights of 5 hours' duration or less when less costly accommodations are available at the same time or at an equally suitable time.

REVIEW OF CERTAIN ASPECTS OF EMPLOYEES BENEFITS PLAN

106. Regulations regarding employees' insurance benefits revised to bring into accord with the purpose of the law--Under regulations issued by the Civil Service Commission, persons who transferred from one Government agency to another were permitted to convert group life insurance policies to individual private policies. Each such conversion represented a cost to the group life insurance fund of \$65 per \$1,000 of insurance converted. In addition, a transferring employee was allowed to take out a new group life insurance policy in the new agency. Inasmuch as the intent and purpose of the Federal Employees' Group Life Insurance Act are that conversion privileges should be allowed for only those persons actually separating from Government, we recommended in our report of May 1962 that the Commission amend its regulations to deny conversion privileges in cases where separations are merely transfers to other agencies. Our recommendation was subsequently adopted by the Commission.

107. Need for increase in insurance rates for employees' group life insurance program--Since passage of the Federal Employees' Group Life Insurance Act of 1954 and establishment of the original insurance premium rates, which have a maximum fixed by law, the cost of providing group insurance for Federal employees has increased, primarily because of several liberalizing amendments. Currently, the estimated cost of providing insurance exceeds the annual premiums collected. The Commission estimates that the cost of the life insurance program exceeds the income by 5.5 cents each biweekly pay period for each \$1,000 of insurance, or by about \$18 million annually.

We recommended in our report of May 1962 that the Congress consider increasing premium rates so that income will cover the cost of the program and that the rates thereafter be increased when amendments to the act or other conditions increase benefits and costs. We recommended that, as an alternative, the Congress adopt the level cost principle as the basis for establishing premium rates and that the Civil Service Commission be authorized to revise premium rates as the need arises in the future. Such an authorization should state what percentage of the premium is to be borne by the employer and what percentage by the employees.

108. Limitation of employees' conversion privilege under group life insurance program is desirable--The Federal Employees' Group Life Insurance Act of 1954 does not require a minimum period of service before a separated employee may convert his group insurance to an individual policy. Also, the law does not limit the number of times a separated employee can convert his insurance if he moves in and out of Government service. We recommended that the Congress consider amending the act to provide that short-term employees share a part of the conversion cost, which is presently borne entirely by the fund at the rate of \$65 for each \$1,000 of insurance

REVIEW OF CERTAIN ASPECTS OF EMPLOYEES BENEFITS PLAN (continued)

converted, and that the total insurance permitted to be converted be limited to the largest amount for which the insured parties would have been eligible as Federal employees.

REVIEW OF ALLOWABILITY OF CERTAIN COSTS
IN SUBSIDY AND GRANT PROGRAMS

109. Elimination of ineligible wage costs in computing operating-differential subsidy rates for ship operators--In computing subsidy wage rates for subsidized ship operators, the Maritime Administration failed to exclude payroll tax and vacation pay costs applicable to relief officers and crews although, under Maritime's definition of subsidizable expenses, these items of cost are ineligible for rate-making purposes. In January 1962 we brought this matter to the attention of Maritime officials who subsequently informed us that the ineligible costs would be eliminated from future computations of subsidy wage rates. We estimate that the savings in subsidy payments will amount to about \$50,000 annually.

110. Guidelines being developed for charging medical school faculty salaries to grants--In our report of March 1962, we expressed doubt that the policies followed by medical schools in charging faculty salaries to research and training grants awarded by the National Institutes of Health (NIH), Public Health Service, Department of Health, Education, and Welfare, have resulted in reliable determinations of the cost of NIH-supported research and training, consistent with Government-wide cost principles applicable to research grants. Neither PHS nor the medical schools generally require the systematic development of current information on the time or effort expended by faculty members on grant work. In the absence of such information, there is no reliable basis for determining, under present practices, the extent to which the amounts being charged to NIH grants for faculty salaries are at variance with the amounts properly chargeable under Government-wide cost principles.

We recommended that a review be made to determine and establish reasonable guidelines, consistent with Government-wide cost principles, for charging medical school faculty salaries to NIH research and training grants. The agency concurred with our recommendation and undertook a study to assist in developing sound policies and procedures for charging salaries to grants.

REVIEW OF AGRICULTURAL PROGRAMS

111. Savings resulting from reductions in future payments under conservation reserve contracts--In a review, made at the request of a Member of the Congress, of certain arrangements relating to a number of conservation reserve contracts in Colorado, we disclosed questionable circumstances which appeared to bring about the bypassing of the \$5,000 limitation on annual payments to producers under the conservation reserve program. Our findings were subsequently made available to the Department of Agriculture which canceled the contracts in September 1961 on the ground that they constituted a scheme to exceed the \$5,000 limitation. Savings over the remaining 6- to 8-year periods of the contracts will amount to about \$210,000.

112. Procedure revised to require donees of nonfat dry milk to reimburse CCC for excess freight charges--In making donations of nonfat dry milk to the United Nations (UN), the Commodity Credit Corporation (CCC), Department of Agriculture, approved ports of export, proposed by the UN, which resulted in lower ocean freight charges to the UN but in higher inland freight charges to CCC than would have resulted if other ports had been used. Pursuant to authority contained in the Agricultural Act of 1949, as amended (7 U.S.C. 1431), CCC pays inland freight charges from storage locations to ports of export while the UN pays the ocean freight charges. On the basis of information obtained in our review of selected donations made to the UN during calendar year 1961, we estimated that CCC could have saved about \$100,000 in inland freight charges if ports other than those designated by the UN had been used.

We brought this matter to the attention of appropriate Department officials. In November 1961, we were informed that the UN would be required to reimburse CCC for any additional inland freight charges incurred in making deliveries to ports proposed by the UN.

113. Improvements and economies effected in program for donation of nonfat dry milk to needy people overseas--Substantial quantities of nonfat dry milk, donated by the Commodity Credit Corporation to relief agencies for distribution to needy people in Hong Kong and Macao, were being sold on the commercial market by relief recipients and were ultimately used as animal feed. We initially brought this matter to the attention of the American Consul General in Hong Kong in December 1961. Subsequently he obtained agreements from the relief agencies that distribution of donated milk in dry form to individuals would be discontinued and that nonfat dry milk would be distributed only in the form of liquid milk or in other prepared foods.

REVIEW OF AGRICULTURAL PROGRAMS (continued)

Subsequently, in February 1962, we brought to the attention of the Department of Agriculture the possibility of reducing quantities of nonfat dry milk scheduled for donation to Hong Kong and Macao during the remainder of fiscal year 1962, since it appeared that these scheduled quantities were in excess of actual requirements. As a result, the Department reexamined its plans for 1962 and canceled planned donations amounting to about 876,000 pounds of milk which then became available for other authorized uses. Also, the Department furnished us information indicating that additional planned donations during fiscal year 1963 would be reduced.

114. Actions taken to correct weaknesses in traffic management activities--In reports issued to agency officials during fiscal year 1962 on our review of the administration of the dairy products price-support program by the Agricultural Stabilization and Conservation Service (ASCS), we commented on the need for improvements in traffic management activities of certain ASCS commodity offices. Our review disclosed, among other things, (1) uneconomical shipments of packaged butter because delivery orders were not coordinated with production schedules of the contractors supplying the commodity, (2) unnecessary freight costs of about \$35,000 incurred by the Government because shippers were not always ordered to load sufficient quantities of dairy products into individual rail cars to enable the Government to obtain the benefit of lower freight rates generally available on large quantities, (3) failure to use special lower freight rates available for Government shipments, (4) shipments not routed in all cases so as to obtain the most economical freight rates, and (5) use of transit privileges in situations where it would have been more economical to ignore the privileges and ship at a local rate.

Agency officials informed us that appropriate actions had been or would be taken regarding the foregoing matters and that claims for recovery of overpayments would be processed wherever warranted.

115. Storage contracts revised to provide for charges for time of actual storage only--In our review of storage contracts under which rough rice owned by the Commodity Credit Corporation was stored with warehousemen, we noted that the Government was paying a full month's storage charge upon loadout from warehouses even though the commodity may not have been stored for the full month of loadout. The applicable storage contracts provided that a monthly storage charge would be paid for a full storage month or a fraction thereof. Our review of selected loading orders on rough rice showed for the fiscal year 1961 that the rice was in storage on the average only one half of the month of loadout. We estimated that about \$100,000 in storage costs could have been saved by the Dallas commodity office during fiscal year 1961 if storage charges had been paid only for the time the rice was actually stored.

REVIEW OF AGRICULTURAL PROGRAMS (continued)

In reply to our inquiry, the agency informed us in June 1962 that beginning August 1, 1962, rice storage contracts would provide for a daily storage rate determined by converting the monthly storage rate to a daily basis.

116. Procedure changed to require collection of overpayments-- Our review of 1961 feed grain program activities at selected county offices of the Agricultural Stabilization and Conservation Service (ASCS) disclosed that certain county committees, in conformance with instructions prescribed by ASCS, did not require program participants to refund overpayments resulting from clerical errors made by the county offices. The amount of such overpayments exceeded \$85,000. The instructions provided, in pertinent part, that, where the payment rate entered on a producer's application to participate in the program was later found to be overstated, the rate was to be used nevertheless if the producer (1) was not responsible for the error, (2) could not reasonably be expected to question the error, and (3) complied in good faith with the program on the basis of the rate entered on the application.

In response to our inquiry in May 1962 as to the authority for permitting county committees to forgive such overpayments, the agency stated that this procedure could not be justified and that it would be corrected. Also, we were informed that the State offices would be notified that the overpayments should be recovered from the affected producers.

117. Steps taken to improve audits of agricultural cooperative association borrowers-- During our review of loan operations of the banks for cooperatives, Farm Credit Administration (FCA), we noted numerous instances where audited financial statements accepted by the banks for cooperatives did not provide a proper basis for effective appraisal of the borrowers as credit risks because the scope of the audits did not include observation or other appropriate verification of inventories or confirmation of receivables where these assets represented a significant proportion of the total assets of the borrowers. In other instances the banks accepted audit reports which did not contain an expression of opinion by the auditors regarding the fairness of the financial statements.

In an audit report issued in January 1962, we recommended that FCA take steps to assure a higher degree of reliability in the information contained in the financial statements and audit reports submitted by cooperative association borrowers. We were subsequently informed of steps being taken by FCA which should help significantly to improve the quality of audit reports submitted by cooperative association borrowers.

REVIEW OF AGRICULTURAL PROGRAMS (continued)

118. Procedure to be revised to obtain the full amount of adjustment refunds applicable to cotton transactions under Public Law 480--Our review of exports of cotton financed by the Commodity Credit Corporation (CCC) under title I, Public Law 480, Eighty-third Congress, disclosed that the Agricultural Stabilization and Conservation Service was claiming less than the full amount of dollar refunds due CCC from importing countries for adjustments in weight, quality, or other factors applicable to cotton transactions. The agency was reducing refunds claimed from importing countries by the amounts of interest that exporters were charging importers for the importers' delays in establishing letters of credit necessary for carrying out the transactions.

We brought this matter to the attention of the Department of Agriculture in June 1962 and were subsequently informed that Public Law 480 regulations would be revised to provide that interest charges assessed by exporters against importers for delays in establishing letters of credit would not have the effect of reducing the amounts of dollar adjustment refunds otherwise due CCC from importing countries.

119. Consideration being given to need for continuing payment of wharfage charges on CCC-owned bulk grain--During our review of the Uniform Grain Storage Agreement (UGSA) which governs the conditions and rates under which most grain owned by Commodity Credit Corporation (CCC) is handled and stored, we questioned the propriety of CCC's paying wharfage charges on bulk grain handled for its account at west coast port locations. It appeared to us that the payment rates and services provided for in the UGSA covered the services for which CCC was paying wharfage charges. These charges amounted to about \$594,000 for fiscal year 1962.

In reply to our inquiry, the agency informed us in March 1962 that a thorough review of wharfage was being made and that any proposed changes in the provision for payment of wharfage charges would depend on the results of the review. In October 1962, the CCC Board of Directors authorized the Executive Vice President, CCC, to take action to discontinue the payment of wharfage charges. Shortly thereafter, the Federal Maritime Commission began an investigation, pursuant to the Shipping Act, 1916, to determine whether the assessment of wharfage charges constitutes an unjust and unreasonable practice.

120. Apparent conflict of interest in operations of sales agencies under CCC cotton program to be reviewed--Under the 1959 and 1960 cotton purchase programs of the Commodity Credit Corporation (CCC), sales agencies operating under "unlimited" sales agency agreements were permitted to bid on and purchase CCC-owned cotton

REVIEW OF AGRICULTURAL PROGRAMS (continued)

which they themselves offered for sale as agents of CCC. We reported in June 1962 that, in our opinion, a conflict of interest was created between the agencies' inherent duty to fully protect the Government's interest in the disposal of CCC-owned cotton and their private interest as cotton traders in purchasing the cotton from CCC at prices which would enable them to resell it at the greatest possible profit. We estimated that transactions in which the sales agencies sold CCC-owned cotton to themselves amounted to over \$400 million.

We concluded that the transactions in which the sales agencies purchased cotton offered for sale under their own unlimited sales agency agreements constituted violations of the provisions of 18 U.S.C. 434 which provide penalties for whoever, directly or indirectly interested in the pecuniary profits or contracts of any business entity, is employed or acts as an agent of the United States for the transaction of business with such business entity. Also, it is our opinion that CCC was without authority to execute sales agency agreements purporting to sanction such transactions.

We recommended that the Secretary of Agriculture, after consulting with the Attorney General, undertake a review of the pertinent facts in these transactions and that, where failure of sales agencies to fulfill their fiduciary obligations resulted in the sale of cotton at less than its fair value, appropriate action be instituted to recover for the Government the deficiencies in the sales proceeds received by CCC. The Department expressed its agreement with our recommendation and its readiness to pursue appropriate action to protect the interests of the Government.

121. Need for program for abating unauthorized uses of unpatented mining claims--Our review of Forest Service administration of mining claims located on national forest lands reserved from the public domain showed that numerous unpatented mining claims were apparently being used for purposes not related to mining. Examples of uses made of some of the unpatented mining claim sites included permanent residences, summer homes, townsites, orchards, and commercial enterprises. The use of unpatented mining claims for purposes not related to mining is not in accord with court decisions relating to the intent of the mining laws nor is it in accord with the act of July 23, 1955 (30 U.S.C. 612a), which specifically prohibits the use of unpatented mining claims for purposes other than mining. We recommended in our report issued in May 1962 that the Forest Service institute as soon as practicable a program for determining the legal status of doubtful occupancies of unpatented mining claims and take appropriate action to resolve the problems arising from unauthorized uses of unpatented mining claims.

REVIEW OF STRATEGIC AND CRITICAL MATERIALS STOCKPILING

122. Excess Government metals used in lieu of commercial purchases for minting foreign coins--In December 1961, we brought to the attention of the General Services Administration (GSA) and the Bureau of the Mint the desirability of using excess metals acquired under the Defense Production Act for making coins ordered by foreign governments. Previously the Mint had used some of the excess metal for making United States coins but not foreign coins. In response to our proposal, GSA entered into an agreement with the Mint to furnish excess metals at firm future prices for foreign coinage operations. Under the first contract of this type, GSA furnished the Mint with 657,880 pounds of copper and 54,082 pounds of nickel and by this means the expenditure of about \$248,000 for procuring the necessary materials from commercial sources was avoided.

123. Identification of excess stockpile materials by Federal stock number recommended--All Government agencies which can directly use excess stockpile materials are required to do so. We noted, however, that the list of such items published by the General Services Administration does not provide the potential users with sufficient information as to the various grades and qualities of the materials available. In our report of October 1961, we expressed the belief that the assignment of Federal stock numbers to the various grades and qualities of the materials would provide a common means of identification that would assist in the disposition of these excess materials. Also, should a national emergency arise, the use of stockpile materials by other Government agencies and by manufacturers would be facilitated if all stockpile materials were appropriately identified.

At least six excess stockpile materials, some in several sizes and qualities, have been assigned Federal stock numbers since our report was issued, and the General Services Administration indicated that it would further study our proposal that the entire stockpile be similarly identified.

124. Need for reexamination of stockpile objective for natural rubber--In June 1962, we reported our doubt that the stockpile requirement for natural rubber--established in March 1959 and still in effect in June 1962--was based on a reasonable estimate of natural rubber needed to meet military and essential civilian requirements in a 3-year national emergency. We believe that, in arriving at the stockpile requirements, the Office of Civil and Defense Mobilization (succeeded by the Office of Emergency Planning (OEP)) did not give adequate recognition to certain relevant factors such as: (1) new developments in the synthetic rubber industry since 1955, (2) industrial inventories likely to exist at the beginning of an emergency period, (3) the amount of time necessary for the transition from a peacetime to a wartime consumption rate, and (4) military nontransportation requirements. Further, the

REVIEW OF STRATEGIC AND CRITICAL MATERIALS STOCKPILING (continued)

requirement level was raised by addition of a substantial allowance for contingencies without support for the reasonableness of the quantity allowed.

We recommended that the Director, OEP, reexamine the determination of natural rubber stockpile requirements, considering all pertinent factors including those noted above. We recommended also that the Director, OEP, provide criteria as to what constitutes wartime limitation, conservation, and substitution measures and specify how these measures are to be applied in determining stockpile objectives.

125. Need for improved policies and procedures to increase use of excess stockpiled materials by Federal Government agencies--During the first year after the Government's disposal policy for excess stockpiled materials became effective, only a few disposals of material for direct use by Federal Government agencies were made, indicating a need for more effective procedures to bring about the use of stockpile excesses when such use is consistent with overall disposal policies. Furthermore, the disposal policy has not required Federal agencies to fulfill their needs for excess stockpiled materials for other than direct use, such as used by contractors producing end items for the Government and use in United States foreign aid programs. In our report of May 1962, we expressed the belief that a broadening of the policy to require such uses by Government agencies would result in a more expeditious reduction of stockpile excesses.

We recommended that the President of the United States consider (1) strengthening disposal procedures for direct use of excess stockpiled materials by Government agencies to increase the effectiveness of the disposal program and (2) revising the disposal policy by requiring that Government agencies use stockpile excesses for other than their direct-use needs.

REVIEW OF FEDERAL-AID HIGHWAY PROGRAM

126. More equitable method to be used for paying fees to consultants--Our reviews of the Federal-aid highway program, administered by the Bureau of Public Roads, Department of Commerce, disclosed that fees paid to consultant engineering firms in several States were usually negotiated as a percentage of the estimated cost of constructing the highway facility which the consultant firm was engaged to design. We expressed the view that this method of contracting, permitted by Bureau policy, did not provide a sound basis for measuring the value of the services in terms of skills and time required. Also, this method of contracting did not provide for adequate control of fees because construction costs were governed largely by the engineering designs drawn by the same consultants. We recommended that the Bureau revise its policy and encourage use by the States of (1) fixed-price or equivalent-type contracts in all cases where adequate preliminary survey and planning will permit a reasonably definite determination of the services required and (2) cost-plus-a-fixed-fee type contracts in those instances where the required services cannot be definitely determined.

In May 1962, the Bureau agreed to study the matter. Subsequently, as a result of this study, the Bureau issued a revised policy statement prohibiting the use of Federal funds for payment of engineering consultant fees that are based on a percentage of construction costs and encouraging the compensation of consultants on the basis of fixed-fee or cost-plus-a-fixed-fee contracts, as appropriate in the circumstances.

127. Guidelines for appraiser qualifications to be issued--The Bureau of Public Roads had not issued guidelines to be followed by the States in establishing qualifications for (1) appraisers employed in connection with the acquisition of rights-of-way for Federal-aid highways and (2) State employees assigned to approve such appraisals. Information submitted by the States concerning the required qualifications of such individuals generally was too vague to permit judgment by the Bureau as to the adequacy of State requirements. We suggested that, to assist the States in developing qualification requirements for appraisers and to promote uniformity in Bureau evaluation of such requirements, the Bureau develop and issue specific guidelines concerning the factors to be considered in establishing and evaluating minimum qualifications. In January 1962, the Bureau informed us that it agreed with our suggestion and would issue appropriate guidelines.

REVIEW OF POSTAL RURAL DELIVERY SERVICE

128. Inequities in the method of compensating substitute and temporary rural carriers corrected--In March 1962, we reported on certain inequities in the method of compensating rural postal carriers. Substitute and certain temporary carriers received the basic salary authorized for the regular rural carriers whom they replaced, including longevity compensation to which the regular carriers were entitled. In contrast, temporary rural carriers serving routes on which there were no regular carriers assigned and other substitute employees in the Postal Field Service received salaries based on the years of their own creditable service.

Other inequities resulted from the method used to compensate substitute and certain temporary rural carriers for holidays, providing for holiday pay if the substitute served the same route on the day before and the day after the holiday. Other substitute Postal Field Service employees were paid at hourly rates which included a pro rata factor for holidays and which, we believe, form a more equitable basis of compensation.

In response to our findings of inequities in the rural carrier pay structure, the Post Office Department informed us that, upon completion of its study of rural carrier compensation, legislative changes would be proposed to assure a system which would be equitable for all carriers and would be simpler to administer. Legislation which accomplished these proposals was enacted as section 703 and section 710 of the Postal Service and Federal Employees Salary Act of 1962, approved October 11, 1962.

129. Administration of certain aspects of rural delivery service to be improved--In March 1962, we reported that there was a need for improved administration of certain aspects of rural delivery service. We noted instances of noncompliance with Post Office Department instructions and also instances of errors in application of such instructions which resulted in unnecessary delays in adjusting payments of heavy duty compensation for personal services and in providing relief for overburdened carriers. Also, errors occurred in the determination of amounts payable to carriers for equipment maintenance allowances on heavy duty routes.

We recommended that, to improve these conditions, the Postmaster General require that the regional directors provide for adequate periodic reviews of rural carrier trip reports and determinations of the number of potential stops and that prompt adjustments of compensation be made.

We were informed that the Department had clarified its forms and instructions for the evaluation of rural routes and that it was revising its regulations in accordance with our recommendations.

REVIEW OF POSTAL RURAL DELIVERY SERVICE (continued)

130. Need for improved administration of program for consolidation of rural routes--We noted a need for more effective administration of the Post Office Department's program for determining whether rural delivery routes, on which carrier vacancies occur, should be consolidated with other nearby routes. We noted cases where the Department disapproved, without adequate operational justifications, consolidations recommended by regional offices, although each consolidation would have resulted in recurring savings of at least \$3,200 a year. Also, the Department directed that some vacant rural carrier positions be filled, although regional feasibility studies had not been made to determine whether the routes could be consolidated. Further, we noted that the Department's criteria for determining the practicability of rural consolidation were not sufficient and that the studies made by one regional office did not take into consideration important factors that affect the operational feasibility of rural routes. Because rural route consolidations are prohibited by law unless the regular carrier leaves the service, future opportunities for making consolidations on these routes, with the resultant savings in cost of operations, may not occur for a considerable period of time.

We recommended that the Postmaster General have definitive criteria established for determining the feasibility of consolidating rural routes when a vacancy occurs and that the Department make those route consolidations which are operationally feasible. The Deputy Postmaster General informed us in January 1962 that the Department agreed that the guidelines relative to consolidations of rural routes should be amplified and that the Department would make a study to review existing procedures and establish a program for the effective administration of the rural delivery service.

REVIEW OF FOREIGN ECONOMIC AND TECHNICAL ASSISTANCE PROGRAMS

131. Progress of development projects for Thailand to be improved--Our review of the United States assistance program for Thailand showed that, of 10 selected major technical and economic development projects in the fields of education, power, communication, and transportation, 7 projects had made unsatisfactory progress. The principal reasons were insufficient planning, delays in contracting for necessary technical services, and disagreements among responsible parties. In particular, we noted that two projects had to be curtailed or terminated because of such disagreements and that lengthy contract negotiations delayed the starting of a highway project and held up utilization of large amounts of United States-financed road-building equipment.

We commented on these projects in our report issued in August 1961. The International Cooperation Administration (succeeded by the Agency for International Development) informed us that remedial action had been or would be taken.

132. Need for closer reviews of development loan applications--In our audit report of June 1962 on the operations of the Development Loan Fund, we called attention to several conditions which seemed to warrant consideration by the administrators of the loan program with the view of obtaining the most effective use of loan funds. These conditions concerned (1) obligating loan funds for the purchase of equipment without reducing the amount of the loan for suitable equipment which would become available under a similar type project financed by the Fund in the same country, (2) financing an irrigation and water supply project of questionable efficiency, (3) financing the construction of a Government-owned fertilizer plant which appeared to be suitable for private ownership and operation, and (4) classifying revenue-producing telephone and related systems as economic overhead projects, the loans for which bear an interest rate of 3-1/2 percent as contrasted with a rate of 5-3/4 percent applicable to loans for profit-earning projects. The Administrator, Agency for International Development, which took over the functions of the Development Loan Fund in November 1961, informed us that situations such as those reported by us would be considered in the negotiation of future loan agreements so that maximum benefits could be derived from the use of loan funds.

REVIEW OF ADMINISTRATION OF PUBLIC ASSISTANCE PROGRAMS

133. Stronger efforts to be made to collect support payments from responsible relatives--Our review of selected aspects of the federally aided public assistance programs under the general administrative direction of the Kansas City Regional Office, Department of Health, Education, and Welfare disclosed that (1) in many aid-to-dependent-children cases divorced fathers were not making support payments stipulated by divorce decrees and States were making little effort to locate the fathers and enforce payments of support orders and (2) in some States public assistance agencies were not making sufficient effort to obtain support from the responsible relatives of needy individuals, as required by State law and approved State plans. Effective action to obtain financial support from these sources would tend to decrease the number of public assistance recipients and the States' average monthly assistance payments, thereby reducing the cost to the Federal Government.

In June 1962, we recommended to the Director, Bureau of Family Services, Social Security Administration, that (1) State and local welfare officials be required to document fully their efforts to locate divorced fathers and enforce payment of support orders and (2) action be taken to have State public welfare agencies comply with their State plan provisions concerning support from responsible relatives. The agency informed us that a new policy was being issued and other steps were being taken in an effort to improve the conditions disclosed in our report.

134. Need for improved administration of the District's public assistance programs--In our June 1962 report on the Department of Public Welfare, District of Columbia Government, we noted various deficiencies in the administration of the public assistance programs carried on by the District. The deficiencies included (1) the granting of financial assistance to welfare applicants without adequate determinations of eligibility for, or amount of, such assistance, (2) the continuance of financial assistance without adequate redeterminations of eligibility for, or amount of, such assistance, (3) the failure to discontinue financial assistance payments promptly upon receipt of field investigative reports warranting discontinuance of such payments, and (4) the failure to refer to the Resources and Investigations Division, for possible recovery, cases involving overpayments of financial assistance and, for possible prosecution, cases in which records indicated that eligibility for assistance may have been determined on the basis of misrepresented facts. District of Columbia officials generally concurred with our conclusions and indicated that favorable action would be taken on most of our suggestions for corrective action.

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REVIEW OF LOW-RENT HOUSING PROGRAM

135. Action taken to reduce vacancies at federally aided or owned housing projects--A low-rent housing project, a Navy housing project, and three rental defense housing projects had prolonged vacancy problems as a result of a gradual decline in the need for housing in the Bremerton, Washington, area, principally due to the decline in civilian employment at the Puget Sound Naval Shipyard after the end of World War II.

We suggested that a study of the vacancy problem be undertaken jointly by interested Federal agencies, with a view toward determining the actual local need for housing and, if practicable, reducing the number of dwelling units in excess of need through placing certain facilities in stand-by condition or making other disposition of them. The Housing and Home Finance Agency informed us in January 1962 that our suggestion had been adopted and that such a study had been made. The study disclosed that vacancies had been reduced substantially at the low-rent housing project and that some of the federally owned units already had been removed from the housing market and that there were plans to dispose of others.

136. Policy of requiring earthquake coverage insurance during construction of low-rent housing projects to be reexamined--Construction costs of certain low-rent housing projects in the area administered by the San Francisco Regional Office of the Public Housing Administration were increased because of the requirement that construction contractors carry earthquake coverage insurance. Generally, private lending institutions in the area do not require such insurance on construction of other than high-rise structures nor does the Federal Housing Administration require contractors in the area to carry earthquake coverage insurance on projects committed for Federal mortgage insurance.

We proposed that the Public Housing Administration reexamine its policy of requiring contractors to carry earthquake coverage insurance during construction of low-rent housing projects. In October 1961, the agency informed us that it would make such reexamination.

REVIEW OF SLUM CLEARANCE AND URBAN RENEWAL ACTIVITIES

During fiscal year 1962, we continued to review selected activities under the slum clearance and urban renewal program carried out by the Urban Renewal Administration (URA), Housing and Home Finance Agency (HHFA). The cost of this program is generally shared two thirds by the Federal Government and one third by States and local governments. Local public agencies (LPAs) administer the program in each locality. The State or local government's share of project costs may be in cash or in the form of grants-in-aid such as construction of schools, recreational areas, or parking facilities. A proper evaluation of local grants-in-aid is important as excessive credits therefor result in additional costs to the Federal Government.

137. Grant-in-aid credits for public schools to be recomputed or reconsidered--We noted that URA made a final allowance of a grant-in-aid credit of \$423,000 for a proposed elementary school which was to be constructed in connection with a completed and settled project. We believe that URA did not receive reasonable assurance at the time of project settlement that there was a need for the school to accommodate students from the project or that the school would actually be provided. We believe also that, even if the school is built, the credit allowed was excessive.

Similarly, for three other schools URA tentatively allowed credits which required reconsideration. One credit of \$1.3 million was for a junior high school which may not be eligible for any credit because the project may receive less than the required minimum benefit from the school; the other credits, totaling \$2.9 million for two elementary schools, were allowed without adequate justification for the expected enrollment of project children in these schools.

In response to our proposals for disallowances or adjustments of these credits, URA agreed to reexamine these transactions.

138. Need to disallow grant-in-aid credit because of construction of ineligible parking facility--URA granted final approval of a credit of \$150,000 for a park and playground. However, the facility actually provided was a parking lot which was not open to the public and therefore, in our opinion, did not qualify as a public facility eligible for credit. We proposed that URA disallow the \$150,000 credit. The Commissioner stated that he would accept our proposal subject to further study.

139. Need to exclude noncash grant-in-aid credits for publicly owned parking facilities so that cities will not be reimbursed in excess of the cost of the facilities--URA tentatively allowed non-cash grant-in-aid credits amounting to \$9.3 million for six

REVIEW OF SLUM CLEARANCE AND URBAN REVEWAL ACTIVITIES (continued)

publicly owned parking facilities which have been or are to be provided in connection with certain slum clearance and urban renewal projects. The cities where the facilities are located plan to recover, out of revenues derived from their operation, the entire costs of the parking facilities. The effect of allowing these non-cash grants-in-aid is that the cities will be reimbursed in amounts in excess of the actual costs of the facilities. The entire costs, totaling about \$12 million, will be recovered through user charges and, in addition, about \$6 million will be contributed by the Federal Government as a result of the grants-in-aid being included in project costs.

While such facilities are eligible for grant-in-aid credit under existing legislation, the manner in which these parking facilities are financed is not greatly different from the manner of financing certain other facilities which, by law, are ineligible as grants-in-aid. Accordingly, we suggested in our report to the Congress in June 1962 that the Congress may wish to consider enacting legislation which would amend the Housing Act of 1949 to exclude from noncash grants-in-aid all publicly owned facilities to the extent that the capital costs of such facilities are contemplated to be recovered out of revenues derived from their operations.

The Urban Renewal Commissioner agreed that the allowance of noncash grant-in-aid credits for such things as self-liquidating parking facilities was unnecessary and undesirable. In July 1962 the Administrator, HHFA, proposed legislation which would reduce the credit allowable with respect to publicly owned parking facilities by that portion of their total cost which is anticipated to be recovered from revenues. No action was taken on this proposed legislation by the Eighty-seventh Congress. The agency informed us that it planned to resubmit the proposal to the Eighty-eighth Congress.

GOVERNMENT-WIDE REVIEWS

REVIEW OF BONDING PROGRAM FOR GOVERNMENT EMPLOYEES

140. Savings can be realized by discontinuing the purchase of fidelity bonds--The bonding of Government employees is required or permitted by various statutes. Prior to January 1, 1956, Government employees were required to furnish bonds at their own expense. Effective that date, Public Law 323, Eighty-fourth Congress (6 U.S.C. 14), required or authorized the purchase of bonds at the expense of the Government. This change led to significant savings to the Government and its employees.

Our review of experience under Public Law 323 for the 5-1/2-year period ended June 30, 1961, has led us to conclude that further savings are available if the Government discontinues the procurement of commercial bonds and extends its general policy of self-insurance to cover fidelity losses. We recommended in our report of March 29, 1962, that the Congress enact legislation which would repeal the mandatory requirements for fidelity bonding and require each agency to absorb its fidelity losses. A bill to accomplish these objectives was introduced in the Eighty-seventh Congress, second session, but was not enacted into law.

DEFINITE, MEASURABLE SAVINGS OR POSSIBLE SAVINGS

RESULTING FROM ACTIONS TAKEN ON

GENERAL ACCOUNTING OFFICE RECOMMENDATIONS

The following list summarizes some of the definite, measurable savings or possible savings that have resulted from actions taken by various Government departments or agencies on General Accounting Office recommendations.

The list does not include other benefits resulting from the work of the General Accounting Office that are not readily susceptible of measurement in financial terms nor does it include repetitive benefits resulting from recommendations of the General Accounting Office adopted by the departments or agencies in prior years.

Also, the list does not include refunds and collections amounting to \$48,219,000 which were made through the efforts of the General Accounting Office during the fiscal year 1962:

Reduction in proficiency flying (Estimated savings in fiscal year 1962 in aircraft operating and maintenance expenses resulting from excusing certain rated officers from flying as authorized by Sec. 614, P. L. 87-144)	\$ 13,300,000
(On the basis of Air Force report of officers programed for flight waiver, savings in fiscal year 1963 are estimated at \$32,600,000)	
Cancellation of planned procurement (Savings resulting from cancellation of plans to purchase materials for which there was no immediate or foreseeable need)	15,263,000
Cancellation of planned procurement (Savings resulting from use of existing supplies in lieu of purchasing new supplies)	2,806,000
Cancellation of requisitions for materials and supplies not required by requisitioning agency (Amount of savings will depend on extent to which the supplying agency will be able to cancel or avoid procurement or will be able to use stock on hand to satisfy bona fide needs)	12,231,000

Transfer of material from one agency to another (Materials were generally excess to needs of transferring agency. Amount of savings will depend on extent to which purchase contracts may be canceled or procurements avoided or the extent to which the materials will be used to satisfy the needs of the receiving agency)	\$ 29,904,000
Reclamation of parts from excess aircraft engines (Savings expected to result from the reduction of planned procurement made possible by reclamation of parts from excess aircraft engines)	8,264,000
Recovery of material and supplies furnished under the Military Assistance Program which were not required by the recipient country (Amount of savings will depend on the extent to which the recovered material and supplies can be used to satisfy bona fide needs of the United States Government or the needs of other recipient countries under the Military Assistance Program)	2,000,000
Cancellation of plans to overhaul Military Assistance Program equipment (Savings resulting from the cancellation of plans to rebuild vehicle assemblies which were in excess of the recipient country's current needs)	1,683,000
Improvement in procurement procedures (Estimated savings resulting from the introduction of competition in the procurement of items previously purchased from a sole source)	795,000
Excess and surplus material returned to supply system to meet current unfilled requirements (Savings resulting from the avoidance of disposal action and consequent reduction of new procurement)	1,201,000
Material on hand restored to inventory records (Savings will depend on the extent to which new procurement can be avoided through the use of material not previously carried on the inventory records and which therefore would not have been considered when computing quantities to be purchased to meet future requirements)	1,732,000

Reclamation of parts from surplus equipment (Savings will depend on the extent to which new procurement may be avoided by the use of parts reclaimed from surplus equipment prior to disposal)	\$ 1,330,000
Cancellation of plans for unnecessary aircraft engine overhaul (Estimated savings in overhaul costs which will result from the exchange of engines in serviceable condition on stored aircraft for engines scheduled for overhaul on aircraft in active service)	1,300,000
Standardization of certain military clothing items (Estimated annual savings which will result from standardizing the pattern, design, and specifications for men's wool trousers and cotton dress shirts)	1,086,000
Termination of contracts (Savings resulting from the cancellation of contracts for property and services no longer needed)	1,276,000
Reduction in prices under negotiated contracts (Savings resulting from adjustment of prices under existing contracts or proposed amendments)	2,217,000
Correction of improper allowances under existing contracts (Savings resulting from reductions in payments to be made by Government agencies)	1,542,000
Substantially lower prices negotiated under new contracts (Savings resulting from requirement that contractor furnish cost or price analyses)	1,158,000
Use of United States-owned foreign currency in lieu of United States dollars (The opportunity to use this foreign currency might otherwise have been lost because of restrictions on its use.)	4,800,000
Adoption of biweekly basis for paying civilian employees (Estimated annual savings resulting from the conversion from a weekly to a biweekly basis for paying certain civilian employees of the Navy Department)	3,000,000

Reduction of unemployment compensation benefits to be paid to retired Federal employees receiving retirement payments (Estimated annual savings (\$375,000) and non-recurring savings (\$340,000) resulting from changes in laws)	\$ 715,000
Reduction in retirement and old-age insurance benefit payments (Estimated savings in future payments arising from correction of erroneous awards)	496,000
Consolidation of operating facilities (Estimated annual savings which will result from the consolidation of operating facilities)	3,781,000
Improvements in operating procedures of Government agencies (Estimated annual savings (\$1,198,000) and non-recurring savings (\$193,000) resulting from changes in operating procedures)	1,391,000
Rejection of requests for Federal participation in certain right-of-way costs (Savings resulting from disallowance of claims under Federal-aid highway program)	850,000
Increase in rental rates for Government housing and quarters (Estimated increase in annual revenue resulting from changes in rates)	216,000
Provision made to recover costs incurred in auditing and inspection urban planning assistance programs (Estimated savings resulting from recovery of costs from planning agencies)	131,000
Cancellation of planned donations of food products to preclude use as animal feed (Savings will depend on extent to which donating agency will be able to avoid procurement or use stock on hand to satisfy bona fide needs)	188,000
Total	<u>\$114,656,000</u>

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