REPORT TO THE CONGRESS

Compilation Of General Accounting Office Findings and Recommendations For Improving Government Operations, Fiscal Year 1968

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BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
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To the President of the Senate and the
Speaker of the House of Representatives

The accompanying report presents a compilation of General Accounting Office findings and recommendations for improving Government operations and relates for the most part to fiscal year 1968.

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

Because of the great interest in economic opportunity programs, all of our findings on these programs are grouped under "Economic Opportunity Programs," beginning on page 1. Findings of a functional nature in these programs are also referred to in the report sections concerning each function.

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

The report summarizes the corrective actions taken by the agencies on our recommendations. Certain of these actions involve changes made in policies and procedures through the issuance of revised directives and instructions. The effectiveness of these actions is dependent on the manner in which the directives and instructions are implemented and on the

adequacy of the supervision and internal reviews of the operations. For this reason, to the extent deemed appropriate, it is our policy to review and evaluate the effectiveness of corrective actions taken by the agencies.

The financial benefits attributable to our work cannot always be fully measured. However, our records show that savings identified during fiscal year 1968, which were attributable to the work of the General Accounting Office, amounted to $232.8 million. Of this amount, $19.6 million consisted of collections and $213.2 million represented other measurable savings. Approximately $30 million of the latter amount is recurring in nature and will continue in future years. A summary of these savings appears beginning on page 144 of this report.

Additional financial savings which are not fully or readily measurable are listed beginning on page 151.

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

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

Comptroller General
of the United States

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ACTIVITIES, SERVICES, AND BENEFITS UNDER FEDERAL PROGRAMS

DISABILITY COMPENSATION BENEFITS

1. PRECLUDING PAYMENT OF DUAL BENEFITS--In July 1967 we reported to the Congress on our review of the procedures followed by the Bureau of Employees' Compensation, Department of Labor, in implementing a provision of the Federal Employees' Compensation Act as amended (5 U.S.C. 8101), which, in our opinion, prohibits the payment of dual benefits for the same disability or death. On the basis of our review at four of the Bureau's 10 district offices, we concluded that there was a need for the Bureau to strengthen its management controls to prevent the payment of compensation benefits by both the Bureau and the Veterans Administration for the same death.

Our review of 309 compensation awards made in four district offices revealed that the Bureau had failed in 45 cases to properly implement section 7(a) of the Federal Employees' Compensation Act, which, in our opinion, prohibits dual payment. We found that dual payments of about $90,000 had been made in these 45 cases from September 1960 through March 1967. We pointed out that, to the extent that dual payments had been made at the remaining six district offices not visited during our review, total overpayments would have been correspondingly higher. Although we found dual payments with respect to death benefits, no evidence of dual payment of disability compensation was revealed by our review.

We believe that the primary reason for the payment of dual compensation benefits to claimants was that Bureau instructions issued in August 1961 improperly permitted the district offices to make payment of death compensation benefits concurrently with the payment of Veterans Administration benefits for the same death.

The Secretary of Labor agreed to take appropriate action, substantially in line with our proposals for correcting the situation, and advised us that the Bureau would (a) instruct all of its offices to inform each claimant qualified for more than one benefit from the Government, at the time of processing his claim, that he must make an election in accordance with section 7(a) of the act, and to obtain such election at the earliest possible time in order to avoid dual payments and (b) review the safeguards to prevent dual payments and revise its instructions and coordinate them with those of the Veterans Administration. Also, in September 1967, the Bureau issued instructions to its offices to review all applicable death cases awarded from September 1960 in order to identify dual benefit payments by the Bureau and the Veterans Administration and to recover any overpayments by offset against future payments. (B-157593, July 5, 1967)

ECONOMIC OPPORTUNITY PROGRAMS

2. YOUTH WORK-TRAINING PROJECTS--In a report submitted to the Congress in March 1968, we pointed out the need for the Department of Labor to increase the effectiveness of the Neighborhood Youth Corps program operated by several program sponsors in Cleveland, Ohio.

The Economic Opportunity Act of 1964 authorized the establishment of the Neighborhood Youth Corps for the purpose of providing funds and technical assistance to organizations willing to operate work-training projects for students and unemployed young men and women from low-income families. The activities of the program in Cleveland began in February 1965, and Federal funds authorized through October 7, 1967, totaled about $7.3 million.

On the basis of our limited test of the eligibility of youths enrolled in the program in Cleveland, we concluded that either the eli-

gibility criteria of the Department had not been met by a substantial number of youths or their eligibility could not be readily determined because the files did not show that the sponsors had elicited from the youths sufficient information to make the determination. This was later confirmed by each sponsor in the sponsors' detailed examinations of the eligibility files. We stated that there was a need for the sponsors to employ good screening procedures to comply with currently established criteria.

We believe that the importance of good screening should be evident from the Department's statement to sponsors in a February 1966 directive on eligibility that, nationwide, there were funds available to provide work-training opportunities for only about 10 percent of the youths who were eligible for the program.

We also found that there was need for program sponsors in Cleveland to have an effective counseling program for out-of-school enrollees: to promote participation of enrollees in remedial education courses; to acquire more information on enrollees terminated from out-of-school projects, to further assist the enrollees and to gain an information source for program evaluation; to make substantial improvements in the operation and control of payrolls, which represent a large portion of the total cost of the two principal sponsors' programs; and to further train their administrative staffs and more frequently evaluate staff member performance. In addition, our review disclosed the need for more effective monitoring of sponsor operations by the Department, to improve program effectiveness and ensure compliance with work-training contracts.

The Secretary of Labor advised us that appropriate corrective actions had been taken by the Department and the sponsors on our findings and proposals. We recommended to the Secretary of Labor that Department officials and sponsor organizations involved in Neighborhood Youth Corps activities throughout the Nation be advised of the problems noted in Cleveland so that, if warranted, appropriate action could be taken elsewhere. (B-163096, March 15, 1968)

3. OPERATIONS AND EXPENDITURES OF COMMUNITY PROGRAMS--At the request of the Chairman, Committee on Appropriations, United States Senate, we reviewed selected programs and expenditures of the United Planning Organization (UPO) with special emphasis on the community action programs administered by the Washington Welfare Association through the Southeast Neighborhood House in Washington, D.C. UPO was formed to plan for human service needs throughout the National Capitol area. UPO received grants from the Office of Economic Opportunity, the Department of Labor, the Department of Health, Education, and Welfare, and other public and private sources for carrying out its programs.

We examined principally into the objectives, funding, staffing, recording, and reporting of the operations of the component programs of the Southeast and Congress Heights Neighborhood Development Programs.

In our report to the Committee concerning our review of the community organization program, we stated that little emphasis had been given to education and employment--two of the four root causes of poverty recognized by UPO--that relatively few persons had been contacted, and that few of the persons contacted had been referred to other component programs and/or community agencies established to help alleviate poverty.

We also noted that few persons actually had been placed in jobs by the Southeast Employment Center and that no one had been referred to other neighborhood programs for assistance in improving their skills and job opportunities.

Our review of the financial records maintained by the Southeast Neighborhood House showed that the Washington Welfare Association had requested reimbursement

from the UPO for certain costs that had not been incurred, for insurance premiums that had been overpaid, and for merchandise that had not been received. We also found that certain expenses had been paid twice, that costs had been charged to the wrong program components, that certain employees had been occupying more than one position, and that inventory records had not been maintained currently.

We reported that we believed that improvements were needed in program management, administrative records, and financial controls to ensure more effective program administration. The records and data available were, in our opinion, insufficiently comprehensive and reliable for measuring the extent that operations in the southeast area had successfully and efficiently achieved their objectives. (B-158523, December 14, 1967)

4. ELIGIBILITY FOR POVERTY PROGRAMS--Our review of the Community Action Program (CAP) in the Los Angeles area showed that, although eligibility of persons to be served was generally in accordance with the Office of Economic Opportunity (OEO) requirements, these requirements had not been sufficiently refined to ensure that those persons most in need of assistance were being helped.

The Economic Opportunity Act of 1964, as amended, does not stipulate specific eligibility criteria with regard to those who may be served by CAP. Although the act clearly directs its benefits to low-income individuals and families, the definition of low income is left to determination by OEO.

The eligibility criteria issued by OEO in its CAP Guide are also general in nature. The Guide states in part, that (a) a CAP must focus on the needs of low-income families and individuals and that agencies applying for CAPs may have considerable flexibility in determining which families and individuals are to be assisted, (b) where the nature of the program activity requires administration by areas or groups, services and assistance shall be made available only in areas and for groups which have a high incidence of poverty, and (c) in determining the incidence and location of poverty in the community, the number and proportion of low-income families, particularly those with children, shall be given significant weight.

In the absence of specific OEO criteria for determining the eligibility of participants in most programs, the Economic and Youth Opportunities Agency of Greater Los Angeles and its delegate agencies established their own standards.

In a report to the Congress, we expressed the view that, on the basis of its nationwide experience, OEO should strive, and should encourage grantees, to develop more refined techniques for identifying the most needy through the application of meaningful indicators or criteria of eligibility weighted according to their relative importance in achieving the objectives of the CAP.

We further suggested that, although certain social and motivational accomplishments were among the objectives of the poverty program, the lifting of people from relief rolls to a self-supporting level was one of the paramount objectives and that, therefore, people receiving assistance from public or private agencies as the sole or major source of their support should be accorded the top eligibility rating.

OEO advised us that it did not concur in our suggestions and stated several reasons why income had not been used as a governing or predominant eligibility criterion in all programs. Subsequently, after considering our findings and suggestions based on reviews in two other cities, OEO advised us that it planned to study the feasibility of developing more refined techniques for identifying the most needy by assigning weights to the various indicators or criteria of eligibility. (B-162865, March 11, 1968)

5. CLAIMS FOR INDIRECT COSTS --Our review of the Community Action Program (CAP) in the Los Angeles, California, area showed that the Office of Economic Opportunity (OEO), directly and through its contract with the Economic and Youth Opportunities Agency of Greater Los Angeles (EYOA), was reimbursing the Los Angeles Unified School District (city schools) about $265,000 more than the allowable indirect costs incurred for administration, maintenance, and operation of school facilities used in the CAP.

As a result of our bringing this matter to their attention in June and July 1966, city schools and EYOA adjusted the prior claims and took action to reduce subsequent claims that would be made for reimbursement of indirect costs in connection with programs that were under way or for which funds had been requested. On the basis of projections, the reductions amount to about $347,600 for these subsequent claims.

Also, OEO and EYOA were accepting in the claim of the city schools, as the non-Federal share of program costs, approximately $132,000 more than the indirect costs incurred.

Actual and potential overcharges of about $612,600 for reimbursement and $132,000 for the non-Federal share occurred because the claim of city schools was computed as a pro rata share of the total indirect costs incurred in its operation of education programs rather than on the basis of the incremental costs incurred in the operation of the programs financed by OEO.

In view of the monetary significance of indirect cost claims, we recommended in a report issued to the Congress in March 1968 that the Director, OEO, establish as a condition for all future grants that the bases of claims for indirect costs be approved before claims for such costs are provisionally allowed and reimbursed. In addition, we recommended that instructions be issued to all regional offices to carefully consider in their negotiations of community action grants and in their audits of such grants the reasonableness and propriety of the bases in which indirect costs are budgeted and planned by the community action agencies for reimbursement or as a non-Federal share. (B-162865, March 11, 1968)

6. PLANNING AND MANAGING PROGRAM OPERATIONS--In May 1968, we reported to the Congress that our selective review of program operations of the Office of Economic Opportunity-funded Community Action Program (CAP) in Chicago, Illinois, identified several areas of activity which, in our opinion, had not been given the attention that their significance warranted, particularly during the first 12 to 18 months of program operations. We believed that, as a consequence, the effectiveness of the program had been lessened during that period and probably for some time thereafter.

These situations were undoubtedly attributable, in part, to the organizational and operational problems that were inherent in getting a new program under way, although some of these areas of activity were recognized in developing the functional plan of the Chicago Committee on Urban Opportunity (CCUO) and its field offices--urban progress centers.

An adult employment program recognized by CCUO as needed was not established at the outset of the CAP and, as a result, was not available in designated poverty areas until 2 to 6 months after CCUO opened its neighborhood centers. Subsequent events indicate that some applicants for employment could not then be located.

Assignment and utilization of program representatives were not adequately monitored, and, consequently, they were assigned to non-productive, make-work projects or otherwise not used for the purposes for which they were employed.

Neighborhood centers and delegate agen-

cies operating in the same neighborhoods did not bring job applicants and job openings together, although required to, and did not appear to have an effective cross-referral system.

CCUO did not adequately evaluate the program performance of delegate agencies from early 1965 to March 31, 1966, for which period the delegate agencies reported expenditures of $3.2 million, and the agencies were requesting $6.1 million for the 9 months beginning April 1, 1966. The CCUO executive committee took note of this situation and conditioned its approval upon the taking of certain actions by CCUO. CCUO has taken steps to correct these deficiencies. (B-163595, May 20, 1968)

7. NON-FEDERAL CONTRIBUTIONS--The Economic Opportunity Act provides that Federal assistance to a Community Action Program (CAP) grantee not exceed 90 percent of its total program cost for the period ended June 30, 1967, and 80 percent thereafter, unless the Director, Office of Economic Opportunity (OEO), determines that assistance in excess of such percentages is required. The non-Federal contributions offered as a grantee's share of the cost may be in cash or in kind, fairly evaluated and including--but not limited to--plant, equipment, and services. The grantee contributions had to be in addition to the aggregate cash and in-kind contributions made from non-Federal sources for the same or similar purposes prior to the extention of Federal assistance.

In March 1968, we reported to the Congress on our review of the CAP in Los Angeles, California. We stated that our review of non-Federal contributions with respect to selected programs evidenced certain problems relating to the recording of contributions, the reasonableness of valuations for contributed space, and the reasonableness of claims for indirect costs. These problems prevented us from arriving at a conclusion as to whether the community was complying with the legislative requirement for non-Federal contributions.

The valuations placed on space contributed by the community and used in certain programs varied considerably and in some cases appeared to be excessive when compared with other criteria. The problems relating to space valuations were in (a) educational programs operating in schools, (b) a recreational and cultural program for teen-agers, and (c) an employment program for poverty area adults, and were attributable, in part, to the need for OEO guidance.

For example, in the educational programs we found wide variances in the values assigned to classroom space that were due to the use of different methods of valuating classroom space by each of the educational organizations.

We reviewed the factors used and the method applied by the Los Angeles Unified School District (city schools) in arriving at the valuations of contributed space. In our opinion, certain information which should have been considered was not considered in city schools' computations. Use of this information would have resulted in lower rates. For example, the computations were based on a 200-day school year; whereas, inclusion of the days that the community action educational programs operated in the summer and on Saturdays during the regular school year would increase the number of days to about 270. Further, the calculations for junior high schools did not consider an appropriate reduction to provide for the age of the school building, although such a reduction was made in the calculations for elementary school buildings.

In response to our proposals regarding the need for guidelines, OEO advised us that the Economic and Youth Opportunities Agency of Greater Los Angeles had prepared and distributed to delegate agencies--public and private nonprofit subcontractors--a manual providing for contributed space to be valued at fair market value and for supporting documentation to be furnished and that the recording of non-Federal contributions was proceeding systematically on a monthly basis. In essence, OEO stated that, although it had

recognized the need for guidelines for evaluating space costs, the different circumstances encountered made it difficult to establish firm standards. OEO stated also that it intended to study this problem area with the objective of issuing standards. (B-162865, March 11, 1968)

8. **NON-FEDERAL CONTRIBUTIONS**--In April 1968, we reported to the Congress on our review of the Community Action Program (CAP) in Detroit, Michigan. We stated that the value assigned by the Detroit Board of Education to donated classroom space, which was to be counted toward the Mayor's Committee for Human Resources Development (MCHRD) non-Federal share of program costs, included charges for days or period during which the space had not been used or reserved for CAP projects.

The Detroit Board of Education, as a delegate agency of MCHRD, was required by its contract with MCHRD to contribute $368,100 as its share of the CAP's costs for the period November 24, 1964, through September 22, 1965. The major portion of the board's planned contribution comprised rental charges for classroom space used on a parttime basis for CAP projects.

On October 5, 1965, the board presented a tentative non-Federal-share claim amounting to $777,470, of which $724,820 was for schoolroom rental and $52,650 was for janitorial services for the period of its contract. On the basis of our review of the claim for $342,160 of the $724,820 valuation for room rental, we believed that about $71,855 would have been a more reasonable estimate of the rental value of the rooms.

For example, for one school the board's computation was based on the use of 12 rooms during a 7-month period for a total of 2,184 room-days at the rate of $5 a day for a total room rental of $10,920. The rental value was not reduced for days or for extended periods during the 7 months when rooms had not been reserved for CAP projects. The board's records for these 12 rooms showed that use permits, which authorized a requesting organization to use designated rooms at specific hours and dates, had been issued for CAP projects for a combined total use of only 319 room-days during the 7-month period. At the rate of $5 a day, the rental value of the 319 room-days would have been $1,595 rather than the $10,920 computed by the board.

OEO concurred in our proposal to establish additional guidelines relative to the valuation of in-kind contributions of space and advised us that it would undertake an in-depth study of the problems with the objective of promulgating standards.

We recommended that OEO revalue past and present claims for in-kind contributions submitted by MCHRD and then determine whether there had been compliance with non-Federal-share requirements of the Economic Opportunity Act. (B-163277, April 10, 1968)

9. **NON-FEDERAL CONTRIBUTIONS**--In May 1968, we reported to the Congress on our review of the Community Action Program (CAP) in Chicago, Illinois. During our review, we selected for examination non-Federal contributions totaling $1,688,679, or about 80 percent of the $2,091,887, which represented all the contributions reported by the Chicago Committee on Urban Opportunity (CCUO) organizational units and about 53 percent of those reported by delegate agencies.

On the basis of our review, we calculated that non-Federal contributions, totaling about $1,296,075 of the $1,688,679, examined were of questionable allowability for the following reasons:

--$752,316 was incurred for urban renewal programs not directly related to CAP.

--$118,262 was budgeted for CAP activities but was not actually spent.

--$168,210 in CAP expenditures was not acceptable as contributions.

--$1,296 was for an item of service inadvertently claimed twice.

--$122,402 was claimed as contributions of space for which adequate valuation criteria had not been established.

--$110,142 of indirect costs were for supportive services provided by delegate agencies that failed to demonstrate that the amounts claimed were additional costs incurred because of CAP activities.

--$23,447 was for volunteer worker services not adequately documented to show what services were actually rendered or how they were related to CAP activities.

If all items in question were disallowed, the allowable contributions would be $795,812 ($2,091,887 minus $1,296,075), or $298,451 less than the first-year requirements of $1,094,263.

OEO advised us that certain actions had been or would be taken to accomplish the purposes of our proposals concerning valuation of space, documentation of volunteer services, and indirect costs. We recommended that OEO pursue these actions to completion and, thereafter, through its audit and program review operations, give specific attention to evaluating the implementation of these actions by CCUO and other community action grantees. (B-163595, May 20, 1968)

10. DIRECTION AND CONTROL OVER PROJECTS--In April 1968, we reported to the Congress on our review of the Community Action Program, Detroit, Michigan, that the Office of Economic Opportunity (OEO) had permitted agreements between the Mayor's Committee for Human Resources Development (MCHRD) and its delegate agencies--which carry out educational projects--providing that the delegate agencies independently formulate, manage, and evaluate their projects. Apparently because of these agreements, concerted efforts by the agencies to coordinate their activities had not been made and efforts by OEO to improve coordination had not been effective.

Although in many cases the Detroit Board of Education (board) and the Catholic Archdiocese of Detroit carried out the same programs, each had its own administrative staff for each program with resultant duplication of administrative effort and cost. Employees of MCHRD and the board canvassed the same neighborhoods to advertise their projects and to recruit participants.

Officials of the board's schools established their own policies and procedures relating to classes, with the result that there were wide variations in the subjects, titles, and sizes of classes. In our opinion, these variations hampered evaluation of the classes as to the nature of class subjects in relation to the objectives of the educational projects and as to the economy of operating costs.

We concluded that the conditions which we found had a common characteristic in that they pointed to the need for closer coordination among the local agencies having responsibility for the educational projects and for more vigorous attention by OEO to the coordinating features of these projects.

OEO concurred in our proposals that (a) the relationship between MCHRD and its delegate agencies should be modified to give MCHRD clear authority to prescribe requirements for its delegate agencies to ensure that all activities for which MCHRD has overall responsibility are effectively coordinated, (b) OEO obtain and evaluate the evidence on which separate administrative staffs for the board and the Archdiocese are justified, (c) OEO direct MCHRD to take the leadership in consolidating canvassing activities, and (d)

OEO arrange with MCHRD for developing with its delegate agencies appropriate standards for class subjects, titles, and sizes and procedures under which attendance reports will identify class subjects and sizes and grade levels of class participants. (B-163237, April 10, 1968)

11. REPORTS ON PARTICIPATION IN ACTIVITIES--In reports to the Congress in March, April, and May 1968, on our reviews of Community Action Programs in Los Angeles, California; Chicago, Illinois; and Detroit, Michigan, we stated that, although the Office of Economic Opportunity (OEO) required grantees to submit statistical reports on persons participating in Community Action Program (CAP) activities, the information being reported was inaccurate and misleading. For example, in our report on the Chicago CAP we stated that, at the urban progress centers (UPC), participation was measured by the number of contacts with persons and families coming to the center or elsewhere. Each contact was counted and reported to OEO regardless of whether the same person or family was contacted. At one UPC a count of the number of different persons contacted was significantly less than a count of the number of contacts made. The centers counted persons visiting delegate agencies housed in the center, and the delegate agencies also counted and reported these contacts.

OEO acknowledged the need for closer attention to statistical reporting and, in July 1967, issued a manual to all grantees for reporting program activities and participation of persons in such programs.(B-162865, March 11, 1968; B-163237, April 10, 1968; and B-163595, May 20, 1968)

12. RECRUITING AND SCREENING APPLICANTS--In a report issued in February 1968 on our review of the establishment and operation of the St. Petersburg Job Corps Center for Women, St. Petersburg, Florida, Office of Economic Opportunity (OEO), we pointed out that the Center had a high percentage of corpswomen who terminated without completing one of the available training programs. On the basis of our review, it appeared that this high percentage might have been attributable, in part, to the assignment to the Center of corpswomen who apparently had problems which the Center was not geared to solve.

Corpswomen who drop out receive only minimum benefits from the program. Also, a high percentage of early terminations and serious disciplinary problems increase the cost of operating a center.

Usually, we found that the possible causes for an individual corpswomen's failure to complete her training were many, deep-rooted, and complex. The more frequent of these causes were generally categorized as (a) emotional problems and immaturity, (b) lack of motivation, and (c) family influence. In some cases, all of these causes were present; in many cases, the causes never became known.

It appeared reasonable to expect that, with continued experience, OEO and the contractors who operated the centers would develop further capability in dealing with problems of terminations and discipline. In our draft report we suggested that these problems might be partially obviated by preventive measures in the form of more intensive screening; closer surveillance by OEO of screening and recruiting functions; careful analysis in the assignment of applicants to the most suitable centers; and timely, unified decisions on matters of discipline. Accordingly, we proposed that OEO give urgent priority to positive efforts along these lines.

The Director of the Job Corps advised us that Job Corps had taken action to refine and improve the procedures for screening and assigning Job Corps enrollees. These improvements consisted of a new policy of reporting the inappropriate assignment of corpswomen to centers; regional and national meetings held on screening and recruitment with OEO, screening agencies, and center personnel; encouragement of screeners to visit centers to

interview corpswomen to ascertain the corpswoman's reaction to impressions gained during her recruitment; and the development of informational materials on center programs for use by the screeners.

We believed that the actions taken by the Job Corps, as stated by the Director, should help strengthen the Job Corps program. The need for continuous vigilance in the area of recruiting and screening, however, was manifested by the opinions of various educational experts and others as a result of their visits to Job Corps centers and camps during April and May 1967. These opinions, as summarized by Job Corps in June 1967 and presented to various congressional committees, were that the recruiting and screening process needed refinement and overhaul. (B-130515, February 5, 1968)

13. PROGRAM PLANS AND SYSTEM OF TRAINING--In a report issued in May 1968 on our review of activities of the Job Corps Men's Center at Tongue Point, Oregon, Office of Economic Opportunity (OEO), we pointed out that the program at the Center was characterized by certain factors that we believed had an unfavorable influence on the degree to which the goals of the Job Corps programs were achieved.

No determination was made of the grade levels (in academic skills--reading, writing, spelling, mathematics) that were required for the respective vocational skills offered by the Center.

The Center departed in varying degrees from its detailed plans, apparently to satisfy individual corpsmen's choices because of its conception of the Center as an educational experiment. Courses were given in academic and vocational subjects that were neither included in the detailed plans nor approved by OEO and for which specific programs of instruction had not been developed and employment opportunities had not been explored.

Center officials informed us that tests had not been given to incoming corpsmen to assess their technical skills and social adjustment and that aptitude tests had been given only to certain individuals; further, that tests had not been given to corpsmen at the conclusion of their training to ascertain the extent of improvement in academic skills or the level of vocational skills which they had acquired. Also, the Center did not know whether graduated corpsmen had obtained employment in the areas of their vocational training or whether the graduates were successful in retaining the jobs they had obtained. As a result, the Center did not know whether its training program was effective in achieving the principal objective of the Center--to prepare corpsmen for useful employment.

In view of the primary mission of the Job Corps (to qualify young men and women for productive employment), of the fact that essentially the same types of enrollees were trained at all centers, and of the more than 2 years' Job Corps experience by OEO, we expressed the belief that an orderly system of training for specific vocations was not only feasible but also important to the accomplishment of program goals at minimum cost. Therefore, we proposed that OEO

-establish a required level of academic training for entry into all vocational courses,

--develop and administer tests to all enrollees to assess their capabilities and require appropriate evaluations of enrollees' progress,

--approve contractor deviations from the established academic and vocational curricula,

--reassign to other centers or programs enrollees who manifest no interest in or aptitude for the vocational training offered at the assigned center, and

--provide more effective monitoring of center operations.

We were advised that the basic principle that had been applied to the Tongue Point Center was that maximum flexibility in program operations would be allowed. According to OEO, that concept has now changed and important steps in developing some form of standardization in curriculum, reporting, discipline, and placement have been taken. OEO stated that, in the main, it had concurred in our proposals and had taken implementing actions. (B-130515, May 3, 1968)

14. HOURS OF TRAINING--In a report issued in November 1967 on our review of selected program activities of the Office of Economic Opportunity (OEO) at the Parks Job Corps Center, Pleasanton, California, we suggested that time in the Center's training day might be better utilized.

For the typical corpsman at the Parks Center, the scheduled classroom and laboratory time consisted of 2½ hours each for basic educational training and vocational training for a total of 5 hours a day, 5 days a week. These classes were generally conducted between 8 a.m. and 10:30 a.m., and between 1 p.m. and 3:30 p.m., with a break within each period.

Considering that homework was not required and that the corpsmen were resident at the Center, it seemed that, notwithstanding counseling, physical education, and work-experience activities, the corpsmen had considerable free time each day and on Saturdays and Sundays. We believed that it would be to the benefit of the corpsmen and to OEO if the educational and vocational training could have been increased beyond the 5 hours a day. We noted that the schedule at other men's centers ranged from 5 to 6½ hours a day for vocational and basic education training.

Since all centers serve essentially the same types of corpsmen, it seemed that the training schedule should be uniform for all centers and that either the 5-hour schedule at the Parks Center was too short or the schedules at the other centers were too long. We therefore, recommended that OEO make a study to determine what a reasonable daily schedule of educational and/or vocational training should be and, on the basis of this study, institute a uniform time schedule for all men's centers.

In January 1968, OEO advised the Bureau of the Budget that educational, vocational, avocational, counseling, and work-experience activities would be structured in such a way as to provide a minimum of a 60-hour week at all men's centers. (B-161076, November 8, 1967)

15. COUNSELING DATA--In a report issued in November 1967 on our review of selected program activities of the Office of Economic Opportunity (OEO) at the Parks Job Corps Center, Pleasanton, California, we stated that the Center generally had no standard procedure for dealing with behavioral problems of specific corpsmen but that counselors were expected to assess each individual case and to determine an appropriate course of action. The records maintained for individual corpsmen in the counseling section offices varied as to completeness, and it was often impossible to determine what steps had been taken by the counselors in regard to problems encountered.

Subsequent to our review, a correction system was developed by the Center setting forth the sanctions, jurisdiction, and forms to be filled out for specified types of misbehavior. In addition, OEO reported in July 1967 that the Center had recently revised a guide for counselors that set out the requirements and functions of the counselor and described the relationship which he must achieve with the individual corpsman. OEO also noted that "*** clearly a counselor's most important role is not making notes of actions taken against corpsmen, but in nurturing the progress of corpsmen."

We expressed the belief that complete records of counseling actions taken appeared to be necessary to enable the Center to determine the type of actions which proved to be the most effective in counseling and to permit one counselor to benefit from the experience gained by another. We also believed that reasonably complete records would seemingly be of great value in providing continuity of treatment to a corpsman in those instances when,

for one reason or another, a counselor would become disassociated from the program. We therefore recommended that the Job Corps review the implementation of the Center's "Correction System" to ensure that the system was providing reasonably complete data in the counseling area.

In January 1968, OEO advised the Bureau of the Budget that the Job Corps Project Manager assigned at the Center had been directed to maintain a continuing review of corpsmen files to ensure that appropriate documentation was being required and that adequate reciprocal information between counselors was accessible. (B-161076, November 8, 1967)

16. STANDARDS OF CONDUCT--In a November 1967 report to the Congress on our review of selected program activities of the Office of Economic Opportunity (OEO) at the Parks Job Corps Center, Pleasanton, California, we expressed the belief that the area of corpsman conduct was an especially critical area, since a basic objective of the Job Corps program was to prepare corpsmen for employment and since a number of former corpsmen had been dismissed from jobs for poor attendance or other disciplinary reasons.

We stated that a corpsman should know the standards of expected conduct and what the penalties are for infractions and that a corpsman's failure to comply with reasonable standards of attendance and behavior should result in appropriate reduction of pay and allowances.

At the time of our review, Center-wide standards and procedures to provide a uniform application of penalties for improper behavior had not been established. For example, the Center had not established a standard for an unexcused absence from class and did not withhold pay and allowances unless the individual had been classed as absent without leave (AWOL). Infractions, such as class absenteeism, might be judged by the various corpsmen groups in dormitories, and the penalties assessed, such as minor fines or restrictions, could vary among groups.

If a corpsman stayed at the Center more than 90 days, he would have been paid, in addition to basic pay (ranging from $30 to $50 a month), a readjustment allowance based on his length of stay. This readjustment allowance could have ranged from $75 to $150 for 90 days to $600 to $1,200 for 2 years, depending on whether he sent an allotment home.

We did not consider it reasonable for this type of allowance to be paid to corpsmen who did not make serious attempts to progress through the program. We therefore recommended that OEO adopt a policy whereby appropriate reductions in the corpsmen's monthly salaries and readjustment allowances would be made in those instances where the corpsmen's conduct and attendance were not satisfactory.

In January 1968, OEO advised the Bureau of the Budget that corpsmen were being terminated from the Job Corps if they were AWOL for 15 cumulative days, rather than the previous 30 consecutive days, and that the corpsmen were being fined for each day they were AWOL. In addition, the corpsmen's readjustment allowances would be payable only if they remained in the program for more than 90 days and would be reduced by $25 for each month they remained less than 180 days. Further, the Center Directors have been given authority to discharge or fine corpsmen for class absenteeism or for behavior which is considered disruptive to Center or class discipline. (B-161076, November 8, 1967)

17. FINANCIAL AUDITS--In reports to the Congress on our reviews of Community Action Programs in Los Angeles, California; Detroit, Michigan; and Chicago, Illinois, we stated that the Office of Economic Opportunity (OEO) audits were generally restricted to financial and administrative matters.

The OEO Community Action Program

Guide provides that periodic audits of grants be made by Federal auditors to determine whether OEO funds have been expended effectively, prudently, and in accordance with the approved application and OEO regulations. The guide also prescribes that the audits include reviews of the grantees' accounting systems to make certain that adequate internal controls and records are being maintained. Further, the guide requires that grantees ensure that periodic audits are made of each delegate agency.

As an example, in our report on the programs in the Los Angeles area, we stated that we believed that the value of OEO audits would be greatly enhanced if they were broadened to encompass certain elements of program activities, such as eligibility, non-Federal contributions, and management aspects of individual projects. In our report, we suggested that, in planning for future audits, OEO give consideration to expansion along the lines indicated above.

In responding to our draft reports, OEO stated, in essence, that it lacked the necessary auditing manpower to provide the desirable audit coverage of grantees but that, as additional manpower became available, OEO would direct its efforts more toward program and selected management areas. (B-162865, March 11, 1968; B-162237, April 10, 1968; and B-163595, May 20, 1968)

18. ACCOUNTING AND FINANCIAL REPORTING--In a report to the Congress in April 1968 on our review of the Community Action Program in Detroit, Michigan, we stated that the Mayor's Council for Human Resource Development (MCHRD) had reported its cash transactions to the Office of Economic Opportunity (OEO) but not its accrued receivables and payables because, as permitted by OEO guidelines, its accounts were set up to furnish information only on cash transactions in accordance with the accounting system of the city of Detroit.

The Budget and Accounting Procedures Act of 1950, as amended (31 U.S.C. 66a(c)), requires Federal agencies to adopt an accrual basis of accounting. On an accrual basis, accrued receivables and payables are recognized in the current accounting period even though a cash collection or disbursement has not been made. The present system of OEO is primarily one of obligation and expenditure accounting, but it is in the early stages of conversion to accrual accounting.

It appears that, at such time as OEO converts to the accrual basis of accounting, the differences among the requirements for the accounting systems of OEO and its grantees and delegate agencies will lead to complications in the interpretation of grantee financial information and in its integration into OEO accounts.

We believed that, to resolve this problem OEO must provide grantees with clear instructions for ascertaining and including accrued items in their reports to OEO.

OEO advised us that such instructions were then the subject of study and development and that revised procedures and forms were being developed to cope with the problem of integrating grantee financial information into OEO accounts. We will continue to cooperate with, and offer assistance to, OEO in these matters.

Guidelines issued by OEO in February 1965 required that a private, nonprofit organization must submit, prior to the receipt of any grant funds, evidence that it had established an accounting system which, in the opinion of a certified public accountant or a duly registered public accountant, was adequate to meet the purposes of the grant. The guidelines placed on a community action agency (grantee) the responsibility for ensuring that delegate agencies adopted adequate accounting systems.

We reported that the Archdiocese of Detroit received contracts from MCHRD for fiscal year 1965 and 1966 projects. On June 10, 1966, a certified public accounting firm,

in a report on an audit for fiscal year 1965, stated that the archdiocese's accounting procedures were not adequate during the period to afford satisfactory accounting records and that, as a result, the firm was unable to express an opinion on the summary of recorded income and expenditures for the period.

In view of the questioned adequacy of the archdiocese's accounting system, we asked MCHRD officials whether they had obtained a certification of an adequate accounting system from the archdiocese. The officials furnished a certification from a certified public accountant dated September 12, 1966, which, they stated, was the first certification received.

OEO advised us in August 1967 that MCHRD and the Detroit city controller's office had been apprised of their responsibilities in regard to delegate agency compliance with OEO requirements and that follow-up action would be taken by OEO. (B-163237, April 11, 1967)

19. ANALYSIS OF PROGRAM BUDGETS--In March 1968, we reported to the Congress on our review of the Community Action Program (CAP) in Los Angeles, California. We stated that the budgets, submitted by the Economic and Youth Opportunities Agency of Greater Los Angeles (EYOA) and approved by the Office of Economic Opportunity (OEO), for certain programs contained unrealistically high estimates of funds needed. Since budgets are used by OEO in establishing the amounts of CAP grants, unnecessarily high budgets may delay or preclude the availability of funds for other programs and could result in OEO's reporting misleading information to the Congress.

One of the responsibilities of OEO in the CAP is to review and evaluate the budgets for proposed programs, but OEO's analyses of these budgets apparently were not made in sufficient depth to detect the overestimated requirements for funds.

For example, in our review of the budget of the Los Angeles Unified School District (city schools) for selected programs funded under one grant, we found that salaries of teachers had been budgeted at the maximum level of pay although it should have been apparent at the time the budget was prepared and approved that salaries would be paid at less than the maximum rates.

We compared the budgeted salary rates with the actual salary rates paid for a 4-week pay period in January 1966 for the majority of the teachers in five of the larger programs. Our comparison showed that, using the budgeted rates, salaries would have amounted to $140,944; whereas, using the actual rates, salaries amounted to $121,016--a difference of about 14 percent. Since city schools used maximum salary rates to budget $2,058,397 in teacher salaries, application of the 14 percent to the $2,058,397 amounts to a potential overstatement of $288,175 in teacher salaries under the grant.

In a situation such as prevails in the CAP where needs outreach available funds, estimates beyond reasonable expectancy of requirements result in reducing the amount of funds available for the program in other communities. Therefore we recommended that the Director, OEO, take such action as might be necessary to ensure full compliance with the established controls.

In line with our recommendation, OEO informed us in June 1968 that improved procedures had been installed for communication and for approval of necessary budgetary adjustments. Also, OEO has published a new monthly grantee financial reporting procedure to measure expenditures in relation to approved programs. In addition to providing these reports to the regional analysts for their use in monitoring individual grantees, OEO is developing a computerized program for compiling and screening these reports and printing exception reports singling out those grantees

whose expenditure rates indicate possible budget-related problems. (B-162865, March 11, 1968)

20. CASH ADVANCES ON GRANTS--In March 1968, we reported to the Congress on our review of the Community Action Program (CAP) in Los Angeles, California. We stated that funds were being maintained by the Economic and Youth Opportunities Agency of Greater Los Angeles (EYOA) and certain delegate agencies in amounts which appeared to be in excess of their cash needs because the agencies were not following Office of Economic Opportunity (OEO) cash withdrawal guidelines.

We pointed out that by ensuring that the advanced funds were at the minimum levels required for cash needs, OEO could assist in lowering public borrowing and reduce related interest costs.

The Treasury Department requires all Federal agencies administering grant and contract programs to make payment to grantees and contractors by a letter-of-credit procedure to the maximum extent possible. Under this procedure OEO establishes a line of credit through the Federal Reserve System against which the grantee can draw cash for deposit in its commercial bank account.

OEO's CAP Guide, dated June 1965, instructs a grantee (a) to withdraw Federal funds only as needed and (b) to make accurate determinations of the additional cash it will need for operations in the next period. The guidelines permit a contingency fund of not more than 10 percent of anticipated expenses for the operating period. In the case of EYOA, the guidelines permitted semimonthly withdrawals to cover its cash needs.

In November 1965, OEO issued a memorandum stating that one of the principal problem areas revealed in audits of CAP grants concerned grantees' premature withdrawal of funds. In this memorandum, grantees were instructed to avoid holding excessive cash on hand.

Our review indicated that at June 30, 1966, EYOA had excess cash advances amounting to about $2.6 million. We were advised by the Chief of the General Accounting Section, EYOA, that EYOA policy was to maintain a cash balance of $2.5 million, rather than to make full use of the procedures in the OEO guidelines which required an accurate determination of cash needs.

We advised OEO that it appeared to us that OEO did not monitor the cash balances held by EYOA and the delegate agencies, to keep balances reasonably in line with proximate cash needs.

In its reply to our draft report, OEO conceded the presence of somewhat high cash balances but attributed the situation to a desire to be prepared for any eventuality which might occur in the semimonthly period for which cash might be obtained. Also, OEO stated that it had advised EYOA to improve its cash budgeting to avoid excessive withdrawals in the future.

We believe that OEO has a responsibility that requires efforts beyond advising EYOA to improve its cash-budgeting procedures. In our report to the Congress, we recommended that, to avoid situations wherein grantees had excessive funds on hand, OEO require grantees to establish cash-budgeting systems that would provide the needed protection against excessive withdrawals of funds and that OEO put into operation control mechanisms to check on grantee cash withdrawals and on expenditure levels. We recommended also that the effectiveness of such systems be considered in future audits by OEO of grantee activities. (B-162865, March 11, 1968)

21. PROCUREMENT OF SPACE--In May 1968, we reported to the Congress on our review of the Community Action Program (CAP) in Chicago, Illinois. We stated that the Chicago Committee on Urban Opportunity (CCUO), funded by the Office of Economic Opportunity (OEO), had expended $185,506 for renovating space in seven buildings leased

to house urban progress centers.

The renovation work consisted mainly of lighting, plumbing, partitioning, and painting. The nonremovable improvements could be lost at any time, however, because the leases stipulated that they might be canceled, generally by either party, upon 30 or 60 days' notice, in some cases from the effective dates of the leases and in others from stated times (5 or 6 months) after the effective dates of the leases.

This risk was recognized by CCUO officials but was considered unavoidable. They stated that the renovations were necessary to make the space usable and that the cancellation clause was included in the lease because of the indefiniteness of Federal funding of CAP.

In these circumstances it is important that OEO exercise close surveillance over expenditures for renovation work to ensure, to the extent practicable, that such expenditures are kept within reasonable limits in recognition of the possibility that the grants may not be further funded or the leases may be canceled.

We recommended that OEO institute workable procedures for closely monitoring expenditures for renovation work and require community action grantees and delegate agencies to make every effort to find usable, available premises that would necessitate the least renovation work.

OEO informed us in November 1967 that it concurred in this recommendation and would issue an appropriate directive. (B-163595, May 20, 1968)

22. PURCHASE AND UTILIZATION OF TRAINING MATERIAL AND EQUIPMENT-- In a report issued in November 1967 on our review of selected activities of the Office of Economic Opportunity (OEO), at the Parks Job Corps Center, Pleasanton, California, we pointed out that the development of appropriate training programs and selection of training material and training aids were assigned to the contractor as part of its responsibility to organize and operate the Center. The contractor, through September 1966, had purchased about $1.5 million worth of training material and equipment.

Material and equipment purchased by the contractor included educational material costing about $347,000 purchased from one of the contractor's sister divisions, an audiovisual educational system costing about $13,300, and an instructional television system costing about $185,000. We found no evidence that adequate studies had been made prior to these acquisitions to evaluate the need for, and suitability of, the material and equipment or to establish how it would be incorporated into the training program.

We found no evidence also that an analysis had been made to assess the advantages and disadvantages of this type of training material and equipment over other types which might have been available. It appeared that OEO officials, in approving these purchases, had not evaluated the need fot the material or equipment nor required the contractor to appropriately justify its proposed procurement.

The material and equipment, by and large, had not been effectively utilized, and a major portion appeared of questionable use to Job Corps corpsmen.

We proposed that Job Corps require the Center to make a thorough analysis of the costs of the material and equipment purchased in relation to the benefits attainable and that, if the analysis did not justify the use of the items, they be made available to other Government activities or, in the case of the material purchased from the contractor's sister division, returned for credit.

OEO, concurred in the proposal, except for the return of material for credit. OEO stated that it had approved the procurement of this material and that there was no provi-

sion in the contract for its return under such conditions.

We recommended that, with regard to similar procurements in the future, OEO satisfy itself, prior to approving such procurements, that the equipment and material are suitable for use at the centers for which they are proposed and that, to the extent practicable, the costs of such equipment and material and of their operations are reasonably commensurate with the benefits attainable from their use.

In January 1968, OEO advised the Bureau of the Budget that a listing of all equipment currently purchased by the contractor, complete with justification, must be submitted to OEO for review and approval by various responsible officials. Substantially the same procedure is utilized when any large amount of training material is purchased. (B-161076, November 8, 1967)

23. ACQUISITION OF EXCESS GOVERNMENT PROPERTY--In a report issued in February 1968 on our review of the establishment and operation of St. Petersburg Job Corps Center for Women, St. Petersburg, Florida, Office of Economic Opportunity (OEO), we pointed out that OEO had directed shipment of various items of clothing from excess Government stocks to the Center, although the items had not been ordered or needed.

The Center did not report the items as being excess to its needs because, according to Center officials, the staff's time had been devoted to more urgent matters.

In our draft report we stated that the acknowledged advantages of using excess property in lieu of procuring new property are negated when property is ordered without regard to the quantity or types of property needed. Accordingly, we proposed that OEO (a) give closer attention, in selecting excess property for use at its Job Corps centers, to the quantities and types of property needed and (b) impress upon the centers the need for prompt reporting of items in excess of, or not suitable to, their requirements.

The Director of the Job Corps, in commenting on our draft report, pointed out that, because the Center was the first women's center, some of the problems in estimating the quantities of, and determining the types of, clothing items needed could be attributed to the lack of any previous experience. Nevertheless, the Director concurred with our proposals and stated that for several months no excess personal property had been delivered to a Job Corps center, without prior inspection and acceptance of the property by center representatives. He stated also that, Job Corps personnel, during surveillance visits to center, continually emphasized the need for declaring as excess all materials not utilized within the shortest possible time.

We believe that the above actions, if properly implemented, should materially aid in precluding the recurrence of similar situations. (B-130515, February 5, 1968)

24. USE OF APPRAISALS WHEN ACQUIRING LEASED PROPERTY--The Office of Economic Opportunity (OEO) usually follows the practice of permitting its contractors that operate Job Corps centers to lease property to be used as women's centers.

In a report issued in February 1968 on our review of the establishment and operation of the St. Petersburg Job Corps Center for Women, St. Petersburg, Florida, we pointed out that neither OEO nor the contractor had obtained prior to negotiating the lease an independent appraisal to establish the fair market value of the property to be used as the center site. It appeared that, if an appraisal had been obtained, the contractor would have been in a better bargaining position to negotiate a lower rental rate, which would have resulted in savings to the Government.

Job Corps advised us that, while policies and procedures on property acquisition had been undeveloped at the time the St. Peters-

burg Center was established, procedures were subsequently implemented to require that independent appraisals be used in negotiating leases. We were advised also that, in those instances where appraisals were not obtained, OEO would, by a clause in the contract, limit reimbursement to the contractor to an amount to be derived on the basis of an appraisal made after the lease was negotiated.

To determine if, as we had been advised, OEO was requiring center contractors to obtain independent appraisals prior to negotiating lease terms, for seven other women's center sites we examined the leases entered into after we had been informed of the position of Job Corps on this matter. We found that, in two cases, appraisals had not been obtained prior to signing the leases. Also, in these two cases the clauses referred to by the Director of the Job Corps had not been incorporated in the contracts and Job Corps contracting employees could not show us any written instructions concerning the obtaining of independent appraisals or requiring the use of the contract clause. It seems that such instructions should be in writing and readily accessible to contracting officials.

We did not propose that OEO rely, or instruct the contractors to rely, solely on the appraised value of facilities in negotiating lease prices. Rather, we proposed that appraisals be used as guides for judging the reasonableness of the rentals. We believe that appraisals are highly desirable because, under cost-type contracts, the contractors have little incentive to negotiate the lowest lease prices possible and that OEO should emphasize the importance of obtaining appraisals by putting its policy and procedures on this matter in writing.

In commenting on our suggestion that consideration be given to the feasibility of having the contractor for the center approach the lessor regarding a downward adjustment of the rental, the Director informed us that the Job Corps had reviewed the appraisal in light of our suggestion and had decided that, because of the otherwise satisfactory terms of the lease, it was not appropriate or feasible to renegotiate the lease. He stated, however, that the Job Corps intended to press vigorously for a rental adjustment when the lease was renewed. The lease was never renewed because the Center was closed. (B-130515, February 5, 1968)

25. RENTAL RATES FOR GOVERNMENT-OWNED HOUSING--In a report issued in May 1968 on our review of activities of the Job Corps Men's Center, Tongue Point, Oregon, Office of Economic Opportunity (OEO), we stated that rental rates for Government-owned housing at Tongue Point had not been established in accordance with Bureau of the Budget (BOB) Circular No. A-45, Revised, dated October 31, 1964.

To obtain some indication of the possible consequences of not following BOB Circular A-45, we compared rental rates in effect at the Center for two- and three-bedroom units with rental rates for similar type housing in the adjacent Astoria, Oregon, area. Although our comparison did not consider all the specific provisions of the Circular, it indicated that, if the average rental rates for the private housing were used at the Center, rental income would increase by approximately $10,000 a month, or $120,000 a year.

OEO, in commenting on our draft report, advised us that BOB Circular No. A-45 is normally used as a guide by the Contracting Officer in approving the rental rates set under current contracts. However, OEO expressed the belief that BOB Circular No. A-45 is not applicable to rents charged at Tongue Point because the housing is under the control of the contractor who has the discretion to use it or not, and because the public law (Public Law 88-459, approved August 20, 1964), which authorizes the establishment of rental policy, as set forth in BOB Circular No. A-45, and the Circular itself, appear to apply only where the Government is the direct lessor.

We expressed the opinion that the Circular was applicable to rental rates for the Government-owned housing used for a Gov-

ernment program at the Center, and that OEO, by entering into a prime contract for operation of the Center, did not relieve itself of the responsibility for control of the housing facilities.

We therefore recommended that OEO take such action as may be necessary to fix the rental rates charged to contractor employees at Tongue Point on the basis of comparable private housing as set out in BOB Circular No. A-45. Also, since it appeared that incorrectly established rental rates may also exist at other Job Corps centers, we further recommended that OEO evaluate the propriety of rental rates charged at such centers. (B-130515, May 3, 1968)

26. UTILIZATION OF FEDERAL TELECOMMUNICATION SYSTEM--In a report issued in May 1968 on our review of the Job Corps Men's Center at Tongue Point, Oregon, Office of Economic Opportunity (OEO), we expressed the belief that there existed a potential for lower telephone costs at Tongue Point through the use of the Federal Telecommunications System (FTS) in lieu of commercial long-distance telephone service.

Charges for long-distance calls at the Tongue Point Center, for the period December 20, 1965, through May 20, 1966, amounted to about 52 percent of the total monthly billings for telephone service. During the month of May 1966, for example, long-distance charges amounted to $2,397 of total billings of $4,456. This represented 1,081 long-distance calls, at an average cost of about $2.22 a call.

An official of the General Services Administration (GSA) advised us that, because GSA had changed its billing procedures for FTS service, Government agencies, including OEO, should receive FTS service by fiscal year 1969 at an average rate of about $0.80 a call.

OEO, in commenting on our draft report, advised us that it had been reluctant to install FTS because it would be very difficult to prevent abuse of the system by the Center's adolescent population who might use it to call home. OEO commented also that, notwithstanding the questions of abuse, a determination had been made to use the Wide Area Telephone System (WATS) whereby a flat rate was charged for calls within an established zone. We understand that the zone was limited to the State of Oregon on the basis that the need to make cross-county calls had been eliminated. OEO also advised us that the WATS arrangement was no more costly than FTS.

As to OEO's comment on possible abuse of FTS, we believe that the control problem is no greater than that of any other system, inasmuch as outgoing telephone calls are handled through a central switchboard. Regarding the cost of using WATS rather than FTS, OEO officials were unable to furnish any data in support of OEO's statement. Accordingly, we recommended that OEO initiate appropriate studies to determine the feasibility of using FTS at Tongue Point and other Job Corps centers. OEO advised us that its contracting officer had been requested to reevaluate Job Corps telephone needs. (B-130515, May 3, 1968)

27. FAMILY PLANNING PROGRAM--During our review of the Knox County, Kentucky, Community Action Program funded by the Office of Economic Opportunity (OEO), we found that the Knox County Economic Opportunity Council, Inc. (KCEOC), had stressed the use of a particular family planning device (coil) in the family planning program, contrary to the conditions of the grant, which prohibited the administrator of such programs from declaring any preference for a particular technique or method of family planning. The emphasis on a particular device was stated to be justified on the basis that the participants lacked the knowledge or discipline for effective use of other methods or techniques.

The special conditions applicable to the use of OEO grant funds for family planning programs prohibited the use of materials promoting a particular philosophy, technique, or method of family planning. In addition, the administrators of such programs were required not to disclose any such preference to participants in the program.

OEO, in responding to our report, issued to the Director, Mid-Atlantic Regional Office, OEO, in October 1967, stated that the grantee had provided OEO with written assurance that a health education program was being conducted in accordance with the special conditions of the grant and that compliance would be verified during a future visit to Knox County. (Report to Director, Mid-Atlantic Regional Office, Office of Economic Opportunity, October 30, 1967)

28. USE OF GRANT FUNDS--In a report issued in February 1968 to the Director, Southwest Regional Office, Office of Economic Opportunity, we stated that, in our survey of the Dallas County Community Action Committee, Inc. (DCCAC), Texas, we noted two instances where the Executive Director of DCCAC had been advanced Federal grant funds for purposes not directly involving, or beneficial to DCCAC. In one instance, in May 1967, the Executive Director was furnished an advance and was provided air transportation from grant funds, to facilitate his attendance at a National Association of Community Development (NACD) meeting in Owensburg, Kentucky. The records show that these costs were charged to DCCAC travel even though NACD had agreed to reimburse the traveler for these expenses.

After discussions of these costs with DCCAC officials, they agreed that the amounts did not constitute expenditures for purposes directly benefiting DCCAC, and that they were owed to DCCAC by the traveler. The amounts were immediately recorded as accounts receivable, and on July 24, 1967, DCCAC was reimbursed for these costs in full.

In another instance, in March 1967, the Executive Director received an advance from DCCAC to be repaid from money that the Executive Director was to receive as a salary supplement from the Community Council of Greater Dallas. Records show that this advance was repaid in full by check from the Community Council of Greater Dallas on April 14, 1967.

The Comptroller, DCCAC, advised us that internal controls over disbursements had been strengthened and that advances such as these would not be made in the future. (Report to Director, Southwest Regional Office, Office of Economic Opportunity, February 2, 1968)

29. SALARY LEVELS--Our survey of starting salaries exceeding $5,000 a year paid to 52 employees of the Dallas County Community Action Committee, Inc. (DCCAC), Texas, showed that 18 employees had been hired at annual salary rates in excess of those authorized by Office of Economic Opportunity (OEO) instructions. Additionally, we found that promotions and periodic salary increases of 15 employees had also exceeded OEO limitations for such increases.

OEO instructions provide that OEO Regional Office approval must be specifically given to individual cases where the new employee is to receive a salary that will exceed his previous salary by $2,500, or 20 percent, whichever is smaller. Periodic or step increases are limited to 3 percent of current annual salary and are not to be given more frequently than annually. These instructions further provide that grantee employees promoted to positions of greater responsibility may not receive an increase (or increases) within a single 12-month period of more than 20 percent of previous salary or $2,500, whichever is smaller.

The DCCAC starting salaries for the 18 employees ranged from 22 to 333 percent above the employees' previous salaries, and also, for five of these employees, exceeded the $2,500 limitation. We found that the 15 employees cited above had received salary increases during a 12-month period ranging

from 7 to 44 percent of their previous DCCAC salaries. For six of these employees, the salary increases exceeded 20 percent of the employees' previous salaries and for one the increase exceeded the employee's previous salary by more than $2,500.

In none of the instances cited above was the OEO Regional Office approval documented, although the Executive Director of DCCAC advised us that he had received oral approval from OEO to hire and promote the personnel at the salary levels in question. Also, he advised us that in the future written approval from OEO would be obtained before salary limitations provided in these instructions were exceeded.

OEO, in responding to our report issued to the Director, Southwest Regional Office, OEO, stated that necessary corrective action had been taken on the discrepancies relating to starting salaries and salary raises in general and that increases in excess of 20 percent had been permitted presumably because of a failure on the part of the DCCAC to interpret OEO regulations correctly. Further, OEO had officially approved the wage structure under which DCCAC was operating at the time of OEO's reply in March 1968. (Report to Director, Southwest Regional Office, Office of Economic Opportunity, February 2, 1968)

30. ACQUISITION OF VEHICLES--In our review of the community action programs in Knox and Leslie Counties, Kentucky, we noted that the Cumberland Valley Area Economic Opportunity Council, Inc. (CVAEOC), had obtained vehicles, without a definite or established requirement being demonstrated. We noted that CVAEOC was not able to fully utilize the vehicles

In August 1966, with approval of the Office of Economic Opportunity (OEO), CVAEOC acquired through the General Services Administration 69 one-half ton pickup trucks that were excess to the needs of the Government. We were informed that there was no documentation supporting a need for these vehicles and that OEO had not required CVAEOC to submit a justification prior to OEO approval of the acquisition of this excess property.

The Director of Finance, CVAEOC, informed us that the trucks had been acquired primarily for use in a program to be proposed by the Area Director. However, the CVAEOC Board of Directors did not sponsor the program when it was proposed; thus, it was never submitted to OEO for funding. We therefore concluded that there was no requirement for most of the vehicles; at the time of review, in March 1967, approximately 50 of the vehicles had never been utilized.

OEO in responding to our report, issued to the Director, Mid-Atlantic Regional Office, OEO, in October 1967, stated that, although CVAEOC had not been required to submit written documentation to OEO supporting the need for the vehicles, OEO approval of the acquisition of the 69 vehicles had been advised by the OEO Mid-Atlantic Regional Office staff, on the basis of its communication with the grantee as well as first-hand knowledge of transportation needs in the area. OEO stated also that it should be noted that the 8-county Appalachian area concerned is very isolated and inadequate transportation is a serious problem. It stated further that the determination to approve the CVAEOC vehicle acquisition was based upon specific considerations, including plans for a multi-county outreach, referral, and community organization program for which transportation would be a major requirement, and a major need at that time for additional vehicles for ongoing Community Action Programs in the Cumberland Valley area. However, the new area program was rejected by the CVAEOC Board of Directors.

OEO stated that the grantee's slowness in utilizing the operative vehicles in the existing program was apparently the result of the program controversies covering the period October 1966 thru February 1967, which split the Board and staff and had a highly disruptive effect on program administration. As it became clear that some vehicles would

be underutilized, 11 of the original 69 were transferred to another OEO grantee which operated a different but coordinated program in the same area. OEO noted in January 1968 that the grantee had reported that all vehicles (excluding those used for cannibalization) were being utilized. (Report to Director, Mid-Atlantic Regional Office, Office of Economic Opportunity, October 30, 1967)

FARM PROGRAMS

31. PEANUT PRICE-SUPPORT PROGRAM--In a report submitted to the Congress in May 1968, we expressed the belief that future losses of the Commodity Credit Corporation (CCC), Department of Agriculture, under peanut price-support programs could be reduced substantially if peanut production were controlled on the basis of pounds instead of acres.

We pointed out that, during the 12-year period 1955 through 1966, the annual production of peanuts increased--because of improved farm technology--to a point where supply was substantially greater than demand and that, as a result, CCC had to dispose of increasing quantities of surplus peanuts at a loss of about $274.5 million.

On the basis of available data, we estimated that, under existing legislation, the losses for the peanut price-support programs during the 5-year period--1967 through 1971--would amount to at least $248 million and that the losses in the following years would continue to increase. Because of the projected increase in losses, it appeared to us that changes in the existing programs should be considered. We expressed the belief that changes designed to stabilize production might forestall the need for even more extensive changes at some future time.

We stated that, in our opinion, programs to control the production of peanuts could best be established by revising the Agricultural Adjustment Act of 1938. This act limits the quantity of peanuts which can be produced by providing for the national acreage allotment; that is, the number of acres which should be planted to produce the quantity of peanuts that would ensure orderly marketing. The act specifies, however, that the national acreage allotment shall be not less than 1,610,000 acres. Since passage of this act, new farm technology has increased the average yield per acre enormously and, thus, has reduced the usefulness of the national acreage allotment as a control over production.

We stated the belief that the Department of Agriculture should consider recommending to the Congress a change in the Agricultural Adjustment Act of 1938, which would permit peanut production to be controlled on the basis of pounds instead of acres. This could reduce CCC's future losses by at least $56 million during the period 1968 through 1972, without any reduction in the level of the producers' income, if production were limited to the quantity of peanuts produced in 1967.

We therefore recommended that the Department of Agriculture (a) develop for consideration of the Congress a program, including suggested legislative changes, to more effectively control the production of peanuts and (b) initiate studies for developing additional concepts for accelerating the removal of excess acreage from peanut production and/or other means of equalizing supply and demand.

The Corporation's Executive Vice President outlined action being taken to improve the peanut program. He stated that our recommendations were being considered and that every effort was being made to improve all aspects of the peanut program. (B-163484, May 9, 1968)

32. DOCUMENTING DETERMINATION OF SUBSIDY RATES--In a July 1967 report to the Congress on our review of certain aspects of the wheat export program, we commented that wheat export subsidy rates paid by the Commodity Credit Corporation (CCC), Department of Agriculture, were being determined on a judgment basis rather than

on a formal basis. We expressed the opinion that the Department had not maintained adequate documentation setting forth the basis for establishing these daily rates.

Under its wheat export program, CCC makes cash subsidy payments to exporters of wheat and wheat flour when domestic market prices are higher than world prices. This subsidy provides a means whereby United States wheat and wheat flour may be made available in the world market at competitive world prices.

During the period covered by our review, domestic prices of most classes of United States wheat were above world market levels and CCC paid subsidies to exporters at rates intended to make United States wheat competitive in world markets.

Our review showed that the subsidy rates were administratively determined by Department officials on the basis of their judgment as to the subsidy levels needed to enable exporters to sell United States wheat at competitive prices. Department officials advised us of certain factors which they had considered in establishing the subsidy rates, but they indicated that the decision to establish these rates at specified levels had not been based on any written guidelines or formulas.

In view of the large amount of wheat export subsidies that CCC was paying and in view of the impact that even a minor variation in the subsidy rates could have on the wheat industry, we suggested that the records of the Department show the basis for the rates established. In commenting on this matter, a Department official stated that the Department would take certain actions to improve its documentation of the determination of subsidy rates. (B-160340, July 24, 1967)

FEDERAL REGULATORY ACTIVITIES

33. EXAMINATION OF SMALL BUSINESS INVESTMENT COMPANIES--On the basis of our appraisal, we concluded that the examinations by the Small Business Administration (SBA) of the small business investment companies had not been sufficiently comprehensive to provide SBA with data essential to adequately carry out its regulatory responsibilities and to protect the Government's financial interests in the small business investment companies.

In February 1967, we proposed to the Administrator, SBA, that SBA, by mandatory regulation, require the small business investment companies to maintain essential data regarding the financial condition and operations of the small business concerns to which the investment companies made loans or in which they made capital investments. We proposed also that SBA issue comprehensive examination guidelines setting forth specific criteria to be followed in evaluating the small business investment companies' lending and investment policies and practices and financial condition and to increase the supervision over the conduct of the examinations.

The Administrator, SBA, informed us that he was in agreement with our findings and proposals. He stated also that investment guidelines of a voluntary nature issued in November 1966 set forth steps to be taken by the investment companies to ensure sound lending practices, including the obtaining of current, complete, and accurate data of a financial and nonfinancial nature in respect to loans and investments in small business concerns. Also, the Administrator informed us that examination procedures and standards had been established for evaluating the financial position of the small business investment companies and that various other measures had been taken to strengthen the examination function.

In our report to the Congress in September 1967 we stated that although we believed that the most effective manner of providing for the small business investment companies to obtain and maintain current, complete, and accurate financial information in respect to their loans and investments in small business concerns is by regulation, the investment

companies' voluntary acceptance and adherence to SBA's November 1966 procedural release would fulfill equally as well the purpose of our proposal. We further stated that we believed SBA should, in accordance with its procedural release, actively promote the inclusion, in the investment companies' future financing agreements with small business concerns, of a provision requiring the annual submission of financial information including a statement of financial condition and of profit and loss. (B-149685, September 29, 1967)

34. ENFORCEMENT OF PESTICIDES LAW--Our review showed that there was a need for the Agricultural Research Service (ARS), Department of Agriculture, to establish procedures to strengthen regulatory enforcement actions that may be taken against pesticides or the shippers of pesticides that violate the Federal Insecticide, Fungicide and Rodenticide Act of 1947 (7 U.S.C. 135-135K), the basic consumer protection law in the area of pesticides.

We found that, in taking actions against pesticides products, ARS, with few possible exceptions, did not obtain product quantity and location data to determine whether other shipments of the same products were available to the public in other locations. As a result, the enforcement actions taken may not have removed from the market violative products which, in some instances, were potentially harmful. Moreover, we noted that ARS was not publishing the decisions of the courts to take the pesticides products off the market in cases arising under the provisions of the law, even though the law requires that such decisions be published.

We found also that ARS internal operating guidelines did not include procedures to determine when shippers that have allegedly violated the law will be reported for prosecution. In this connection, we noted that for 13 years there had been no action by ARS to report alleged violators of the law to the Department of Justice for prosecution. This was true even in instances where repeated major violations of the law were cited by the agency and where shippers failed to offer satisfactory responses to notifications that prosecution was being contemplated.

We proposed that ARS establish and implement procedures to provide for (a) obtaining shipping and product data, (b) reporting violators of the law, and (c) publishing court decisions.

ARS, in commenting on our recommendations, informed us that it would obtain the data necessary to support actions to remove the pesticides products from the market and use the data as a basis for obtaining samples and other documentary information on the products at every location possible in order to remove the maximum amount of the products from the market. Moreover, ARS stated that it would publish the backlog of court decisions as soon as possible and publish future decisions at least every 6 months. We were informed also that ARS operating guidelines concerning shippers now require that cases be forwarded for prosecution in instances where (a) the evidence indicates that the violation was willful, (b) the violation is of a serious nature and is the result of apparent gross negligence, or (c) the company has engaged in repeated violations. (B-133192, September 10, 1968)

FEDERAL-AID AIRPORT PROGRAM

35. PARTICIPATION IN THE COST OF RELOCATING FACILITIES OWNED BY PUBLIC UTILITY COMPANIES--We reported to the Administrator, Federal Aviation Administration (FAA), on the FAA agreement to participate, with airport sponsors, in the cost of relocating certain facilities owned by public utility companies even though the cost might be, under a common-law doctrine, the responsibility of the utility companies. We recommended that FAA's procedures be revised to require, prior to Federal participation, a determination that the costs of relocating facilities owned by public utility com-

panies were necessary sponsor expenses and thus eligible for Federal participation.

FAA agreed with our recommendation and stated that their procedures would be revised to require a case-by-case determination of legal liability and project eligibility prior to Federal participation in utility relocation costs. (B-160564, May 6, 1968)

36. PARTICIPATION IN THE COST OF BUILDINGS FOR STORAGE OF MAINTENANCE EQUIPMENT--In a report to the Administrator, Federal Aviation Administration (FAA), we stated that Federal participation in the cost of constructing airport field maintenance equipment buildings which house equipment for the removal of snow and the spreading of abrasives could be significantly reduced by adopting more realistic and consistent eligibility criteria.

FAA criteria in effect at the time of our review provided that airports located in any of 15 designated States were eligible for Federal participation regardless of the actual climatic conditions experienced, while airports located in the remaining 35 States were eligible for Federal participation only if specified climatic conditions were experienced.

As a result of our review, FAA revised its procedures to require all airports, regardless of location, to demonstrate that specified weather conditions had been experienced. (B-133127, July 26, 1967)

FEDERAL-AID HIGHWAY PROGRAM

37. SPECIAL BENEFITS ACCRUING TO PROPERTIES AT NEWLY CREATED HIGHWAY INTERCHANGES--In a report issued to the Federal Highway Administrator, Department of Transportation, in January 1968, we pointed out that there was an apparent inconsistency on the part of the State of Ohio in dealing with special benefits accruing to residue properties at newly created interchange areas.

Although the State recognized that proximity to a highway interchange can have a significant influence on the value of the property remaining after a portion of the property had been taken for highway purposes, we found that appraisal reports supporting prices paid for such properties did not adequately reflect this influence. Our review of selected appraisal reports for properties located at interchange areas showed that the consideration given to potential interchange influence ranged from complete discussion and consideration of probable changes in land use and values attributable to the interchange to practically no mention as to potential effect of the interchange on land use or values.

We concluded that, when an appraisal report did not present adequate data regarding potential interchange influences in establishing residue values, State negotiators were not properly equipped to negotiate with property owners. Further, if property must be acquired through court proceedings, the State's attorney might be required to present the State's cases on the basis of incomplete appraisals. This practice in turn could preclude adequate assurance that the price paid for the property was equitable.

We recommended that the Administrator direct legal and right-of-way officials of the Bureau of Public Roads to review the practices in the State of Ohio relating to special benefits and determine whether such practices were consistent with requirements for Federal participation.

The Federal Highway Administrator advised us, in February 1968, that he was initiating such a review and when completed, responsible Administration officials would be directed to take appropriate action. (B-118653, January 15, 1968)

38. INTEREST COSTS ON RIGHT-OF-WAY ACQUISITION--Our review of right-of-way activities for the Federal-aid highway program in the State of Rhode Island showed that, as a result of weaknesses in the State's

policies, practices, and procedures, interest costs had been incurred over the past 10 years in amounts greater than might have otherwise been necessary.

The Bureau of Public Roads, Federal Highway Administration, Department of Transportation, recognized as early as 1959 that improvements were needed in the State's operation to minimize interest costs. We found that the State incurred interest costs of about $1.7 million on rights-of-way acquired from 1956 through 1965 for the interstate program. We estimated the Federal share of this amount to be about $1.5 million. We found also that the Government's proportionate share of such costs could have been significantly reduced if the Administration had taken more timely and effective action to obtain the needed improvements.

The specific problems noted during our review were brought to the attention of the Federal Highway Administrator in March 1968. These problems included (a) weaknesses in the State's condemnation procedures that resulted in interest continuing to accrue on properties which, although acquired as early as 1960, had not yet been settled, and (b) loss of rental income from certain properties occupied by former owners subsequent to acquisition by the State.

Although actions taken by the Administration and the State subsequent to our review resulted in improvements which should correct the problems on a prospective basis, we found there was a need for additional action to mitigate the interest costs accruing on certain properties acquired during the period 1960 to 1965, for which settlement had not been made with the property owners.

We recommended corrective measures to ensure that the Government's share of these costs was proportionately reduced in a timely and effective manner.

In June 1968 the Administrator informed us that the State had been requested to dispose of the unsettled cases as promptly as possible and that the accrual of interest on such properties beyond December 31, 1968, would be ineligible for Federal participation. In addition, action has been taken to correct weaknesses in the State's rental policies and to recover the amounts from Federal participation in all ineligible interest charges. (B-118653, March 29, 1968)

39. REIMBURSEMENTS FOR RIGHTS-OF-WAY COSTS--In a report issued in July 1967 on our review of certain Federal-aid highway rights-of-way costs for which reimbursements for the Federal portion had been withheld from the District of Columbia Government because of inadequate documentation, we stated that the withholding of Federal reimbursements and the delay in recovering the withheld amounts had been attributable mainly to uncoordinated relationships among the three District organizational units responsible for highway rights-of-way acquisitions and to inadequate follow-up control procedures.

We pointed out that the District had paid court-awarded compensation, which was substantially in excess of the District's fair market value determination, for each of 42 parcels of land without documenting the reasons for accepting rather than appealing the court-awarded amount. Because the Bureau of Public Roads' regulations require such documentation, the Bureau withheld Federal reimbursements of over $1 million.

We stated also that the District's Acting Director, Department of Highways and Traffic, had advised the District's Administrative Services Officer of the Bureau's withholding action but that it was more than 2 years later before that official informed the District's Corporation Counsel of the Bureaus regulation. We stated further that there had been no clear understanding between the Corporation Counsel and the Administrative Services Officer as to who had responsibility for developing the documentary information and

that it was almost 3 years after the first Federal reimbursement withholding that these officials reached agreement on the matter.

We proposed to the Board of Commissioners that consideration be given to reviewing and improving those matters of organization, communication, and control which, as discussed in our report, had given rise to the reimbursement withholdings. In commenting on our findings, the President, Board of Commissioners, stated that, to keep withholdings of Federal reimbursements of highway rights-of-way costs to a bare minimum, additional policies and procedures had been issued and were to be issued, certain work had been reorganized, and a control record for withheld reimbursements had been established. (B-161519, July 10, 1967)

HOSPITAL CONSTRUCTION

40. HOSPITAL CONSTRUCTION PROJECTS RECEIVING FEDERAL FINANCIAL ASSISTANCE--We reported to the Surgeon General, Public Health Service (PHS), in February 1968 on certain inadequacies in administrative procedures for the approval of hospital construction projects subject to financial assistance under the Hill-Burton medical facilities construction program in one region of the Department of Health, Education, and Welfare. Our review showed inadequacies relative to compliance with approved State plans which constitute the basis for approval of construction projects or the need for amendment of these plans.

We found that in 22 construction projects--about 17 percent of all projects approved in the region during the 6-year period 1960 to 1965--facilities for 762 hospital beds had been provided in excess of the number shown in the approved State plans. In these 22 projects, the facilities in question either were replacements of existing ones that were rated by the State plans as "acceptable" toward meeting the needs of the service areas or were facilities for new beds provided in excess of those shown in the State plans as needed by the service areas. The average cost per bed, borne by the Government, was about $10,400.

PHS regional officials informed us that the State plans in question were technically acceptable at the time but that they could have been rated "nonacceptable" under the subsequently revised rating criteria; however, they considered such a procedure of amending the State plans not necessary since, in effect, they were anticipating the needed revisions of the criteria for determining acceptable hospital facilities.

We recognized that the approval of construction projects should be based on the latest available data regarding the actual condition of existing medical facilities and the realistic needs of service areas and individual communities. However, we stated our belief that, since the approved State plan is the prescribed vehicle of an orderly and objective distribution of Hill-Burton funds, it should serve as the basis for each project approval and should not be bypassed by less formal procedures; otherwise, projects may be approved without assurance that criteria for determining the need for new construction or modernization have been applied on a uniform basis to all hospitals in the State.

We recommended that, in order to follow orderly procedures in accordance with established provisions of law and regulations, project approvals be made only in conformity with approved State plans and that such plans be formally amended, if necessary, to reflect changed conditions or needs of service areas. We were informed in June 1968 that the Public Health Service was in complete agreement with our recommendation and that hospital project approvals would now be made according to the recommended procedures. (Report to Surgeon General, Public Health Service, Department of Health, Education, and Welfare, February 19, 1968)

LOAN PROGRAMS

41. REPAYMENT OF LOANS FOR

COLLEGE HOUSING--In an October 1967 report to the Congress, we pointed out benefits that could accrue to the Government if educational institutions were required to make payments of principal and/or interest more frequently on loans received under the college housing loan program administered by the Housing Assistance Administration, Department of Housing and Urban Development (HUD). If this were done, the funds would become available to the Government for use at an earlier date and net interest costs on Government borrowings could be reduced.

For the $300 million of college housing loans budgeted for fiscal year 1968, we estimated that the repayment of principal semiannually--the same frequency with which interest payments are required under the program--rather than annually would, over the estimated average life of the loans, result in net interest savings to the Government of about $1 million without, in our opinion, impairing program objectives or resulting in any significant increase in administrative costs. This calculation was intended to indicate the savings potential, with the optimum frequency of payments being determined by HUD on the basis of a more comprehensive study.

The Assistant Secretary for Renewal and Housing Assistance agreed that savings were possible and stated that the requirement of a semiannual payment of both principal and interest would result in minor, if any, increase in the administrative costs of either the Government or the educational institutions. He stated also that most educational institutions would be able to make more frequent payments.

The Assistant Secretary advised us that a task force then examining certain aspects of the college housing loan program was studying the matter of increasing the frequency of college housing loan payments and that our proposal would be considered upon completion of the task force report. (B-162246, October 31, 1967)

42. ASSESSMENT OF LATE CHARGES ON DELINQUENT LOAN REPAYMENTS

Our review of certain aspects of Veterans Administration (VA) policies and practices relating to the repayment of home loans made under the loan guaranty and direct loan programs showed that a distinction was made in the VA's policy on assessment of late charges for delinquent loan repayments. We found that VA did not assess late charges on loans that it made to veterans but permitted the assessment of late charges on VA-guaranteed loans that private lenders made to veterans.

We believed that, if late charges were assessed on VA direct loans, (a) borrowers would be encouraged to make repayments on time and, as a result, loan-servicing costs associated with delinquent accounts would be reduced and (b) the revenues could be used to offset the cost of servicing delinquent accounts. In addition, veterans would receive equal treatment regardless of whether they had obtained their loans from the VA or from private lenders under the loan guaranty program.

On the basis of the incidence of delinquent loan repayments noted in five regional offices, we estimated that, if a 4-percent late charge had been assessed and collected during calendar year 1966 on these repayments, total revenues of $414,000 would have been received by VA. We stated the belief that, because these five regional offices collected about 22 percent of the total collections on all VA loans, the revenues which could have been derived from late charges on a nationwide basis would have been substantial.

In commenting on our findings, the Associate Deputy Administrator informed us that the Congress had enacted legislation (38 U.S.C. 1818) extending the VA loan guaranty and direct loan programs, with complete awareness of the fact that late charges were not levied on loans in the VA portfolio. He stated further that there should be no change in the present policy.

We found no evidence, however, that the Congress specifically considered the effects of the VA's policy on this matter. Therefore, in

a report issued to the Congress in April 1968, we recommended that the VA revise its loan policy to require assessment of a late charge on loan repayments which are received more than 15 days after they are due. (B-118660, April 3, 1968)

43. LOANS FOR GRAZING ASSOCIATIONS--Pursuant to the Consolidated Farmers Home Administration Act of 1961, as amended (7 U.S.C. 1921), loans may be made to nonprofit associations of farmers and ranchers, organized to acquire and develop grazing lands for their livestock. Such loans are repaid from the income derived from leasing the grazing lands to association members. During the loan approval process, the Farmers Home Administration (FHA) develops requirements relating to the number of members, the number of grazing units to be sold, and the amount of paid-in-capital contributions from membership fees, considered by the Administration to be necessary for the successful operation of each association. These requirements are imposed upon the association as a condition of receiving the loan.

Our review of the approval of loans, amounting to about $14.5 million, to 21 grazing associations in the State of Colorado showed that FHA reduced its initially imposed loan requirements when associations were unable to meet these requirements. We found that FHA had made loans, totaling $12.8 million, to 16 of the 21 associations without having had even its reduced requirements met. Moreover, of the 10 associations which had received loans on time to operate during the 1965 grazing season, eight incurred net operating losses and 12 of the 16 associations which operated during the 1966 grazing season incurred net operating losses.

Since the FHA prescribed loan requirements are designed to ensure that sufficient resources are available to each association to enable it to successfully operate, we pointed out that FHA's practice of allowing loans to be made before the prescribed requirements are met or exceeded could impair the operations of the borrowing association and possibly result in default and subsequent foreclosure. In view of the relatively short time that the grazing associations in Colorado have been operating, we do not know whether any loan defaults will occur; however, we noted that, as of January 1967, five of the 16 grazing associations were delinquent on their FHA loans.

Inasmuch as the grazing association loan program is a relatively new undertaking of FHA, we concluded that corrective action could reduce possible defaults and foreclosures on future loans. We recommended that the Secretary of Agriculture require the Administrator, FHA, to establish procedures to provide that, once minimum requirements are established during the loan approval process, loans not be made until these minimum requirements have been met.

The Assistant Secretary of Agriculture advised us, subsequent to the issuance of our report, that our recommendation would be implemented. We noted that FHA procedures were later revised to implement our recommendation. (B-114873, January 4, 1968)

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

On the basis of our review, we estimated that CCC could incur about $7.6 million more in interest costs for financing repaid price-support loans for the 1966 crops than it would collect from producers. We estimated also that CCC could incur about $154,000 more in interest costs for financing storage facility and equipment loans during 1966 than it would recover from producers. Such losses would result from CCC's policy of charging producers interest on loans at a rate less than that which CCC paid to obtain the loan funds from the United States Treasury and from private lending institutions.

When CCC charges producers interest at a rate substantially less than the rate paid to finance the loans, CCC is, in effect, granting the producers a subsidy in addition to price support.

In commenting on our findings, the President, CCC, advised us in March 1967 that the Department of Agriculture had studied the matter and concluded that CCC's present interest policy was the best, considering the objectives of the price-support program and the farm-storage facility loan program. He also stated, however, that the Department would again study the matter of interest rates before the new crops were harvested.

We recommended that the CCC Board of Directors revise CCC's policy on interest rates to provide that producers pay interest on future price-support loans which are repaid and on future storage facility and equipment loans at a rate not less than that which CCC must pay to finance the loans.

In November 1967 the Secretary of Agriculture informed us that, in view of the objectives of the price-support program and the farm-storage facility loan program, the CCC Board of Directors had determined that interest rates would not be increased at that time. (B-114824, September 21, 1967)

45. PROVISION FOR REPAYMENT OF FEDERAL FUNDS--In a report to the Assistant Secretary for Economic Development, Department of Commerce, we commented on several technical assistance projects for which recipients had not been required to enter into repayment agreements, although the projects appeared to be similar in scope to other approved projects for which the Economic Development Administration (EDA) had entered into repayment agreements with project recipients.

We found that among the reasons considered for not obtaining repayment agreements were the unwillingness of the recipients to repay the cost of the technical assistance provided and the financial inability of the recipients to make repayment at the time of application. We believe that unwillingness to repay is not a valid reason for excluding repayment agreements. Also, since repayment is to be made only from future net profits, we believe that a determination by EDA not to enter into a repayment agreement is not justifiable merely because of a lack of funds at the time of application.

Subsequent to the beginning of our review, new repayment guidelines were agreed to by the Office of Technical Assistance (OTA) and EDA's Office of Business Development (OBD) which required EDA to enter into repayment agreements with all recipients of Management and Operations (M&O) technical assistance, except for unusual situations to be specially handled by arrangements between OBD and OTA. These guidelines provide for the recipient to repay one half the Federal cost of the technical assistance up to $5,000 and make full repayment for the balance. Repayment is to be made in monthly or quarterly payments. We were informed that, since M&O technical assistance is provided only to EDA business loan recipients, these guidelines are expected to strengthen the implementation of the agency's repayment policy and ensure its uniform application.

We believe that the provisions of the new guidelines, if applied on a consistent and continuing basis, will ensure that repayment of M&O technical assistance will be required on

a uniform basis. We noted, however, that the provisions of the guidelines had not been incorporated into a formal policy statement. We are of the view that, to assure top management that its policies are being properly implemented, economic development orders should be issued which would communicate to EDA officials the effect on agency policy of formal agreements made between divisions. (Report to Assistant Secretary for Economic Development, Department of Commerce, June 10, 1968)

LOW-RENT HOUSING PROGRAMS

46. INSTALLATION OF FACILITIES FOR METERING ELECTRICITY--Our review showed that the installation of metering facilities for measuring and controlling electricity consumed in individual dwelling units in low-rent public housing projects was not warranted for the smaller units (efficiency and one- and two-bedroom units) because the average electrical consumption for such units generally was less than the Housing Assistance Administration's suggested consumption allowances for low-rent housing projects. Moreover, we found that, at many of the projects where such facilities had been installed, the facilities were not being used and no plans to use them were apparent.

We estimated that the installation of metering facilities for about 3,200 of the smaller dwelling units included in our review had resulted in increased construction and financing costs totaling about $425,000 and that such costs would, for the most part, be borne by the Federal Government. We pointed out that, in projects planned for future construction, the omission of metering facilities where their need was not justified would result in substantial savings to the Government.

As a result of our disclosures, the Department issued instructions requiring specific regional office approval, supported by the fullest possible documentation, of all future proposals to install metering facilities for individual dwelling units. We recommended that, to ensure effective implementation of the Department's instructions, the Secretary of Housing and Urban Development require that specific attention be given, during the Department's internal reviews of regional office operations, to determining whether regional office approvals for installing electrical metering facilities in low-rent housing projects were properly justified.

In April 1968, the Assistant Secretary for Renewal and Housing Assistance informed us that appropriate action was being taken in line with our recommendation. (B-118718, March 19, 1968)

MAPPING ACTIVITIES

47. CHANGES IN MAP REVISION PRACTICES--In May 1968, we submitted a report to the Congress on our review of map revision practices of Geological Survey, Department of the Interior. Our review indicated an opportunity to reduce expenditures for map revision and to accelerate mapping through changes in these practices.

Geological Survey is responsible for the production and distribution of a series of maps of the United States which contain both topographic information--shape and elevation of the terrain--and planimetric information--location of natural and man-made features of the terrain. In making revisions to the maps, Geological Survey followed the practices of updating the topographic as well as the planimetric information.

On the basis of our review, we concluded that it was unnecessary for Geological Survey to update the topographic features of a map every time it revised the planimetric features because updated topographic information was not frequently needed by Federal agencies or States requesting map revisions. We estimated that this elimination, each time a map is revised, would reduce the cost of revising a map by about 25 percent, or $1,300, and would accelerate the mapping program.

During our review, Geological Survey adopted an interim revision policy that eliminated several normal revision operations, including the elimination of the updating of topographic information on metropolitan area maps every other time that a map is revised. We felt that, although the new policy was a step in the right direction and should substantially reduce map revision costs, the policy should be extended, to the extent possible, to include maps for nonmetropolitan areas. We estimated that, if the policy could be applied to the 5,200 nonmetropolitan area maps that were in need of revision in July 1967 and to a one-time revision of the 50,000 such maps that will eventually cover the country, cost savings of as much as $6.9 million and $66.1 million, respectively, could be realized.

The Department of the Interior, in commenting on our report, advised us that it concurred with the substance of our proposal but stated that the scheduling of nonmetropolitan area maps for revision in accordance with the new policy would depend upon the needs of the map users. Subsequently, Geological Survey advised us that some of the important map users have requested that the new policy be applied to revisions of certain of their maps, including maps for nonmetropolitan areas. (B-118678, May 28, 1968)

MORTGAGE ASSISTANCE AND INSURANCE ACTIVITIES

48. LIMITED SUCCESS OF INVESTOR-SPONSOR COOPERATIVE HOUSING PROGRAM--In a report submitted to the Congress in April 1968, we stated that the investor-sponsor program, administered by the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), was not fully effective in serving the middle-income segment of the population for which it was intended, because, as shown by our review, prospective purchasers of the cooperatives generally had to be among the higher income segment of the population. We stated also that our review showed that the program had been functioning with only limited financial success as about half of the housing projects developed under this program had been in financial difficulty.

As of March 31, 1967, FHA had acquired title to the property and/or the mortgages for 51 of the 134 completed investor-sponsored multifamily cooperative housing projects in settlement of claims under insured mortgages totaling about $108 million. The report also cited six other factors which we believed contributed to the program's limited success.

We expressed the opinion that there was a high-risk element inherent in the investor-sponsor program because of the lack of a presale requirement. This lack permitted the construction of a project before any of the housing units are sold. We stated in the report that multifamily cooperative housing programs with presale requirements had resulted in far fewer failures and, at the same time, had produced many more housing units.

Housing officials agree that the investor-sponsor program has had only limited success but believe that the program is conceptually sound and is needed.

We expressed the belief that, in view of the limited success of the investor-sponsor program and the high element of risk involved, the Congress might wish to consider revising the investor-sponsor cooperative housing program authorized by section 213(a)(3) of the National Housing Act to reduce the risk to the Government.

To provide assurance that the investor-sponsor program is directed primarily toward middle-income families desiring cooperative-type home-ownership and to further strengthen the administration of the program, we recommended that the Secretary of HUD direct FHA officials to:

-Emphasize to operating officials that the basic purpose of the program was to provide housing for middle-income families,

-Emphasize to all insuring offices the importance of properly utilizing data pertaining to demonstrated demand for housing and related housing market conditions,

-Appoint a competent, fully trained liaison official, for insuring offices handling a substantial number of cooperative projects, for furnishing advice and counsel to cooperative corporations; and

--Establish procedures requiring a sponsor to agree to make available the funds necessary to compensate for the resulting loss of income when the FHA waives its requirement that a project be 97-percent occupied before being sold to a cooperative corporation. (B-114860, April 11, 1968)

49. LIABILITY FOR DAMAGE TO ACQUIRED HOME PROPERTIES--In a report to the Secretary of Housing and Urban Development in May 1968, we expressed the belief that there was a need for consideration by HUD of a revision of their policy on waste damage--damage caused by unreasonable use or abuse--which would provide an incentive to mortgagees to protect the collateral securing their investment in FHA insured mortgages and which, at the same time, would be economical for FHA to administer. FHA statistics showed that the amount of waste charged to mortgagees under current FHA waste regulations had decreased in recent years to the point where it was practically nil.

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

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

We recommended also, that, if it was deemed impractical or undesirable to revise the waste regulations to obtain the stated objectives, the regulations be abolished to save the significant administrative and inspection costs being incurred in administering the present waste regulations. (B-114860, May 2, 1968)

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

We expressed the belief that, in view of the past experience of FHA, it would be more economical for the agency to adopt the Government's long-standing policy of self-insurance by assuming the risks covered by this type of insurance. Further, we stated that savings might be realized by adopting the self-insurance policy for other coverages provided for in management contracts, such as

surety bonds and burglary insurance, if the agency's costs and claim experience was found to be similar to that related to public liability insurance.

In January 1968, the agency issued instructions to discontinue public liability coverage on acquired home properties. However, the instructions were not applicable to multifamily projects and home mortgage properties operated as rental projects. The instructions state that existing insurance coverage will continue in force until the expiration of current policies, and that area broker contracts awarded subsequent to February 1, 1968, will carry a revised clause which eliminates FHA's requirements for the subject insurance. (B-114860, August 15, 1966)

POSTAL SERVICE ACTIVITIES

51. MODERNIZATION OF THE POSTAL FIELD SERVICE--In a December 1967 report to the Congress, we expressed the opinion that the Post Office Department could achieve substantial savings and improvements in service through modernization of the basic concepts of operation of post offices.

Our review showed that about 33,000 independent post offices, with few exceptions, processed their own incoming and outgoing mail and were responsible for their own administrative and financial functions. We concluded that this fragmented operation must be modernized if satisfactory and economical mail service is to be provided in an era of growing as well as shifting population, rapidly expanding mail volume, swifter methods of transportation, and increasing availability of sophisticated machines adaptable to speedy processing of mail in mass volumes.

We recommended that the Postmaster General (a) establish plans and procedures to implement the consolidation of mail-processing operations and the centralization of the administrative and financial functions of post offices, (b) discontinue the practice of including the name of a city or community in the postmark, and (c) discontinue the general policy of considering the consolidation or discontinuance of an independent post office only when there is a postmaster vacancy.

We recommended also that the Congress consider amending present statutes to eliminate certain restrictions against the consolidation of post offices and to provide that the primary criteria for the establishment, discontinuance, or consolidation of post offices be the efficiency of the service and the economy of operations.

Prior to the issuance of our report, the Deputy Postmaster General advised us that the Department generally agreed with the desirability of consolidating mail-processing operations and of centralizing administrative and financial functions of post offices. He said, however, that, although the elimination of city and community names from postmarks would present no operational problems, the Department did not consider the action necessary to accomplish further consolidation of mail processing.

Subsequent to the issuance of our report, the Deputy Postmaster General informed the Chairman of the House Committee on Government Operations of certain new objections to consolidating the processing of incoming mail and stated that the elimination of community names from postmarks would hamper the criminal investigation work of postal inspectors. We believed that these objections had little merit and advised the Committee Chairman of our views in a letter of rebuttal. (B-114874, December 7, 1967)

PUBLIC ASSISTANCE PROGRAMS

52. ESTABLISHING RATES OF PAYMENT FOR NURSING HOME CARE--In our review of the policies and procedures of the Department of Health, Education, and Welfare (HEW) relating to Federal financial participation in costs incurred by State governments in providing for nursing home care, we

found a great diversity between the methods employed by the various States to establish payment rates for such care. In addition, our review of payment rates established by the State of Massachusetts raised questions as to the soundness of the States' rate-making processes, the reasonableness of the rates themselves, and their application.

Our review revealed that, although HEW had for several years administered Federal financial participation in the costs incurred by States for nursing home care provided to welfare recipients, it had not issued guidelines to the States concerning appropriate or acceptable methods of establishing rates of payment for such care. We found also that HEW had not required the States to incorporate in their State plans a description of the methods used to establish payment rates for nursing home care and had not issued any directives to personnel responsible for the review of State plans or State administration relative to evaluating the reasonableness of the methods used by the States in establishing nursing home care payment rates.

HEW officials agreed that there was a need for Federal guidance to the States as to the appropriate or acceptable methods of establishing rates of payment for nursing home care, they pointed out that they had been working on the problem for some time but had been delayed by the need for more data and experience with the various methods of establishing rates of payment.

In our report to the Congress in October 1967, we expressed the belief that, because of the substantial and steadily increasing amounts of Federal expenditures being made for nursing home care, HEW should vigorously pursue completion of its criteria and requirements to guide the States at the earliest practicable date.

We recommended that the Secretary of Health, Education, and Welfare take the necessary action to expedite the formulation and issuance of appropriate criteria and requirements for guiding the States in the establishment of rates of payment for nursing home care under public assistance programs. We recommended also that the Secretary (a) require that State plans include a description of the methods and procedures to be used for establishing nursing home payment rates and (b) institute effective policies and procedures for the review and evaluation of methods and procedures actually used by the States in determining payment rates.

In March 1968, HEW stated that further guidelines to the States for setting rates of payment for nursing home care would be issued as soon as possible. HEW stated also that it was reconsidering whether State plans should include a description of the methods and procedures to be used for establishing nursing home rates, in the light of provisions of Public Law 90-248 amending the Social Security Act. With respect to the need for effective policies and procedures for the review and evaluation of methods and procedures actually used by the States in determining payment rates, HEW stated that it had initiated a program review of State medical care administration under title XIX of the Social Security Act and that the HEW Audit Agency would also examine into the State-administered programs, as part of its ongoing audit activities. (B-114836, October 31, 1967)

53. ALLOCATION OF COSTS OF LOCAL GOVERNMENT TO MEDICAL ASSISTANCE FOR THE AGED PROGRAM.--We reviewed certain aspects of the cost of and charges for inpatient hospital care supplied at the Wayne County General Hospital, Wayne County, Michigan, to recipients under the federally aided Medical Assistance for the Aged program authorized by title I of the Social Security Act. Our review showed that, for a 44-month period covered by our review, Wayne County included, in its claims for infirmary care reimbursement, about $352,000 of certain county government expenses that, in our opinion, were unrelated to the Wayne County General Hospital operations. Of that amount, about $223,000 represented the Federal share.

The unrelated expenses consisted of certain county government administrative expenses that were incurred in connection with (a) the County Treasurer, (b) the County Bureau of Taxation, (c) the County Tax Allocation Board, (d) the County Board of Au-

ditors, and (e) the County Board of Supervisors. HEW field representatives and State welfare agency officials agreed in general with our view that the above types of administrative expenses of local government used in arriving at the rate of reimbursement for infirmary care at the Wayne County General Hospital were not specifically related to the hospital operations.

In a report to the Acting Secretary, Department of Health, Education, and Welfare, we recommended that action be taken to expedite the formulation and issuance of appropriate criteria and guidelines to assist the States in determining the types of and the extent to which expenses incurred by local governmental bodies may be considered in determining reimbursement for costs of public hospital care borne by the Government. We stated that such action at the earliest practical date would, in our opinion, serve to improve the financial administration of the medical care programs by helping to avoid expenditure of Federal funds on the basis of unrelated costs.

In June 1968 the Assistant Secretary, Comptroller, HEW, informed us that HEW agreed with our recommendation and that it would advise us of the specific steps being taken to implement our recommendation. (B-114836, April 3, 1968)

54. ADMINISTRATION OF THE PRESCRIBED-MEDICINE PROGRAM--On the basis of our review of certain aspects of the administration of the prescribed-medicine program for welfare recipients in the State of Florida, it was our opinion that the administration of federally aided public assistance programs would be improved by the adoption of a definite Federal policy governing conditions under which the States may contract for administrative services and be eligible for Federal participation in the costs incurred for such services under these programs. Also, our review indicated a need for more thorough reviews of contract operations by the Department of Health, Education, and Welfare (HEW) to provide assurance that the programs are being administered economically.

In 1958, HEW approved the Florida State plan authorizing the State welfare agency to contract with the State Pharmaceutical Association for the administration of its program for providing prescribed medicine for welfare recipients. Our review showed, however, that HEW had not required the State to follow its instructions that periodic validation be made of the contract charges for administrative services, to ensure that contracting for the services was the most economical method of administering the program. Officials of HEW informed us that neither regional representatives of HEW nor representatives of HEW's Audit Agency had performed any reviews of the administration of the prescribed-medicine program in the State of Florida for the purpose of ascertaining whether the program was being administered economically.

During our review, we requested the Florida State welfare agency to perform a cost study to determine the estimated costs of its performing the administrative services for 1 year. A comparison of the agency-computed estimated costs with the actual payments made for the administrative services in fiscal year 1964 indicated that the cost of administering the program could have been reduced if the State had performed these services for itself. We expressed the belief that similar cost reductions in the amount of Federal participation would have been indicated had the State welfare agency prepared a cost comparison at an earlier date.

In a report submitted to the Congress in December 1967, we expressed the view that HEW's policies governing Federal financial participation in the administrative costs of State public assistance programs were not sufficiently specific to protect the Government's interests. We also expressed the view that HEW should issue more definite policies governing Federal participation in administrative costs.

HEW stated that a policy had been issued for the States to follow in contracting for administrative services in connection with their medical assistance programs. HEW stated also that, although the policy was related to title XIX of the Social Security Act and it had been issued as a part of HEW's Handbook of Public Assistance Administration concerning medical care programs operated by the States under that title, the policy provisions were to be applied in the review and approval of similar contracts under all federally aided public assistance programs.

In our report we pointed out that, while the policy referred to by HEW imposed certain requirements on the States, which they must meet when contracting for administrative services, it did not, in our opinion, provide specific guidelines concerning the conditions which a State agency should consider in determining whether to contract for such services and be eligible for Federal financial participation in the cost incurred by the State.

We recommended that the Secretary of Health, Education, and Welfare require that HEW's policy relating to the contracting for administrative services be expanded to include specific guidelines concerning the conditions under which States may contract for administrative services and be eligible to claim Federal financial participation in the costs incurred under the contracts. We recommended also that the Secretary require that HEW make the necessary reviews to help ensure that the States are complying with the guidelines. (B-114836, December 13, 1967)

55. FEDERAL PARTICIPATION IN COST OF ADMINISTRATIVE SERVICES-- Our review of the administration of the prescribed-medicine program for welfare recipients in the State of Florida revealed that payment for the amount of Federal financial participation applicable to the contract charges for administrative services was made to the State at a rate which, in our opinion, was higher than appropriate under the applicable provisions of the law. As of July 1, 1965, the Department of Health, Education, and Welfare (HEW) had reimbursed the State of Florida about $107,000, which, we believe, was excessive because HEW had permitted the State to claim Federal participation in the contract service charges at the rate of participation applicable to welfare assistance costs rather than the rate applicable to administrative costs.

After we brought this matter to their attention, HEW officials notified the State that the service charges paid under the contract would no longer qualify for Federal reimbursement at the rate of Federal participation applicable to welfare assistance costs. HEW, however, did not require the State to refund to the Federal Government the overpayment amounts for prior periods. In our report to the Congress, we recommended that the Secretary take action to recover the excess amounts. (B-114836, December 13, 1967)

56. ADMINISTRATIVE EXPENSES OF PUBLIC ASSISTANCE PROGRAMS-- Our review of the Department of Health, Education, and Welfare's (HEW's) financial participation in administrative costs of public assistance programs in Los Angeles and San Diego Counties in California revealed a need for improvement in controls over State administration of federally aided public assistance programs. On the basis of our review, we estimated that payments of as much as $1.5 million made by HEW to the State of California for the administration of such programs were questionable because:

--Cases assigned to social workers were in excess of the workload standards established for each worker for qualifying his salary for 75-percent Federal financial participation.

--Salaries and fees of certain medical consultants were claimed for 75-percent, rather than 50-percent, Federal financial participation.

--Ineligible welfare recipients were included in the numerical basis for allocating administrative costs to a federally aided public assistance program.

--Certain expenses were inequitably allocated to federally aided public assistance programs.

In commenting on our findings, HEW advised us that both State and Federal welfare officials had been aware of the major problems presented in our report and that, where appropriate, corrective action had been taken. HEW also stated that the growing complexity of public assistance programs since 1962 had made it necessary to consider the development of additional methods of Federal supervision and control, such as widening the scope of the Federal administrative review, and that, in line with our proposals, HEW would consider whether formal Federal reviews should begin soon after a program was expanded.

In a report submitted to the Congress in December 1967, we expressed the view that the results of our review clearly demonstrated the need for HEW to give particular attention to new or significantly revised public assistance programs during the early stages of their implementation, to minimize the occurrence of deficiencies of the types which we had noted and to ensure prompt corrective action when necessary. We recommended that the Secretary of Health, Education, and Welfare require that prompt attention be given to the development and implementation of the additional methods contemplated by HEW to ensure that the public assistance programs are properly and efficiently administered by the States. We recommended also that, in the development of such additional methods, the Secretary give particular attention to the need for timely reviews of State and local operations of federally aided public assistance programs during the initial stages of operations under new or substantially revised programs. (B-114836, December 6, 1967)

57. FINANCIAL ASSISTANCE TO WELFARE RECIPIENTS--Our review of practices and procedures followed by certain local welfare agencies of the Missouri Division of Welfare in determining the amount of financial assistance to be paid to recipients under the program of aid to families with dependent children (AFDC), revealed that the periodic use by the State welfare agencies of earnings information, available at public agencies, may be helpful in the administration of the program. Such earnings information would bring to the attention of welfare agencies income available to the recipients for meeting their current needs which was not reported nor considered in establishing the amount of financial assistance to be paid to recipients.

We estimated that, for the 18-month period covered by our review--January 1965 through June 1966--AFDC recipients in Missouri may have been paid as much as $135,000 in Federal and State funds which, in our opinion, would not have been paid had certain information on their earnings, available from the Missouri Division of Employment Security, been requested and utilized by the local welfare agencies as a check against the income reported by recipients and considered by the agencies in determining the amounts of financial assistance to be paid. The Federal share of this amount was about $98,000.

In a report to the Secretary of Health, Education, and Welfare, we expressed the view that reductions in expenditures in Federal-State funds in the various States may be possible under the AFDC program, through the adoption of procedures which would provide, certain earnings information to the State welfare agencies, at regular intervals and thereby assist these agencies in determining the propriety of the amounts of financial assistance being paid to those receiving aid under this program.

We recommended that the Department of Health, Education, and Welfare initiate a study of the practices followed by the welfare agencies in a selected number of States, to satisfy itself as to the continuing propriety of

amounts of financial assistance being paid to AFDC recipients, in order to determine whether State welfare agencies should be encouraged to use, on a regular basis, information from public records, such as those of the State employment service, as a check against the reported earnings of the recipients. (B-164031, May 29, 1968)

58. PERIODIC REDETERMINATION OF ELIGIBILITY--Our review revealed that certain local welfare agencies of the Missouri Division of Welfare had not performed the required redeterminations of the eligibility of recipients under the program of aid to families with dependent children (AFDC) within the time limits prescribed by the Department of Health, Education, and Welfare (HEW). In its Handbook of Public Assistance Administration, HEW requires that the eligibility of persons receiving assistance under the AFDC program be redetermined by the State agencies at least once every 6 months. As a result of the failure of the agencies to perform the eligibility determinations, Federal financial participation was made available for periods of time in which, upon a subsequent redetermination of eligibility, it was ascertained that recipients were ineligible for assistance.

We estimated that claims amounting to between $24,000 and $34,000 were made by the State during an 8-month period covered by our review, which were not proper for Federal financial participation. We also found that on December 31, 1967, there were about 4,700 AFDC cases which had not been redetermined during the previous 6-month period.

In line with our suggestions, the Missouri Division of Welfare implemented procedures in January 1967, aimed at identifying closed cases requiring an adjustment of claims for Federal financial participation. Subsequently, the Missouri Division of Welfare reduced by $19,939 the amount of Federal funds previously claimed for cases which had been closed in January 1967 and for which adjustments were appropriate. We were advised that the State would make additional adjustments in its claim, as warranted, for cases closed in subsequent months but that it did not plan to make any adjustments for claims made by the State for cases that had been closed prior to January 1967.

We expressed the view that adjustments in Federal funds for cases closed prior to January 1967 appeared to be warranted and that HEW should examine into this matter for the purpose of determining whether the State should be required to make the necessary adjustments of prior claims for Federal financial participation in such cases.

We recommended that the Secretary, HEW, initiate a survey in a selected number of States to determine, on a current basis, the extent to which the State agencies are performing the required redeterminations of eligibility of AFDC recipients within the prescribed time intervals and that, if warranted by the results of the survey, assistance and guidance be given to State welfare agencies to help ensure that such redeterminations are performed on a timely basis in order to minimize unwarranted Federal-State payments to ineligible AFDC recipients.

We recommended also that such survey include examination into whether the State welfare agencies are properly adjusting their prior claims for Federal financial participation when recipients are found to be ineligible for periods during which the required reinvestigations of eligibility have not been performed.

In addition, we recommended that the Secretary provide for a review concerning the AFDC cases which were closed in the State of Missouri prior to January 1967 for the purpose of determining whether the State welfare agency should, in view of the pertinent HEW regulations, make such adjustments as appear to be appropriate for any improper claims made by the State for Federal financial participation. (B-164031, May 29, 1968)

59. QUALITY CONTROL SYSTEM FOR EVALUATING ELIGIBILITY DETER-

MINATIONS--In our review of the quality control system established for evaluating eligibility determinations made under the federally aided public assistance programs in the State of California, we noted that a persistently high number of defective case actions--failure to follow State-prescribed methods in establishing eligibility--were being identified by the California Department of Social Welfare, as evidenced by the reports on quality control findings and activities submitted by it to the Department of Health, Education, and Welfare (HEW). Administrative reviews that were made by the HEW San Francisco Regional Office indicated, as did the State quality control reports, a need for definite constructive action to eliminate the sustained high level of defect rates noted during the review of certain case actions.

In a report to the Administrator, Social and Rehabilitation Service, HEW, in November 1967, we expressed the view that, because of the high defect case action rate experience and the State's apparent inability to improve the administration of the quality control system, the Social and Rehabilitation Service should take action to assist the State in making those improvements necessary to help ensure a reduction in the reported defective case actions.

There also appeared to be a need for improvements in (a) the State's supervision over the case action inventory and sampling procedures followed by local welfare agencies and (b) the State's follow-up procedures relating to local agency actions taken to help preclude payments to ineligible recipients.

Our review of selected transactions at a number of district offices of the Los Angeles County welfare agency showed clerical and administrative errors in compiling inventories of case actions and in preparing sampling lists. These errors resulted in the omission of certain case actions from the inventories and the inappropriate sampling of case actions for review. While State quality control procedures require that the State representatives test the adequacy of the county welfare agency's inventory and sampling procedures at least once every 6 months, our review did not show that these tests were being performed and the established procedures did not require documentation of the results of the tests. We expressed the view that the tests of the adequacy of the county welfare agency's inventory and sampling procedures should be performed and that the results of such tests be appropriately documented.

Our review also showed that the State's follow-up procedures did not require county welfare agencies to report to the State on the disposition of cases for which quality control representatives had provided information relating to payments to recipients whose eligibility was questionable and to overpayments to eligible recipients. In such cases, the local welfare agencies are required by existing regulations to take the necessary action to help prevent and/or correct any erroneous payments; however, our review showed that corrective action was not always being taken. We expressed the view that the full benefits of the quality control system were not being obtained in that the then-existing practices provided no assurance to the State welfare agency that those cases identified as involving either questionable eligibility or overpayments would be corrected by the county welfare agencies.

We expressed the view also that procedures for follow-up action by the State welfare agency should be established to help ensure that the necessary corrective measures would be taken in cases where questionable eligibility and overpayments were being brought to the attention of the local welfare agency.

By letter dated April 16, 1968, the Deputy Administrator, Social and Rehabilitation Service, agreed that the State agency had difficulty in making full use of quality control findings. He stated that the State was moving from a county to a State quality control system and that simplified methods of determining eligibility then being introduced were

expected to change the incidence of case action defects very substantially in the adult categories. The Deputy Administrator stated also that the regional office would continue to work with the State toward reducing the sources of error that were found to be continuing under the changed methods of administration. He stated further that the California program was in a period of such extensive change that it seemed best to use our findings, which paralleled those of their own continuing administrative review, as background for advice and assistance as the current situation took more definite shape. (Report to Administrator, Social and Rehabilitation Service, Department of Health, Education, and Welfare, November 20, 1967)

RAILROAD RETIREMENT ANNUITIES

60. USE OF SUMMARIES IN SUPPORT OF DISABILITY DECISIONS--In August 1967 we reported to the Railroad Retirement Board that, in our opinion, summaries of the rationale supporting disability decisions would aid the Board's professional staff in evaluating the issues invoived in such decisions and would provide a control device for noting issues needing later attention. In making initial disability decisions, the Board's staff depended either on mental retention of its analyses or on informal notes which were not retained. In making later decisions, the staff had to review the entire file and reconstruct the evidence previously considered and the weight accorded to it.

Board officials informed us that they considered their files suitable to their needs. They also stated that (a) neither the Social Security Administration (SSA) nor the Veterans Administration (VA) had expressed difficulty with the Board's records and (b) the cost of making the Board's records more understandable would not be warranted.

We pointed out to the Board that both SSA and VA required decision summaries showing the rationale supporting disability decisions. We also informed the Board that VA had instituted decision briefs, more than 10 years earlier, because it had found that, without such briefs, it had to review entire files to reconstruct the probable bases of previous disability decisions, and such reviews were very time consuming and required much conjecture. We informed the Board further that, although no cost data had been presented to us, it was our opinion that the initial cost of decision briefs would very likely be offset by more effective and efficient evaluations of later evidence indicating changes in the annuitants' medical or vocational status.

We recommended that the Board institute procedures requiring the use of decision summaries as a part of the documentation supporting disability decisions. In August 1967 the Chairman, Railroad Retirement Board, advised us that summaries would be used in support of disability decisions. Procedures were issued in March 1968 fully implementing the use of decision summaries as an aid in evaluating disability decisions. (B-159054, August 10, 1967)

61. OBTAINING INFORMATION TO DETERMINE DISABILITY STATUS OF CHILD ANNUITANTS--We reported to the Railroad Retirement Board in August 1967 that annuity payments to certain disabled child annuitants had been continued for extended periods after the annuitants had obtained employment because of delays in obtaining current information concerning their employment or in following up on inferential evidence suggesting changes in the annuitants' medical or vocational status.

We learned that, after we brought our findings concerning these delays to the attention of the Board, the Board revised its reporting procedures to more currently obtain information concerning changes in the medical or vocational status of disabled child annuitants. (B-159054, August 10, 1967)

RESEARCH AND DEVELOPMENT PROGRAMS

62. APPROACH TO CONDUCTING MAJOR RESEARCH AND DEVELOPMENT PROJECTS--We made a review of the administration, by the National Science Foundation, of Project Mohole which was designed to penetrate the mantle of the earth by drilling through the earth's outermost crust, and which was discontinued by action of the Congress. In our report of April 1968 to the Congress on the results of our review, we suggested that the Foundation consider an alternative approach in conducting future major research and development projects involving totally new or exploratory concepts.

Among the underlying factors which led the Congress to refuse further funds for continuation of the project were the steady escalation of the estimated cost and the time required to complete the project. These estimates increased from $46.7 million to $127.1 million and from 5 to 8-½ years. Our report contained an analysis of the reasons for these steady increases and pointed out that under the approach followed by the Foundation--whereby a single contract was entered into for the entire project before solution of the basic engineering problems associated with drilling in the deep ocean to the required depths--the Foundation was not in a position to determine adequately that the project objectives were worth the money and resources necessary to attain them. Yet it was totally committed to the project.

We suggested an alternative approach for the Foundation to consider in conducting future major research and development projects involving totally new or exploratory concepts, calling for the projects to be conducted in a number of sequential phases. Each phase would represent a specific limited agency commitment whereby the agency would determine the feasibility of the project objectives, the means for attaining these objectives, and the necessary commitment of money and resources. Also, we recommended that the Foundation establish written guidelines for accomplishing future research and development projects of a complex and exploratory nature in appropriate sequential phases. The Foundation informed us that a review would be made of its instructions relating to the accomplishment of large research projects and that written guidelines would be prepared where appropriate. (B-148565, April 23, 1968)

63. CLARIFICATION OF PROGRAM OBJECTIVES--Our review of the administration of grants awarded for the operation of the Oregon Regional Primate Research Center revealed that there was a need for the National Institutes of Health (NIH), Department of Health, Education, and Welfare (HEW), to review the visiting scientists program as it has been conducted at the Center and to clarify the concept and objectives of the program. This program has been described by NIH as providing the use of animals, equipment, and laboratory space to interested scientists from other parts of the United States and abroad who wish to use the facilities of the Center in carrying out the objectives of their own research projects.

From May 1961 to April 30, 1966, the Oregon Center expended about $418,000 for the operation of the visiting scientists program. Approximately $286,000 of these funds were expended for salaries and related expenses of individuals who did not seem to meet the concept of "visiting scientists" as expressed in various program documents and explanatory statements by NIH. It appears that the Center, in some instances, used these funds for recruiting personnel and supplementing salaries of permanent personnel rather than providing for individuals interested in pursuing their own research projects at the Center.

We recommended in our April 1968 report addressed to the Secretary of HEW that NIH, in its revised policy statement, clarify the concepts of, and the objectives to be accomplished by, the visiting scientists program

and the manner in which it is to be carried out. In particular, we recommended that the program policy statement (a) more clearly define the criteria that individuals should meet in order to participate in the visiting scientists program and (b) require formal applications from prospective participants, presenting information that would enable the Center and, if necessary, NIH to determine whether their qualifications were acceptable. We recommended also that NIH evaluate more realistically the amount of grant funds that could be effectively and fruitfully spent for the program.

In July 1968, the Department issued guidelines which clarified the concepts of, and the objectives to be accomplished by, the visiting scientists program and strengthened application procedures. In addition, we were advised that consideration would be given to our other recommendation. (B-157924, April 1, 1968)

64. SIMPLIFICATION OF ACCOUNTING RECORDS AND ADMINISTRATIVE FUNCTIONS--We made a review of grants awarded for the operation of the Oregon Regional Primate Research Center, one of several centers financed by the National Institutes of Health (NIH), Department of Health, Education, and Welfare (HEW), to conduct studies in health research with the use of subhuman primates. The grants are received and accounted for by a private nonprofit foundation. Our review indicated that savings could be realized by consolidating the accounting records and related financial review functions that were maintained and performed by both the foundation and the Center. We found that such consolidation should result in a reduction of the foundation's clerical workload and, inasmuch as approximately 90 percent of the foundation's clerical salaries are financed through the NIH grants, bring about a reduction in program costs. We estimated such reductions would amount to about $10,000 a year.

In response to our recommendation for simplification of the grantee's recordkeeping and review functions, contained in our report to the Secretary issued in April 1968, HEW advised the Bureau of the Budget and our Office that NIH would request the foundation to consolidate accounting records and administrative functions and to simplify these functions wherever NIH considers it advisable and that the information presented by us would be considered by NIH in its review of the grantee's administrative activities. (B-157924, April 1, 1968)

65. REPORTING OF RESEARCH COSTS--Our review of grants made by the National Institutes of Health (NIH), Department of Health, Education, and Welfare (HEW), for the operation of the Oregon Regional Primate Research Center showed several cases in which the costs of research projects had not been accurately reported by the grantee or charged to the proper grant account. Our review showed that (a) time-and-effort reports of some Center personnel had been prepared on the basis of grant funds available rather than actual effort expended, (b) some grantee activities supported by non-Federal grants had been improperly charged to NIH grants, and (c) salaries had been paid to individuals prior to their arrival at the Center, apparently to cover travel or relocation expenses, without being properly reported and authorized. In our report to the Secretary of HEW, we recommended that NIH emphasize to the grantee that the Center should record and charge salaries to the grants on the basis of time expended rather than on the basis of availability of grant funds, and that, to prevent possible misuse of grant funds, NIH require that salary payments to staff members at the Center be restricted to periods of actual employment and that payments for other employee benefits be separately authorized and accurately reported.

In May 1968 HEW advised the Bureau of the Budget and our Office that NIH would take the action recommended in our report or discuss it with the grantee, but noted that also the recent revision of the Bureau of the Budget guidelines for time-and-effort reporting

under research and development grants and contracts would eliminate some of the problems commented on by us. (B-157924, April 1, 1968)

SELECTIVE SERVICE ACTIVITIES

66. ADMINISTRATION OF REGISTRANTS TRAVEL--We found that not all local draft boards sent Selective Service System (SSS) registrants to the nearest Armed Forces Examining and Entrance Station (AFEES) for preinduction examinations or induction into the Armed Forces. Data relating to 2,089 local boards in 24 States showed that 196 of those boards were not sending registrants to the nearest AFEES. A detailed review of registrant travel in 42 of the 196 boards indicated that savings of about $67,000 could have been realized if 26 of the 42 boards had sent registrants to the nearest AFEES. If the conditions at those boards were typical of the conditions at other boards, we estimated that, nationwide, the SSS could have saved about $600,000 in fiscal year 1966 if registrants had been sent to the nearest AFEES.

The Director of Selective Service, in commenting on our findings and proposals, stated that reviews would be made of the movements of men to examining stations and that changes would be made where appropriate. He expressed the belief, however, that the annual savings would not be as substantial as our estimate. The Assistant Secretary of Defense (Manpower) informed us that the Department of the Army would cooperate with the Selective Service System in this matter.

In a report to the Congress in December 1967, with a view toward ensuring continued management attention to this matter, we recommended that the Director of Selective Service broaden the scope of reviews made during supervisory field visits by National Headquarters officials, including internal auditors, to include adequate coverage of the administration of registrant travel.

We noted that, as a result of our review, local boards in two of the States mentioned in our report began sending registrants to the nearest AFEES. This change will result in savings of about $33,700 annually. Agency consideration and action on our recommendation as it applies to other sections of the nation are not yet complete. (B-162111, December 26, 1967)

67. CONSOLIDATION OF LOCAL DRAFT BOARDS--The Universal Military Training and Service Act (Public Law 90-40 changed the name of this act to "Military Selective Service Act of 1967") permits the Selective Service System (SSS), under certain conditions, to consolidate local county draft boards. We found, however, that the SSS had not established criteria and guidelines to implement this provision of the act. As a result, local boards in only 10 States, Puerto Rico, and the Virgin Islands had been consolidated in accordance with the act. We estimated that, if certain boards in eight of the States included in our review were consolidated, $466,000 in costs of personnel, office space, and telephone could be saved annually. We believed that greater savings would be possible if local boards were consolidated nationwide.

Moreover, we determined that, if consolidations of local boards were not made, an alternative could be the centralization of only the clerical portion of certain board's operations, which we estimated would result in annual savings of $426,000.

We brought these matters to the attention of the SSS and proposed that certain local boards be consolidated. The Director of Selective Service disagreed with our proposal primarily because (a) registrants would be required to travel greater distances and (b) the personal relationship and confidence which existed between the registrant and his local board members and local board clerk would be diminished.

In considering SSS's comments, we pointed out that under our proposals registrants would not have to travel greater dis-

tances than they were being required to travel in larger counties and in existing intercounty local board areas and that, in intercounty boards, each county was represented by a local board member.

Accordingly, in a report to the Director of Selective Service in October 1967, we recommended that he (a) establish appropriate guidelines for use by the State directors in identifying those areas where savings can be realized by consolidating either local draft boards or the clerical operations of local boards and (b) encourage State officials to consolidate wherever they determine that such action will result in greater efficiency and economy in operations. (B-162111, October 30, 1967)

SLUM CLEARANCE AND URBAN RENEWAL ACTIVITIES

68. ADMINISTRATION OF URBAN RENEWAL REHABILITATION ACTIVITIES--We reviewed the rehabilitation activities administered by the Renewal Assistance Administration, Department of Housing and Urban Development (HUD), in federally assisted urban renewal projects in Cleveland, Ohio, with emphasis on the University-Euclid Project No. 1 which represented one of the largest rehabilitation projects in the country. In a January 1968 report to the Congress, we expressed the belief that HUD needed to take more effective action if the voluntary rehabilitation component of the project was to meet the urban renewal objectives. Although the project had been in execution in excess of 5 years and the costs of administering the rehabilitation phase of the project had already amounted to more than twice the amount originally budgeted for that purpose, little had been accomplished in relation to the rehabilitation objectives of the program.

We expressed the belief that the factors contributing to the limited accomplishments in this project included (a) the lack of adequate feasibility studies to identify the economic problems of rehabilitation and to determine the capability and willingness of property owners to voluntarily rehabilitate their properties, (b) the failure to carry out an orderly plan to obtain voluntary rehabilitation, (c) the failure to meet, on a timely basis, city commitments to provide public improvements and necessary city services, and (d) the lack of adequate housing codes and the lack of effective code enforcement on recalcitrant property owners.

HUD was aware that the project was not meeting its objectives, and it took certain steps with respect to limiting Federal financial support for Cleveland's urban renewal program until the city could demonstrate a capacity to meet existing urban renewal commitments. We expressed the belief, however, that HUD did not exercise sufficient leadership and leverage soon enough to encourage or persuade the city to perform in accordance with its commitments under the urban renewal plan.

Residential rehabilitation is a difficult, complex job which involves both economic and social problems. We expressed the belief, however, that had an organized and realistic effort been made to assess the feasibility of the project, set specific project goals, and move toward their accomplishment on a timely and efficient basis, substantial progress could have been achieved in accomplishing rehabilitation or at least in identifying the specific problems needing resolution to permit voluntary rehabilitation or other urban renewal treatment to go forward.

We pointed out that, in our opinion, there was a definite need for an orderly approach to identifying and resolving the various basic and complex problems impeding the progress of the project.

One of the significant problems which needed to be resolved concerned the economics of voluntary rehabilitation. A factor impeding the progress of rehabilitation appeared to be the inability of many individuals

purchasing properties through the use of land contracts–a device by which a seller retains title to property as security for the unpaid balance of its purchase price–to qualify for Federal loans and grants to rehabilitate their properties because the fair market values of the properties were often less than the existing debts on the properties and they were already paying a substantial portion of their income on housing.

Another factor appeared to be the lack of sufficient incentive for absentee owners of income-producing properties to spend the money needed for voluntary rehabilitation, especially for multiple-family buildings, when they might not be able to recover the additional investment because the housing was located in a low-income area in which a large percentage of the households already paid substantial portions of their income on housing.

The Department indicated general agreement that there was an undesirable situation in Cleveland but specifically questioned the amount of leverage that was available to the Government when it was not getting adequate performance. In view of this position, we expressed the belief that it was imperative that the Department thoroughly and objectively evaluate communities' proposals for urban renewal projects in order to arrive at an informed judgment as to whether the Government should participate in the cost of the urban renewal project.

We recommended that the Department actively advise and guide the local public agency in identifying and resolving the problems present in the project, in developing realistic objectives for the area and a workable plan of action, and in preparing an amendatory application for the project. We recommended also that, in view of past performance, the Department closely monitor and evaluate future performance and take action, when a situation was not promptly corrected, to allow Federal participation only with respect to expenditures associated with performance that adequately aided in the accomplishment of project objectives. (B-118754, January 9, 1968)

TAXES

69. REPORTING OF INTEREST RECEIVED BY TAXPAYERS ON FEDERAL INCOME TAX REFUNDS--In a report submitted to the Congress in November 1966, we stated that our review of selected Federal income tax refunds made by the Internal Revenue Service (IRS), Treasury Department, showed that a high percentage of taxpayers were not voluntarily reporting as income, interest received on their refunds. Because of our limited access to records, we could not reasonably estimate the total amount of such unreported income. It was our belief, however, that, in view of the amount of interest paid by IRS–$88.5 million in fiscal year 1964–and on the basis of our test of transactions in four district offices, considerable taxable income had not been reported.

Although IRS had, at the time of our report, taken certain corrective actions to increase taxpayer's reporting of interest received on tax refunds, no action was contemplated by IRS concerning our proposal to designate a line on the tax returns for "interest on tax refunds." It was our opinion that such a designation would serve as a reminder to taxpayers and would provide IRS with an opportunity for more effectively utilizing automatic data processing equipment to correlate interest on tax refund payments with the amount of interest reported on individual income tax returns. We were advised that a similar proposal had been rejected by the IRS Tax Forms Coordinating Committee because space on the tax returns was limited and because interest on tax refunds did not represent a large enough part of the total possible reportable interest to justify specific identification on tax returns.

Subsequent to the issuance of our report, the IRS in revising the individual income tax return form for 1967 specifically identified in the interest section of part II–income

from sources other than wages, etc.–tax refunds as an item of which the interest thereon must be reported as income.

We believe that this latter action, together with previous steps taken by IRS on our proposals, should substantially improve reporting by taxpayers of interest received on tax refunds. (B-137762, November 30, 1966)

TRAINING ACTIVITIES

70. STANDARDIZATION OF FELLOWSHIP ALLOWANCES--In a report submitted to the Congress in May 1968, we pointed out the need for Government-wide standardization of allowances under Federal fellowship and traineeship programs. Our review included selected programs of the National Aeronautics and Space Administration, the National Science Foundation, and three constituent agencies of the Department of Health, Education, and Welfare, which accounted for the majority of all fellowships and traineeships awarded by Federal agencies. Estimates for fiscal year 1967 indicated that more than 62,000 fellows and trainees received awards totaling about $422 million under the programs included in our review.

We found that there were varying bases and criteria and considerable variances in amounts allowed for stipends, dependents, and travel, for which there was no adequate justification from an overall Government viewpoint. Following are examples of these variances.

Predoctoral stipends ranged from a low of $1,800 to a high of $2,700 for a calendar year of support for a fellow or trainee in his first year of study.

Dependency allowances, in some programs, ranged from a low of $375 to a high of $1,350 for a dependent for an academic year and from $500 to $1,800 for a calendar year. Certain comparable training grants either did not provide any dependency allowance or did not specify the amount payable for each dependent.

--Travel allowances were provided under 24 of the 34 programs reviewed by us, while the other 10 programs permitted no such allowances. Among the 24 programs, some allowed a flat mileage rate, others allowed actual cost; some allowed for one-way travel, others for round-trip travel; some provided for dependents' travel, others did not.

We recommended that the Director, Bureau of the Budget, take appropriate action to standardize on a Government-wide basis, to the extent considered feasible and desirable, the allowances paid for stipends, dependents, and travel under Federal fellowship and traineeship programs, taking into consideration our views and comments as expressed in the report.

The Bureau of the Budget and the agencies whose programs we reviewed, in commenting on our findings, generally agreed that there was a need for greater standardization of fellowship and traineeship stipends and allowances. (B-163713, May 24, 1968)

71. ELIGIBILITY OF PERSONS PROVIDED WITH TRAINING SERVICES--**In our review of the procedures and practices of the Department of Health, Education, and Welfare (HEW) and the State of Pennsylvania relating to the vocational rehabilitation program in the State of Pennsylvania we found that there were a number of weaknesses in the administration of the eligibility aspect of the program. These weaknesses stemmed primarily from a lack of evidence to adequately demonstrate that individuals being accepted for vocational rehabilitation services had satisfied the governing eligibility criteria.**

During our review, we selected a random sample of cases which were reported by the

State agency as having been rehabilitated. Our review of these cases revealed that, at the time of determining eligibility for vocational rehabilitation services, the State rehabilitation counselors had not obtained, and the State casework supervisors had not required, sufficient evidence to adequately demonstrate that the individuals being accepted for training services met the eligibility criteria which required that the individuals have substantial handicaps to employment that resulted from physical or mental disabilities.

In some of the cases included in our examination, there was no evidence of record that recipients of vocational training services had substantial handicaps to employment, which had been caused by related disabilities. In other cases, we found that the individuals either were employed or were attending college at the time they were accepted for rehabilitation services. In other cases, we found that individuals had been provided with training services although physical restorative services appeared to have eliminated or substantially reduced the limitations and the related handicaps to employment resulting from their disabilities.

Our review also revealed that HEW had not established maximum caseload standards for the guidance of State vocational rehabilitation agencies in determining the number of cases an individual counselor can service or the number of counselors that an individual supervisor can effectively manage.

During our review, we found that HEW regional office reviews of the vocational rehabilitation program in Pennsylvania had shown a need for requiring stricter compliance with Federal and State criteria for establishing eligibility; however, these reviews had been generally ineffective in bringing about necessary corrective action. We found also that State regional administrators had conducted certain reviews of the effectiveness of the operations of the vocational rehabilitation program within their respective regions and that the results of these reviews had shown weaknesses similar to those found in our review.

In a report to the Secretary of Health, Education, and Welfare, dated January 16, 1968, we stated that the results of our review, as well as those reviews performed by Federal and State officials, demonstrated that the problems associated with the determination of eligibility of individuals for services under the vocational rehabilitation program had existed for some time and, consequently, were subjects deserving of HEW's continuing attention. We expressed the view that such measures as the establishment of reasonable caseload standards and more effective and more frequent reviews by HEW and State officials would help to ensure that the program activities would be conducted in a manner consistent with requirements set forth in the pertinent regulations.

We recommended that appropriate measures be taken to (a) establish reasonable caseload limits for rehabilitation counselors and supervisors for the guidance of State rehabilitation agencies and (b) establish procedures for performing continuous reviews of eligibility determinations made by States to ascertain, on a current basis, whether eligibility determinations are being made in accordance with established Federal criteria and the approved State plans and whether necessary action is being taken to correct deficiencies noted in reports on Federal or State reviews of the administration of the vocational rehabilitation program.

By letter dated March 7, 1968, the Assistant Secretary, Comptroller, advised us that the Rehabilitation Services Administration had asked the Committee on Goals and Standards of the Council of State Administrators of Vocational Rehabilitation to work with its national office staff this year on both of the recommendations made in our report. He also stated that the staff of the Commissioner of the Rehabilitation Services Administration was engaged in reviewing present evaluation practices with a view toward improving not only the scope of Federal program administration reviews to make them more responsive to changing program needs but also to develop means to correct deficiencies noted in reports on Federal and State reviews of the adminis-

tration of the vocational rehabilitation program. (B-159804, January 16, 1968)

72. ARRANGEMENTS FOR FINANCING TRAINING COSTS--In our review of selected training grants administered by the National Institutes of Health (NIH), Department of Health, Education, and Welfare, we found that the grantee institution had been permitted to use training funds awarded for a training year in the following year, without correspondingly reducing the funds awarded for that year. Permitting grantee institutions to use an annual award for training costs in this manner had the effect of (a) making more funds available to the grantee for a year than had been approved by the National Advisory Council and awarded by NIH and (b) precluding the possibility of making equivalent funds available for financing other approved but unfunded training programs.

We were informed by NIH officials that one of the Institutes was attempting to regulate all trainee appointments to coincide with the grant year and that NIH would conduct a study on an Institute-by-Institute basis to determine whether the other Institutes should adopt similar procedures. In view of the planned study, we did not make a specific recommendation in our report to the Secretary in August 1967, but we stressed the desirability of adopting an agencywide policy that would preclude a grantee Institution from using grant funds awarded for one year in a manner that would augment funds made available under an award for the following year. In its response to our report, NIH informed us that the effectiveness of the revised procedure was still being evaluated and the desirability of an agencywide approach would be determined after an appropriate operating period had permitted such evaluation. (B-157924, August 23, 1967)

73. ATTAINMENT OF PROGRAM OBJECTIVES--In our review of a selected number of graduate research training grants administered by the National Institutes of Health (NIH), Department of Health, Education, and Welfare, we questioned whether some of these grants satisfactorily met the objective of the overall program which, we understand, was to increase the number of persons interested in pursuing academic research and teaching careers in the health sciences. Of the trainees who had received degrees under one grant, at the time of our review the majority of them had not pursued academic careers in research and teaching in the United States. Two other grants provided primarily for summer or other short-term training.

We recommended that NIH establish procedures for making systematic evaluations of program results; emphasize program objectives, where necessary; and discontinue graduate research training support for any summer or other short-term training programs that should be more properly supported under other more-general-purpose grants. We recommended also that the cognizant NIH reviewing committee reevaluate the summer training program under one grant, which had been extended through June 30, 1970, to determine whether the program could be reoriented toward the support of full-time trainees interested in research and teaching careers in the particular discipline supported by the grant.

In response to our recommendation transmitted to the Secretary in August 1967, NIH advised us that the grants questioned by us were not representative of the average training grant and that NIH's review and evaluation procedures had brought out the questioned grants' unsatisfactory condition and the need for termination or discontinuance. NIH pointed out a number of evaluation procedures established to provide for continuing review and appraisal. (B-157924, August 23, 1967)

74. ANTICIPATED USE OF ADP EQUIPMENT FOR TRAINING--In August 1967 we reported to the Secretary of Labor and to the Secretary of Health, Education, and Welfare, on our examination into the use of certain automatic data processing equipment purchased by the South Bend Community School Corporation, South Bend, Indiana, with Federal funds made available

for institutional training projects authorized under the Manpower Development and Training Act of 1962 (MDTA). Our review showed that various electrical accounting machines, acquired at a cost of about $71,000, had not been used for training data processing clerks under the MDTA since the initial training course had been completed in February 1965. At the time of our review, the machines were being used by the local school board for administrative purposes. We found also that an electronic computer, acquired at a cost of $142,000 to train programmers, was being used part of the time for training purposes and the remainder of the time (about 60 percent) by the school board for administrative purposes.

Our review showed that none of the foregoing equipment had been used to the extent initially anticipated, apparently because of an overestimate of the need for programmers and data processing clerks in the South Bend area. Our review further indicated that, on the basis of the usage the equipment had received up to the time of our review, savings may have been possible through leasing rather than purchasing the needed equipment. We found no documentation to show that leasing had been considered at the time the projects were approved.

In the interests of economy, we suggested that (a) the Departments of Health, Education, and Welfare and Labor arrange for the transfer of the electrical accounting machines to other training projects or make other appropriate disposition of this equipment and (b) a study be made of the present and projected need for the electronic computer in view of the limited use being made of this equipment for training purposes.

The Secretary of Labor in October 1967 agreed that the electrical accounting machines had not been used for training purposes since completion of the initial MDTA training in South Bend. Also, the Secretary stated that departmental regional representatives, at the time the project was approved, had objected to the purchase of the equipment and had discussed renting it. He stated, however, that South Bend School officials had insisted that the equipment be bought and that the Department had made this concession to expedite the start of the program.

The Assistant Secretary, Comptroller, Department of Health, Education, and Welfare, advised us in November 1967, although the majority of individuals utilizing the equipment for training were not MDTA trainees, the South Bend school district had utilized funds other than MDTA funds to enroll students in adult and vocational education programs to make optimum use of the equipment. The Assistant Secretary said that the Department believed that the objectives of MDTA to make individuals employable had been achieved even though most of the training conducted thus far had been conducted with other than MDTA funds. He said also that the Department had regulations which provide that equipment purchased with MDTA funds may be retained by a school system and utilized for adult or vocational education and that, should a need arise for MDTA equipment elsewhere in the State, the school district would have to surrender the equipment and transport it to the new location. (B-162080, August 24, 1967)

75. CONTRACTS FOR FINANCING ON-THE-JOB TRAINING.—In August 1967 we reported to the Secretary of Labor on our review of contracts awarded to the New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority for on-the-job training of subway conductors and bus drivers under the Manpower Development and Training Act of 1962 (MDTA). On the basis of our review, we stated the belief that the contract requirements concerning "maintenance of effort," had not been adhered to and resulted in both contractors' receiving reimbursements to which they were not entitled.

The objective of the training contracts was to provide training for bus drivers and subway conductors, which was additional to that normally provided by the contractors themselves prior to the execution of the con-

tracts. We found, however, that, prior to executing the contracts, the Department of Labor had not ascertained either the number of employees normally trained by the contractors or the contractors' precontract level of expenditures for training. We estimated that the New York City Transit Authority had been reimbursed about $61,700 for certain training costs that did not represent costs of additional training efforts. We were unable to make any precise determination of the amount that had been involved in the contract with the Manhattan and Bronx Surface Transit Operating Authority because of the lack of adequate records maintained by the authority, concerning the number of bus drivers normally trained.

We suggested that the Department (a) improve its procedures for establishing and policing maintenance-of-effort requirements for on-the-job training contractors and (b) perform a detailed examination of costs incurred under the contracts and obtain recoveries to the extent that costs charged to the Government were not allowable under the terms of the contracts.

The Secretary of Labor advised us, among other things, that the maintenance-of-effort principle was not prescribed by the MDTA or by regulation and that our finding that there was clearly expressed legislative intent for making the maintenance-of-effort requirements applicable to on-the-job training contracts did not appear to be wholly accurate. The Secretary said, however, that a study had been ordered with the objective of devising some alternative procedure that would protect the Government's interest in refraining from duplicative programs and yet not evoke the administrative difficulties encountered.

In our opinion, the MDTA requires maintenance of effort by contractors as a condition precedent to the Secretary's approval of the training programs involved. Moreover, it appears to us that the Department's establishment of an administrative policy requiring maintenance of effort by on-the-job training contractors was in itself an interpretation of the legislative intent of the MDTA. The Department thereafter made this policy known to the Congress. We question, therefore, whether any substantive change or reversal of policy regarding the maintenance-of-effort concept would be proper under the circumstances, without first obtaining congressional approval.

In July 1968 the Department informally advised us that it had made a detailed audit of the costs incurred by the contractors and that following completion of the audit, refunds totaling $49,100 had been received from the contractors. Also, the Department was continuing its study to devise alternative procedures to be used in lieu of maintenance-of-effort requirements for on-the-job training contracts. (B-146879, August 28, 1967)

VETERANS BENEFITS

76. ELIGIBILITY OF PENSIONERS TO RECEIVE DISABILITY AND DEATH PENSIONS--In December 1967, we reported to Congress the availability of significant savings through improved Veterans Administration (VA) procedures for determining the continued eligibility of pensioners to receive non-service-connected disability and death pensions. As a condition to receiving benefits, each pensioner is required by law to submit an annual income report to the VA, reporting the amount of income received for the previous calendar year and the income expected for the current year.

On the basis of our random-sample examination of pensioners income reports, we estimated that about 490 of the 32,728 pensioners on the rolls of the St. Louis VA Regional Office had understated their incomes reported for 1964 by amounts sufficient to have required either reductions in, or terminations of, their pensions. We estimated that the undetected overpayments resulting from these understatements totaled $172,000. Because our review was limited to the St. Louis Region, we did not estimate the extent of undetected overpayments which may have occurred at VA's other 56 regional offices.

Certain pensioners are also required by

law to report their year-end net worth as a condition to receiving benefits. We noted understatements by individuals of net worth amounting to as much as $67,000.

Accordingly, we recommended that the Administrator of Veterans Affairs take appropriate action to (a) provide pensioners with more precise instructions for preparing their annual income questionnaires, and (b) provide adjudicators with more effective criteria and procedures for obtaining, reviewing, and verifying financial data reported on such questionnaires.

In March 1968, the Associate Deputy Administrator informed us that, since the period of our review, VA had made several improvements to facilitate auditing of income questionnaires, including additional controls and procedures for reviewing the questionnaires. He informed us also that VA expected to install a redesigned compensation and pension computer system in the near future that would provide the potential for a more refined audit of annual income information. With respect to the overpayment cases cited in the report, we were informed that most of the cases were sustained and that VA was taking action to recover these overpayments.

We plan at a future date to review the effectiveness of VA's improved procedures for minimizing overpayments of non-service-connected disability and death pensions. (B-114859, December 28, 1967)

77. CONTROLS OVER GUARDIANS OF MINOR AND MENTALLY INCOMPETENT BENEFICIARIES--In a report issued to the Congress in January 1968, we expressed the belief that the Veterans Administration (VA) could--without adversely affecting the management of the guardianship program--(a) realize savings in audit costs of up to $450,000 annually by auditing guardian accountings at 3-year intervals rather than annually and (b) discontinue certain interim field investigations which we estimated would result in savings of up to $440,000 a year. Also, we expressed the belief that cases involving certain incompetent beneficiaries warrant personal contacts more frequently than every 3 years. We estimated that, nationwide, the additional costs that would result from the increased contacts might amount to approximately $50,000 annually.

We noted that VA audits guardian accountings as frequently as the accountings are required to be filed with State courts by applicable State laws. Most States require guardians to file such accountings annually. In States in which these accountings are not required more frequently than once in 3-years, VA audits the accountings at 3-year intervals.

After bringing these matters to the attention of VA, it agreed with our beliefs that certain field investigations could be decreased and that personal contacts in certain incompetent beneficiary cases could be increased and it took action along these lines. VA, however, disagreed with our belief that the frequency of audits of guardian accountings could be reduced.

VA informed us that it had been instrumental in the enactment of legislation in virtually all States constituting VA as a party in interest with State courts in cases involving VA benefits for the legally disabled, that the courts had granted VA attorneys special prerogatives which had the effect of minimizing the cost of administering estates, and that, if VA did not audit the accountings at intervals prescribed by State laws, the courts might react by requiring VA to meticulously adhere to all requirements of State statutes, court rules, and local practices.

Because VA is not legally required to audit accountings annually and because substantial economies could be achieved by reducing the frequency of audits without adversely affecting its management of the guardianship program, we recommended that VA examine into the feasibility of arranging with appropriate court officials for workable plans for reducing the frequency of VA audits of guardian accountings. (B-114859, January 11, 1968)

78. LAND ACQUISITION FOR FEDERAL PROJECTS UNDER CONDEMNATION PROCEDURES--In our March 1968 report to the Commissioner, Bureau of Reclamation, Department of the Interior, we stated that our limited review of the State of California's land acquisition for the San Luis Reservoir and Forebay under the agreement of 1961 between the United States and the State of California for the construction and operation of the joint-use facilities of the San Luis Unit, Central Valley Project, showed that the Bureau should have evaluated the differences in Federal and State condemnation procedures before requesting the State to proceed with the land acquisition. Such an evaluation would have identified key differences in procedures as they relate to establishing land values and interest costs.

Under Federal condemnation procedures the value of the land is established as of the date of filing the condemnation action; under California procedures land values are based on values as of the date of the trial if the case is not tried within 1 year after commencement of the condemnation action. We stated that, because of the rising land values and delays in final court action, we believed that acquisition under Federal condemnation procedures would have been less costly.

From the available records, we estimated that the cost to the Federal-State partnership increased about $620,000 because of increased land values for the acquisitions we examined. Because the Bureau shared 45 percent of the joint-use facilities cost, the additional cost to the Federal Government amounted to about $279,000. The higher interest rate--7 percent as opposed to 6 percent under Federal law--payable to the former owners under State condemnation law should also be considered.

Because land acquisitions for the San Luis Unit were substantially complete, we recommended that the Bureau in all future joint projects--specifically in connection with the proposed Peripheral Canal Unit--adequately evaluate the alternatives available under the respective agencies' condemnation procedures to obtain the most effective use of Federal resources. The Bureau agreed with this recommendation and advised us that, in future joint projects, the Bureau would acquire the necessary land. (Report to Commissioner, Bureau of Reclamation, March 12, 1968)

79. COMPUTING THE COST OF POWER SOLD FOR COMMERCIAL PURPOSES--In a March 1968 report to the Congress, we noted that the Government's investment in power generation facilities of the Missouri River Basin Project (MRBP), Bureau of Reclamation, Department of the Interior, had been suballocated to non-interest-bearing irrigation investment on the basis of estimated ultimate use to be made of the power facilities. Use of the power facilities, however, was significantly less for irrigation and significantly more for commercial power than expected at ultimate development. The Government's investment in commercial power facilities was repayable by the users, with interest. As a consequence, costs assigned for repayment by commercial power customers had been substantially understated.

We estimated that, if the current-use method of suballocation had been utilized, the additional costs allocable to commercial power would have been about $400 million more than shown in the Bureau's report on the financial position of the project.

We recommended that, to place the reimbursable power investments in their proper perspective according to use and to provide for interest on all investments used for the production of power for commercial purposes, the Secretary of the Interior direct the Commissioner of Reclamation to adopt, in future rate and repayment studies of MRBP and other projects, a consistent policy of suballocating its power investment to irrigation on the basis of anticipated current use rather than ultimate use.

We recommended also that, if special circumstances seemed to warrant a departure from the recommended policy on the subal-

location of the Department's power investment, the Secretary of the Interior advise the Congress of the justification for and the financial effects of departing from this policy.

The Department advised us that it did not agree with our conclusions and our proposals because it believed that the Congress and its committees had consciously and affirmatively accepted its report on the financial position of the MRBP in its entirety, including the formula for suballocating the power investment for rate and repayment purposes, as the plan authorized for the financial management of MRBP. (B-125042, March 18, 1968)

ACQUISITION OF AUTOMATIC DATA PROCESSING SYSTEMS

80. MEETING REQUIREMENTS THROUGH SHARED USE OF COMPUTERS--We reported to the Assistant Secretary for Administration, Department of Commerce, that our review showed that, in order to meet the needs of a specific project or program, the Coast and Geodetic Survey (C&GS), Environmental Science Services Administration had purchased one computer at a cost of $105,000 and had leased another at a cost of about $191,000 without determining whether usable time was available on existing Government computers in the Washington, D.C., area. As a result of our review, we concluded that such usable time was available and that a substantial portion of the costs totaling $296,000 could have been avoided if C&GS had utilized these existing computers rather than obtaining two new ones.

In December 1964, subsequent to the acquisitions of the computers, the Department established the position of an automatic data processing (ADP) planning officer. Among other things, the planning officer was responsible for making evaluations of the agency's overall needs in connection with proposed computer acquisitions and for determining whether ADP requirements could be met in whole or in part through the sharing of existing Government computers. (Report to Assistant Secretary for Administration, Department of Commerce, August 29, 1967)

81. ADEQUACY OF STUDIES MADE PRIOR TO ACQUISITION OF AUTOMATIC DATA PROCESSING EQUIPMENT--On the basis of our examination into studies prepared by the Grand Junction Office (GJO) of the Atomic Energy Commission (AEC) to justify its need for purchasing certain automatic data processing (ADP) equipment, we concluded that GJO had not clearly demonstrated that the benefits to be derived would justify the cost of acquiring such equipment. In our analysis, we found that GJO apparently had not quantified, in the study report or elsewhere, the amount of savings that would result from the computer applications in the form of time and/or money, nor had GJO quantified the extent to which the level of performance and results on any given job would be significantly raised.

GJO had explored the possibility of leased wire service, and the study indicated that interim use of a remotely located computer with a direct wire hook-up would cost about $54,000 per year for the time needed to process its information, contrasted with the $420,000 cost of purchasing and installing the proposed ADP equipment and the annual maintenance costs of about $8,400. Accordingly, in the interest of economy, we proposed that, in lieu of purchasing the ADP equipment, consideration be given to the alternative of arranging for time on an existing AEC computer system at another location. AEC subsequently advised us that it had decided not to purchase the proposed ADP equipment and was considering an alternative arrangement of a direct-wire hook-up with an existing AEC computer system. (Report to Manager, Grand Junction Office, Atomic Energy Commission, June 7, 1968)

82. ADEQUACY OF STUDIES MADE PRIOR TO ACQUISITION OF AUTOMATIC DATA PROCESSING EQUIPMENT--At the request of the Chairman, House Committee on Appropriations, we inquired into the practices followed by the Department of Defense and the military departments in acquiring and installing new automatic data processing equipment for use in new computerized management systems. In our report to the Committee issued in March 1968, we stated that the Department did not have an overall plan for the control of the planning, development, acquisition, and implementation of such systems. As a consequence, the military departments and Defense agencies developed their own systems unilaterally and independently without regard to interservice compatability or relationship of the systems.

We recommended that the Secretary of Defense (a) direct that an overall plan be developed to serve as a framework within which system improvement projects would be developed, (b) require that the concepts and objectives of system improvement projects adhere to the concepts and objectives of the overall plan, and (c) direct that a study be made of the system improvement projects already underway to ensure that the projects were in conformity with the overall plan.

Our findings and recommendations were discussed in the House hearings on the Department of Defense Appropriations for 1969 at which time the Department of Defense expressed concurrence with our recommendations. (B-163074, March 13, 1968)

UTILIZATION OF AUTOMATIC DATA PROCESSING SYSTEMS

83. BENEFITS OF IN-HOUSE MAINTENANCE--The Federal Government is a large user of automatic data processing (ADP) equipment in its operations. In most cases, maintenance services for Government-owned computers are being obtained from computer equipment manufacturers. Only a relatively small number of Government computer installations have adopted a policy of in-house maintenance for their equipment. Because of the increasing investment of the Federal Government in computer facilities and the related increase in direct maintenance costs,our Office has made a study of the many factors that are involved in making decisions on obtaining adequate maintenance service at reasonable cost.

On the basis of our study, we have concluded that greater consideration should be given to in-house maintenance of Government-owned ADP equipment because of the potential for cost reduction in obtaining this necessary service and other possible advantages, including greater management control over maintenance work, increased acceptance of computer operations by other employees, and a high level of computer efficiency (i.e., little downtime).

Although in-house maintenance of ADP equipment in the Federal Government is not a common practice, we did visit several Government installations that have followed this practice successfully. We also visited several non-Federal and private organizations that do their own maintenance work.

No simple, precise criteria for determining the feasibility of in-house maintenance can be set forth which will apply uniformly to all Government installations. During our inquiries at Government and private installations which had adopted in-house maintenance policies, we noted that the following operational and cost factors were considered before making in-house maintenance decisions:

--Operational character of systems.

--Location of equipment.

--Split maintenance responsibility.

--Quality of maintenance.

--Modification by equipment manufacturers.

--Size of computer installation.

We pointed out in our report to the Congress in April 1968 that the investment of the Federal Government in computer facilities and related direct maintenance costs, currently about $50 million annually, could be expected to continue to increase. We concluded that there was need for more management attention toward ascertaining the most efficient, effective, and economical methods of maintaining Government-owned ADP equipment. For these reasons, we recommended that:

--The Bureau of the Budget require the executive agencies to consider in-house maintenance in reaching procurement and maintenance decisions and that the General Services Administration accelerate its studies now under way on this

subject with an objective of promulgating more specific policies for the guidance of Federal agencies in obtaining adequate maintenance service at the least cost to the Government.

--The head of each Federal agency arrange for the establishment of procedures for arriving at the most advantageous decisions for maintenance of ADP equipment.

We also suggested that, pending issuance of more specific policy guidance in the executive branch, the Federal agencies use the detailed operational and cost factors we included in the report in arriving at maintenance decisions for their ADP equipment.

The Bureau of the Budget has advised us that it is taking steps to amend its Circular No. A-54 which relates specifically to acquisition and use of ADP equipment to ensure that agencies give appropriate consideration to the use of in-house maintenance.

The General Services Administration has accelerated its study by awarding a contract for consulting services to conduct a survey "to identify the optimum least cost alternative means for maintenance of ADP within appropriate parameters such as make, size and type of equipment, type and priority of applications and geographical considerations."

The General Services Administration also has advised us that it will issue a Federal Property Management Regulation containing some initial interim guidelines to assist agencies in their evaluation of alternative means of maintenance. These guidelines will cover the factors brought out in our report. (B-115369, April 3, 1968)

84. SAVINGS ACHIEVED THROUGH DIRECT PURCHASE OF COMPONENTS AND SPARE PARTS--During our study of maintenance practices of ADP equipment users in the Federal Government and several non-Federal and private organizations, we noted instances where aggressive managers saved their activities significant sums of money by not purchasing ADP system components and repair parts from the computer manufacturer but purchasing the items direct from the actual manufacturers of the components or from other sources of supply. For instance:

--The United States Fleet Numerical Weather Facility performed its maintenance on an "in-house" basis. As a result, it was in a position to determine the best method of procurement. The Facility, for example, made two procurements of drum-storage devices and related controllers for $900,300 from the actual manufacturers of the items. Equivalent equipment procured from the computer manufacturer could have cost an additional $475,200.

--Repair parts for the large-scale computer system at the Data Processing Center, United States Army Deputy Chief of Staff for Logistics (DCSLOG), were not usually purchased from the manufacturer. Some of the repair parts were obtained by the purchase of a complete computer system deemed obsolete and sold at salvage or scrap price on the open market. This practice contributed to the relatively low cost of maintenance at this installation.

--Systemetrics, Inc., a private computer service bureau, followed the same practice as DCSLOG (above). The modest price this company paid for spare parts contributed to the relatively low overall cost of maintenance of the company.

In our report to the Congress in April 1968, we expressed the view that the cost sav-

ings from direct procurement, illustrated by the cases we encountered, suggested that this method of procurement should be more extensively explored in procuring ADP components and parts needed in maintaining Government-owned ADP equipment. We are conducting further studies of this question as a preliminary to making specific recommendations. (B-115369, April 3, 1968)

85. CONTROLS OVER USE OF COMPUTER AND ADP MATERIALS--Our review of the State Department's automatic data processing (ADP) function in the Regional Finance and Data Processing Center (RFDPC) at Paris, France, revealed internal management control system weaknesses which enhanced the risk of unwarranted or unauthorized use of the ADP equipment and endangered the security and integrity of the ADP programs and related documentation.

We found that (a) unsupervised console operators had access to ADP equipment and all documentation and materials needed to operate the computer for unauthorized purposes, (b) administrative reviews were not being performed to ensure that employees were following prescribed procedures for modifying programs and related documentation, and (c) essential documentation was in French and, therefore, an impediment to effective management control and review efforts.

The details of our findings and specific recommendations for strengthening general management control and communication processes were presented to the Deputy Under Secretary of State for Administration in a report issued in January 1968. In a letter of reply in June 1968, the Deputy Assistant Secretary for Budget acknowledged that the Department had derived benefit from our review and stated that major changes in operations subsequent to our review had required a restructuring of management controls commensurate with the revised parameters of operations. In his letter, the Deputy Assistant Secretary did not provide information concerning specific actions taken or planned with respect to our report recommendations.

We understand that, acting on a congressman's suggestion, the Bureau of the Budget has asked the Department of Defense, the Treasury Department, and the Post Office Department to ascertain whether the conditions described in our report are existent in their respective ADP systems and if so, to consider the applicability of our recommendations. (B-146703, January 31, 1968)

86. MERGER OF AUTOMATIC DATA PROCESSING OPERATIONS--In July 1967, we reported to the Department of State (State) and the Agency for International Development (AID) that, although both agencies were continuing to utilize separate automatic data processing (ADP) facilities to process information for housekeeping activities and were planning to separately apply ADP to their substantive activities,

> --the existing ADP systems were largely oriented toward essentially similar financial and statistical data;
>
> --the planned substantive applications, which in many cases were unique with respect to the agencies' activities, nevertheless would not involve incompatibility in terms of their adaptation to ADP; and
>
> --the geographical locations of the respective agencies' activities were such as to permit full service to both by a merged ADP facility.

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

In fiscal year 1965, although a joint State-AID study of the feasibility of merging the two systems was under way, State issued a letter to a computer company for a more sophisticated new generation computer configuration having much greater capacity than

those in use by State and AID. We therefore wrote a letter to responsible State and AID officials on March 30, 1965, regarding the feasibility of merging the separate operations, in which we pointed out that the plans for acquistion of the advanced equipment had not included consideration of the possibility of merger and recommended that they explore such possibility before making a firm commitment for new equipment. State, however, procured and installed the new computer configuration in November 1965.

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

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

In July 1968 we were advised by State and AID that they had reestablished a joint working group which had set forth a four-step plan to thoroughly explore not only a bilateral integration but a common data-processing capability for the foreign affairs community. The plan seeks:

--Common applications for operation in the State and AID facilities, through interagency working groups of systems analysts and programmers. United States Information Agency and United States Arms Control and Disarmament Agency will be invited to participate in these efforts. Payroll and personnel data applications will be the first areas of study, followed by other housekeeping functions.

--The building of these common applications within certain parameters to ensure their future compatibility with a single Foreign Affairs Data Processing Center, the design and establishment of which is the second step of the overall effort.

--The linkup, as the third step, of the various agency common systems to the central facility using on-line, remote-terminal, and time-sharing techniques as appropriate to each serviced agency's needs.

--The servicing through the Foreign Affairs Data Processing Center of program applications unique to the user agencies and the gradual elimination of hardware at each user site.

(B-158259, July 14, 1967)

ACCOUNTING AND FISCAL MATTERS

87. FINANCING OF SITE ACQUISITIONS--We found that the Post Office Department had initiated actions to acquire some sites for leased postal facilities earlier than the actions probably would have been initiated if the funds available for site acquisitions had remained available after the end of the fiscal year. Moreover, on the basis of our review, we believed that some of the Department's early acquisitions of sites had resulted in additional costs to the Government and that, in a few cases, the Department might not have made sufficient studies before initiating actions to acquire facility sites.

The system authorized for financing site acquisition transactions had most of the features of a revolving fund except that, at the end of each fiscal year, on June 30, any funds that were not obligated, lapsed, and had to be covered into the Treasury as miscellaneous receipts. We believed that the provision of a revolving fund with a no-year limitation would provide the Department with an effective and orderly means for financing site acquisition transactions and would eliminate any incentive for premature or hasty actions to obligate funds at the end of a fiscal year. We believed also that congressional control over the Department's site acquisition activities would be strengthened if the Department were required to report annually to the Congress on the operations of the fund.

In a report issued to the Congress in May 1968, we recommended that consideration be given to amending existing legislation to (a) authorize, and provide the Department with, a revolving fund of an appropriate amount for financing the acquisition of sites and the planning of postal facilities pursuant to the authority contained in section 2103 of title 39, United States Code, and (b) require the Postmaster General to include, in his annual report to the Congress, data regarding the activities of the revolving fund, including the investments in sites for proposed new facilities.

We furnished copies of our draft report to the House and Senate Committees on Appropriations; and, in their reports on the Treasury, Post Office, and Executive Office Appropriation Bill for 1969, the Committees directed that the Department's site acquisition fund be transferred from the Building Occupancy account to the Postal Public Buildings account which has a no-year limitation and that future operations utilizing the site acquisition fund be undertaken only after complete justification, by line item project, had been made available to the House and Senate Committees on Appropriations. We believe that these actions should accomplish most of the objectives of our recommendations. (B-153129, May 1, 1968)

88. DETAILING OF LOCAL POST OFFICE EMPLOYEES TO OTHER ACTIVITIES--In a February 1967 report to a Subcommittee of the House Committee on Appropriations, in response to a request from the Subcommittee Chairman, we pointed out that the Post Office Department had authorized its regional offices to utilize the services of employees detailed from local post offices and that, as of October 7, 1966, a total of 560 such employees had been detailed for work at regional offices. Some of these employees had been on such assignments for more than 8 years.

We pointed out also that the salaries of local post office employees on detail to regional offices had totaled about $3.9 million during fiscal year 1966. The salaries of these employees had been paid from funds appropriated for postal operations, whereas the activities to which the employees were assigned normally would have been financed from funds appropriated for administration and regional operations. We stated that the

Department's actions did not appear to be in conformity with the intention of the Congress as expressed in the act making appropriations available to the Department for fiscal year 1966. That act contained a limitation of $1 million on the amount by which the appropriation for administration and regional operations could be increased by transfers from other appropriations.

The information in our report received extensive attention during the 1968 appropriation hearings in both the House and the Senate. To comply with requirements imposed by the Appropriations Committees, the Department established procedures to control the detailing of employees of local post offices to other activities of the Department. These procedures limited to 6 months the time that an employee could be detailed. The procedures also required that details of employees to regional offices be approved by the Department's Office of Regional Administration and that details of employees to other organizational units be approved by the Office of the Deputy Postmaster General. In addition, the procedures provided for submitting to the Congress semiannual reports disclosing pertinent information regarding the detailing activities. (B-159768, February 23, 1967)

89. CRITERIA USED TO ALLOCATE ADMINISTRATIVE COSTS--In a report issued to the Veterans Administration (VA) in January 1968, we expressed the view that the criteria used by VA to allocate administrative costs to the veterans reopened insurance (VRI) program were not reasonable because the criteria did not require that all applicable costs of the planning and the insurance application processing phases of the program be charged to the program. The legislation enacting the VRI program authorized a revolving fund in which revenues are deposited and from which expenses are paid. The costs incurred by VA in administering the program are recouped from the VRI revolving fund.

Our review of time records maintained by one department in VA showed that, for the period October 1964 through June 1967, over $123,000 had not been charged to the VRI program as a result of the questionable accounting criteria. In another department within VA, we found that management and supervisory time above a certain level had not been charged against the program. VA budget staff estimated such time to be as high as $7,500 for a recent calendar quarter.

Accordingly, we recommended that VA revise its accounting criteria for personal services of the VA Central Office so as to recoup all personal service costs incurred during the planning and insurance application processing phases of the program.

In February 1968, VA advised us that it believed that the costing criteria established was practical and reasonable and that it did not plan to take any action on our recommendation.

We found also that, contrary to enabling legislation, VA had not transferred to the Treasury any amount for "Other Agencies" costs from the inception of the VRI program. After bringing this matter to the attention of the VA, we were informed that $46,410 had been transferred to the Treasury to cover these costs. (B-114859, January 11, 1968)

90. INSTALLATION OF COST-BASED BUDGETING PRACTICES--Effective July 1, 1967, cost-based budgeting practices were put into effect by the Office of the Treasurer of the United States, Treasury Department, to provide for cost performance planning and reporting by all organizational segments in the Office. It was the plan of the Office to make refinements in the practices as experience dictates.

The Office's action resulted from suggestions made during our review of its administrative accounting system which was approved by the Comptroller General on June 28, 1968.

At the time the accounting system was submitted to us for review and approval, it provided for expenditure reports for only four organizational units, having reimbursable activities. Management could not readily compare planned program and activity costs with actual costs.

After we brought this matter to the attention of representatives of the Office, they decided to install cost-based budgeting practices for 12 organizational units and require program managers to submit written explanations as to the reasons for significant variances between planned and actual costs. (B-115388, June 28, 1968)

91. IMPROVEMENT OF THE ACCOUNTING AND FINANCIAL MANAGEMENT SYSTEM--In a letter to the Treasury Department in May 1968, we stated that the administrative accounting system of the Office of the Secretary did not meet the accounting principles and standards prescribed by the Comptroller General.

We pointed out that (a) the system was not designed to systematically accumulate costs by major organizational segments, (b) financial planning and reporting were by obligations, not costs, (c) costs of reimbursable services were not being fully recovered, (d) accrual accounting was not completely implemented, (e) certain principles and practices relating to property accounting needed implementation, (f) certain bookkeeping practices resulted in unnecessary recordkeeping, and (g) the accounting manual was not fully descriptive of the system in operation.

During our discussions with Office of the Secretary representatives, it was agreed that the system needed revision and improvement in order to bring it to the level where it could be approved by the Comptroller General. We were informed that consideration would be given to the matters discussed in our letter before the Office of the Secretary again requested approval of the accounting system. (Report to Assistant Secretary for Administration, Treasury Department, May 31, 1968)

92. CRITERIA FOR VALID OBLIGATIONS--On the basis of our review of selected year-end obligations of loan authorizations of the Farmers Home Administration (FHA) and the Rural Electrification Administration (REA), we recommended that, in order for loan authorizations to be validly obligated in the year sought to be charged, the Secretary of Agriculture direct the Administrators of FHA and REA to revise applicable procedures to require that the loan applicants be notified of loan approval within the particular year.

We found that both FHA and REA had failed to advise loan applicants within the fiscal year charged that their loans had been approved. The communication of loan approval within the fiscal year charged is essential to support an obligation within the requirements of section 1311 of the Supplemental Appropriations Act, 1955, as amended (31 U.S.C. 200).

In commenting on our finding, the Assistant Secretary of Agriculture advised us that the administrators of both agencies had been directed to amend their procedures to provide notification to borrowers in the fiscal year that their loans are approved. Our follow-up review of the action proposed showed that both agencies had amended their procedures to implement our recommendation. (Report to Secretary of Agriculture, October 6, 1967)

93. CORRELATION OF ADVANCES OF FUNDS WITH NEED--On the basis of our review of the Department of Agriculture's procedures for advancing Federal funds to the States under programs of the Federal Extension Service and the Cooperative State Research Service, we estimated that about $790,000 in interest costs on Federal borrowings could have been saved during fiscal year 1966 if the Department had disbursed funds to the States as needed instead of making advancements on a quarterly basis as required by law for 95 percent of the funds. Funds advanced from the U.S. Treasury before they are needed either unnecessarily increase borrowings or are not available to reduce

previous borrowings and thereby increase interest costs.

We proposed that the Secretary of Agriculture, in cooperation with the Director, Bureau of the Budget, and the Secretary of the Treasury, submit a legislative proposal for consideration by the Congress for the amendment of the Smith-Lever Act and the Hatch Act to delete the requirement that funds authorized by these acts be made available to the States on a quarterly basis.

In response to our proposal, the Assistant Secretary of Agriculture stated that, in lieu of developing specific legislation, the Department could under existing law use the letter-of-credit procedure. This procedure allows recipients to draw funds for program operations, as needed, through Federal Reserve banks. The Assistant Secretary stated further that the letter-of-credit procedure could be placed in effect provided the States are given the right to draw funds at their discretion. In addition, he stated that, on this basis, the States would be requested, but not required, to draw upon letters-of-credit only on the basis of need. The letter-of-credit procedure was implemented effective January 1, 1968.

We concluded that the Department's plan to permit States to draw funds under letters-of-credit would result in substantial interest savings to the Government if the States draw funds only on the basis of need. (B-162517, November 13, 1967)

94. USE OF IMPREST FUND--We reported to the Acting Maritime Administrator, Department of Commerce, that our review of selected administrative operations showed that certain accounting practices with regard to the imprest fund should receive further consideration so as to improve administrative control. An imprest fund in the amount of $3,000 was being maintained in the Office of Administrative Services for use in purchasing goods or services which did not exceed $100 in cost for any one transaction and for use in emergencies which did not exceed $250 in cost. We found that about one half of the dollar amount used by the fund was for reimbursement of travel expense vouchers. We concluded that the cash requirement of the agency could be substantially reduced by discontinuing most payments from the fund for reimbursement of travel expense vouchers.

Section 27 of title 7 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies requires an imprest fund to be limited to the smallest amount necessary to satisfy the needs of the agency for making cash disbursements. Travel advances are available to agency personnel in a continuous travel status, and we believe, therefore, that an immediate cash reimbursement is not necessary. For personnel making periodic or occasional trips, a travel advance can generally be obtained, when needed, through the regular disbursing channels, thus permitting a greater use of Treasury checks for payment of the travelers' expense vouchers rather than cash from the imprest fund.

Our review showed that Maritime's imprest fund was being used to pay the majority of travel expense vouchers of less than $100. By discontinuing most payments for travel expense from the fund, the large amount of cash advanced to the fund could be reduced substantially. Physical safeguards for the fund were adequate; however, we concluded that the payment by check of most travel expenses incurred would reduce the fund to the smallest amount necessary to satisfy the needs of Maritime. We recommended that instructions be issued which would provide for generally discontinuing the payment of travel expense vouchers through use of the imprest fund. Upon issuance of these guidelines, the fund should be reduced to an amount commensurate with Maritime's needs, as revised. (Report to Acting Maritime Administrator, Department of Commerce, June 26, 1968)

95. TIMING PAYMENT OF GRANTS TO COINCIDE WITH ACTUAL CASH REQUIREMENTS--In our report to the Secretary of the Interior on our review of selected

administrative operations and financial transactions of the Office of Territories, Department of the Interior, for fiscal year 1966, we pointed out that the Office of Territories had made payments to the Government of American Samoa without obtaining information showing the need for such funds to finance current operations as required by Treasury Department Circular 1075. As a result, funds may have been disbursed prematurely with an attendant impact on the level of the public debt and the financing costs of the U.S. Government.

In a previous report, we had brought this same situation to the attention of the Secretary of the Interior. In commenting on that report, the Department advised us that, beginning in fiscal year 1965, an effective method had been established of timing cash requirements to preclude the withdrawal of funds from the U.S. Treasury any sooner than was necessary to finance the grantee operations.

Our review of the fiscal year 1966 transactions showed, however, that the promised corrective procedure had not been implemented. We found that, during fiscal year 1966, grant funds totaling $5.1 million were paid to the Government of American Samoa in two amounts and that in neither case were data submitted to show that the funds were needed to meet then-current needs.

The first payment for the fiscal year was made on January 26, 1966, in the amount of $2.9 million on the basis of a request for funds dated January 5, 1966. This indicated that the Government of American Samoa had sufficient cash resources at June 30, 1965, to carry out its governmental operations for at least 6 months. The second payment was made on May 10, 1966, in the amount of $2.2 million on the basis of a request for funds dated May 3, 1966. This indicated that the first payment had met the government's cash requirements for at least 4 months. Since the first request for funds in fiscal year 1967 was not made until August 13, 1966, the second payment in fiscal year 1966 must have met cash requirements for at least 3 months.

We could not determine the extent to which funds had been prematurely disbursed to the Government of American Samoa because sufficient documentation was not available at the Office of Territories. From the evidence we examined, however, it appeared that the amounts involved could have been significant.

Officials of the Office of Territories advised us that instructions were issued in June 1967 relating to a new system for processing grant funds to be put into effect beginning in fiscal year 1968. Under this system the Government of American Samoa is required to submit its monthly requests for funds directly to the Treasury's regional disbursing office instead of to the Office of Territories. Each monthly request is to be made in the form of a voucher and schedule of payment in an amount not in excess of the amount included in a monthly cash withdrawal plan previously approved by the Office of Territories.

In addition, the Government of American Samoa is required to submit to the Office of Territories a monthly report showing the cash balances of grants and local revenues at the beginning of the month, the revenues and cash grants received during the month, the disbursements made during the month, and the cash balance at the end of the month.

In our opinion, this new system of controlling disbursements should, if properly implemented, restrict payments to the Government of American Samoa to the amounts necessary for current operations and ensure compliance with Treasury regulations. (B-163687, March 21, 1968)

96. INVENTORY ACCOUNTING SYSTEMS FOR AERONAUTICAL EQUIPMENT--We found that the inventory accounting systems of the Navy for its aeronautical equipment did not provide management with the information necessary for efficient and economical operations and management of its resources. The Navy is implementing a plan for improvement. Our report on this matter

was issued to the Congress in September 1967.

Generally the causes of the conditions we found were (a) failure of operating personnel to follow written instructions and procedures, (b) lack of necessary controls in the systems, and (c) lack of effective identification and reporting to top management of matters requiring attention.

The Navy concurred, in general, in our findings, acknowledged the need to improve accuracy of inventory data, and stated that it would keep us fully informed of its progress in making improvements. (B-133118, September 29, 1967)

97. IMPROVEMENTS IN FINANCIAL MANAGEMENT SYSTEM TO PRODUCE BETTER INFORMATION--In a report issued to the Congress in October 1967, we expressed our belief that the financial management system of the U.S. Army Tank-Automotive Command was not providing timely, complete, and reliable financial data to the various levels of management for use in controlling programs and performing assigned missions. We found a lack of (a) controls within the system, including effective reconciliation of accounting records, (b) written procedures to ensure proper system documentation, (c) effective review and analysis of financial data, (d) proper flow of documents through the system, and (e) effective personnel training and management.

After we brought these matters to its attention, the Army took action to effect improvements. The Army has submitted to us periodic reports on the progress. (B-146772, October 31, 1967)

98. ACCOUNTING PROCEDURES FOR REIMBURSABLE COSTS--In August 1967 we reported on the need for certain revisions in the procedures and practices in accounting for reimbursable costs financed from the investigations revolving fund of the United States Civil Service Commission. Such revisions were needed to produce reasonably reliable and accurate financial and cost data, to provide for the full disclosure of the results of operations, and to comply with applicable law which required that any surplus funds accruing to the investigations revolving fund in any fiscal year be deposited into the general fund of the United States Treasury as miscellaneous receipts in the ensuing year.

Our recomputation of the operating results of the investigations revolving fund disclosed that the accounting procedures in effect had resulted in (a) offsetting income and losses from year to year and (b) the retention of an accumulated surplus in the investigations revolving fund. The equalizing of income and losses from year to year and the failure to deposit surplus funds from operating income into the United States Treasury--although such depositing was required by applicable law--resulted in reduced charges to Federal agencies in the succeeding year for the performance of personnel investigations, which made additional funds available to these Federal agencies for other purposes.

Since the Commission had initiated a program to overhaul and modernize its administrative accounting systems for salaries and expenses and for the revolving fund, we suggested that consideration be given to the adoption of improved procedures and practices in accounting for reimbursable costs of the investigations revolving fund which would enable the Commission to comply with the accounting principles, standards, and related requirements prescribed by the Comptroller General of the United States and with applicable law requiring the depositing of each year's surplus funds in the general fund of the United States Treasury.

In August 1967 the Chairman of the Commission advised us that the necessary adjustments had been made in the accounting procedures to accomplish the recommendations made in our report. The surplus funds of $784,104 at June 30, 1967, were deposited into the general fund of the United States Treasury as miscellaneous receipts in August 1967. (B-110497, August 4, 1967)

99. ACCOUNTING SYSTEMS IMPROVEMENTS--We reviewed the accounting system submitted on June 26, 1967, by the Civil Aeronautics Board to the Comptroller General for approval. Both during the development of the system and after its formal submission, representatives of the General Accounting Office worked closely on the system with the accounting officials of the Board. The Board accepted our suggestions for improving the system, including improving the accounting manual and establishing a small internal audit function to perform reviews and studies of the accounting operations. The system was approved by the Comptroller General in January 1968. (B-161885, January 18, 1968)

100. ALLOCATION OF PERSONAL SERVICES COSTS--In August 1967 we reported to the Assistant Secretary for Administration, Department of Labor, that our review of procedures followed by certain State employment security agencies in 11 States and Puerto Rico, in allocating personal services costs for fiscal year 1966 to the several Federal appropriations from which these costs are funded, did not provide reasonable assurance that proper associations were being made between appropriations charged and services performed.

We found that the State agencies were using a staffing plan procedure for charging appropriations whereby each position in the State agency's approved budget was identified with the program or activity under which it was approved and funded. The employees in the State agency are identified with these budgeted positions, and the amount of personal services costs to be charged to each Federal program is determined on the basis of the payroll costs for the positions assigned to the respective programs. This technique assumes that an individual spends all his time working on only one specific program.

Prior to fiscal year 1966, the Bureau of Employment Security prescribed a time-distribution system for determining the personal services costs to be charged to available Federal appropriations. Under this system, personal services cost allocations were to be based on records of time actually spent by employees on the respective Federal programs.

We compared the data on personal services costs reported by the 12 agencies under the staffing plan procedure with the data reported on the personnel time reports under the time-distribution system and noted considerable differences between the amounts of personal services costs chargeable to the various Federal appropriations under the two systems. Our comparison showed that the cost of about 210 equivalent positions, valued at over $1.3 million, would have been charged to different appropriations if the personnel time reports had been used as the basis of cost distribution.

Bureau officials advised us that they recognized that the staffing plan procedure of charging personal services costs probably resulted in some improper charges to Federal appropriations. They did not believe, however, that the significance of these charges could be determined by a comparison of the data under the staffing plan procedure with the data on the personnel time reports, because of the inaccuracy and unreliability of the data on the personnel time reports.

Bureau officials stated that the Bureau was developing a cost-accounting system recommended by a management consulting firm and that the system would provide for the proper charging of personal services costs to the respective Federal appropriations.

We advised the Assistant Secretary that we would follow the progress of this matter and would consider the propriety of the allocation system in use when the Department's accounting system was submitted to the Comptroller General for approval. (Report to Assistant Secretary for Administration, Department of Labor, August 31, 1967)

101. IMPROVEMENT OF THE ACCOUNTING AND FINANCIAL MANAGEMENT SYSTEM--We reported to the Congress

in March 1966 that, the financial statements of the Agency for International Development (AID) loan program did not, in our opinion, present fairly the financial condition of the loan program at June 30, 1964, or the results of operations of the program for fiscal years 1962, 1963, and 1964. Certain financial statement balances had been materially overstated and others understated because of accounting practices that, we believed, were not sound. Also, AID's accounting and financial management system had a number of significant weaknesses and did not fully comply with the accounting principles and standards prescribed by the Comptroller General.

During fiscal year 1968, AID submitted for approval a revised statement of basic accounting policy which had been substantially clarified and improved by changes worked out as a result of cooperative efforts between AID and the General Accounting Office. The statement incorporated broad accounting principles and standards to be followed as guidelines in the development of the several discrete operative accounting systems segments of AID's overall accounting system and was approved by the Comptroller General in December 1967.

AID also engaged the services of a contractor to design and develop an accounting system for the loan program in accordance with the accounting principles and standards prescribed by the Comptroller General. As a result of cooperative efforts between the contractor, AID, and the General Accounting Office, the system, as written, was approved by the Comptroller General in February 1968. (B-133220, March 11, 1966) (B-158381, December 29, 1967) (B-158381, February 19, 1968)

102. IMPROVEMENT OF THE ACCOUNTING AND FINANCIAL MANAGEMENT SYSTEM--As a result of our review of the accounting system for the Investment Guaranty Program, Agency for International Development (AID), we pointed out to agency officials in October 1967 certain deviations from the accounting principles, standards, and related requirements prescribed by the Comptroller General. These deviations related to the extent of application of the accrual accounting concept to income and expenses, the need to account for all costs directly related to carrying out operations of the guaranty program, and the requirements for disclosure in the financial reports of (a) annual leave costs and the related liability for accrued annual leave as of the close of each fiscal year and (b) contingent liabilities to investors under the program. We also commented on AID's practice of holding certain cash receipts in excess of 30 days. These receipts are fees received from applicants for guaranty coverage under title III of the Foreign Assistance Act of 1961, as amended, which are neither deposited in the Treasury nor recorded in AID's official proprietary accounts until a guaranty contract is officially executed. During a 6-month period ended December 31, 1966, AID had retained 45 checks, totaling about $500,000, for periods in excess of 30 days.

In December 1967, AID advised us of certain improvement actions taken, or to be taken, as a result of our suggestions. These actions related to (a) accrual of income and expenses, (b) accounting for all costs and capitalization of significant costs attributable to assets under subrogated claims, and (c) disclosure of costs and liability for accrued leave and disclosure of contingent liability to investors. AID disagreed with our suggestion regarding the prompt deposit of certain cash receipts held in excess of 30 days.

In a letter to the Administrator, AID, in June 1968, we reaffirmed our position on this matter and recommended that all receipts, including fees received from potential investors, be (a) recorded in AID's official accounts immediately upon receipt and (b) promptly deposited in the Treasury.

The Administrator, AID, informed us by letter dated August 6, 1968, that our June 1968 letter to him had been helpful in clarifying legal and regulatory requirements and that AID, henceforth, would (a) promptly deposit all receipts, including fees from investors under the AID guaranty program, in accordance with procedures prescribed by the Treasury

and (b) record the collections in AID official accounts immediately upon receipt. (Report to Assistant Administrator for Administration, AID, October 31, 1967; B-158381, June 21, 1968)

103. FINANCIAL MANAGEMENT REPORTING SYSTEM--We reviewed the Financial Reporting Manual, a segment of the overall accounting system of the Agency for International Development (AID), and tested the reports prescribed therein from the standpoint of (a) usefulness to responsible managing elements of AID, (b) adequacy in providing the financial management information portion of AID's overall financial management system, and (c) relationship to AID's ongoing work of improving its accounting system. Also, we reviewed AID's management of its report control system.

We found no evidence that (a) the concept of timeliness and usefulness of financial reports was actually being implemented and (b) progress was being reported in terms of performance related to plans. Also, we found a need for coordination in conception and design of the reporting system as an integral part of the overall management information system.

In our report of June 1968 to the Administrator, AID, we stated that, as a result of our review and tests, we had concluded that a basis did not presently exist for further consideration of this part of AID's overall accounting system preparatory to approving it. Accordingly, the Manual was returned for reconsideration and later resubmission to the General Accounting Office when the necessary prerequisities for an adequate financial reporting system have been accomplished. We suggested that, in the development of the financial reporting segment on a basis integrated with the aspects of the overall AID management information system, certain broad considerations should be recognized and dealt with by AID in conjunction with its financial management needs as follows:

--AID should develop a unified and comprehensive statement of management information needs.

--The authority for the basic conceptualizing and designing of management information systems and individual management reports should be revised to avoid the overlapping pattern which now exists.

--AID should consider whether the existing organization of staff functions creates an appropriate environment in which to evolve good management information systems.

(B-158381, June 19, 1968)

104. ACCOUNTING PROCEDURES AND RELATED CONTROLS OVER CASH AND PROPERTY--Our review of accounting and related control procedures of Saint Elizabeth's Hospital, in Washington, D.C., Public Health Service, Department of Health, Education, and Welfare, showed certain weaknesses in procedures intended to provide control over cash and property, particularly with respect to cash receipts, property acquisitions, and physical inventories of equipment and supplies. We also found a need for improving accounting procedures for certain costs, assets, and liabilities to allow the recording and reporting of financial transactions in an accurate and reliable manner and in conformity with the principles, standards, and related requirements prescribed by the Comptroller General.

In our report to the Secretary in February 1968, we expressed the belief that some of the weaknesses could be attributed, in part, to inadequate written instructions for the guidance of the Hospital's accounting personnel and that, pending completion of the revised accounting system and related manuals for the Public Health Service and its constituent agencies, the Hospital should have adequate interim written instructions governing day-to-day accounting operations. Hospital officials told us that they had been unsuccessful in hiring a sufficient number of qualified accounting personnel. We suggested that appropriate elements within the Public Health Service be directed to assist the Hospital in preparing written instructions, recruiting qualified personnel, and providing suitable training for employees assigned to accounting and related functions.

In May 1968, the Public Health Service informed us that, in general, our recommendations were acceptable; that some had already been effected as a result of contacts with representatives of our Office; and that the others would be the subject of further study. (B-133099, February 29, 1968)

105. SYSTEM PROCEDURES AND CONTROLS FOR CASH--In a review of the procedures and controls employed by the United States Disbursing Officer (USDO) at the Department of State's Regional Finance and Data Processing Center (RFDPC), Paris, France, and at selected foreign service posts serviced by the RFDPC, we observed the need (a) to perform independent reconciliations of foreign currency bank accounts, (b) to strengthen controls over local deposit and trust funds and to obtain Treasury Department concurrence for maintenance of accounts in local banks, (c) to improve controls for processing collections, and (d) to deposit collections of funds promptly.

--The reconciliation function as performed by the USDO at RFDPC and the verification procedures employed by the Treasury Department in Washington with respect to foreign currency bank accounts maintained by the USDO were not fully adequate to identify possible irregularities and that periodic independent internal audit reviews into the effectiveness of the USDO's reconciliation procedures should be made.

--Local deposit and trust funds on hand at RFDPC-serviced posts and on deposit in local bank accounts had not been reported to the Treasury Department although required by existing procedures; moreover, these local bank accounts had been established without the required concurrence of the Treasury Department.

--The USDO's cash accounting clerk who processed cash received from serviced posts also had access to, and complete control of, related source documents; therefore, there was a need for separation of these functions to provide added controls through internal checks and balances.

--The cash accounting clerk was not complying with a requirement that cash and cash instruments be deposited on the day received.

The Director of Audit Program, Department of State, advised us that future audits of RFDPC would include reconciliations. Supervisory officials at RFDPC instructed the cash accounting clerk to deposit daily all cash received.

Our January 1968 report to the Department of State included appropriate recommendations to improve controls for processing collections and to strengthen controls over local deposit and trust funds. The Department's reply to our report, received in June 1968, did not provide information concerning specific actions taken or planned with respect to our recommendations. The Department did advise us, however, that it had derived value from our review and report and intended to work closely and continue to consult with our Office and keep us informed of significant actions taken to strengthen the management control processes at RFDPC.

We were further advised, on an informal basis, that a more specific response to our report would be furnished at a later date. (B-146703, January 31, 1968)

106. TIMING CASH WITHDRAWALS TO COINCIDE WITH ACTUAL CASH REQUIREMENTS--Our review of certain aspects of the system used by the Office of Education in funding programs carried out under title I of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 241a) revealed that local educational agencies had obtained substantial amounts of cash under the letter-of-credit system which was either premature to

or in excess of their needs.

In November 1967, in a report to the Commissioner of Education, Department of Health, Education, and Welfare, we pointed out that our review in the States of Ohio, New Jersey, and West Virginia showed that excess cash funds from fiscal year 1966, totaling about $7 million, existed at many local educational agencies. During our review in Ohio, we found no evidence that guidance had been provided to local educational agencies as to what factors should be considered in determining actual cash requirements. We stated that the procedures for determining cash requirements for all title I federally funded programs in Ohio may not provide adequate guidance to forestall the accumulation of excess funds by local educational agencies.

We pointed out also that excess cash funds in the possession of one local educational agency in Ohio had been invested with no subsequent reimbursement to the Federal Government for interest earned thereon and stated that immediate attention should be given to the possibility that significant amounts of interest income earned on excess Federal funds may be due the Government.

We recommended that the Commissioner of Education issue guidelines and take such further action as he deems appropriate to improve the operation of the letter of credit procedure and to maintain more effective program surveillance over the manner in which the procedure is being implemented. We recommended also that the Commissioner take whatever actions are necessary to identify those local educational agencies which invested excess Federal funds and to recover any interest earned on such funds.

In January 1968 the Commissioner advised us that a memorandum had been issued to State officials and agencies in which some guidelines were prescribed to improve control over the flow of cash to the State level and below. The Commissioner cited certain other actions which would be taken to resolve the excess funds problem, including the development of an overall statement of letter of credit procedures and policies, the implementation of instructions to update letter of credit requirements, and the increased use of regional office representatives to work with States to improve letter of credit operations.

In regard to the interest earned on Federal funds invested by the local educational agency, the Commissioner advised us that the amount of interest due the Government would be determined and a recovery would be negotiated. He indicated that interest earned on the investment of Federal funds by other local educational agencies would also be determined and recovered. (Report to Commissioner of Education, Department of Health, Education, and Welfare, November 27, 1967)

107. TIMING CASH WITHDRAWALS TO COINCIDE WITH ACTUAL CASH REQUIREMENTS--Our review of certain aspects of the letter-of-credit system used in financing the grant programs of the constituent agencies of the Department of Health, Education, and Welfare (HEW) showed that, despite past efforts of HEW to minimize interest costs to the Government for financing its various grant programs, many grantees were still withdrawing Federal funds under the system in amounts greater than necessary to meet their current disbursement requirements.

Our review principally concerned public assistance grants made to the States of California, Illinois, and Missouri, administered by the Social and Rehabilitation Service; certain grants made to the State of Illinois, administered by the Office of Education; and selected research and training grants made to two hospitals and one university, administered by the National Institutes of Health.

In the three States we found that significant portions of the Federal's share of expenditures for public assistance programs had been withdrawn from the Treasury substantially in advance of the time that the actual disbursements were made. In one State, we noted similar practices with respect to other grant programs administered by the Social

and Rehabilitation Service and to certain grants administered by the Office of Education. In our review at the three grantee institutions, we found that neither the amount of cash balances maintained nor the frequency of cash withdrawals had been in accord with the grantees' then-current cash requirements.

In our opinion, the practices followed by the three States and the three grantee institutions are contrary to the policies set forth in Treasury Department Circular No. 1075, which states, in part, that it is essential that everything possible be done to preclude withdrawals from the Treasury any sooner than necessary to finance recipients' operations and that grantees should maintain Federal cash balances as close to daily needs as administratively feasible.

In a report, HEW's Audit Agency pointed out that in 45 States some State agencies were maintaining significant balances of idle Federal funds in one or more grant programs and estimated that the Government could have realized interest savings of more than $4 million during the 9-month period covered by the survey had grantees made withdrawals under their letters-of-credit more closely in line with their immediate cash needs. The Audit Agency suggested several corrective measures for the improvement of the operation of the letter-of-credit system, including improving the letter-of-credit monitoring system of HEW's operating agencies, clarifying the operating instructions to grantees, and working with appropriate State officials to adjust restrictive requirements to accommodate letter-of-credit operations.

In January 1968, HEW promulgated new instructions for the use of letters-of-credit to all organizations that were recipients of HEW grants. The new instructions require, for the first time, that common criteria be issued by all HEW's constituent agencies to their grantees using the letter-of-credit system.

In a report to the Secretary of Health, Education, and Welfare in June 1968, we acknowledged HEW's awareness of the need to maintain effective management controls over the manner in which grantees implement the letter-of-credit system and its recent action in issuing new instructions for the use of letters of credit should help strengthen such controls and, if properly implemented, should result in significant reductions in interest costs to the Government.

We expressed the belief, however, that the information developed during our review pointed up the need for continued attention to the effective monitoring of the letter-of-credit operations, not only through the quarterly financial reports submitted by grantees, but also through onsite reviews by program personnel. We expressed the belief also that specific attention should be directed to those cases, discussed in our report and in the reports of the HEW's Audit Agency, where improvements are needed in the use of the letter-of-credit by the particular grantees concerned. (B-164031, June 21, 1968)

108. ACCOUNTING AND COLLECTION PROCEDURES FOR BENEFIT OVERPAYMENTS--In a report issued in December 1967, we pointed out to the Railroad Retirement Board certain procedural changes which we believed would help to improve the accounting for and collection of certain railroad retirement annuity and unemployment and sickness insurance (U&SI) benefit overpayments.

The changes in accounting procedures involved (a) establishing accounting control when identifying certain U&SI overpayments and (b) promptly recording overpayment collections which are either refunded by annuitants or withheld by the Board from monthly annuity payments. The changes also involved following up, at prescribed intervals, on installment collections of overpayments, and more promptly collecting U&SI overpayments by arranging to withhold debtors' annuity payments.

We brought to the Board's attention our findings concerning its accounting and collec-

tion procedures. The Board informed us, in a letter dated January 2, 1968, that, in automating its overpayment accounting and collection operations, steps were being taken to strengthen the foregoing procedures. (B-114817, December 4, 1967)

109. STATEMENT OF PRINCIPLES AND STANDARDS FOR ACCOUNTING SYSTEM--We reviewed the proposed statement of principles and standards for the accounting system of the Securities and Exchange Commission (SEC). As a result of cooperative efforts between SEC and the General Accounting Office, several improvements were made to the proposed statement, relating to the accumulation and internal reporting of cost information.

In June 1968 we informed the Chairman of SEC that, on the basis of our review, we believed that the proposed statement of principles and standards constituted acceptable guidelines for the development of a revised accounting system that, when effectively documented and implemented, could be deemed to meet the requirements for approval under the accounting principles and standards prescribed by the Comptroller General. The statement of principles and standards was therefore approved. (B-115372, June 26, 1968)

Note: For additional items related to "Accounting and Fiscal Matters," see section on "Economic Opportunity Programs," items Nos. 5, 18, 19, 20, and 28.

AUDITING PROCEDURES

110. FOLLOW-UP ACTION ON INTERNAL AUDIT RECOMMENDATIONS--In an April 1968 report to the Congress, we expressed the opinion that the policies, directives, and responsibilities for the Post Office Department's internal audit program were adequate to provide management with independent, objective, and constructive appraisals of the effectiveness and efficiency with which the financial and operating responsibilities of the Department were being performed and that the Department's Internal Audit Division had carried out the internal audit responsibilities in a reasonably satisfactory manner.

We had found, however, that the Department's procedures for follow-up action on recommendations contained in internal audit reports needed improvement. We therefore proposed that the Department issue instructions to provide for periodic reporting to top management on the status of corrective action to be taken on recommendations contained in internal audit reports. In line with our proposal, the Department issued a revised Headquarters Circular to establish the necessary internal management controls over the action to be taken on internal audit reports. (B-160759, April 12, 1968)

111. ORGANIZATIONAL AND OPERATIONAL FEATURES OF INTERNAL AUDIT--On the basis of our review of the direction of the internal auditing and investigating activities of the Department of Agriculture, we concluded that the Office of the Inspector General (OIG) was generally effective in providing management with reliable information for improving controls over the Department's operations.

It was our opinion that the following organizational and operational features of the Office of the Inspector General enhanced its effectiveness as follows:

--Placing the Office in a position directly responsible to the Secretary of Agriculture provides the Inspector General with maximum independence in planning, programming, executing, and reporting on all departmental activities.

--A system for reporting significant disclosures to the Secretary and to other top management officials permits these matters to be brought to their attention as soon

as detected, keeps them informed through periodic follow-up reports, and eliminates the undue burden which would be placed on them if all reports of the OIG were issued to that level.

--An informational retrieval system codifies audit and investigation findings and permits the OIG, among other things, to identify trends or sudden increases in program or management deficiencies.

--The self-inspection program of the OIG, which is designed to assist in achieving and maintaining top efficiency within the organization, provides useful information for evaluating the manner in which the responsibilities of the Office are being carried out and a sound basis for determining changes necessary for improving the organization.

--Emphasis on staff training is considered an important and necessary means of developing and maintaining an effective internal audit and investigation service.

In our report to the Congress, we pointed out that certain changes in the operations of the OIG would result in better service to management. We recommended that (a) the Inspector General continue efforts toward directing audit resources to broader based reviews and reexamine the role followed in appraising the Food Stamp Program and (b) the Secretary of Agriculture define the role of the OIG in the present efforts to improve the accounting systems of the Department.

The Secretary of Agriculture advised us of his agreement in general with our recomendations. (B-160759, May 8, 1968)

112. ORGANIZATIONAL PLACEMENT AND COVERAGE OF INTERNAL AUDIT-- We found three major weaknesses in the Federal Aviation Administration's internal audit function; namely, that (a) the audit staffs did not possess the desired degree of independence from officials responsible for many of the operations reviewed (b) the independence of the audit staffs was impaired by the performance of advisory services for operating officials concurrent with their internal audit duties, and (c) the audit staffs had not achieved adequate audit coverage in certain areas of agency operations.

We therefore proposed that the Administrator (a) centralize the field and headquarters staffs into a single organization whose director is placed at the highest practicable level in the agency, (b) separate the advisory services functions from the internal audit staffs, and (c) take action to ensure that all significant areas of the Administration's operations are audited on a systematic basis.

The Administrator agreed generally to implement our proposals. Also, we were informed that the Associate Administrator for Administration would provide executive direction to the internal audit group. Moreover the Administrator, prior to commenting on our proposals, issued a directive which requires that internal audit reports prepared as a result of agencywide reviews be sent directly to him without prior review by the Associate Administrator and that the Director of the agency's Office of Audit have free and direct access to the Administrator. (B-160759, July 2, 1968)

113. PROVISION OF INTERNAL AUDIT SERVICE-- During our audit of the financial statements of the Saint Lawrence Seaway Development Corporation for calendar year 1966, we again reviewed the internal audit work performed by a Corporation employee who had other duties in the comptroller's office. The areas covered by the internal audit were somewhat limited and almost no review work was performed to determine the reasonableness of the Corporation's expenses or with a view to potential economies in the Corporation's operations. For some assignments we were unable to adequately evaluate the audit work because the internal audit workpapers did not fully disclose the scope of the work performed.

In a letter to the Administrator of the Corporation in January 1965, we commented on the benefits that would be received from a broad-based internal review, an appraisal, and a reporting function as an integral part of the Corporation's system of management control. Because of the relatively small size of the Corporation's operation and because the Corporation is now part of the Department of Transportation, we concluded that the Department's internal auditors should make regular periodic internal reviews of the Corporation's operations.

Subsequent to the completion of our work, the Administrator informed us that the Corporation had arranged for the use of the Department of Transportation's internal audit staff to perform a broad-based internal review of Corporation activities. The report on this review was issued in February 1968. Also, officials of the Department informed us that action had been taken to provide future audit service to the Corporation through the resources of its Office of Audit. (B-125007, May 6, 1968)

114. ORGANIZATIONAL PLACEMENT OF INTERNAL AUDIT FUNCTION--We reported to the Secretary of the Army that our review of the activities of the internal audit organization of the Panama Canal Company showed that there was a need to enhance the independence of the internal auditors under the direction of the Comptroller who had responsibility for directing various other operations which were extensively reviewed by the internal auditors.

In our May 26, 1967, letter to the president of the Company, we pointed out that the General Auditor, as head of the General Audit Division, was responsible for the internal audit functions and also for significant operational functions of the Claims Branch that were subject to review by the internal auditors. We expressed the view that these divided audit and operational responsibilities of the General Auditor were not conducive to achieving the maximum possible degree of independence and objectivity of the internal audit function.

We were subsequently advised that the president of the Company had approved action to effect the transfer of supervisory responsibility of the Claims Branch from the General Auditor to the Chief Accountant, as of August 17, 1967. We believed that this organizational realignment would help to strengthen the internal audit function of the Company organization; however, we noted that the internal audit organization continued to function under the direction of the Comptroller.

By letter of August 7, 1967, the president of the Company advised us that he believed it undesirable at the time to make any major changes in the Company's organizational structure. In this respect, he referred to current treaty negotiations with the Republic of Panama, which were expected to materially alter the status of the entire organization.

We recognize that uncertainties relating to proposed changes in the status of the organization must be weighed in considering any major organizational changes in the Company at this time. Nevertheless, we believe that the internal audit activity should be responsible to the highest practicable organizational level and that, whenever this responsibility is assigned to a principal subordinate official, there should be assurance that the degree of independence and effectiveness of internal audit will provide top level management with objective and impartial appraisals of its programs and activities.

We therefore believe that, in the absence of any further organizational realignment of the internal audit function of the present organization, the degree of independence and effectiveness of this activity in relation to the other activities under the direction of the Comptroller will depend on whether, irrespective of the organizational placement, the president and the Company's board of directors will be concerned with and apprised of the internal audit planning, programming, execution, and reporting functions. (B-160759, January 15, 1968)

115. INTERNAL AUDIT POLICIES AND PRACTICES--We found that the organi-

zation, audit policies, directives, plans, and operations of the internal audit organizations in the Department of Defense complied substantially with requirements for an effective internal audit system. We found also that the Department's internal audit policies, directives, and plans were being implemented in a generally satisfactory manner. These findings were stated in a report issued to the Congress in March 1968.

Our review was primarily directed to obtaining current information on the adequacy of the auditing activities of the Department's five formally designated internal audit organizations.

In view of the existence of numerous separate internal review and surveillance organizations in the Department performing management reviews, we also gave consideration to the need for coordination of review work in order to avoid omissions and duplication and to direct the total effort so as to maximize results. Because of our lack of knowledge of the management review activities of the Inspectors General of the military departments, which stems from constraints on making the related records available for our review, we indicated that we had been unable to ascertain whether the activities of the designated audit organizations and the Inspectors General were effectively coordinated so as to avoid duplication and obtain the best results from the total review effort.

We made a number of proposals for consideration in the performance of future internal audit activities. The Department of Defense concurred in these proposals, except with respect to our proposal that a study be made of the work of the numerous organizations and activities conducting management reviews, with a view to strengthening over-all control, direction, and coordination of such efforts. The Department doubted whether such a study would be productive but proposed to consider the matter further. (B-132900, March 8, 1968)

116. ORGANIZATIONAL PLACEMENT AND MANNER OF CONDUCTING INTERNAL AUDITS--We found that the internal audit efforts of the District of Columbia Government had been applied in a manner that had resulted in individual audits being limited in scope and consisting mainly of verification and compliance-type audits. Although there were more than 300 audit reports in fiscal year 1966, very few of the reports were the result of comprehensive evaluations of programs, activities, or operations.

In a report dated February 1968 to the Commissioner, District of Columbia Government, we expressed the belief that internal audits would be more effective and of greater assistance to top management if reviews were more comprehensive than those then being made and if increased emphasis were placed on evaluations of operating efficiency and economy. We expressed the belief also that, in order to achieve this objective, the Internal Audit Office would need clearer authority and greater independence of action than it then had as an organization within the Department of General Administration, which was responsible for District-wide procurement and management of certain resources, including property and supplies. On the basis of our examination of the auditors' workpapers and techniques, we believed that, given the opportunity, the auditors were capable of making more comprehensive reviews.

We recommended in our report that the Internal Audit Office be established as a separate staff group responsible directly to the Commissioner or to the Assistant to the Commissioner and that it have clear authority to make comprehensive reviews.

During fiscal year 1967 and 1968, the Internal Audit Office substantially reduced the number of reports being issued. We have been informed by the Internal Audit Officer that this has been the result of performing more comprehensive reviews, combining related reviews so that better overall evaluation of the operations in one agency is reported, and eliminating the issuance of reports when no deficiencies were disclosed. In a memorandum issued in April 1968, the Assistant to the Commissioner instructed the heads of departments and agencies to take prompt action to implement all audit recommendations and to

notify the Internal Audit Officer within 60 days of the action taken or planned. (B-160759, February 20, 1968)

117. EXPANSION AND RELOCATION OF INTERNAL AUDIT FUNCTION--In a report issued to the Congress in June 1968 on the results of our review of the internal audit functions at the Department of Labor, we concluded that the Department had made limited use of its internal audit staff as a management tool even though the Department's programs had been expanding. Many of the Department's activities and programs had never been subjected to any regular program of internal auditing, and other important activities and programs had been given only limited internal audit coverage.

We found, for example, that (a) the Department had only four auditors assigned to its internal audit staff at the time of our review in fiscal year 1967, (b) only four limited reviews of Labor programs were conducted during fiscal year 1967, and (c) all the internal audit reviews were performed in Washington, although the Department had over 200 field offices where 44 percent of its employees were stationed. We found also that the audit staff had reported its findings to a Department official whose responsibilities included some of the activities being audited.

The Secretary of Labor agreed with our proposal to take appropriate action to substantially increase the Department's internal audit activity commensurate with needs. The Secretary did not agree with our proposal to relocate the internal audit function organizationally to report to a higher level in the interest of greater independence and objectivity. He stated that objectivity could be achieved within the present organizational structure although a procedural change, involving reporting, would be made to maintain objectivity.

We recommended to the Secretary of Labor that the internal audit function report to the highest practicable level, preferably the Secretary or Under Secretary or at least to an official who reports directly to the Secretary. We recommended that, if the internal audit function does not report directly to the Secretary, the Secretary establish adequate controls to ensure the independence of the internal auditors. (B-160759, June 6, 1968)

118. ORGANIZATIONAL PLACEMENT OF INTERNAL AUDIT FUNCTION--In a letter to the Director of the Peace Corps in December 1967 on a limited examination into a reorganization involving the internal audit function, we stated that our comparison of the functional statement in the Peace Corps Manual for the former Audit Staff with the proposed functional statement for the new Division of Administrative Support and Review led us to believe that the review function would be restricted and also would be subordinated to the operational functions of the new division. Under the reorganization, announced in August 1967, the position of Special Assistant for Field Support and the Audit Staff were replaced by a Division of Administrative Support and Review within the Office of Administration.

We recommended that the Director of the Peace Corps reconsider the reorganization decision with a view to improving the system of management control by reestablishing and improving the internal audit function and ensuring its independence from line-operating functions.

A new functional statement accompanying the Director's reply in January 1968 did not include the particular constraints on the auditors referred to in our report except for such constraint on auditor independence as may have been caused by the organizational placement of the internal audit function.

We continue to be concerned because the internal auditors are in a position subordinate to officials who are directly responsible for important operations that are subject to review. A Bureau of the Budget representative told us in June 1968 that the Bureau intended to urge the Peace Corps to consider this matter further. (B-160759, December 27, 1967)

119. ORGANIZATIONAL PLACEMENT AND PERFORMANCE OF INTERNAL AUDIT FUNCTION--In December 1967 we reported to the Congress that, on the basis of our review, we believed that the inspections made by the Federal Bureau of Investigation's Inspection Division constituted effective internal auditing; however, we found a need for improvement in the internal audit functions of the Department of Justice's legal activities and general administration, the Bureau of Prisons, the Federal Prison Industries, Inc., and the Immigration and Naturalization Service.

We found that no internal reviews had been made of the financial or program activities of the headquarters organizations of the Department the Federal Prison Industries, Inc., or the Immigration and Naturalization Service, and that only limited, sporadic reviews had been made of the Bureau of Prisons' headquarters activities. In addition, very infrequent internal reviews had been made of financial transactions of Immigration and Naturalization Service field installations. In our opinion, with the exception of the Federal Bureau of Investigation, the Department's separate internal audit organizations have generally not served as an effective element of management control and need to be improved to increase the effectiveness and efficiency of their operations.

We found also a need to improve the documentation of the internal reviews so that adequate evaluations could be made of the quality and scope of the work performed. In addition we found that the effectiveness of internal audit reports for promoting corrective action could be improved by furnishing copies of reports to all organizational units audited.

We expressed the opinion that a central internal audit organization within the Department, excepting the Federal Bureau of Investigation, responsible solely to top management, would provide a better means for more effectively carrying out the internal audit function and would serve more effectively as an integral part of the Department's overall system of management control.

The Assistant Attorney General for Administration generally agreed with our findings. He informed us that a central audit organization, reporting directly to him, had been established and that the entire examination approach, scope, procedures, and reporting practices were being reviewed and changes were in process to bring them into conformance with the internal audit principles suggested by us.

We recommended that as soon as practicable, to ensure that the degree of independence and effectiveness of the internal auditing activity will provide the Attorney General with objective and impartial appraisals of the Department's programs and activities, the central internal audit organization be made responsible to the Attorney General or to a principal subordinate official.

We recommended also that the Federal Bureau of Investigation internal audit reports be available to the Attorney General and that the Attorney General issue policy guidance and cause such reviews of the Bureau's internal audit function to be made as he may deem necessary. (B-160759, December 26, 1967)

120. VERIFICATION OF GRANTEES' VALUATIONS OF EQUIPMENT--During our review of Federal financial assistance furnished by the Office of Education, Department of Health, Education, and Welfare (HEW) to selected grantees, for the construction of educational television broadcasting facilities, we found the need for the Office of Education and HEW's Audit Agency to strengthen certain procedures so as to improve the administration of this program.

In a report to the Secretary of Health, Education, and Welfare in July 1967, we expressed the belief that the procedures, employed by the Office of Education and the Audit Agency for verification of grantees' valuations of equipment owned at the time of their application for matching grants and claimed for 25-percent credit, did not provide for securing sufficient evidence on which to determine whether such equipment was valued in accordance with existing regulations.

The regulations issued for the use of potential grantees specify that the valuation of purchased equipment shall be based upon cost but shall not be in excess of fair market value at the time of acquisition for educational television purposes and that the valuation of equipment received by gift or donation shall be based upon fair market value at the time of gift or donation.

Our review revealed that grantees in applying for matching grants had, in some cases, valued purchased equipment at more than cost and in other cases had not adequately substantiated the valuations of donated equipment. Our review of the case files and our discussions with Office of Education officials did not disclose specific evidence as to what supporting documents had been examined by the officials who reviewed the amounts claimed for credit. Also, we found that the audit procedures followed by HEW's auditors did not require a review of the valuation of owned equipment claimed for credit.

At several grantee locations, although the grantees' valuations had been accepted by the Office of Education, the documentary evidence supporting the valuations for donated equipment did not, in our opinion, provide acceptable evidence that the grantees' valuations satisfied the criteria set forth in the manual issued by the Office of Education. We pointed out that acceptance of the unsigned, undated documents and of the amount of shipping insurance as proof of value does not establish a valid basis on which to authorize disbursement of public funds. Also, while HEW's audit manual provided procedures for determining whether fair market value of donated equipment had been correctly applied in all computations which materially affected the amount of the grant, we found that HEW's Audit Agency had not reviewed the determinations of the value of equipment in these cases but had qualified its report by stating that it had accepted the valuation as determined by the Office of Education.

We recommended that HEW's audit procedures be revised to provide for the verification of the value of purchased equipment, that such verification work include tracing values to supporting documents to provide sufficient evidence to justify a conclusion as to the amounts paid by a grantee and that the auditors include in their workpapers a record of the items reviewed.

We recommended also that the Office of Education require the submission of more adequate documentary support for valuations assigned to donated equipment and that the HEW audit manual be revised to include the requirement that auditors examine into and report on instances in which they find that proper documentary support for the values of donated equipment has not been provided.

In October 1967 the Assistant Secretary, Comptroller, indicated that procedural changes consistent with our recommendations had been instituted by the Office of Education and that audit guides for the review of the educational television program were being revised to cover the weaknesses noted in our report. (B-161677, July 18, 1967)

Note: For an additional item related to "Auditing Procedures," see section on "Economic Opportunity Programs," item No. 17.

COLLECTION ACTIVITIES

121. EXPEDITING DEPOSIT OF COLLECTIONS--Our review of the procedures used by the Farmers Home Administration (FHA) for depositing loan collections showed that annual savings in interest costs to the Government would result by expediting the deposit of FHA loan collections. In this respect, we suggested to the Administrator, FHA, that FHA procedures be revised to enable county supervisors to make daily deposits of loan collections directly into existing or designated general depositaries of the Treasury Department. Such a change would result in funds' being available to the Treasury about 3 to 4 days earlier than under existing deposit procedures.

FHA subsequently issued revised instructions which required about 545 county offices to use designated depositaries. As a result of this action, we estimated that savings of about $106,000 in interest costs to the Government would be realized in fiscal year 1968. Moreover, such savings will increase as the amount of loan collections becomes greater and additional depositaries are designated. (Report to Administrator, Farmers Home Administration, July 12, 1967)

MANAGEMENT PRACTICES - GENERAL

122. DISPOSAL OF RECORDS--For each registrant, the Selective Service System (SSS) prepares an individual case file in which all documents pertaining to him are filed. In addition to the case files, other records on each registrant are maintained by SSS. We made a test of the activity during a 2-week period of about 1.7 million case files of registrants aged 35 and over who were beyond the age of liability for training and service in the Armed Forces. At the time of our review there were 8.2 million registrants in this category. We found that most of the information requested from the case files was available from other SSS records or from military personnel folders.

Therefore, in a report to the Director in April 1968, we expressed the belief that case files pertaining to such registrants, in general, are not needed for the operations of the SSS. If these records were destroyed and certain other records related to World War II registrants were transferred to Federal Records Centers operated by General Services Administration (GSA), economies of about $108,000 in personnel and space costs could be realized annually. In addition, filing equipment originally costing about $355,000 could be released or utilized for other purposes.

We therefore proposed that SSS (a) destroy certain case files of registrants aged 35 and over who are beyond the age of liability for training and service in the Armed Forces and (b) take the action necessary to have the records of World War II registrants transferred from the SSS to the GSA for storage and servicing.

The SSS informed us that it disagreed with our conclusions and suggestions. In general, the SSS disagreed with our proposals on the basis that SSS has a need for all case files of registrants and that SSS was not convinced that the GSA records centers could service the records of World War II registrants at less cost to the Government. (B-160672, April 11, 1968)

123. CONTROLS OVER DISTRIBUTION OF PUBLICATIONS--In a report to the Director, Office of Field Services, Department of Commerce, we commented that, although controls over Government Printing Office publications sent to field offices appeared generally satisfactory, controls over Department of Commerce publications sent to field offices were not adequate because records were not being maintained to show quantities received and quantities sold or otherwise distributed. As a result, we were unable to ascertain whether all receipts applicable to the sale of publications were being collected and accounted for.

On October 5, 1967, the Director, Office of Field Services, advised us that our letter had been referred to the Management and Organization Division of the Office of Administration for Domestic and International Business, for review and study, since the sale of Department publications and other material by the field offices covered material furnished by all the Bureaus and Offices in the Domestic and International Business area, as well as other Bureaus and Offices of the Department.

Subsequently, we were informed by an agency official that a system of control over periodicals had been developed and was in the process of being made operational. (Report to Director, Office of Field Services, Department of Commerce, September 29, 1967)

124. USE OF REGISTERED, RATHER THAN CERTIFIED, MAIL--Executive orders, a Department of Defense directive, and ser-

vice regulations permit the use of certified mail for transmitting confidential material within the continental United States. As stated in a report issued to the Congress in April 1968, we found that certified mail was not being used for this purpose to the fullest extent practicable because regulations did not require its use and because opinions differed regarding the adequacy and suitability of certified mail.

In our opinion, considerable savings could be realized and adequate security could be maintained if certified, rather than registered, mail were used in the Department of Defense for transmitting confidential material. The Department of Defense agreed and took steps to revise its directive to require that, as a general policy, certified mail be used to the maximum extent practicable.

We recommended that the Director, Bureau of the Budget, in consonance with his responsibilities under the President's cost reduction program, inquire into the practices of other Government agencies with a view toward the use of the least costly and most suitable method of mailing classified material. The Bureau of the Budget concurred. (B-146979, April 8, 1968)

125. DISTRIBUTION OF RESEARCH AND DEVELOPMENT REPORTS--One of the responsibilities of the Defense Documentation Center (DDC), an organizational unit of Defense Supply Agency, is to distribute, free of charge, copies of research and development reports within the Department of Defense and to other Federal agencies, Government contractors, and the scientific and technical community. We noted that DDC was equipped to provide the copies in a number of formats and at various production costs. In a report issued to the Secretary of Defense in January 1968, we pointed out that substantial savings might be realized if greater use of the least expensive format were practicable. We estimated that about $300,000 could be saved annually if high-volume users were furnished microfiche copies in place of hard copies of reports.

In reply, the Department of Defense advised us that it planned early implementation of a policy whereby microfiche copies would be furnished free and a charge would be made for hard copies. This would encourage maximum use of microfiche copies while continuing to provide hard copies for those who require them. (B-163391, January 30, 1968)

126. DUPLICATIVE RECORDS MAINTAINED--At three of the foreign service posts serviced by the Department of State's Regional Finance and Data Processing Center (RFDPC) at Paris, France, we found that duplicative and unnecessary records were being maintained. Maintaining such records reduces the potential tangible benefits intended to be realized from the centralized system at RFDPC.

We therefore recommended in a report to the Department in January 1968 that steps be taken to eliminate certain duplicative and unnecessary records at foreign service posts serviced by the RFDPC. The Department's reply, received in June 1968, did not indicate the specific action taken, or planned to be taken, on our recommendation. The Department did advise us, however, that it had derived value from our review and report and intended to work closely and continue to consult with our Office and keep us informed of actions taken to strengthen the management control processes at RFDPC.

We were informally advised that a more specific response to our report would be furnished at a later date. (B-146703, January 31, 1968)

127. UPDATING OPERATIONS MANUALS--We found that manuals relating to operations of the Department of State's Regional Finance and Data Processing Center (RFDPC) at Paris, France, had not been updated for several years and, because of their obsolescence, did not provide adequate written guidance to operating personnel or meaningful and reliable information to audit and other review groups. Officials at RFDPC concurred in the need to update the manuals.

In a report to the Department in January 1968, we recommended that steps be taken to ensure appropriate updating and current maintenance of the RFDPC manuals and their integration and/or coordination with the Department's system of manuals and circular instructions. The Department's reply to our report, received in June 1968, did not indicate the specific action taken, or planned to be taken, on our recommendation. The Department did advise us, however, that it had **derived value from our review and report and intended to work closely and continue to consult with our Office and keep us informed of actions taken to strengthen the management control processes at RFDPC.**

We were further advised, on an informal basis, that a more specific response to our report would be furnished at a later date. (B-146703, January 31, 1968)

FOREIGN ASSISTANCE PROGRAMS

128. RECOVERABILITY OF MILITARY ASSISTANCE PROPERTY DECLARED EXCESS BY RECIPIENT COUNTRIES--In July 1967, we reported to the Congress that in releasing excess Military Assistance Program (MAP) property to recipient countries, the Department of Defense (DOD) had not always determined, on a case-by-case basis, whether it would be economically beneficial for the United States to recover the property should it subsequently become no longer required by the recipient country. We pointed out that this had had the effect of adding millions of dollars worth of additional United States aid to recipient countries that was not readily apparent because it was not part of the usual aid programs but consisted of the proceeds realized by recipient countries from the sale of MAP-donated property which they no longer required.

We expressed the opinion that proceeds from disposal sales could have been realized by the United States had case-by-case economic recoverability determinations been made and that these proceeds also would have had a favorable effect on the United States balance-of-payments position.

We pointed out that a significant amount of the property offered by the recipient countries to the United States for recovery had been released to the recipient country without DOD's first determining whether the property was economically recoverable to the United States for either redistribution or disposal purposes. We pointed out also that there were billions of dollars worth of MAP property still in the possession of MAP recipient countries that would eventually be offered to the United States for recovery.

Although the United States practice of disposing of excess MAP property differed in many recipient countries, we expressed the opinion that DOD could have increased United States revenues from the disposal of excess MAP property in foreign countries by recovering for disposal by United States disposal agencies a greater amount of that property which had been declared by recipient countries to be excess to their needs. We expressed the opinion also that the release of property which might have been determined to be economically recoverable had deprived the United States of foreign currency which otherwise could have been realized by the United States and used to reduce dollar expenditures. In this regard, there could have been a favorable effect on the United States balance-of-payments position.

In commenting on our report, the Departments of State and Defense advised us that they could not agree with all our findings and conclusions. However, we issued our report to the Congress to advise it of the additional assistance being provided to certain recipient countries in the manner described above. (B-161049, July 12, 1967)

129. IDENTIFICATION AND USE OF MILITARY ASSISTANCE EQUIPMENT--In November 1967 we reported to the Congress that improvements were needed in the management of Military Assistance Program (MAP) equipment by the Department of Defense and the Department of the Army. We pointed out that

--certain unassigned MAP-owned equipment in Army storage was not being used to satisfy requirements,

--significant amounts of MAP funds had been required to obtain equipment to fill grant-aid and sales requirements which could otherwise have been filled by the use of identical items of unassigned MAP-owned equipment in Army storage, and

because such equipment had not been used, additional MAP funds were expended for storing and maintaining the unassigned equipment.

We attributed the failure to use available MAP-owned equipment to (a) the absence of accurate Army inventory data and of definitive procedures for systematically screening and using unassigned MAP-owned equipment, (b) the lack of necessary controls to assure higher echelons of command that existing policies were being implemented by operating units, and (c) the use of verbal hold orders to reserve equipment, unassigned because of cancellation of certain grant-aid recipient country programs, for potential but unconfirmed sales, barter, or coproduction agreements.

We pointed out also that there was a need for improvement in management of Army-owned equipment reserved for MAP to ensure that, upon termination or reduction of the MAP requirement for which the equipment was reserved, it would be promptly released for general-issue purposes. Our review at three Army locations indicated that only one had local written procedures in effect to cover this management area.

At the conclusion of our review, Defense and Army officials agreed in general with the findings, conclusions, and proposals for corrective actions contained in our report and informed us that measures had been taken or were in process to improve management procedures and controls over military assistance program inventories.

We believe that the Department's plans, if properly carried out, should result in more effective utilization of MAP-owned equipment and of equipment reserved for MAP and in reduced costs to the United States. (B-162479, November 14, 1967)

130. MANAGEMENT OF PROPERTY ACQUIRED FOR FOREIGN ASSISTANCE-- **I. October 1967 we reported to the Administrator, Agency for International Development (AID) on our examination into AID's management of excess property furnished to the Government of Turkey for use in AID-financed programs and project assistance. Pursuant to section 608 of the Foreign Assistance Act of 1961, as amended, AID is authorized to acquire excess property in advance of known needs and to repair, store, and use such property in furtherance of foreign economic assistance.**

Our examination, performed at AID's overseas Mission in Turkey, indicated a need for the Mission to more effectively manage the programming, receipt, and utilization of excess property furnished to the Government of Turkey (GOT). We found that the Mission, in many instances, had not determined (a) the need for equipment prior to approval for acquisition by GOT, (b) whether equipment had been received in Turkey by the recipient agency or municipality, and (c) whether equipment received was in operating condition and was being effectively utilized.

In January 1968, AID advised us of the specific actions taken or being taken in response to our report to provide more effective management over the excess property program in Turkey. The AID response addressed itself to our findings as follows:

--Programming of Excess Property: AID/Turkey is enforcing regulations calling for the submission of detailed proposed allocation forms and 6-month status reports on utilization. As a more positive means for assuring regular submission of the status reports, AID has informed the GOT that it will withhold requests from recipients who have not fulfilled this requirement.

--Receipt of Excess Property: A new report, the Final Inspection Check List, has been devised to identify problems. These reports, prepared by GOT authorities are compared with similar ones prepared by inspectors at the depots from which the items were procured. AID officials are investigat-

ing all discrepancies and taking appropriate action.

--Utilization of Excess Property: AID officials will continue to travel throughout Turkey checking on the proper utilization of excess property.

(B-146995, October 24, 1967)

131. PROCUREMENT OF EQUIPMENT UNDER THE ECONOMIC ASSISTANCE PROGRAM--In February 1968 we reported to the Congress that, instead of obtaining certain equipment--trucks, tractors, motor graders, etc.--available from U.S. excess property inventories at a cost of about $370,000, the Turkish Government had purchased new equipment for highway and irrigation projects with about $1.8 million in U.S. foreign aid funds.

Officials of the Agency for International Development (AID) advised us that the decision to use U.S.-owned excess property in lieu of new procurements--as desired by the Congress--rested with the Turkish Government and that, in this instance, the age of the excess equipment justified the decision.

Because of the magnitude and the continuing nature of the U.S. commitment to Turkey, AID, in our opinion, is in a position to obtain the cooperation of the Turkish Government in substituting excess property for new procurement, where appropriate. Moreover, Turkey's rejection of the excess property on the basis of age was, in our opinion, not justified because of the degree to which the property was supposed to have been rehabilitated--to at least 75 percent of its original useful life--and the fact that only equipment for which spare parts were available was earmarked for transfer.

We recommended that, to ensure to a greater extent the effective use of excess property in lieu of new procurement, the Administrator, AID, augment existing procedures relating to the acquisition of excess property by requiring Mission officials to document their efforts in determining the availability of excess property and, where appropriate, to attest either that no suitable excess property was located or that excess property found to be available was not acquired for reasons acceptable to responsible officials. (B-146995, February 28, 1968)

132. MANAGEMENT OF COMMODITIES FURNISHED UNDER FOREIGN ASSISTANCE PROGRAMS--In our February 1968 report to the Congress on our review of the economic assistance program in Turkey we expressed the opinion that procedures of the Agency for International Development (AID) for monitoring the receipt and use of U.S.-owned commodities and equipment furnished to Turkey were not as effective as they should have been. We had found that (a) for a significant amount of imports, information identifying the commodities was not obtained, (b) end-use checks were not made to determine whether commodities were being properly used, and (c) AID was not aggressively following up requests for refunds from Turkey for commodities which had not cleared customs warehouses within a reasonable period of time.

AID officials informed us that they were taking action to improve the arrival accounting system and to increase auditing efforts relating to the use of commodities. We were also advised that AID was attempting to obtain payment for outstanding claims against Turkey for commodities which had not cleared customs warehouses within a reasonable period of time.

AID determined that ineligible commodities in the amount of $667,018 had been financed by AID, and accordingly, a bill for collection was issued to recover that amount.

We believe that these actions will, if properly implemented, provide more effective management over the receipt and use of commodities furnished to Turkey as well as to other countries receiving such assistance. (B-146995, February 28, 1968)

133. FINANCING OF COMMODITIES UNDER THE ECONOMIC ASSISTANCE PROGRAM--In February 1968 we reported to the Congress on our review of the economic assistance program for Turkey. We had found that

> the Agency for International Development (AID) was financing the importation of steel products at a time when Turkey's domestic production facilities had the potential for satisfying a larger portion of the country's steel products requirements.
>
> --U.S. funds had been used to finance imports of certain commodities for which funds could be obtained from private sources, although such use was inconsistent with AID's policy.
>
> --AID had been unsuccessful in encouraging Turkey to use its own foreign exchange to finance imports from the United States valued at under $5,000.

AID officials agreed, in part, with our suggestions for improving its programming for commodities and equipment. They are developing criteria to be used as guidance in determining whether it is more beneficial to import commodities than to produce them in-country. We recommended that the Administrator, AID, establish more precise lists of eligible and ineligible commodities and give recognition to the use to which the commodities will be put as a factor essential to proper commodity classification. (B-146995, February 28, 1968)

INTERNATIONAL ACTIVITIES--GENERAL

134. DETERMINATION OF SELLING PRICE FOR PLUTONIUM--At the request of the Joint Committee on Atomic Energy (JCAE), we examined into the potential financial impact on the United States Government of the Atomic Energy Commission's proposal to amend the European Atomic Energy Community (EURATOM) Cooperation Act of 1958 (42 U.S.C. 2291) to authorize the transfer of an additional 1,000 kilograms of plutonium to EURATOM. In two reports to the JCAE issued in October 1967, we commented on the financial implications of various alternative methods for supplying EURATOM's requirements.

AEC had proposed to allow EURATOM to obtain up to 50 percent of its plutonium requirements from private reactor operators and to obtain the remainder from AEC at a weighted average price to be determined from the cost to AEC for all portions of plutonium available to the civil programs, including both plutonium produced by AEC and that obtained from other sources. In the past, plutonium produced in the United States had been furnished to EURATOM by AEC only, at a price related to its cost of production.

In considering various alternative methods of supplying EURATOM's requirements, we pointed out that AEC's proposal, involving the sale of 500 kilograms of plutonium at a weighted average price, could result in a loss of revenue to the Government of about $2.2 million, compared with the revenues which would result if AEC sold the plutonium to EURATOM at the current established price related to its cost of production. We also pointed out that, under the AEC proposal, EURATOM's average cost for the total plutonium purchased from both AEC and the reactor operators would, in all likelihood, be lower than the average cost at which plutonium would be available to the Government's civil programs.

In its report on the legislation authorizing the transfer of the additional 1,000 kilograms of plutonium to EURATOM, the JCAE stated that, in light of our report, it believed that the AEC plan to charge EURATOM a weighted average price for plutonium sold pursuant to the new authorization (a) did not adequately recognize the various uncertainties and equities involved, (b) would set a poor

precedent, and (c) would be difficult to administer. Accordingly, the JCAE recommended that the sale of the plutonium to EURATOM be made at the AEC price in effect at the time of delivery of the material.

The JCAE stated that AEC was agreeable to the modification of its original proposal and that the effect of the modification would be to increase revenues to the Government by approximately $2.2 million, compared with the revenues which would result from AEC's suggested policy. The Congress subsequently enacted legislation authorizing the transfer of the additional 1,000 kilograms of plutonium to EURATOM in the manner suggested by the JCAE. (B-131115, October 20 and 24, 1967)

135. DISCOUNTS AVAILABLE THROUGH LEASE PREPAYMENTS--In May 1968, we advised the Department of State that the Embassy in Brazil had an opportunity to achieve annual savings of $6,600 through exercising a prepayment discount clause in one of its leases. We further found that, if similar clauses had been inserted into the Embassy's 15 remaining leases which were denominated in United States currency, annual savings of nearly $22,000 could have been achieved.

This opportunity for savings stems primarily from the extremely high interest rate in Brazil. This rate was about 24 percent in late 1966 and in early 1967 ranged from 30 to 48 percent, and made it financially advantageous to lessors to accept advance payments. We found, in fact, that, in the lease containing this clause, the clause was inserted at the suggestion of the lessor.

The lease was renewed for 5 years on January 1, 1963, at an annual rate of $66,000. The agreement provided that the lessee would have an option of paying the lease 1 or 2 years in advance at an annual discount of 10 percent. The Embassy exercised this option only once prior to the conclusion of our fieldwork and realized a discount of $1,375. Had the Embassy exercised the discount provision to the maximum extent, a total of $59,400 could have been saved over the 5-year period of the lease.

Embassy officials agreed that the proposal had merit and subsequently advised us that the discount provision had been exercised in the lease containing this clause and, further, that they would attempt to obtain similar discounts in the remaining leases denominated in United States currency. The inflationary tendencies in Brazil, and the resulting depreciative effect on Brazilian currency, make it disadvantageous to make similar prepayments on leases denominated in Brazilian currency. (B-163323, May 23, 1968)

UNITED STATES BALANCE-OF-PAYMENTS POSITION

136. OBSERVATIONS ON THE UNITED STATES BALANCE-OF-PAYMENTS POSITION--In a report submitted to the Congress in October 1967, we pointed out that over the years the General Accounting Office had sought ways and means of benefiting the U.S. balance-of-payments position. The report and a separate classified supplement summarized the results of our efforts since 1961.

A wide range of Government programs has been developed to deal with continuing balance-of-payments deficits. Some of these programs depend for their success on the voluntary cooperation of a broad segment of the American business community and public; others involve largely matters of domestic or foreign policies.

The General Accounting Office has directed many of its efforts toward identifying specific situations which lend themselves to achieving additional balance-of-payments benefits. We have examined into the management of Government-owned foreign assets and claims; the negotiation and enforcement of bilateral agreements that result, or should result, in the accrual of proceeds to the Government; efforts made to encourage multinational participation in foreign aid programs;

and areas where operations could be carried out abroad with more efficiency or at less cost.

As we discovered situations having beneficial balance-of-payments implications, we brought them to the attention of the Congress and of cognizant agency officials. In many cases remedial action was taken.

While it is not possible to estimate precisely how much the U.S. balance-of-payments situation was benefited because of the actions later taken by agency officials, we believe that such actions, with respect to the matters included in the report and in the separate classified supplement, have resulted in benefits of many millions of dollars. In a number of cases, little or nothing was done about the matters we identified because agency officials maintained that the adoption of our proposals would not be in the foreign-policy interests of the United States. It appears that significant balance-of-payments advantages in these areas are not likely until and unless basic policies change.

We plan to give increasing attention, in our future reviews, to efforts to reduce the adverse effect of expenditures abroad, with particular reference to measures taken by the Agency for International Development and the Department of Defense. We plan also to examine into the possibility that the barter program for agricultural commodities could make greater contributions toward improving the United States balance-of- payments position.

We have issued this report to the Congress because the problem of coping with chronic balance-of-payments deficits is prominent among the contemporary economic issues confronting the United States. This report outlines areas of Government operations where balance-of-payments advantages may be possible, the status of cognizant agencies' efforts in these areas, and reasons why in some cases the potential advantages have not been pursued to date. (B-162222, October 31, 1967)

137. BALANCE-OF-PAYMENTS ASPECTS OF THE AGRICULTURAL BARTER PROGRAM--In May 1968 we reported to the Congress the results of our examination into an opportunity to improve the U.S. balance-of-payments position through an increased agricultural barter program.

We pointed out that the barter program, which is administered by the Foreign Agricultural Service, U.S., Department of Agriculture (USDA), as now constituted makes a worthwhile contribution to the budgetary and balance-of-payments position of the United States. Proceeds from barter transactions are used to pay for supplies and services that otherwise would be bought abroad with dollars. Nonetheless, the program is managed in a fashion which, in our view, keeps it from realizing its full potential.

Under the program, agricultural commodities--wheat, feed grain, vegetable oil, cotton, and tobacco--are used in place of dollars to acquire goods and services needed in U.S. overseas operations. Dollars that would be spent abroad for this purpose are kept in the United States.

The needs for proceeds from barter transactions by Government agencies operating abroad--particularly the Department of Defense and the Agency for International Development--have greatly exceeded amounts received from barter transactions in recent years.

We identified nearly $700 million worth of Government expenditures abroad as qualifying for payment from barter transactions annually compared with $260 million worth actually bartered.

We expressed the belief that USDA should adopt a policy of letting market conditions determine the size of the barter program rather than attempt to hold the size below a theoretical or administrative limit.

We expressed the belief also that relaxation of barter constraints would increase

American agricultural exports and balance-of-payment savings for the United States and would increase budgetary savings. The potential financial and related advantages deriving from an expanded barter program warrant reevaluation of basic policies that hold the program at its present level, which is below its potential.

The Departments of Agriculture and State and the Bureau of the Budget stressed that consideration would have to be given to a number of potential problem areas before determining the extent to which the program could be expanded. The Department of the Treasury, however, questioned the desirability of removing the present constraints on the program.

We recommended that a study be undertaken to explore the best ways and means of increasing benefits from this program to the highest level permissible under governing statutes. Such a study could be undertaken by the Cabinet Committee on Balance of Payments.

We proposed that the Congress might wish to inquire further into this matter in view of the controversial nature of this program and the potential of the program for achieving balance-of-payments savings. (B-163536, May 29, 1968)

UTILIZATION OF UNITED STATES OWNED OR CONTROLLED FOREIGN CURRENCIES

138. USE OF UNITED STATES-OWNED FOREIGN CURRENCIES BY SHIP OPERATORS--In January 1968 we reported to the Congress that certain American-flag ship operators, who were subsidized by the Maritime Administration, Department of Commerce, had purchased from commercial banks instead of from the Treasury Department substantial amounts of foreign currencies with U.S. dollars, for use in excess-currency countries. By purchasing certain foreign currencies from the Treasury Department for use in their overseas operations, the ship operators could help to alleviate the U.S. balance of payments and budget deficits and reduce the Government's holdings of excess foreign currencies.

During the period March 1965 to May 1967, we found that three of the six subsidized ship operators, providing service to seven foreign countries designated as excess-currency countries, purchased about $1.7 million of foreign currencies from commercial banks for use in Ceylon, Guinea, India, and Pakistan. These purchases were made subsequent to the negotiation, by the United States and these countries, of agreements that made it permissible for the United States Government to sell such currencies to U.S. citizens.

In a letter to the Acting Maritime Administrator, dated July 21, 1967, we proposed that Maritime act as a liaison between the subsidized ship operators and the Government to encourage the operators to purchase from the Treasury Department their foreign currency needs for use in countries that had agreed to such sales and that Maritime develop effective procedures for such purchases. Maritime agreed with our proposal and, in cooperation with the Treasury Department, informed both the subsidized and nonsubsidized ship operators of the desirability of making certain of their foreign currency purchases from the Treasury Department. Maritime also informed the ship operators as to the countries where excess foreign currencies are available for sale and the procedures to be followed in purchasing such currencies from the Treasury Department.

We also reported this matter to the Bureau of the Budget and suggested that it bring to the attention of all departments and agencies of the Government the actions taken by Maritime as an example of the type of potential increased usage of foreign currencies that may exist in programs other than those of Maritime so that other agencies can identify and exploit any similar opportunities that may exist in their programs. As a result of our report, the Bureau of the Budget has revised certain of its guidelines regarding excess foreign cur-

rencies to call to th· attention of Government agencies that new uses for the excess and near-excess currencies should be sought and developed from among related programs of non-Government organizations, subsidized ship operators, voluntary foreign aid agencies, etc. (B-146749, January 11, 1968)

139. USE OF LEND-LEASE SETTLEMENT FOREIGN CURRENCIES IN LIEU OF UNITED STATES DOLLARS--We found that although the United States had $336,000 available in Australian currency for lend-lease settlement programs, it was financing lend-lease programs in that country with U.S. dollars.

The funds were provided to the Department of State by the Australian Government in 1949 as partial payment for lend-lease and surplus war property, to be used for acquisition of real property and related furniture and fixtures within Australia. We were informed that the funds could also be used for educational and cultural programs.

We found that a balance of $336,000 in the fund had not been expended because of lack of specific congressional approval; however, under section 1415 of the Supplemental Appropriation Act of 1953, appropriations of foreign currency need not be specifically made. Also, use of the funds was apparently not restricted to Department of State programs.

We therefore recommended to the Department in September 1967 that, to help alleviate the balance-of-payments problem, the Department seek Australian release of the funds for use by the Department or other U.S. Government agencies in Australia, in lieu of spending U.S. dollars. We were subsequently advised by the Department that the Government of Australia had paid the U.S. Government $365,515, in payment of the lend-lease balance, which was transmitted to the Treasury for deposit. (B-159601, September 12, 1967)

COORDINATION

140. DELINEATION OF DUTIES AND RESPONSIBILITIES OF EMPLOYEES--Our review of functions of the Post Office Department's postal inspectors and regional office personnel indicated that there was some overlapping and duplication of effort with respect to inspections and surveys of buildings, vehicle maintenance, and certain other activities. In a May 1967 report to a Subcommittee of the House Committee on Appropriations, we expressed our belief that coordination of these functions was desirable so as to minimize overlapping and duplication and that the respective areas of responsibility of the postal inspection service and the regional offices should be more clearly defined.

In February 1968 the Department delineated the duties and responsibilities of postal inspectors and regional office personnel and emphasized the necessity of coordination. (B-159768, May 24, 1967)

PLANNING

141. CONVERSION OF MANUALLY OPERATED FURNACES TO AUTOMATIC-TYPE HEATING UNITS--We reviewed the costs of operating heating units of the types generally used at military bases to heat single buildings. We found that costs could be reduced several million dollars annually at Army and Air Force installations if manually operated furnaces were converted to automatic-type heating units. Such conversions at the 12 military installations covered in our review could reduce costs about $3.5 million each year, primarily by releasing military personnel for other duties. These findings were stated in our report issued to the Congress in December 1967.

Department of Defense officials expressed the opinion that (a) there could be no actual reduction of military personnel requirements if the function were eliminated since no personnel spaces had been authorized for this function, (b) the Congress was reluctant to support requests for fuel conversion, (c) military labor should not be considered an economic factor in fuel conversions except where such labor was permanently assigned to the installation engineer and a reduction in strength could be made, and (d) these duties were usually performed as an additional duty or by transient personnel. We found, however, that the majority of the military personnel used to fire furnaces had been on the job full time for 30 days or longer.

The Department of Defense requested the Army and the Air Force to make a study of this matter, including a comprehensive review of all small hand-fired heating systems using either military or civilian firemen. This study, which was in progress at June 30, 1968, is intended to serve as a basis for evaluation of the economic potential from conversion of hand-fired furnaces.

In view of the need to achieve the most efficient and effective utilization of military manpower in assignments requiring military skills and to realize the economies possible through conversion of manually operated coal heating units to automatic gas or oil heating units, we suggested in our report that the Congress might wish to inquire into the practice of using military labor to perform the function of tending furnaces. (B-160931, December 27, 1967)

142. CUSTODIAL AND ENGINEERING STAFFING LEVELS IN PUBLIC SCHOOLS--We reported to the Congress that the need for adopting suitable guidelines for use in determining appropriate custodial and engineering staffing in the various public schools in the District of Columbia was indicated by an apparent overstaffing of custodial and engineering employees in the District's public schools. The cost of the apparent overstaffing could amount to as much as

$1,200,000 annually. Our views were based on a comparison of the number of custodial and engineering employees in the District's schools with the required number as computed under the staffing standards published by the Department of Health, Education, and Welfare and on a comparison of the District's school custodial and engineering costs per pupil with custodial and engineering costs per pupil in various States, urban school districts, and adjacent or nearby communities.

The President, Board of Commissioners, concurred in our proposal to make a study of the District's custodial and engineering needs and stated that the Board of Education would establish standards of performance consistent with standards in cities of comparable size and in conformity with the special requirements of the District of Columbia. On June 27, 1968, the District of Columbia Board of Education awarded a contract to a private management consulting firm to begin such a study, to be completed by December 31, 1968. (B-161397, June 28, 1967)

FEDERAL EMPLOYEES' HEALTH AND INSURANCE PROGRAMS

143. DEPRECIATION CHARGES TO GOVERNMENT PROGRAMS--In February 1968 we reported to the Executive Director of the United States Civil Service Commission that, consistent with the cost reimbursement principles for the Medicare program, the Blue Cross-Blue Shield of Alabama, as of January 1, 1967, had capitalized $206,000 as the estimated residual value of previously purchased furniture and equipment costing about $375,000 and had proposed to recover a pro rata portion of the residual value of the furniture and equipment through subsequent depreciation charges to the Federal Employees' Health Benefits Program (FEP). Since the furniture and equipment purchased by the Alabama local health plan had previously been charged as an expense and a pro rata share of the cost had been charged to the FEP, the recovery of the residual value through subsequent depreciation charges would have resulted in FEP's paying for a portion of the furniture and equipment twice--once for the original purchase and again through depreciation charges.

We suggested to officials of the Alabama local health plan that depreciation charges to the FEP be limited to furniture and equipment purchased after December 31, 1966. Officials of the Alabama local health plan agreed with our position and advised us that such depreciation charges estimated to be about $20,000 would not be charged to the FEP in 1967 and in future years.

Since the probability existed that other local Blue Cross-Blue Shield plans may have adopted similar procedures, we recommended that the Commission request the Director, FEP, to instruct all local Blue Cross-Blue Shield plans that depreciation charges would not be allowed for that portion of the cost of furniture and equipment that had previously been expensed and charged to the FEP. In April 1968 the Director, FEP, cautioned all local health plans to be sure that appropriate credits were made to the FEP to avoid doubling up on FEP's share of the cost of such furniture and equipment. (Report to Executive Director, U.S. Civil Service Commission, February 12, 1968)

144. RISK CHARGE PAID ON LIFE INSURANCE PREMIUMS--The contract between the United States Civil Service Commission and the Shenandoah Life Insurance Company provides for the payment to Shenandoah of a risk charge of 1.5 percent of gross insurance premiums. The risk charge rate of 1.5 percent, which was negotiated between the Commission and Shenandoah and became effective in January 1956, has since remained unchanged.

An amendment to the contract, effective in January 1961, authorized Shenandoah to retain a contingency reserve fund to provide for possible adverse fluctuations in future insurance claims. The establishment of the contingency reserve fund, currently amounting to about $6 million, greatly lessened, or entirely eliminated, the risk of possible loss to Shenandoah. The risk charge therefore is now primarily a profit factor.

The Vice President and Actuary of Shenandoah advised us that the risk charge of 1.5 percent did not necessarily have to be as large as originally established due to the smaller risk involved as a result of the creation of the contingency reserve fund in 1961. He stated that he would be willing to discuss some reduction in the risk charge with the Commission. Accordingly, we recommended that the Commission enter into negotiations with Shenandoah for an appropriate reduction in the risk charge under the insurance contract. (Report to Executive Director, U.S. Civil Service Commission, February 19, 1968)

145. METHOD OF COMPUTING INTEREST EARNINGS ON CONTINGENCY RESERVE FUND--In our report of February 1968 we noted that, pursuant to the provisions of a contract between the United States Civil Service Commission and the Shenandoah Life Insurance Company for the group insurance of the former members of certain Federal employees' beneficial associations, Shenandoah had not considered certain insurance premium funds in its computation of interest earned on the contingency reserve fund. As a result, such funds totaling about $1.5 million for a period equivalent to about one-half year were held by Shenandoah, in effect, on an interest-free basis.

The Vice President and Actuary of Shenandoah agreed to compute interest earnings on a more equitable basis and indicated that he would consent to the recomputation of interest earnings for 1961 and succeeding contract years. (Report to Executive Director, U.S. Civil Service Commission, February 19, 1968)

146. MEDICAL BENEFITS FURNISHED TO EMPLOYEES OVERSEAS--Our review of certain aspects of the Foreign Service medical program administered by the Department of State showed that the United States was bearing dual costs relating to medical care for Foreign Service employees stationed overseas because it provided them with substantial free medical service and at the same time contributed toward the employees' membership in health benefits programs. We believe that the Government's cost could be reduced by about $234,000 each year if the Department of State and the U.S. Civil Service Commission (CSC) coordinated their participation in the cost of medical services and insurance protection provided to about 40,000 Foreign Service employees and dependents stationed overseas.

Under the State Department's Foreign Service medical program, substantial free medical care is furnished to Foreign Service employees and dependents during their overseas assignments. Foreign Service employees also generally enroll in one of the several health benefits program plans administered by the CSC.

To alleviate the additional expense incurred under its Foreign Service medical program, the Department requires employees to file claims under their CSC plans for services received overseas and to endorse the proceeds to the Government.

We found, however, that one of the CSC plans--the Foreign Service benefit plan--did not assume liability for services covered by the Department's Foreign Service medical program. Since the Government contribution to this CSC plan is the same regardless of whether the employee is stationed overseas or within the United States, the Government is in effect bearing the costs of certain medical care for overseas employees twice--once as a direct patient cost and again as an insurance premium cost.

In a report to the Congress in May 1968, we recommended that the State Department and CSC cooperatively initiate action to minimize the costly effects of the Government's present form of participation in the two Federal health programs available to Foreign Service employees. (B-162639, May 23, 1968)

FEDERAL EMPLOYEES' RETIREMENT AND DISABILITY PROGRAM

147. REIMBURSEMENTS TO CIVIL SERVICE RETIREMENT FUND--In our review of pertinent provisions of the civil service retirement law and applicable regulations, we noted that the annuities of reemployed retired employees, and of members of the Congress employed on an intermittent basis, continued to be paid from the civil service retirement fund during their periods of reemployment by Federal agencies and that their reemployment salaries were reduced by the amounts equal to the annuities paid for the periods of actual employment. However the civil service retirement fund is reimbursed only for the amounts deducted from the salaries of members of the Congress.

The effect of Federal agencies' reducing the salaries of reemployed employees by the amounts of the annuities received, without reimbursing the retirement fund, is that a portion of the payroll costs of such employees, equivalent to the amounts of the annuities paid, is financed by the retirement fund rather than by the funds of the employing agencies. We estimated that this amount could total about $7 million annually.

We have proposed that the Congress consider amending the provision of the civil service retirement law relating to the payment of annuities and salaries to reemployed retired employees (5 U.S.C. 8344), to provide that amounts equivalent to the annuities allocable to the period of actual employment, which are deducted from reemployed retired employees' salaries, be transferred by the employing Federal agencies to the United States Civil Service Commission for deposit in the Treasury of the United States to the credit of the Civil Service Retirement and Disability Fund. (B-130150, May 28, 1968)

GOVERNMENT-FURNISHED HOUSING, LODGING, AND MEALS

148. ADMINISTRATION OF EMPLOYEE HOUSING CONSTRUCTION PROGRAM--In April 1968 we submitted a report to the Congress on our review of the Bureau of Indian Affairs program for the construction of housing for its school employees. Our review indicated a need for the Department of the Interior and the Bureau to improve their administration of this program so that only necessary housing would be constructed.

Bureau of the Budget Circular No. A-18, Revised, dated October 18, 1957, states that it is the policy of the Government to provide housing for civilian employees when circumstances require that they live at a station to furnish necessary services and protection or when the station is remote and private housing is not available.

In our review of the need for 274 employee housing units constructed at seven school facilities located near established communities, we found that the Bureau had not adequately considered the availability of private housing. It was our opinion that 220 of the units costing about $3.2 million were not adequately justified and did not appear to have been needed to meet the Bureau's housing requirements for school employees.

In our review of the utilization of 478 employee housing units constructed at five school facilities located in isolated areas, we found that 130 of the units costing about $1.8 million were excess to the Bureau's housing requirements for school employees.

We concluded that construction of housing units had been excessive primarily because the Bureau had not administered its employee housing construction program in accordance with the policies and standards established by the Bureau of the Budget for construction of Government-owned housing. Furthermore, the Bureau had not reviewed the adequacy of the standard established in 1957 for determining the number of quarters to be constructed at schools located in isolated areas where private housing was not available. This standard provided for determining housing needs on the basis of a ratio of the number of employees to the number of students which was applied to all schools. Our review indicated that the uniform application of this standard was not appropriate because of the variance in employee requirements of schools with differing student capacities.

Therefore, we proposed that the Secretary of the Interior direct the Bureau to (a) revise its established guidelines for determining the number of employee housing units to be constructed at isolated locations where private housing is not available, (b) periodically evaluate such guidelines to determine their continued appropriateness, and (c) take vigorous action to identify and effect utilization of vacant quarters that are not essential to the Bureau's employee housing requirements.

The Department, in commenting on our

findings, advised us that the problem brought into focus by our report underscored a fundamental need for more precise planning in determining the Bureau's employee housing requirements and that action had been taken toward this end. The Bureau issued a new policy statement, in the form of a revision to its Indian Affairs Manual, on the construction of employee housing. The new policy provided, among other things, that: (a) the policies and standards set forth in Bureau of the Budget Circular No. A-18, Revised, will be followed, (b) independent studies will be made of each request for all types of employee housing in order to determine the number that can be fully justified, and (c) a periodic review of the new policy will be made by the Bureau's Central Office to ascertain its effectiveness and, where necessary, to modify the policy.

The Bureau also directed each of its area offices to immediately review its current employee housing situation and to furnish their recommendations or suggestions on how chronically vacant quarters could be more fully utilized.

We believe that the actions taken should improve the administration of the Bureau's employee housing program and should result in substantially decreasing construction costs of the program. We believe also that it is incumbent upon the Commissioner of Indian Affairs to exercise surveillance over the Bureau's employee housing construction program to ensure proper implementation of its new housing policy. (B-114868, April 9, 1968)

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Note: For an additional item related to "Government-Furnished Housing, Lodging, and Meals," see section on "Economic Opportunity Programs," item No. 25.

PAY, ALLOWANCES, AND BENEFITS–GENERAL

149. NIGHT DIFFERENTIAL PREMIUM PAY--Subsequent to our issuance of a report to the Congress in February 1964, the Post Office Department amended its regulations to provide that city delivery carriers be scheduled to report for duty prior to 6 a.m. only when absolutely necessary and achieved annual savings of about $108,000 in night differential costs by adjusting the starting times for many such carriers.

We reported to the Postmaster General in May 1968 that, on the basis of our follow-up review at nine post offices in the Chicago Postal Region and our limited work at 14 large post offices in other postal regions, it appeared to us that the actions taken by the Department subsequent to the issuance of our prior report had not been fully effective. We pointed out that, at the nine post offices covered by our review in the Chicago Postal Region, 1,162 (about 26 percent) of the 4,436 city delivery carriers serving residential routes had been scheduled to commence work prior to 6 a.m. We estimated that potential savings in night differential costs of about $39,000 annually could be achieved if these carriers started their workday at 6 a.m. or later.

After we brought this matter to their attention, officials of the Chicago Postal Region took action to reduce the night differential costs being incurred in that region. However, at five of the 14 post offices where we had performed only limited work, some city delivery carriers still were scheduled to report for duty prior to 6 a.m.

We recommended that the Postmaster General amend existing regulations to provide more specific criteria for determining under what circumstances it is absolutely essential for city delivery carriers serving residential routes to report for duty prior to 6 a.m. We recommended also that postmasters be required to justify, in writing, to the regional

offices the instances in which they determine that it is absolutely necessary for such carriers to report for duty prior to 6 a.m.

The responsible Deputy Assistant Postmaster General informed us that, in most instances, it was unnecessary for city delivery carriers serving residential areas to report for duty prior to 6 a.m. He stated that his staff would look into the apparent need for improved management controls and that our recommendations would be considered. (B-114874, May 2, 1968)

150. CONTROL OVER PER DIEM--In our report to the Administrator, Environmental Science Services Administration (ESSA), Department of Commerce, we concluded that overpayments of per diem totaling about $10,600 had been made because (a) certain employees did not indicate that they had occupied Government quarters and were, therefore, only entitled to a reduced rate of per diem and (b) the rate of per diem paid by Coast and Geodetic Survey (C&GS) for temporary duty at one locale was higher than the approved rate.

By letter dated September 21, 1967, the Administrator informed us that an ESSA travel handbook had been issued to all organizational components and also that ESSA had adopted a policy to spot check per diem rates and subsistence arrangements during trips to field locations. We were advised that, as of April 30, 1968, about $8,250 had been refunded by the employees. (Report to Administrator, Environmental Science Services Administration, Department of Commerce, August 31, 1967)

151. VERIFICATION OF MILEAGE COMPUTATIONS--In our report to the Chief, Bureau of Census Operations Office, Jeffersonville, Indiana, we pointed out that the computations of daily mileage reported by enumerators of the Bureau of the Census, Department of Commerce, were not being verified for accuracy, which resulted in a large number of erroneous mileage claim payments. On a statistical sampling basis, we found that 37 percent of the vouchers paid contained erroneous mileage claims. Because of the erroneous payments found in our sample and in view of the contemplated use of enumerators in the 1969 Census of Agriculture, we suggested that instructions be issued to require that computations of daily mileage be verified for arithmetical accuracy.

In commenting on our report, the Bureau informed us that steps had been taken to see that effective and practicable controls would be exercised over such payments to temporary employees in future censuses. (Report to Chief, Bureau of Census Operations Office, Jeffersonville, Indiana, July 5, 1967)

152. PAYMENTS OF MILITARY PAY AND ALLOWANCES--Our report on an earlier review, issued to the Congress in April 1963, presented our findings of significant overpayments and underpayments of military pay and allowances and our recommendations for improving the administration of military pay and allowances. Our report on a follow-up review, issued to the Congress in April 1968, presented our findings that serious deficiencies in administration still existed. The main cause continued to be the use of inexperienced and untrained clerks and supervisors in the local disbursing and personnel offices.

The Department of Defense and the military services had taken a number of actions which had improved the administration of military pay and allowances in some areas. Also, the Department of Defense is implementing its Joint Uniform Military Pay System, a system for maintaining military pay and leave accounts by electronic data processing equipment and techniques at one central site for each military service. However, most of the input data for this system will originate at the local office level where we found inexperienced and untrained clerks and supervisors. Further efforts to correct existing weaknesses in training and staffing at local levels should therefore be made to ensure the most accurate input data possible and effective

operation of the new system.

Errors in basic allowances for subsistence for enlisted men accounted for about 30 percent, or the largest category, of errors we found. We believe there is a need for a change in legislation to place basic allowances for subsistence for enlisted men on a monthly-rate basis rather than the present daily-rate basis. In our opinion, this would reduce the administrative burden and the administrative costs of handling the large volume of transactions and could substantially reduce the number of errors in making payments. The Department of Defense stated that it was considering a proposal for a legislative change. (B-125037, April 2, 1968)

153. COMPENSATORY TIME OFF IN LIEU OF OVERTIME COMPENSATION--In a report issued to the Congress in August 1966, we pointed out that the legal authority was not clear as to salaried employees of the Government Printing Office receiving compensatory time credits in lieu of compensation for overtime worked. At the end of fiscal year 1965, the compensatory time credit was about $83,000.

We suggested that the Public Printer initiate action with a view to obtaining specific legislative authority for granting compensatory time off in lieu of overtime compensation.

In a report to the Congress dated December 1967, we stated that the Public Printer had informed us that appropriate amendments to the existing law had been prepared by the Government Printing Office and proposed to the Joint Committee on Printing. (B-114829, August 29, 1966, and December 5, 1967)

154. REPORTING OF PAYMENTS TO CONSULTANTS--In April 1968 we reported to the United States Civil Service Commission that the Commission's Denver Regional Office had not furnished the Internal Revenue Service (IRS) with pertinent information when payments to consultants exceeded $600 in a calendar year, although required to do so by IRS regulations. Since payments made to individuals by several regional offices could aggregate $600 or more, even though no single regional office payment reached that amount, we suggested that a centralized control be established over such payments.

The Executive Director of the Commission agreed that there was a need for centralized reporting and stated that instructions would be issued providing for appropriate reports to be furnished annually to the IRS. (Report to Director, Denver Regional Office, U.S. Civil Service Commission, April 10, 1968)

155. PAYROLL ADMINISTRATION--In a report to the Assistant Secretary for Administration in April 1968 we concluded, on the basis of our review, that further effective action was required by the Department of Labor to correct payroll deficiencies previously reported to the Congress in February 1965. In the prior report we stated that inadequate administration of centralized payroll functions had resulted in a substantial number of salary overpayments and overstatements of leave balances.

Our review of the internal audit staff's examination of payroll operations for calendar years 1965 and 1966, and our review of certain payroll transactions for calendar year 1967 showed that deficiencies similar to those previously reported by us were still occurring, although the Department had previously agreed to adopt our proposals for corrective action. For example, the internal auditors' review of the 1965 payroll operations showed that about 15 percent of the employees tested had received erroneous payments. In 1966 error rates of 13 and 16 percent were reported as a result of two separate internal reviews of payroll changes processed during two different pay periods. Also, the internal auditors found, among other things, that individual retirement records had not been recon-

ciled with the total amount paid into the Civil Service Retirement Fund and had not been transmitted to the Civil Service Commission in a timely manner; that 27 percent of the leave records audited had errors; and that tax reports were being submitted late to the Internal Revenue Service and to State tax authorities.

Our review of 1967 transactions showed that the Department was still late in reconciling the retirement records and reporting to the Civil Service Commission and in reporting to the Internal Revenue Service on taxes withheld; that individual bond balances had not been reconciled to the general ledger control account; and that incorrect postings for personnel compensation had been made to the appropriation accounts.

The Director, Office of Financial Management and Audit informed us in January 1968 that certain problems, such as turnover in payroll personnel and conversion of the payroll system to automatic data processing, had delayed the implementation of an effective payroll system. Also, the Director stated that certain actions, including the hiring of an experienced payroll supervisor and holding weekly training classes for payroll personnel, had been taken to remedy the situation; that the posting errors noted would be corrected; that a task force was currently working on reconciling the retirement records; and that installation of a new payroll system had been planned for completion by about May 1969.

We stated that we intended to follow the progress of the implementation of the new payroll system and would determine whether the payroll system would conform with the Statement of Accounting Policies, Principles, and Standards of the Department of Labor as approved by the Comptroller General on March 1, 1968, and would meet the principles, standards, and related requirements of the Comptroller General precedent to approval of the payroll system by the Comptroller General. (Report to Assistant Secretary for Administration, Department of Labor, April 19, 1968)

156. ALLOWANCES ON TRANSFERS OF CIVILIAN PERSONNEL--Public Law 89-516, enacted July 21, 1966, provided for reimbursement of certain moving expenses of Federal employees upon permanent change of official duty station. Allowances under the act are governed by the conditions prescribed in Bureau of the Budget (BOB) Circular No. A-56, Revised, dated October 12, 1966.

At the request of Congressman Frank T. Bow, we reviewed the administration by the Immigration and Naturalization Service, Department of Justice; the Federal Aviation Administration, Department of Transportation; National Aeronautics and Space Administration; and Veterans Administration of (a) reimbursements of expenses incurred by employees in the sale and purchase of real estate and the settlement of unexpired leases and (b) allowances for miscellaneous expenses associated with change of residence.

Expenses incurred in the sale and purchase of real estate were found to be the most important from a cost standpoint and the most troublesome administratively. We examined real estate claims totaling about $416,000. About 8 percent of the dollar amounts of these claims were either (a) ineligible for reimbursement under the requirements of BOB Circular No. A-56 or (b) of questionable eligibility because of inadequate documentation. We concluded that effort should be made to strengthen and simplify the administrative machinery for processing real estate claims and that there was a need for voucher examiners, certifying officers, and other responsible agency personnel to more thoroughly examine such claims and obtain adequate documentation in support thereof.

In our report to the Congress in April 1968, we recommended that BOB, as the central agency in the executive branch for direction in carrying out the provisions of Public Law 89-516 and BOB Circular No. A-56 (a) take appropriate action to improve the administration of the law and regulations and (b) study means by which the processing of claims in respect to real estate claims may be simplified.

BOB indicated favorable reaction to our recommendations and informed us that our report would be of assistance in a review of Circular No. A-56, scheduled for the fall of 1968 in cooperation with the United States Civil Service Commission. (B-160026, April 30, 1968)

157. MOVEMENT OF PERSONNEL WHO COMPLETE UNIVERSITY TRAINING--In a report to the Congress in May 1968, we stated that there was a need for closer coordination between the Foreign Service Institute (FSI), geographic bureaus, assignment panels, and other offices of the Department of State concerned with onward assignments of Foreign Service officers who complete university training.

We reviewed the documents pertinent to the training of the 40 individuals who received university training in economics and area studies and found that 13 of them had remained at their particular universities from 14 to 32 working days beyond the dates of their final examinations, exclusive of authorized leave. Two additional individuals were granted leave without pay following completion of their university assignments for purposes of continuing their studies, but there were extended periods of time between completion of final examinations and entry into leave without pay status.

For the period of an officer's university assignment, he is under the administrative control of FSI; however, FSI has no administrative responsibility with regard to the officer's onward assignment upon completion of his university assignment. This is determined by the assignment panels, which pass information to the bureau in which the officer is to be assigned. Although dates of final examinations, graduation ceremonies, etc., at all the various universities were available through FSI, we found no evidence that this information was made available by FSI or even solicited from FSI by any of the offices or bureaus. As a result of this and lack of guidelines in determining the amount of time necessary to clear up any matters connected with finishing a school assignment, the officers, in many cases, were not reporting promptly to their new assignment.

We therefore recommended that such guidelines be established and that procedures be established providing closer coordination among the Department's pertinent offices and sections so that officers might be moved from university campuses to their next duty assignments with a minimum of delay.

The Department agreed with our recommendation and advised us that it was taking steps "to reduce the time spent by university trainees between the conclusion of their training and their departure on their upcoming job assignment. ***. In each case the Department will ascertain the earliest date by which a trainee will have completed all academic requirements." (B-133310, May 7, 1968)

TRAVEL ADVANCES AND ALLOWANCES

158. USE OF GOVERNMENT-OWNED RATHER THAN PRIVATELY OWNED VEHICLES--In a January 1968 report to the Congress, we estimated that the Post Office Department could achieve a cost reduction of at least $4.2 million a year, without adversely affecting postal service, if certain rural mail carriers were furnished Government-owned vehicles rather than paid an equipment maintenance allowance for using their own vehicles. Our estimate of savings was based on our review of about 5,100 rural mail routes operating within or near 180 metropolitan areas. We expressed the belief that these savings were only a part of the savings that could ultimately be achieved if the change-over were made throughout the country.

Because rural mail carriers are required by law to furnish their own vehicles, we recommended that the Congress consider enacting legislation to authorize the Postmaster General to furnish Government owned or leased vehicles to rural carriers rather than pay them the equipment maintenance allow-

ance when he determines that such action would be more economical and in the best interest of the Government.

The Department and the General Services Administration have agreed with our views that the Postmaster General should have the authority to furnish Government-owned vehicles to rural carriers. (B-161392, January 4, 1968)

159. MOVING EXPENSES--In a report to the Assistant Secretary for Administration in April 1968, we concluded that effective action was required by the Department of Labor to correct its administrative control over reimbursements for moving expenses incurred by employees in connection with permanent changes of official station.

During our review we examined all vouchers (161), involving $155,801, paid for moving expenses during fiscal year 1967, and we questioned 30 of these vouchers, totaling about $3,000.

On the basis of our review, we believe there is a need for a more adequate understanding of the law and regulations by responsible administrative, supervisory, and voucher audit personnel. We suggested that the Department (a) strengthen its administrative control over reimbursements for moving expenses incurred by employees upon permanent changes of official station, (b) establish a systematic training program for personnel responsible for the review and payment of such expenses, and (c) request that internal auditors make a follow-up review of moving expenses to ascertain whether adequate control over these expenses has been attained. (Report to Assistant Secretary for Administration, Department of Labor, April 24, 1968)

160. EMPLOYEE DESIGNATION OF RESIDENCE FOR HOME LEAVE PURPOSES--In October 1967, we reported to the Department of State a number of instances in which employees stationed overseas had made questionable changes in designated home leave points. It appeared that, in some instances, home leave points were changed to enable travel for personal convenience at Government expense. Our examination showed that, in the questionable cases, the employees' stopovers at the designated home leave points were of such brief duration in relation to total leave as to cast doubt on the justification for the additional travel costs to the Government. In each questionable instance, the travel costs of the employee and his family exceeded that which would have been payable on the basis of his apparent bona fide residence for home leave purposes.

We recommended to the Department that justifications for changes in residences for home leave purposes be reviewed and that approval of such changes be documented. We also recommended independent review of such changes and of travel vouchers covering home leave travel. We were advised in November 1967 that the recommended action was being implemented. (B-162042, October 30, 1967)

161. DESIGNATION OF OFFICIAL DUTY STATION FOR PER DIEM PURPOSES--During a review of travel reimbursement vouchers at the Department of State, we noted a number of instances where local employees were officially transferred from Karachi, Pakistan, to Rawalpindi, Pakistan, traveled to Rawalpindi over a weekend, and then were immediately detailed back to Karachi, in a temporary duty status, for a period of about 30 days. During this time they received per diem payments amounting to over $5,000.

We were advised that the action was taken on the premise that an employee could have only one official station and that, because the headquarters of the Embassy had been changed from Karachi to Rawalpindi, the official station had become Rawalpindi, and the transfers should thus have been authorized. The employees were needed in Karachi for the approximate 30-day period to

assist in phasing out the Embassy operations there.

However, a Comptroller General's decision (25 Comp. Gen. 136) provides that an employee may have one headquarters for administrative and functional purposes and another for per diem purposes. Thus, although the administrative duty station may have become Rawalpindi, the per diem payments need not have been made had the provisions of the decision been followed.

In October 1967, we issued an informal inquiry questioning the propriety of these per diem payments. In their response to our inquiry, the Department contended that the Embassy had acted in good faith in interpreting that portion of their travel and transfer regulations regarding the designation of the employees' official duty station and believed that, in the overall analysis, the best interests of the Government had been served. Because the explanation furnished tended to show that an administrative error in judgement may have been committed and in view of all the circumstances, we took no further action on these specific transactions. We did, however, recommend to the Department that appropriate administrative action be taken to avoid a repetition of similar per diem payments in the future.

The Department informed us in March 1968, that all diplomatic and consular posts and the Executive Directors of the regional Bureaus had been informed of our review and inquiry and had been further made aware of the necessity to prevent recurrence of such a situation. Reference was also made in the Department's communications to appropriate Comptroller General decisions regarding travel, transfers, and designations of employees' duty stations. (Report to Deputy Under Secretary for Administration, February 26, 1968)

UNIFORM ALLOWANCES

162. CHANGE IN EMPLOYEE UNIFORM REQUIREMENTS--In our February 1967 report to the Bureau of Customs, Treasury Department, we expressed the opinion that the Bureau could improve the administration of its uniform allowance program and effect savings to the Government if the uniform requirements for certain employees were more in consonance with the nature of the official duties performed by these employees.

The Bureau issued a directive in April 1968 prescribing the adoption of a less costly rough-duty-type uniform to be used in lieu of a full-dress uniform by certain Customs employees. For those employees involved, the uniform allowance will be reduced. This action will affect 313 employees with resulting savings of about $12,500 a year. (Report to Commissioner of Customs, February 28, 1967)

CONTRACT ADMINISTRATION

163. CONTROLS TO ENSURE COMPLIANCE WITH CONTRACT REQUIREMENTS--We reviewed the administration of a competitive-bid fixed-price contract entered into by the Veterans Administration (VA) for the 710-bed general hospital constructed in the District of Columbia during the period July 1961 to January 1965 at a final cost of over $18.3 million.

Our principal findings pointed to a need for VA to improve its procedures for (a) onsite supervision of construction work, (b) approval of materials and specifications, (c) enforcement of contract requirements, and (d) development of specifications for hospital roadways.

Our findings indicated that the VA did not have adequate assurance that certain materials and workmanship in the hospital were of the quality required by the contract. We expressed the belief that the risk of structural deterioration had been increased and that future maintenance and repair costs might be higher than normally expected. Moreover, poor design and workmanship were apparently responsible for VA's incurring additional costs of about $41,600 to reconstruct a large portion of the hospital roadways which deteriorated shortly after the hospital was completed.

In some instances, VA received credit or extended guarantees from the construction contractor for deviations from contract drawings and specifications. However, we expressed the belief that such adjustments are generally undesirable substitutes for quality materials and workmanship which may be obtained by strict enforcement of the contract provisions. Moreover, any adverse effects resulting from inferior materials and workmanship may not appear until many years after construction has been completed. Such construction deficiencies, therefore, may not be readily correctable at a later date, may result in increased maintenance and repair costs, and may disrupt normal hospital activities.

The VA advised us that, in accordance with our proposals, certain actions had been, or would be, taken to strengthen its procedures regarding onsite supervision of construction work and the development of specifications for hospital roadways. The VA did not indicate, however, that it planned to take corrective action regarding (a) approval of materials and specifications and (b) enforcement of contract requirements.

Accordingly, in a report to the Congress in March 1968, we recommended that the necessary action be taken to ensure that major building materials and specifications are investigated, tested, and evaluated for their durability and acceptability before they are approved for use in hospitals and that a directive be issued to construction officials emphasizing the necessity for timely interpretation and enforcement of contract requirements.

Subsequently, in May 1968, the VA informed us that action was being taken to comply with our recommendations. (B-153672, March 21, 1968)

164. CONTROLS TO ENSURE COMPLIANCE WITH CONTRACT REQUIREMENTS--The Veterans Administration's stated policy provides that construction materials and workmanship shall conform fully with the approved contract drawings and specifications unless documented approval is given the contractor to deviate therefrom. Our review of VA's practices in requiring compliance with contract specifications showed that, in several regards, this policy had not been enforced by the VA relative to the construction of new hospital buildings in Memphis, Tennessee, and Long Beach, California.

Although our review did not reveal any adverse effects as a result of the deviations from specifications, we expressed the belief that, if such effects do occur, they may not

appear until many years after completion of the construction work.

The specific deviations from contract specifications that we found may be generally categorized as (a) the placement of concrete that did not meet specifications and (b) the incorporation of materials and workmanship into the hospital buildings, without the required laboratory tests or other required certifications.

The VA advised us that it was in general agreement with our findings and stated the belief that our proposals would materially assist the VA in improving the construction program. VA advised also that certain actions would be taken to achieve full compliance with contract specifications and that VA would continue its practices of reviewing the construction standards and master specifications which are used as guides in the preparation of contract specifications.

In view of the apparent difficulties encountered by VA in enforcing certain contract specifications, as shown by our review, we expressed concern with the effectiveness of the review of these documents. In a report to Congress in May 1968, we recommended that the VA (a) review, as soon as practicable, the construction standards and master specifications and eliminate or revise, where appropriate, those requirements that may be unnecessary or overly restrictive and (b) strengthen the procedure for updating the construction standards and master specifications to ensure that revisions are made on the basis of construction experience gained during construction of hospital buildings. (B-133044, May 22, 1968)

165. ADMINISTRATION OF NEGOTIATED PROCUREMENTS--Our review of selected management controls related to new vessel construction at the Coast Guard Yard showed that the Coast Guard had not complied with certain provisions of law in negotiating seven contracts or contract modifications costing about $1.2 million. We found that the award of three contracts on a negotiated, sole-source basis had not been justified and that cost data had not been obtained and required contract clauses had not been included in three other contracts. For one contract, we found that all of these deficiencies had existed.

The Acting Commandant of the Coast Guard stated that our report accurately reflected shortcomings in negotiated procurements and that these shortcomings were being remedied through internal Yard management action with assistance from contracting officials from headquarters. (B-157965, December 5, 1967)

166. CONTRACTS FOR FURNISHING SERVICES TO PERSONNEL--Under the contract terms, the contractor was required to furnish certain services, at cost, to personnel employed at the Kwajalein missile test site by contractors, subcontractors, and the Government. The Government reimbursed the contractor for costs incurred and was credited with revenues received. However, the prices charged by the contractor for the services were too low to recover the costs incurred and, as a result, the Government absorbed a loss of about $1.6 million in the operations for the 2-year period ended in February 1966.

Our findings were presented to the Congress in a report issued in July 1967. The Department of Defense concurred in the findings and took steps to ensure that prices were revised to recover costs and that certain procedures of the contractor were improved. (B-152598, July 18, 1967)

167. CONTRACTS FOR RESEARCH SERVICES--We found that seven of the 11 study reports submitted by the Hudson Institute under three research study contracts were considered by the Office of Civil Defense, Department of the Army, to be less useful than had been expected or to require major revision. Our report on these findings was issued to the Congress in March 1968.

We recognized that contracting for studies of this type was relatively new and

involved uncommon questions. However, it was our belief that the Office of Civil Defense could improve its administration of such contracts and thereby obtain study reports that would furnish the information sought.

The improvements which we considered to be needed involved more specific statements of the scope of work to be performed; more effective monitoring of studies; more frequent, timely, and complete progress reports from the contractor; and written records of agreements with contractor personnel. The Office of Civil Defense has taken steps to improve its procedures in these areas. (B-133209, March 25, 1968)

168. ADMINISTRATION OF COST OR PRICING DATA REQUIREMENTS--In July 1967, we reported to the Commissioner, Public Buildings Service, General Services Administration (GSA), that we had found instances where cost or pricing data were not being obtained from construction contractors for individual contract modifications exceeding $100,000 although such data was required by the Federal Procurement Regulations.

We also advised the Commissioner that contracts included in our review had not included the prescribed clause permitting price adjustments where defective pricing data were submitted by the contractor. In response, the Commissioner assured us that GSA's internal procurement procedures would be revised to ensure that the appropriate truth-in-negotiation clauses would be included in construction contracts. (Report to Commissioner, Public Buildings Service, General Services Administration, July 3, 1967)

169. GOVERNMENT-OWNED PROPERTY IN CONTRACTORS' PLANTS--We found a need for the Department of Defense to improve its system of controls over Government-owned facilities, special tooling, and material in the possession of contractors. Generally, our review disclosed weaknesses with regard to effective use of industrial plant equipment, rental arrangements, and accounting for and control of special tooling and material. Certain aspects of the work of Government property administrators and internal auditors were also in need of improvement. Our report on these findings was issued to the Congress in November 1967.

We made a number of proposals to improve the administration over Government-owned property. Actions taken or planned in response to most of our proposals, if properly implemented, should result in significant improvements in the control and utilization of such property.

The Department of Defense did not fully agree to, or did not indicate any specific corrective action on, our proposals to (a) require contractors to furnish machine-by-machine utilization data and to obtain prior Office of Emergency Planning approval on an item-by-item basis for the commercial use of industrial plant equipment and (b) strengthen the controls over special tooling and special test equipment by use of financial accounting controls. We recommended to the Secretary of Defense that he reconsider the Department's position on these matters. We also recommended to the Director, Office of Emergency Planning, that prior approvals for planned commercial use of industrial plant equipment be administered on a machine-by-machine basis.

Subsequent to the issuance of our report, the Department of Defense advised us that it had reconsidered its position. The Department stated that a 3-month test, starting on July 1, 1968, would be made at 20 contractor locations to determine the feasibility and cost of maintaining machine-by-machine utilization records and that the Armed Services Procurement Regulation Committee would review the matter of financial accounting controls over special tooling and special test equipment. The Department also stated that the Office of Emergency Planning was revising the applicable Defense Mobilization Order in order to tighten controls over commercial use of Government-owned equipment and to ensure equitable rentals for such use. (B-140389, November 24, 1967)

170. PREAWARD EVALUATION OF COST AND PRICING DATA--On the basis of our review of the preaward evaluation by the Federal Aviation Administration (FAA) of a contractor's price proposal for certain electronic storage tubes, we concluded that, because FAA had not adequately analyzed the contractor's proposal, it was not aware that the proposed price had been established on the basis of materials-yield and final-test-yield rates which were low in relation to more recent production experience. We estimated that, as a result of the inadequate cost-price analysis, the Government had incurred additional costs of about $107,000 on a contract priced at about $840,000.

FAA cited certain factors which had been considered by its procurement personnel before the contract was awarded and others which, in total, contributed toward FAA's final conclusions that (a) there was nothing to indicate that the contracting officer's analysis of the proposal was not adequate and (b) there was no reason to believe that the contractor (1) had failed to disclose any significant or reasonably available cost or pricing data or (2) had furnished any data which he knew, or reasonably should have known, was false or misleading. FAA cited also a list of actions taken or planned to strengthen control over FAA's procurement processes.

We concluded that, if FAA had performed an adequate preaward audit of the materials-yield rate on which the proposed price was based, it would have been in a position to recognize that the materials yields were based on a year-old cost standard which was not representative of the yields being experienced on current production. Similarly, because FAA did not adequately analyze the final-test-yield rate, FAA's negotiators were not aware that the price proposal had been based on a final test yield that included test yields experienced during initial and experimental stages of production of that particular type of storage tube.

We believe, however, that the actions taken and planned by FAA should, if properly implemented, strengthen its surveillance over future procurement activities. (B-133127, March 8, 1968)

171. COORDINATION OF CIVIL AND MILITARY PROCUREMENT--Agencies of the Department of Defense (DOD) and certain of their contractors had procured various quantities of a certain type of electronic storage tube for an average unit price of $1,350 during calendar years 1962 through 1964 while the Federal Aviation Administration (FAA) was procuring the same type of tubes from the same manufacturer for about $850 to $877 a tube. We estimate that, under various orders placed for a total of 234 tubes, DOD's costs exceeded by about $112,000 the cost at which the same type of tubes were purchased by FAA from the same contractor.

We therefore proposed that (a) DOD agencies, which procure the types of tubes involved, use existing Federal regulatory authority to coordinate such purchases with FAA to obtain the lowest available price and (b) DOD contracting officers be required to determine, during negotiations, whether other Government agencies are procuring the same item and, in such cases, obtain assurances that the price being negotiated is reasonable in relation to the price being paid by such other agencies.

DOD informed us that the item would be assigned to the Defense Supply Agency for procurement under the DOD-coordinated procurement program and that the Defense Supply Agency would fill FAA's tube requirements under an agreement with FAA. (B-133127, March 12, 1968)

172. DIRECT, IN LIEU OF INDIRECT, PROCUREMENT OF TEST EQUIPMENT--Because the Federal Aviation Administration (FAA) purchased common test equipment indirectly through basic systems suppliers rather than directly from the test equipment manufacturers, it paid about $539,000 for equipment which two systems suppliers had purchased for $419,000. About $52,800 of the $120,000 difference represented the systems

suppliers' profits and the remaining $67,200 included overhead and other charges.

We therefore proposed that FAA's instructions for the procurement of test equipment be revised to (a) describe all the factors that should be considered in deciding whether common test equipment is to be procured separately or in conjunction with the purchase of basic equipment and (b) provide that, where test equipment will require no modification or installation as part of a more complex system or component, the equipment be purchased directly from the manufacturer unless circumstances clearly justify indirect procurement.

FAA had issued two new policy directives dealing with procurement in general and, as a result of our interest in this matter, was revising a third policy directive dealing specifically with the procurement of test equipment. The two new directives should contribute generally toward more economical procurement. Also, the proposed revision of the third directive should eliminate the apparent requirement that common test equipment be procured indirectly through basic systems suppliers. However, we believe that the proposed revision of the third directive still will not provide sufficiently detailed guidance for the procurement of test equipment.

Therefore we recommended that the FAA Administrator direct that the order pertaining to procurement of test equipment be revised as we had proposed. (B-133127, April 10, 1968)

173. QUANTITY ESTIMATES PREPARED BY ARCHITECT-ENGINEERS FOR USE IN THE SOLICITATION OF BIDS--In August 1967, we reported to the Congress that, although the importance of accuracy in estimating quantities is stressed by the Corps of Engineers (Civil Functions), Department of the Army, in its regulations, the Chief of Engineers had not, at the time of our review, established Corps-wide procedures for the review of work performed by architect-engineers. We found that the contract price of $15.4 million for the construction of the Summersville, West Virginia, dam, dikes, and spillway had been substantially increased primarily because the quantity estimate prepared by an architect-engineer firm was inaccurate and did not show the full scope and magnitude of the work to be performed.

As a result, the Corps increased the contract price by $8.2 million through negotiation, rather than through competitive bidding, and thereby lost the benefits normally attained through formal advertising. We estimated that about $5.3 million of this increase in costs had been directly associated with increased work which could have been foreseen prior to contract award and thus could have been subjected to competitive bidding.

In addition to the loss of the benefit of full and free competition from procurement through formal advertising, costs of about $348,500 were incurred which could have been avoided. These costs consisted of about $276,000 for equipment which was idle because it could not be used for some of the additional work and of about $72,000 for additional administrative expenses.

We proposed that, in order to minimize the necessity for negotiated contract modifications, the Chief of Engineers issue guidelines requiring the districts to review the work of architect-engineers. We proposed further that a statement of the nature and extent of the review be made a part of the official files. The Department of the Army concurred in our report, in general, and advised us that the Chief of Engineers was preparing instructions to the field offices in accordance with our proposals. These instructions were issued and, if effectively implemented, should reduce the necessity for negotiated contract modifications. (B-118634, August 3, 1967)

174. COMPETITION IN PROCUREMENT OF AERONAUTICAL SPARE PARTS--In response to the expressed interest of the Subcommittee on Economy in Government of the Joint Economic Committee, Congress of the United States, we made a

Defense-wide survey of the procurement of aeronautical spare parts. Our report on this review was issued to the Congress in June 1968. We found that problems we had previously identified as restricting competition in procurement continued to require management attention and correction. In addition, many of the procurements reported by procuring activities as having been made competitively had not, in our opinion, been made under competitive conditions.

The Department of Defense advised us of the corrective measures taken, as follows:

--Procedures were being revised to provide for earlier reviews of items to determine whether they could be procured competitively.

--A management reporting system would be established to document reasons for procurement without competition.

--A means for coordinating interservice spare-parts procurement was under study.

--Rules for reporting procurement actions had been revised.

--Aggressive action would be taken to correct the technical data deficiencies revealed by our survey. (B-133396, June 25, 1968)

175. COMPETITION IN PROCUREMENT OF ANTHRACITE COAL--We reviewed the procurement of anthracite coal by the Army in fiscal years 1962 through 1967. The coal involved was mined in the United States and was procured by the Army from European importers under negotiated fixed-price contracts awarded on a competitive basis. Our report on this review was issued to the Congress in June 1968.

We concluded that the competition was not sufficiently effective to ensure the lowest price. The contractual practices permitted the sources of supply to be limited almost entirely to one American exporter. The exporter, in turn, procured the coal from only a limited number of producers. Restrictive specifications may also have limited competition.

The major anthracite suppliers have, under the provisions of the Webb-Pomerene Act, entered into agreements among themselves to set prices and allocate quantities of coal for export and ultimate sale to the Army. The general policy of most of the larger American anthracite suppliers is to offer their coal only to a certain coal export company. This company advised us that it purchased coal for the Army procurements only from members of the Anthracite Export Association--an association representing the larger anthracite producers--although there are other producers, not members of the association, that are qualified to meet specifications of the Army.

Because of these arrangements, the company was the only exporter in position to furnish enough coal to meet total needs of the Army. Furthermore, the exporter's quotations to European importers were conditioned on their purchasing from the exporter all of their requirements for the Army procurements. Members of the Anthracite Export Association, when participating in these procurements, furnished statements that, under the provisions of the Webb-Pomerene Act, they were not required to submit unqualified certifications of independent price determination. Therefore, what little competition existed was limited to the importer functions where the costs generated--principally transportation costs--represented only a small fraction of the total cost of the coal to the Army.

Also, we found considerable evidence that the Army's specifications for ash content and ash-softening temperature may have been more restrictive than necessary and may have limited competition.

In response to our findings, the Army stated that, for the fiscal year 1969 procurement, offerors would not be permitted to claim exemption, under the Webb-Pomerene Act, from certifying that prices proposed were arrived at independently. The Army stated also that tests were being conducted by

the Bureau of Mines to determine the minimum quality of coal which can be used economically in Europe, that the tests would be completed in August 1968, and that the results of the tests would be considered in the specifications for the fiscal year 1970 procurement.

On August 7, 1968, the Army advised us of certain additional steps it had taken to increase competition in the procurement of anthracite coal for use in Europe (B-159868, June 4, 1968)

176. PROCUREMENT OF PETROLEUM PRODUCTS BY CONTRACTORS--Our review showed that substantial annual savings might be realized if the Navy were to furnish to its contractors the petroleum products used by them in the testing of aircraft and aircraft engines instead of permitting the contractors to supply these products as a part of their contracts.

Our review was made at three plants where estimated requirements represented about 86 percent of the total petroleum needs of Navy aircraft and aircraft engine contractors. As stated in our report issued to the Congress in February 1968, we estimated that during 1964 the Navy paid two of the contractors about $229,000 more for such products than it would have paid if the products had been furnished to the contractors. We estimated that about $250,000 and about $400,000 could have been saved in 1965 and 1966.

With regard to the third contractor, our review showed that the contractual arrangements in effect were different and that the resulting profit rate was considerably less.

The Navy advised us that, in the case of one of the contractors, substantial savings might be realized and that negotiations were taking place to change the contractural treatment of these products.

With regard to the second contractor, the Navy stated that the savings would be small and that it was to the overall advantage of the Government for the contractor to continue to furnish the petroleum products. Although the potential savings are not substantial, the Navy should consider negotiating new arrangements with the contractor.

Therefore we recommended that, in the case of the second contractor and other contractors under similar conditions, the Navy consider negotiating new contractual arrangements. The Navy concurred. (B-160334, February 6, 1968)

177. USE OF COST DATA IN CONTRACT ADMINISTRATION--We reviewed the negotiated steam supply contract awarded by the Veterans Administration (VA) to the Washington Hospital Center (WHC) in 1961 and amended in 1966 and found that:

--The 1961 contract was illegal because it provided for payment to the WHC on a cost-plus-a-percentage-of-cost basis and did not contain a clause permitting the Government's examination of WHC's cost records or certain other general provisions required to be included in such contracts by law and/or by the Federal Procurement Regulations (FPRs).

--A cost analysis made by the VA for producing steam in-house versus purchasing steam was based on an incorrect factor for amortization of the WHC's estimated costs, which were to be reimbursed by the VA, for expansion of the WHC's steam-generating plant and installation of connecting steam lines.

--The WHC's steam production costs, the basis for establishing the unit for steam initially furnished to the VA, included questionable charges for depreciation, which resulted in duplicate reimbursement to WHC, and certain other costs.

--The 1966 contract renegotiations did not comply with the FPRs which require that the VA obtain certified cost data from the WHC

in support of its proposed unit price and then analyze and verify such data.

In a report issued to the VA in February 1968, we recommended that adequate guidelines and procedures be established to coordinate the respective organizations within the VA so that they can (a) arrive at the most economical method of acquiring steam as early as possible in the planning stages of a new hospital, (b) negotiate the most beneficial terms by obtaining and/or preauditing contractors' costs in compliance with the Federal Procurement Regulations, and (c) provide for adequate legal reviews of these negotiated contracts. We recommended also that the necessary action be taken to preclude future duplicate reimbursements for steam equipment installed on the contractor's premises

The 1966 amended steam supply contract provided for an annual revision of the unit rate on the basis of changes in WHC's labor and fuel costs, and in October 1966 the WHC increased the unit rate. The VA, however, was not able to adequately advise us of the basis for the increased rate. We therefore requested that the WHC provide us with such information. Although WHC did not fulfill our request, we noted that, for the year beginning October 1, 1966, WHC had amended the unit rate below the rate of the previous year.

We recommended that the VA obtain detailed steam production labor and fuel cost data from WHC in support of its annual revisions of the unit rate for steam furnished to the VA hospital and make appropriate audits of WHC's labor and fuel costs as a basis for determining the propriety of the revised unit rates for steam for the year beginning October 1, 1966, and for each year thereafter.

Subsequently, VA informed us that it was in general agreement with our findings and recommendations and advised us of certain corrective actions that had been or were being taken along the lines recommended in our report. (B-153672, February 6, 1968)

178. CONSOLIDATION OF PHOTOGRAPHIC OPERATIONS--In January 1968 in a report to the Congress, we reported that an opportunity for savings was available to the Government by consolidating photographic operations at the John F. Kennedy Space Center (KSC), National Aeronautics and Space Administration, and the Air Force Eastern Test Range (AFETR), Department of Defense. We noted that KSC was substantially expanding its photographic capability even though AFETR appeared to have adequate capability to accommodate KSC photographic requirements. We noted also that, under a 1963 agreement, provision had been made for coordinated photographic coverage and reproduction in order to avoid and minimize the duplication of facilities. While recognizing that the 1963 agreement contemplated a limited degree of duplication, we expressed the belief that the photographic capability established by KSC duplicated, to a great extent, already existing AFETR capability. We stated that significant savings could be realized if KSC photographic capability and AFETR capability were consolidated.

Our analysis showed that both facilities were staffed and equipped to accommodate peak photographic workload periods. Because of the normal method of operating, personnel and facilities at both locations were not fully utilized during periods between launchings. We noted that, even during peak workload periods, there was considerable unused capability. We expressed the view that consolidated operations by a single contractor would increase personnel and equipment utilization.

Although we were unable to determine the precise savings that might be realized by consolidation, both the KSC and the AFETR contractors providing the photographic services estimated that as much as $2 million could be saved annually by consolidation. In separate interviews, officials of both contractors stated that consolidation resulting in significant savings was feasible and that the continuance of separate operations was inefficient and excessively costly.

We therefore proposed that the Administrator, National Aeronautics and Space Administration (NASA), and the Secretary of Defense appoint a special group to review the

photographic requirements and capabilities of both installations. Both agencies agreed to initiate the joint review.

As a result of our recommendations and on the basis of work done by the joint study team, a proposed consolidation plan has been formulated that, according to both NASA and the Air Force, will (a) reduce costs of operations for KSC and AFETR by $1.4 million annually, (b) decrease the current staff levels at the two locations by 80 people, and (c) reduce the equipment level at these installations by $1.6 million. A full phase over to a single contractor operation is scheduled to be in effect by January 1, 1969. (B-162902, January 10, 1968)

179. USE OF CIVIL SERVICE EMPLOYEES RATHER THAN CONTRACTOR-FURNISHED EMPLOYEES--In June 1967 we reported that our review of the relative costs of using civil service personnel or of using contractor-furnished personnel to perform engineering and related technical support services at the National Aeronautics and Space Administration's (NASA's) Goddard and Marshall Space Flight Centers showed that estimated annual savings of as much as $5.3 million could be achieved with respect to the contracts we reviewed if these services were to be performed by civil service employees.

Although we recognized the possible merit of considerations other than cost, it was our view that NASA's policies relating to the use of the contracts had not been sufficiently clear as to the considerations which should be accorded to relative costs, in determining whether contractor-furnished or civil service personnel should be used.

Furthermore, because the action to fully correct the situation would require a significant change in NASA's policy relating to the use of support service contracts and because of the potential effect that a significant change may have on its civil service personnel requirements, we suggested that the Congress might wish to consider the policy aspects of this matter in further detail with agency officials. We suggested also that the Congress might wish to explore with NASA the impact that cost considerations should have in determining whether to use contractor or civil service personnel in those cases where either could carry out the operation equally well.

Since then, NASA has promulgated new instructions which more clearly identify the significance of relative costs in the decision-making process and has established criteria to be applied in comparative cost studies used in considering the use of civil service or contractor personnel for service-type activities. In addition, as a result of our report, the Special Studies Subcommittee of the House Committee on Government Operations held hearings in June 1967 on this matter. Follow-up hearings were also held by the Subcommittee in April 1968 to consider the various cost elements involved in making studies of the cost of performing the work with civil service employees compared with the cost of contractor performance, with the objective of possibly developing cost standards and criteria which would be for Government-wide application.

At the present time, the Bureau of the Budget, the Civil Service Commission, the Department of Defense, NASA, and the General Accounting Office are engaged in a joint effort to provide improved guidance for Government-wide application in the support service area. (B-133394, June 9, 1967)

180. WARRANTY PROTECTION FOR SUBCONTRACTS--In a letter dated March 25, 1968, to the Associate Administrator, Office of Organization and Management, National Aeronautics and Space Administration (NASA), we pointed out that the prime contractor for the lunar module project had purchased, without documenting the specific need therefor, warranty protection for fixed-price subcontracts totaling in excess of $37 million. On the basis of information on warranties shown separately in certain of the vendors' proposals for the subcontracts, the costs of these warranties could be substantial.

At the time of our review, the NASA

procurement regulation on the subject of warranties was very general and did not provide specific guidelines to be considered by the contracting officer in making a determination as to whether a warranty would be in the best interest of the Government. As a result, the contractor included a standard warranty provision in all fixed-price procurements under the lunar module program.

We brought this matter to the attention of NASA officials and expressed our opinion that, while we realized that warranty protection might be applicable under certain Government programs, it did not appear that routine warranty coverage would be required under all fixed-price purchase orders. We pointed out to NASA officials that the Armed Services Procurement Regulation contained a much more comprehensive treatment of warranties than did the comparable NASA regulation, and we suggested that NASA should consider revising the NASA procurement regulation accordingly.

NASA subsequently revised its regulation on the use of warranties to conform more closely to the Armed Services Procurement Regulation. The revised regulation now provides contract negotiators with specific guidelines in making determinations on the use of warranty clauses and in evaluating NASA contractors' policies and procedures on obtaining warranties for subcontractors. The revised regulation, when implemented, should provide a sound and consistent application of judgment by NASA contracting personnel and personnel of its prime contractors in instances where the use of warranties is under consideration. (Report to Associate Administrator, Office of Organization and Management, National Aeronautics and Space Administration, March 25, 1968)

181. FORMAL ADVERTISING FOR LIGHT BULBS AND TUBES--In March 1968, we reported to the Congress that the use by General Services Administration (GSA) of negotiated contracts for light bulb and tube requirements did not result in maximum price competition and was not in the best interests of the Government. On the basis of our review, we concluded that GSA should use formally advertised contracts, rather than negotiated contracts, for the bulk of the Government's lamp requirements because all the essential elements are present for successful formal advertising.

To obtain an indication of the savings that might be achieved by advertising for the Government's lamp requirements, we compared the prices for certain lamps obtained by the State of California under formally advertised contracts with the prices obtained by GSA under negotiated contracts. We were able to compare prices for 197 of the 685 items listed in the Federal Supply Schedule contracts. On the basis of annual Government expenditures of $13.3 million for the 197 items, we estimated that savings of at least $1.7 million, or about 12.4 percent, might be realized by purchasing the items through formal advertising.

In December 1967, in response to our recommendation, GSA informed us that contracts for lamps covered by Federal specifications would be formally advertised. (B-163349, March 20, 1968)

Note: For an additional item on "Contracting Policies and Practices," see section on "Economic Opportunity Programs," item No. 22.

FACILITIES, CONSTRUCTION, AND LEASING

182. SELECTING AND ACQUIRING CONTROL OF SITES--Our review of the practices and procedures followed by the Post Office Department in selecting and acquiring control of sites for new postal facilities revealed that

--the Department had relied to a greater extent than most other Federal agencies on estimates of property values prepared by individual employees (real estate officers) and had permitted the same individuals to estimate property values and negotiate purchase options;

-there had been no independent review of real estate officers' estimates of property values before purchase options were negotiated on potential facility sites;

--the realty survey analyses (appraisals) prepared by the Department's real estate officers usually had not contained the documentation needed to demonstrate the reasonableness of the purchase option prices they had negotiated, although the Department required that such documentation be provided; and

--only one of the three generally accepted techniques for estimating the fair market values of properties had been required by the Department, and used by the Department's real estate officers, for estimating the market values of potential facility sites.

Under the Department's prescribed procedures, a real estate officer locates potential sites and negotiates assignable purchase options on them prior to submitting his site report to the regional office for review and selection of the site to be used for the facility. In our opinion, these procedures do not provide adequate internal control because the purchase prices of potential facility sites are negotiated before the regional or Headquarters offices have an opportunity to review and determine the adequacy of the appraisal data prepared by the real estate officers.

In a report issued to the Congress in May 1968, we expressed the opinion that the Department did not have adequate instructions regarding either the techniques and requirements for making appraisals and preparing appraisal reports or the circumstances under which additional appraisals should be obtained. We expressed the opinion also that the Department needed to eliminate the weaknesses in its policies and procedures in order to ensure implementation of its policy of constructing postal facilities on sites which adequately meet operational needs at the lowest possible costs.

We recommended that the Department revise its policies and procedures to provide for

--obtaining complete and fully documented appraisals of the fair market values of potential facility sites, which are based on consideration of all appropriate techniques for estimating market values, and requiring the regional or Headquarters offices to determine the adequacy of the appraisals before selecting the sites to be used or attempting to negotiate purchase options on the properties involved;

--assigning the functions of making appraisals and negotiating purchase options to different individuals;

--instructing the regional real estate officers in the techniques and requirements for making appraisals and preparing appraisal reports; and

--obtaining a second appraisal by either an independent real estate officer of the Department or an outside professional appraiser under contract in each case where the initial estimate of the value of a selected site exceeds a specified amount or by an outside professional appraiser under contract in each case where the owner of a selected site has declined to grant the Department an option to purchase the site for an amount at or below the fair market value estimated by the first appraiser.

The Deputy Postmaster General advised us that the Department did not concur in the first two of our recommendations and that the Department did not believe an appraisal by an outside professional appraiser should invariably be required under the circumstances cited in our fourth recommendation.

Concerning our third recommendation, however, he said that the Department would review its instructions and requirements for making appraisals and preparing appraisal reports and attempt to make them more specific. (B-153129, May 1, 1968)

183. **CRITERIA FOR STUDIES OF FEASIBILITY AND COSTS OF FACILITIES ON ALTERNATIVE SITES**--In a report issued to the Congress in May 1968, we pointed out that the Post Office Department had not established specific criteria to implement its policy that facilities be constructed on sites that adequately meet operational needs at the lowest possible costs. We pointed out also that a Headquarters Circular, issued in August 1967, provided that, when a decision was made that an economic study or cost analysis was required for any project, the initiating bureau or office would advise the Cost Analysis Division, Bureau of Finance and Administration, of its plans early enough to work out the format for completing the study.

The Department had made only three studies of the feasibility and costs of acquiring and operating facilities on alternative sites, and two of these studies were covered by our review. Our review of one study revealed several omissions and probable errors in the Department's computations. We believed that an adequate study might possibly have indicated higher overall costs for the selected site and thereby might have resulted in the selection of the alternative site by the Department. Our review of the other study revealed that, in selecting the site for the facility, the Department might not have given sufficient consideration to the lower overall costs indicated by its study, for a facility constructed on an alternative site.

We recommended that, to ensure implementation of the policy of constructing facilities on sites which adequately meet operational needs at the lowest possible costs, the Postmaster General instruct the responsible officials of the Department to establish (a) guidelines as to when studies should be made of the feasibility and costs of acquiring and operating facilities on alternatives sites and (b) specific criteria regarding the factors to be taken into consideration in making and using such studies.

The Deputy Postmaster General advised us that the Department did not agree with our recommendations. He stated that since 1961 the Department had followed a consistent policy of making economic feasibility studies in all instances where any serious question of such feasibility existed and that the Department did not believe further specific criteria or guidelines for making studies of the feasibility and costs of acquiring and operating facilities on alternative sites were necessary, desirable, or practical.

In view of the substantial number of facility sites previously acquired by the Department and the complexities involved in selecting the most suitable sites, we believe that there is a need for guidelines as to when studies should be made of the costs of acquiring and operating facilities on alternative sites. We believe also that, instead of working out a different format for each study, the Department should establish specific criteria regarding the factors to be considered in making and using such studies and that these criteria should be made available to the bureaus and offices authorized to make decisions as to whether an economic study, a cost analysis, or a cost study is required.

In our opinion, such criteria would tend to ensure that studies were prepared and used on a uniform basis and probably would assist the bureaus and offices in determining when to request studies. (B-153129, May 1, 1968)

184. **PUBLICIZING SITE REQUIREMENTS**--In a report issued to the Congress in May 1968, we expressed the opinion that, if the Post Office Department adequately publicized its requirements before commencing site control proceedings, some properties suitable for use as sites for new postal facilities might be offered to the Department at prices lower than those which would otherwise be obtained.

The Department's Regional Manual stated that information regarding realty plans should not be released until an action document such as an option had been approved; and publicity releases had not been issued in advance of site selection for any of the facilities we reviewed. We proposed that the Department revise its policy to provide for publicizing its site requirements as far in advance as practicable and for encouraging property owners to submit offers of purchase options to the Department.

The Deputy Postmaster General informed us that the Department concurred in our proposals. He said that the Department's instructions already required the Department's real estate officers to make recommendations regarding release of publicity, and he stated that the Department would revise its manuals and other instructions to support the stated policy of the Department.

We subsequently reviewed copies of several publicity releases which had been issued by the Department at the time of approving new construction and, in our opinion, they generally had not provided sufficient details regarding the site requirements to encourage property owners to offer purchase options to the Department. We therefore recommended that the Postmaster General instruct the Assistant Postmaster General, Bureau of Facilities, to include in each future publicity announcement related to authorized construction of a new postal facility (a) information regarding the site size requirements and, to the extent known, the specific area of the city in which the new facility is to be located and (b) an invitation that property owners in the selected area submit offers of purchase options to a designated postal representative.

In July 1968, the Postmaster General advised the Director, Bureau of the Budget, that revised instructions had been drafted which would eliminate the conflicts in instructions regarding publicizing the Department's plans for acquiring new facilities. He said that, to enable property holders to offer their sites to the Department for consideration, the new instructions would require the provision of as much information as was available. (B-153129, May 1, 1968)

185. DEVELOPMENT OF REQUIREMENTS FOR REVIEWS OF REAL ESTATE FILES--We found that, although the Post Office Department's procedures provided for reviews of regional real estate files at various management levels, the detailed requirements for such reviews were not specified. We noted many instances where, in our opinion, reviewers at the Department's regional and Headquarters levels had reached decisions or made recommendations regarding facility sites without requiring the real estate officers to supply complete and adequate data.

We believed that the Department could ensure the provision of adequate documentation in support of regional real estate activities by developing, and requiring officials of the regional and Headquarters offices to use, guidelines for reviews of real estate files, which provided, among other things, for use of checklists of the documentation required as support for proposed actions.

In a report to the Congress in May 1968, we recommended that, to ensure implementation of the Department's policy that real estate actions not be approved unless there is complete and convincing support for the actions proposed, the Postmaster General instruct the Assistant Postmaster General, Bureau of Facilities, to develop guidelines for reviews of real estate files by officials at regional and Headquarters levels.

The Deputy Postmaster General advised us that, pursuant to our recommendation, the Department would take action to develop guidelines for management reviews of real estate files. (B-153129, May 1, 1968)

186. DETERMINING SPACE REQUIREMENTS--Our examinations into the Post

Office Department's planning for lease construction of 14 small- and medium-size post offices and for enlargement of three Government-owned post office buildings indicated that a total of about 15,000 square feet of unneeded interior space had been provided. About two thirds of the unneeded space had been provided because, in planning the space requirements, the regional offices had not properly applied the Department's space standards. The balance of the unneeded space had been provided because, in planning areas on the basis of local needs, the regional offices had made provision for more space than required for efficient operations.

In a report issued to the Postmaster General in March 1968, we estimated that, if the unneeded space had not been provided, the rental costs of the 14 leased post offices could have been reduced by about $17,000 annually, or a total of $262,000 over the lives of the leases, and that the construction costs of the three Government-owned post office extension projects could have been reduced by about $74,000.

In view of the apparent need for additional management reviews, we proposed that the Department take such actions as necessary to ensure that the Bureau of Operations makes adequate and systematic reviews of regional space planning activities.

In commenting on our draft report, the Deputy Postmaster General stated that, within the limits of available manpower, the Bureau of Operations would give the matter increasing attention and that, until the Bureau obtained additional personnel, the Office of Regional Administration would give greater attention to space planning activities during regional appraisals.

In May 1968 the Deputy Postmaster General advised us of several actions that had been taken, or were planned to be taken, by the Department to improve the planning of space for small- and medium-size postal facilities. These actions included (a) revising the Department's space standards to make them more specific and to require explanations of deviations from the published criteria, (b) assigning to a single regional organization the functions of planning for space requirements and for utilization of postal facilities, (c) making in-depth studies of planning for space as a basis for developing guidelines and criteria for subsequent evaluations of regional space planning activities, and (d) developing standard space allocations and equipment requirements for second-class post offices. (B-152129, March 25, 1968)

187. **DETERMINING SPACE REQUIREMENTS**--The Federal Aviation Administration (FAA), under a lease-construction arrangement, acquired a new Pacific Regional Office headquarters building in Honolulu that was substantially larger than necessary because: (a) the estimate of personnel requirements, prepared by the FAA's Pacific Region, was unrealistic in the light of information available at the time and (b) the Region's estimate, on which the size of the new building was based, had not been adequately reviewed at the FAA headquarters. The lease, which was executed by the General Services Administration (GSA) for a 10-year period ending in September 1974, contains no provision for either early termination or renewal. The annual rental is $215,370 plus building services, which GSA estimated would cost the Government about $96,000 annually.

After we brought this matter to the attention of FAA, much of the space excess to its needs was made available to other Government agencies, thereby reducing overall costs to the Government by about $268,000.

In April 1961, when it had about 320 employees, the Pacific Region estimated its staffing requirements for fiscal year 1965 at 439 employees, a 37 percent increase over its 1961 staffing. FAA headquarters authorized the Region to acquire space for 400 employees. In November 1961, the Region again reviewed its anticipated requirements and arrived at substantially the same amount of space that it had computed in April 1961. In February 1962, however, the Region formally requested GSA to furnish 75,400 square feet

of space to house 511 employees. We were informed that this request had been based on the FAA Regional Director's concept of how the Region should be organized. We found no evidence in FAA's records that the revised regional estimates had been questioned by FAA headquarters, despite the fact that, only 6 months earlier, headquarters had authorized space to accommodate only 400 employees.

We proposed to the FAA Administrator that, to preclude similar overacquisitions of office space in the future, procedures be developed to require that the economic soundness of all requests for new or additional office space be critically reviewed at the headquarters level in order to provide GSA with more realistic estimates of space requirements for use in planning the sizes of buildings to be acquired for FAA's use.

FAA has revised its space programming procedures which, if properly implemented, should preclude the recurrence of situations such as the situation reported. (B-118670, November 2, 1967)

188. SUBSTITUTION OF CONSTRUCTION MATERIALS--In August 1967 we reported to the Administrator of General Services that, contrary to policy, General Services Administration (GSA) construction officials had approved a proposal, made by the contractor and recommended by the architect-engineers, to substitute certain materials for those specified in the contract for construction of the Kansas City Federal Building. Some of these materials were considered by GSA's fire-prevention personnel to be hazardous in respect to fire safety of the building.

As a result of our review, GSA contracted for removal of the fire-hazardous material. Work under the contract was completed in July 1968. In addition, all GSA regional personnel were directed to enforce GSA's policy regarding substitution of materials. (B-150861, August 9, 1967)

189. CONSIDERATION OF FUNCTIONAL EFFICIENCY IN BUILDING DESIGN REVIEWS--Our report to the Congress in May 1968 showed that the General Services Administration (GSA) had incurred costs of about $224,300 to reposition certain overhead ductwork, lighting fixtures, and fire protection sprinklers in the Washington National Records Center to increase the storage capacity by about 75,000 cubic feet. We also found that the placement of ventilating fans and related ductwork had precluded the use of 94,000 cubic feet of additional storage space. Although it is a stated policy of GSA that Federal buildings be so designed as to be functionally efficient, we found that GSA did not have procedures for implementing the policy and, in practice, reviews of designs did not include appropriate attention to the intent of the policy. We believe that, had such a review been made, the adverse features of the original design probably would have been recognized and appropriate changes probably would have been made prior to construction.

We recommended that the Administrator of General Services establish procedures and assign responsibility for implementing GSA's stated policy that Federal buildings be so designed as to be functionally efficient. The Acting Administrator of General Services agreed that our report demonstrated the need for better surveillance over the functional efficiency of designs and stated that our report would assist GSA in the more careful surveillance of designs, which would be observed in practice as well as in policy. (B-156512, May 28, 1968)

190. ADMINISTRATIVE DIFFICULTIES IN CONSTRUCTION PROJECTS--At the request of the Joint Committee on Atomic Energy (JCAE), we reviewed selected Atomic Energy Commission (AEC) construction projects in which time delays, cost overruns, or other indications of administrative difficulties had occurred. In a report submitted to the JCAE in February 1968, we stated that we believed that the underlying cause for the cost overruns and time delays in a number of cases which we reviewed was attributable to the quality of information available at the time the authorization re-

quests were furnished to the Congress. In these cases, design work had not been undertaken and the conceptual studies which had been used did not provide AEC with sufficient information, in our opinion, to accurately estimate the time and cost required to complete the proposed projects.

As a means of improving the accuracy of its time and cost estimates, AEC, beginning in fiscal year 1964, has requested, and has been provided with, funds to obtain architect-engineering services on complex construction projects which are under consideration, for future years' authorization and appropriation. This authority was not available to AEC to permit advanced design work on the construction projects covered by our report.

At the time of our review, AEC was furnishing the JCAE with annual statistical data showing changes from its initial cost estimates. However, this data did not provide information concerning delays being encountered in completing authorized projects. We suggested that AEC modify its existing reporting procedures to disclose such information in its annual submission to the JCAE, and AEC agreed to do so.

We also found that the final designs of two of the projects included in our review had been influenced by AEC's desire to maintain project costs within the base amount authorized and that as a result a reduction had been required in the scope of the facilities. In contrast, we noted instances where AEC had been able to construct the facilities contemplated at the time of authorization for less than the authorized amount and had constructed additional facilities.

AEC's instructions required that changes in the scope of a project be referred by the responsible field office to Headquarters for approval. However, these instructions did not elaborate on what was considered to be a scope change and therefore the determination of which changes should be referred to Headquarters was largely a matter of judgment that could vary among AEC field offices. For the most part, the facilities added to the projects included in our review were authorized by the field offices without obtaining Headquarters approval because they were not considered scope changes by field officials.

As a result of our review, AEC revised its instructions dealing with scope, location, programmatic purpose, and operational capacity of construction projects, to more specifically define a change in scope.

In presenting construction projects for authorization, AEC was not required to present information as to related research and development costs. We noted that, for certain complex projects, substantial research and development costs, to be financed with operating funds and essential to a successful project, were expected to be incurred. Accordingly, we suggested that in such situations the costs involved, to the extent practicable, be disclosed in the budgetary requests, to provide the JCAE with a clearer insight into the total financial implications of specific construction project approvals. AEC agreed that in future budget submissions such disclosure would be made. (B-159687, February 19, 1968)

Note: For additional items on "Facilities, Construction, and Leasing," see section on "Economic Opportunity Programs," items Nos. 21 and 24.

PROCUREMENT PROCEDURES AND PRACTICES

191. CROP ALLOTMENTS ATTACHED TO LAND ACQUIRED FOR GOVERNMENT PURPOSES--As a result of our examining into certain land valuation practices of the Bureau of Sport Fisheries and Wildlife, we reported to the Bureau in December 1967 on the need to revise appraisal instructions so that the value of crop allotments issued by the Department of Agriculture would be appropriately considered in negotiating for the acquisition of land under the Bureau's migratory waterfowl land acquisition program. Under existing conditions, there is no assurance that the value of certain allotments, which the

Bureau is not authorized to acquire, is excluded from the price paid for the land.

We pointed out that the Bureau could possibly have been paying for an allotment which it had no authority to acquire, while at the same time the allotment holder could possibly have been enjoying a double benefit in that he retained possession of the allotment and could either transfer it to other land he owns or sell it at the current market value.

In our report, we recommended that, inasmuch as the Bureau's appraisal instructions were then being revised, it would be an appropriate time to revise its instructions to require that tract appraisals value crop allotments separately from the land and to require that land acquisitions be documented to show that the value of such allotments was excluded from the negotiated price of the land.

In April 1968 the Bureau stated that it believed it had successfully negotiated prices with landowners in the best interest of the Government. However, the Bureau concurred with our suggestion that instructions be prepared and issued pertaining to the appraisal of and negotiation for lands which had crop allotments that the Bureau could not acquire. The Bureau stated further that such instructions were being prepared and would be issued shortly. (Report to Director, Bureau of Sport Fisheries and Wildlife, Department of the Interior, December 29, 1967)

192. USE OF SUITABLE ALTERNATIVE MATERIAL--Our review of selected management controls related to new vessel construction showed that the Coast Guard had no procedures providing for thorough consideration of suitable alternative material in developing vessel construction specifications. We found that the Coast Guard had specified that stainless steel be used in components of certain marine door and hatch assemblies although less costly mild steel could have been used. After we called this matter to the attention of agency officials, they revised the specifications for vessels scheduled for construction to provide for the use of mild steel.

In our report we recommended that the Commandant of the Coast Guard initiate action to require that thorough consideration be given to the use of suitable alternative material in developing vessel construction specifications. The Commandant stated that increased efforts would be made by the Coast Guard to ensure the selection of less expensive alternative material in ship construction and to provide flexibility in specifications to permit shipbuilders to use the alternative material. (B-157965, December 5, 1967)

193. USE OF IN-HOUSE COST ESTIMATES IN SHIP CONSTRUCTION PROJECTS--We reported to the Commandant of the Coast Guard in December 1967 our belief that top management should evaluate in-house cost estimates before contracting work out to commercial sources. Our review at the Coast Guard Yard showed that the Coast Guard had planned to contract for the provision and installation of certain furniture, furnishings, and fixtures--referred to as joiner work--on three medium-endurance vessels that were scheduled to be constructed at the Yard. However, we noted that cost estimates to do the work in-house were significantly lower than the prices previously paid to a commercial firm for such work.

The Acting Commandant of the Coast Guard stated that corrective action had been taken by headquarters, which would result in the submittal of detailed cost estimates by the Yard before construction projects were ordered to begin. (B-157965, December 5, 1967)

194. COMPENSATION IN ACQUIRING OIL INTERESTS--In September 1967, we reported to the Congress that the Corps of Engineers (Civil Functions), Department of the Army, in acquiring land for two reservoir projects near Carlyle, Illinois, and Tulsa, Oklahoma, had made payments of about $28 million to the land and mineral owners. About $7.2 million of that amount represented the estimated cost to the Government for acquiring the mineral interests.

Agreements entered into by the Corps

provided for payment to the owners for the full amount of the estimated oil reserves. Subsequent to appraisal of the estimated oil reserves, the owners were permitted under the agreements to extract oil, having a fair market in-ground value of about $1.6 million, without an appropriate adjustment of the cost to the Government for acquiring the mineral interests.

We suggested to the Secretary of the Army that the Corps' policies and procedures be revised to prevent the owners of mineral interests from receiving more than just compensation. In accordance with our proposal, the Corps issued instructions to selected division and district offices that (a) provided general guidelines for the purchase or subordination of subsurface interests and (b) stated that appropriate changes would be made to the Engineer regulations to incorporate the general guidelines. (B-162106, September 29, 1967)

195. COMPENSATION FOR RELOCATION OF MUNICIPAL FACILTIES--In February 1968, we reported to the Congress regarding the need for the Corps of Engineers (Civil Functions), Department of the Army, to improve its procedures for determining the compensation to be paid to municipalities for the relocation of facilities--such as streets, sidewalks, and water and sewer systems--necessitated by the construction of Federal water resources projects.

Our review showed that the Corps, as a matter of general practice, had provided compensation for municipal facilities to serve lots which were excess to those required for residents who expressed a desire, in a poll, to move to a relocation area. We found that the Corps, in compensating four municipalities, had provided an average of about 34 percent more facilities than those which we believed were required to fulfill the legal obligation of the Government and increased the cost of these relocations by about $367,000. We expressed the opinion that this practice constituted payment for indirect and speculative damages, which is prohibited by law.

The Corps provided compensation to relocate facilities at two additional municipalities when, in our opinion, there was sufficient information available to indicate that replacement facilities were not necessary. (The Federal courts have held, in cases relating to municipal relocations, that, where it can be shown that there is no necessity for substitute roads or utility systems or portions thereof, the Federal Government is required to pay only nominal consideration.) The combined cost of relocating the municipal facilities for these towns was about $412,000.

In bringing these matters to the attention of the Secretary of the Army, we proposed that Corps procedures be revised to require that, (a) when replacement facilities are necessary for relocating residents, no facilities be provided beyond those necessary to serve eligible residents who have indicated their intention to move to the relocation area and (b) in future municipal relocations, an evaluation be made of evidence indicating that a contemplated relocation may not be necessary.

In April 1968, the Corps issued instructions substantially in accordance with our proposals. (B-160628, February 27, 1968)

196. USE OF CONTRACTOR PERSONNEL IN LIEU OF CIVIL SERVICE PERSONNEL--Our review confirmed Air Force studies--undertaken after we issued a report to the Congress in January 1966 on our survey of research management functions at Cambridge Research Laboratories--which showed that savings would be realized if some of the research functions being performed by contractors were performed by civil service personnel. The savings would result primarily from reduction, or elimination, of overhead costs and of profits paid to the contractors. Our report on the review was issued to the Congress in November 1967.

The Air Force study of contracts for services at the Laboratories--costing about $3 million annually--showed a savings potential of $750,000 a year. The amount of the savings, however, will be less than estimated if consideration is given to Federal income taxes forfeited, the possibility that the contractors'

other Government business might absorb part of the overhead being applied to these contracts, and other factors.

We believe that (a) administrative ceilings on the availability of civil service personnel for these jobs and (b) excessive delays in approving or disapproving amendments to the manpower ceilings have, in the past, been major factors in the continued use of contractor services.

We therefore proposed to the Secretary of Defense that:

--Manpower ceilings made available to the Laboratories be sufficiently flexible to enable the Laboratories to acquire civil service employees to assume the long-term research work now being performed within its facilities by contractor-furnished personnel.

--The personnel ceilings of the Laboratories be related to the facilities and research project approval processes and that appropriate adjustments be made consistent with such approvals.

--A more expeditious manner of processing manpower requirements be established within the Department of Defense.

The Department of Defense concurred, in general, in our finding and advised us that the civil service personnel authorization at the Laboratories had been increased to permit conversion of 25 service contracts to Government operation. The Department did not concur, however, in our conclusion that manpower-ceiling practices prevent economical management of programs and resources. (B-146981, November 28, 1967)

197. USE OF MOST ADVANTAGEOUS SOURCE OF SUPPLY--In May 1968 we reported to the Congress on our review of the methods used by the General Services Administration (GSA) to supply the needs of Government agencies for certain common-use items, such as fire extinguishers, light bulbs, spark plugs, stepladders, and office furniture. We pointed out that opportunities existed for reducing supply distribution costs by limiting agencies' purchases of certain items from warehouse stocks to those situations where that method of supply is necessary and advantageous. Our review showed that (a) GSA replenished warehouse stocks for 377 items through Federal Supply Schedule contracts and (b) a large percentage of agencies' purchases of these items from warehouse stocks (about $14.2 million during fiscal year 1967) could have been obtained through Federal Supply Schedule contracts.

We concluded that there was no significant advantage for GSA to act as a secondary distributor for the bulk of the Government's needs for these items since agencies could place their orders direct with Federal Supply Schedule contractors, subject to the same terms, conditions, and prices as were GSA orders. To the extent that agencies' purchases of these items from warehouse stocks are limited to those instances where that source of supply is necessary and advantageous, GSA can reduce its variable costs of procurement, warehouse handling, and transportation. We estimated that these savings would amount to about $1 million annually. In addition, GSA's investment in inventories of the 377 items, which averaged about $3.2 million during fiscal year 1967, could be substantially reduced.

We recommended that GSA determine the more economical method of supplying agencies' needs for the 377 items supplied both from warehouse stocks and through Federal Supply Schedule contracts. We recommended also that GSA take the actions necessary to ensure that agencies obtain their needs of these items from the appropriate supply source. In February 1968, GSA informed us that, in response to our proposals, the relative economies of the different methods of supply would be studied in a cost-benefit project to determine optimum criteria for methods of supply. (B-114807, May 24, 1968)

198. COST INFORMATION USED FOR MANAGEMENT DECISIONS--We re-

ported to the Congress in June 1968 that the General Services Administration (GSA) was making supply management decisions on the basis of overall average cost information which, in many cases, was inadequate because of the disparities in costs associated with the wide range of items available through the GSA supply programs. On the basis of our review, we concluded that the development of refined cost information by GSA was necessary for use in determining the most advantageous methods of meeting the supply requirements of Federal agencies. We stated that such cost information would serve as a basis for effecting improvements in such areas as (a) establishing optimum inventory operating levels, (b) determining appropriate stocking patterns, and (c) deciding which items should be eliminated from the warehouse stocks.

Our review showed that the need for an improved cost information system had been brought to the attention of GSA officials by GSA internal auditors in a June 1963 report. GSA did not take action to implement the internal auditors' recommendations until October 1966 when a cost-benefit study of supply operations was approved. Completion of this study was delayed, however, as a result of attention given another project.

We proposed that the Administrator of General Services require that appropriate priority be given to (a) completing the cost-benefit study and (b) implementing an adequate cost information system for use in the supply decisionmaking process. The Administrator advised us that our proposals would be implemented and that the cost-benefit study would be given appropriate priority. (B-114807, June 26, 1968)

199. LEASE IN LIEU OF PURCHASE OF TWO-WAY RADIO EQUIPMENT--In a report issued to the Congress in May 1968, we stated that, as of May 31, 1966, 11 civil agencies were leasing two-way radio equipment from two manufacturers at an annual cost of $744,000. Most of the equipment was being leased by the Atomic Energy Commission, the Department of the Interior, the Federal Aviation Administration, the National Aeronautics and Space Administration, and the Post Office Department (POD).

On the basis of our lease/purchase cost comparison, we estimated that, had the agencies purchased, rather than leased, the equipment, cost reductions ranging from 8 percent for portable radios to 46 percent for mobile radios could have been realized over a 5-year period, the minimum estimated useful life of the equipment. We found that this situation was caused in many instances by the lack of adequate cost studies by agency personnel prior to entering into leasing agreements.

General guidelines for making lease-or-purchase determinations were issued by the General Services Administration in February 1966 and are contained in the Federal Property Management Regulations. Also, in August 1967 Bureau of the Budget Circular No. A-76, which established policies for acquiring commercial or industrial products and services for Government use, was revised to require that agencies apply the principles set forth in the circular when making judgments with regard to lease versus purchase of equipment. We believe that, if these guidelines are properly observed, two-way radio equipment will be acquired, in the future, by the most economical method.

Several of the agencies agreed that purchasing such equipment was feasible and would be more economical under certain circumstances. POD, however, advised us that its cost study showed that leasing, rather than purchasing, the equipment would result in savings. Since our evaluation of the cost data furnished us by POD indicated that the costs associated with purchasing appeared to be substantially overstated, we recommended that the Postmaster General reevaluate the POD practice of leasing two-way radio equipment.

The Department of the Interior cited the lack of in-house maintenance capability as a justification for leasing at some locations. We believe that, generally, purchasing should not be deterred by the lack of an in-house maintenance capability because maintenance of purchased equipment could be performed by commercial service firms under contract. We recommended that the Secretary of the Interior require a reevaluation of the practice of

leasing two-way radios at those locations. (B-160410, May 27, 1968)

200. PROCUREMENT OF VITAL STATISTICAL DATA--In our report of February 1968 to the Surgeon General, Public Health Service, Department of Health, Education, and Welfare, we pointed out that the National Center for Health Statistics could possibly achieve significant economies for the Government through the purchase of needed statistical data from the States in the form of punched cards or magnetic tape in lieu of purchasing microfilm images of the original birth, death, and other vital records.

Our observations of procurement transactions from a number of States using automatic data processing methods indicated that the purchase of punched cards, or possibly magnetic tape, could result in lower costs to the Government than the purchase of microfilmed images, particularly if the Center could reduce or discontinue its own coding and punching operations. We estimated that total costs of purchasing microfilmed images and of coding and punching operations for fiscal year 1966 amounted to about $450,000.

In commenting on our suggestions, Center officials expressed the opinion that economies through a change of procurement method were not practicable because direct access to the filmed records was required for program reasons and punched cards of these records would be unsuited to serve present and developing needs for national vital statistics. Nevertheless, we stated our belief that the continuously advancing state of the arts in the field of computer technology may open up new possibilities of cooperation between the States and the Federal Government, and we called attention to the increasing volume of vital statistical data being recorded by the States on punched cards or tape, which could also cover the Federal needs.

In April 1968, Public Health Service officials informed us that they had reexamined the reservations earlier expressed and, accordingly, would explore the possibility of developing a means of accepting the magnetic tapes of States equipped to provide them and willing and able to prepare data according to the specifications of the Center. (Report to Surgeon General, Public Health Service, Department of Health, Education, and Welfare, February 16, 1968)

201. USE OF CURRENT COST OR PRICING DATA--In our report to the Congress on our review of target costs negotiated for a contract awarded by the National Aeronautics and Space Administration (NASA) to The Bendix Corporation, we noted that the target cost proposed by the contractor and accepted by the Marshall Space Flight Center included amounts for materials and other related costs which were overstated by about $2.1 million when compared with the most current data available prior to negotiations. As a result, the fee payable under the contract was based on overstated costs, and the total fee payable under the contract exceeded by about $595,000 the amount that would have been payable if the target cost had been based upon the most current data available before the start of negotiations. The contract was a cost-plus-incentive-fee type of contract for the procurement of ST-124 stabilized platform systems used in the guidance of the Saturn launch vehicles in the Apollo Manned Flight Program.

Under the requirements of Public Law 87-653--the "Truth in Negotiations Act"--contractors are required to use current cost or pricing data in arriving at the cost of a contract.

We stated that it was our belief that the higher target cost had been negotiated because the contractor had not updated its proposal to eliminate certain unneeded parts and to recognize that it had obtained lower supplier prices prior to executing the required certificate of current pricing. We also expressed the view that the Marshall Space Flight Center had not adequately evaluated material quantities in the contractor's proposal or given adequate recognition to the information provided by the Defense Contract Audit Agency, which, while not complete because the audit had not been finished, never-

theless indicated that the target cost data provided by the contractor was questionable.

NASA concurred in our findings and advised us that the contracting officer was taking the necessary action to reduce both the contract target cost and the fee. Substantially in line with our proposals, NASA also issued a revision to its procurement regulations which should result in more effective evaluations of contractors' proposals. The contractor, however, expressed disagreement with our findings and conclusions. (B-161366, September 24, 1968)

CONTROL OVER PROPERTY

202. MANAGEMENT OF EQUIPMENT.--In May 1968, we reported that our review of the management of capitalized equipment in the Bureau of Indian Affairs, Department of the Interior, showed that certain items had received little or no use and that other items had been allowed to remain in an unserviceable condition, without action having been taken to redistribute, dispose of, or repair the equipment. We concluded that the Bureau's system for managing capitalized equipment needed improvements such as more complete utilization records, independent physical inventories, and reports to area and agency management on the use and condition of the equipment.

Therefore, we recommended that the Secretary of the Interior direct the Bureau to require that (a) utilization records be maintained for high-value and high-demand items of capitalized road construction equipment, (b) physical inventories of capitalized equipment be taken or verified by Bureau personnel who are not responsible for the custody of the equipment, (c) independent inquiry into the condition and extent of utilization of the equipment be included in inventories of capitalized equipment and (d) upon completion of the inventories, reports for each installation be prepared by types of equipment, showing the number of items and their value, condition, utilization, need, and repairability.

Information furnished to us in the Department's comments on our findings and in subsequent discussions with Department and Bureau officials indicated that the actions contemplated in the recommendations had been initiated or were planned.

We reported also that, on the basis of our review, we believed that additional steps were required to improve the management of school equipment. There were substantial differences in the amount of equipment at schools having similar enrollments and programs because equipment requirements, beyond those provided for in the Bureau's standards for equipment initially furnished to new schools, were determined by local school officials. We believed that these differences resulted primarily from some schools determining their equipment needs on the basis of pooling equipment for the use of several classrooms and teachers while other schools were determining their equipment needs on the basis of individual classroom and teacher requirements.

Therefore, we recommended that the school equipment standards be adjusted, as appropriate, on the basis of operating experience, including consideration of pooling arrangements, and that such standards be used for evaluating requests for additional school equipment. We recommended further that the reports which were to be prepared upon completion of physical inventories, as recommended in item d above, be compared with the adjusted equipment standards to assist in making informed judgments on the need to redistribute, dispose of, repair, and procure school equipment.

Subsequent information obtained from the Bureau indicated that the Bureau had initiated final action on the additional steps required to improve the management of school equipment included in our recommendation. (B-114868, May 28, 1968)

203. MANAGEMENT OF LANDHOLDINGS.--In a report to the Congress in January 1968, we concluded that the Coast Guard was retaining a considerable amount of land which seemed to be excess to its current and

planned needs because the Coast Guard had not developed a program for systematically reviewing its landholdings.

Our review in four of the 12 Coast Guard districts showed that, of the 10,745 acres held by these districts as of June 30, 1966, about 1,500 may have been excess to the needs of the Coast Guard. Information supplied by local realtors and Coast Guard district officials indicated that, of the 1,500 acres, about 400 had a total value of about $250,000. We did not obtain valuation information for the remaining 1,100 acres.

We proposed that the Commandant of the Coast Guard require that each district office set up a review program to evaluate systematically the continuing need for landholdings and that headquarters furnish the necessary guidelines for implementing such a program. We proposed also that the Commandant dispose of the land cited in our report, which, upon review, proved to be excess to Coast Guard needs.

In his letter of August 23, 1967, the Commandant agreed that definitive instructions from headquarters were needed to bring about a systematic evaluation of the Coast Guard's landholdings. In February 1968, Coast Guard Headquarters issued guidelines for implementing a program for systematically and continuously reviewing its landholdings. Moreover as of April 10, 1968, the Coast Guard had taken action to dispose of about 965 acres at five of the 10 locations mentioned in our report. (B-118650, January 15, 1968)

204. CONTROLLING SHELF-LIFE MATERIAL--Our review of shelf-life material at four Coast Guard installations showed that, because of the lack of inventory control, numerous items of overage material were stocked in inventory as ready for issue. Moreover, in many instances, we found that overage material made up the entire stock of certain line items. The presence of overage stock in inventory ultimately results in increased costs and could affect the operational readiness of the Coast Guard.

As a result of our review, Coast Guard officials at the four installations we reviewed had taken or had promised to take corrective action. Moreover Coast Guard Headquarters issued instructions, for Coast Guard-wide application, designed to improve the management of shelf-life material. (B-114851, January 5, 1968)

205. INVENTORY LEVELS OF SPARE EQUIPMENT--Our review of inventories of spare airborne electronic equipment at five Coast Guard air stations showed that the air stations maintained numerous items of equipment in excess of the amount of equipment authorized. The Coast Guard's inventory reporting system provided that current inventory information for all air stations be available to headquarters; however, we found that there were numerous discrepancies between the quantities of equipment on hand and the quantities reported to headquarters. Also, the Coast Guard Headquarters did not consider the air stations' excesses at the time additional equipment was purchased.

As a result of our review, Coast Guard Headquarters issued an instruction which required that the air stations turn in to the Aircraft Repair and Supply Center that airborne electronic equipment on hand in excess of that allowed. The instruction also called attention to the need for more accurate reporting of on-hand airborne electronic equipment so that the reports can serve as planning documents for future procurements.

We believe that the instruction issued by the Coast Guard, if continuously implemented, will serve to reduce the possibility of air stations' accumulating excess equipment and to strengthen procurement planning within the Coast Guard. (B-114851, January 5, 1968)

206. CONTROLS OVER THE VALUATION OF PROPERTIES--Our review of the

management controls of the Panama Canal Company over its accounting for the use of certain properties showed that there was a need to strengthen controls to improve accounting for the valuation of property. We found instances where the Government's net direct investment in the Company had been understated. This resulted in the Company's interest payments to the Treasury being less than the amounts which should have been paid.

The Company increased the Government's investment by about $1,055,000 and $725,000 in 1967 and 1966, respectively, by reducing valuation allowances for certain properties. As a result of these adjustments, the Company made a retroactive interest payment to the Treasury in fiscal year 1966 of about $113,000 and, at June 30, 1966, additional retroactive interest of about $75,000 was payable to the Treasury. In addition, these adjustments resulted in an estimated increase of about $66,000 in future annual interest payments to the Treasury.

These adjustments involving reductions to certain special valuation allowances, resulted primarily from our review and from subsequent work performed by the Company's internal auditors, which indicated that for several years increased use had been made of certain properties where the recorded values had been offset by special valuation allowances without these properties being reactivated or the corresponding increases being made to the interest-bearing inventment of the United States Government. In accordance with the Canal Zone Code, the special valuation allowances had been established to give recognition to the economically usable values of certain assets, which were determined to be less than cost, and to certain property values which were allocable to national defense.

In the interest of improving the controls relating to accounting for the use of properties offset by special valuation allowances, we recommended in a report to the Congress in July 1968, that the policies governing the use of such properties either be enforced or appropriately modified. We recommended also that adequate accounting records showing current property usage be maintained and that periodic reports be made to appropriate accounting and management officials on the current status of such properties. We further recommended that the Company make a review of the special valuation allowances with a view toward reducing such allowances where appropriate on the basis of more current conditions and adjusting the interest payments to the Treasury accordingly.

The President of the Panama Canal Company agreed with our findings and recommendations and informed us that certain actions had been or would be taken to improve the controls over properties offset by special valuation allowances. (B-114839, July 9, 1968)

207. ACCOUNTING FOR PROPERTIES RECEIVED ON LOAN--Our review of the Panama Canal Company's controls over property showed that there was a need for the Company to revise its accounting policies and practices with respect to properties which were acquired on a cost-free loan basis from other Government agencies and were retained for an extended period of time. Inasmuch as the value of properties accounted for on a loan basis was not included in the interest-bearing net direct investment of the United States Government, annual interest payments to the Treasury were not charged during the period that the Company had custody and use of the properties.

The Company obtained a launch, valued at about $85,750, from the Army on a cost-free loan basis from September 1959 to January 1968 under a series of 1-year loan agreements. As the asset was considered to be a loan, its value was not included in the Company's asset account or in the Government's interest-bearing investment account, the related interest and depreciation expense was not charged to the Company's operations, and the corresponding interest payments were not made to the Treasury. We estimated that the

proper implementation of this transfer agreement should result in a retroactive interest payment to the Treasury of about $21,200 as well as an increase in future interest payments to the Treasury of about $3,100 a year. We noted that two other pieces of equipment obtained from the Navy had an estimated transfer value of about $56,000 which, if added to the interest-bearing investment of the United States Government, would result in increased annual payments to the Treasury of about $2,100.

There is no statutory requirement that the value of properties on loan to the Company are to be included in the interest-bearing investment of the United States Government; however, the Company receives essentially the same benefits from property on loan as from property transferred from other Federal agencies, which is required to be added to the interest-bearing investment of the United States Government.

We proposed to the president of the Company certain procedures that were designed to provide accounting treatment for the utilization of properties which the Company had acquired from other agencies on an extended loan basis comparable to the accounting treatment for properties acquired from agencies through transfer agreements. The president of the Company informed us that the Company would attempt to develop an arrangement to pay the lending agency a rental fee equivalent to interest and depreciation on the property acquired on an extended loan basis. We therefore recommended in a report to the Congress in July 1968 that the Company make the necessary arrangements with the lending agency whereby the Company would pay a rental charge for deposit as miscellaneous receipts into the Treasury. (B-114839, July 9, 1968)

208. ARMY SUPPLIES IN VIETNAM.-- We reviewed certain aspects of the Army's management of supplies in the Republic of Vietnam. Our report on this review was issued to the Congress in June 1968. **In our opinion, the Army supply system had been responsive to the combat needs of the military units in Vietnam despite adverse conditions. The high level of support had been achieved, however, through costly and inefficient supply procedures.**

The Army had recognized many of its supply management problems and initiated certain corrective actions prior to the time of our review. We noted, however, areas which in our opinion warranted additional management attention, as follows:

--The development of accurate data relating to stocks on hand or consumed in order to facilitate determinations of supply requirements and to preclude imbalances of stock.

--The identification and redistribution of large quantities of excess material now in Vietnam.

--The development of programs to ensure the prompt return of repairable components to the supply system.

--The institution of procedures designed to increase both intraservice and interservice utilization of available supplies.

--The enforcement of greater supply discipline in order to reduce to a minimum the costly shipment of supplies under high-priority requisitions.

Although the Army agreed with our findings, it did not agree with certain of our proposals for improved procedures. We recognized that the management emphasis being applied by the Army would tend to improve supply discipline and help to correct the problems. We believed, however, that such emphasis by itself was not sufficient. Therefore, we recommended to the Secretary of the Army that certain of our proposals for improved procedures be reconsidered.

On August 28, 1968, the Army advised us that the proposals were under review. (B-160763, June 21, 1968)

209. STOCK RECORD BALANCES--In our review of controls over depot inventories within the Department of Defense, we found that substantial differences existed between stock record balances and the actual quantities of items in inventories throughout the depot supply systems. During fiscal years 1965 and 1966, stock records of selected depot inventories--averaging in value about $10.4 billion--had to be adjusted up or down an average of $2.4 billion annually in order to bring them into agreement with the physical inventory quantities.

In a report issued to the Congress in November 1967, we pointed out that these inaccuracies in the inventory stock records resulted from inadequate control over documentation affecting inventory records as well as inadequate control over the physical assets and that increased management attention was needed at all levels.

Department of Defense officials advised us that the military services and the Defense Supply Agency had initiated specific programs to eliminate the problems discussed in our report and were installing new procedures designed to provide more accurate inventory controls. (B-146828, November 14, 1967)

210. STOCK LEVELS OF GROUND SUPPORT EQUIPMENT FOR AIRCRAFT--As part of the production contracts for the F-4 aircraft, the Navy and Air Force procured about 2,500 items of ground support equipment (items required to inspect, service, repair, safeguard, transport, or otherwise maintain the aircraft in operational status). Our review of the utilization of 562 of the items showed that the authorized allowances for 129 of them, 23 percent, were questionable.

In our report issued to the Congress in November 1967 we stated that, had the Navy and Air Force made detailed reviews of actual needs for the equipment and had they coordinated such needs effectively, procurement costs could have been reduced by about $1.2 million. Also, costs amounting to as much as $12.5 million could have been avoided or deferred, had the Navy and Air Force properly considered the equipment already on hand in relation to the number of aircraft to be supported.

The Department of Defense informed us of improved procedures and management techniques established or planned in the Department of Defense. These measures should improve the interservice and intraservice determinations of needs for ground support equipment. We plan to evaluate the effectiveness of these measures as part of our continuing review of supply management. (B-152600, November 13, 1967)

211. STOCK LEVELS OF FLAMETHROWERS--In our report issued to the Congress in April 1968, we stated that Army procedures did not, in our opinion, provide a systematic method for the communication and consideration of recommended changes in plans that affect equipment requirements. We found that, had Army officials given timely consideration to recommendations that usage of the M-132 flamethrowers be more limited than had been planned, the flamethrowers might not have been purchased in excess quantities.

The contracts for the excess quantities were subsequently terminated at an estimated loss to the Government of about $2.7 million (termination and related costs of about $4 million less value of usable components of $1.3 million).

We advised the Secretary of Defense that there was a need for systematic procedures to accomplish two things: First, to ensure formal consideration of recommendations affecting procurement by top levels of command; and second, to ensure timely follow-up action by subordinate commands to determine whether their recommendations had been accepted or rejected. Therefore, we suggested that the Army establish appropriate procedures to

accomplish this. The Army concurred in our suggestions and advised us of procedural changes that had been recently completed or were nearing completion. (B-146802, April 24, 1968)

212. **STOCK LEVELS OF MISSILE REPAIR PARTS**--Our review of requirements computations for expensive missile repair parts by the Army Missile Command showed a number of problem areas. In our report issued to the Congress in May 1968, we pointed out that these areas related primarily to (a) inadequacy of asset and demand data received from user activities, (b) failure of inventory managers to accurately compile, review, and use historical supply data, and (c) inconsistency in the implementation of supply management procedures and guidelines. These problem areas contributed to imbalances in the supply system. In some instances underprocurements were made which could lead to supply shortages. In other instances overprocurements were made which could lead to excess material.

The Army agreed generally with our findings and conclusions and initiated several corrective actions. (B-163706, May 27, 1968)

213. **BACK-ORDERED REQUISITIONS FOR STOCK**--In a report issued to the Congress in October 1967, we stated that supply effectiveness in the Air Force could be improved and the volume of assets on back orders could be significantly reduced (a) by establishing procedures at the base level to ensure prompt cancellation of back orders for items no longer required and (b) by taking prompt physical inventories at supply depots of items on back order. Invalid back orders can result in (a) unnecessary or uneconomical procurement or repair of stock, (b) unnecessary redistribution of stock, and (c) denial of stock to installations where it is actually needed.

Our statistical sampling of back-ordered items at 9 Air Force bases representing 5 Air Force commands showed that about $1.2 million or 22 percent of the back orders were for invalid requisitions. Base officials canceled about $730,000 worth of the invalid back orders in response to our findings. On the basis of a projection of our findings, we estimated that about $103 million of the $471 million of back orders at the 5 Air Force commands represented by the bases we visited could have been canceled. (The value of material on back orders at all Air Force commands at May 31, 1966, was about $875 million.)

The invalid back orders included (a) requisitions for stock in excess of needs, (b) requisitions for stock already on hand but not reflected in stock records and therefore not known to be on hand, (c) requisitions which should have been reduced or canceled when requirements for the stock were subsequently revised, and (d) requisitions which duplicated earlier requisitions.

We recommended that the Air Force establish a uniform system of records at the using-activity level to adequately control outstanding requisitions. In response to our recommendation, the Air Force has expressed its belief that the existing system, which is based on maintenance of records on a computer at a central location, is the most cost effective and can provide the information necessary for effective management at the using-activity level. The Air Force stated that it recognized the need for better training at the using-activity level in the use of information available and that such training would be provided. (B-162152, October 31, 1967)

214. **RETURN OF UNSERVICEABLE SPARE PARTS FOR REPAIR AND REISSUE**--Our review of about 12,000 issues of spare parts at seven Army installations, which should have resulted in the return of a like quantity of unserviceable parts, showed that some 70 percent of the unserviceable parts were not returned to maintenance activities for repair and reissue. The principal reasons, as stated in our report issued to the Congress in January 1968, were (a) incorrect and inconsistent recoverability codings in publications issued by the national inventory control

points and (b) inaction by supply activities to obtain the return of repairable items.

The Department of the Army concurred in our findings and took action to improve its management of repairable spare parts. (B-146874, January 23, 1968)

215. CRITERIA FOR MANUFACTURING AND STOCKING AERONAUTICAL REPAIR PARTS--In May 1968 we issued a report to the Congress on our review of the Navy's management of aeronautical repair parts manufactured at four naval air stations. We found that as much as 80 percent of the dollar value of these items on hand at the four stations were excess. The excess stock on hand was valued at about $3.7 million. In addition, we found that these four stations had disposed of about $2.2 million worth of excess quantities of such stock in the period July 1, 1963, to March 31, 1966.

We proposed that the Navy review its management of nonstandard aeronautical repair parts and develop realistic criteria to govern manufacturing and stocking and that periodic follow-up reviews be made to ensure adherence to these criteria. The Navy agreed and advised us of specific actions that would be taken to improve management. (B-133396, May 21, 1968)

216. INFORMATION ON EQUIPMENT IN USE--We issued a report to the Congress in December 1967, on our follow-up review which showed that, although the Air Force had, after our earlier review (B-133361, June 1961), significantly improved its procedures for the management of nonexpendable equipment, there was a need for further improvement in management controls over the two major elements of the equipment management system--the validity of authorizations and the accuracy of reported inventories of in-use assets.

We found that incomplete inventory information had been reported and used in the fiscal year 1966 requirements computations. Our review showed that equipment valued at about $44 million had been neither reported for use in computing requirements nor otherwise accounted for. We found also that the practices followed in taking physical inventories at the bases did not provide the necessary controls to ensure that all assets would be counted and that the same assets would not be counted twice.

Our review of the data used in computing fiscal year 1966 procurement requirements showed that over $8 million of the $65 million of computed requirements was not needed and that about $20 million of the remaining $57 million was questionable. We discussed this with Air Force officials and, as a result, the requirements for several high-cost items were recomputed and about $3 million of planned procurement was canceled.

The Air Force concurred generally in our findings and proposals for improvements in the equipment management system. We were advised of actions either taken or planned to ensure closer adherence to prescribed procedures for forecasting and controlling equipment authorizations. We were also advised that the Air Force intended to study the feasibility of incorporating additional data into its computer programs for managing nonexpendable equipment to provide a basis for periodic verification and reconciliation of reported inventories of in-use equipment. (B-133361, December 5, 1967)

217. LOW-COST, LOW-DEMAND STOCK IN SUPPLY SYSTEM--We found that more than 860,000 low-cost spare parts, for which there had been no demand for appreciable periods, were being stocked by the Navy and the Defense Supply Agency. There were many other similar items for which there had been but little demand over a number of years. In our report issued to the Congress in October 1967, we pointed out that significant savings in management and storage costs could be realized by eliminating from the supply system those items not warranting retention.

The Department of Defense had instituted a program to identify and eliminate such items. The program was deferred, however, because of a higher priority project. We were informed that the program would be resumed at the earliest opportunity. (B-133118, October 31, 1967)

218. **DUPLICATED INVENTORIES IN SUPPLY SYSTEM**--We reviewed the Navy's practice of stocking, for further distribution, material which is normally procured, stocked, and distributed to Government organizations by the General Services Administration (GSA). Our report on this review was issued to the Congress in May 1968. On the basis of our review, we concluded that Navy wholesale inventories and similar GSA inventories held for Navy use unnecessarily duplicated each other and resulted in duplicate management and warehousing functions in the Government supply system as a whole.

We concluded that inventories valued at about $8.5 million, and related management and warehousing functions, could be eliminated from the wholesale stocks of either the Navy or GSA. To the extent that duplication of stock could be eliminated, the Government would realize not only increased efficiency in stock management but also annual savings of up to $940,000. We suggested that, for those items stocked by GSA, the Navy overseas stock points, supply ships, and fleet activities within continental United States waters requisition their requirements directly from GSA.

The Navy did not believe that this would be feasible with respect to overseas stock points and supply ships but did agree to review the existing arrangements for supply support. GSA expressed the opinion that the procedure of direct requisitioning from GSA was the most economical method of supply support except in those cases where the volume of issues warrants the shipment of wholesale quantities direct from the manufacturers to the Navy.

We recommended that the Secretary of Defense and the Administrator of General Services jointly establish a working group to formulate the necessary policies and procedures for a supply support system which will eliminate the duplications cited in our report. On May 22, 1968, the General Services Administration advised us that it had informed the Department of Defense of its readiness to establish such a group. On July 23, 1968, the Department of Defense advised us that it concurred in this approach to the problem. (B-146828, May 16, 1968)

219. **MANAGEMENT OF AND CONTROL OVER EXPENDABLE SUPPLIES AND MATERIALS**--Our review of the management of and control over expendable supplies and materials, valued at about $1.1 million, under the custody of the Architect of the Capitol showed that there was a need for improvement in the management of supplies and materials and that consideration should be given to the establishment of a single stores system.

We noted (a) a need for established guidelines in the management of expendable supplies and materials, (b) a need for improvement in physical security, property recordkeeping, and physical inventory taking, (c) a need for quantity control of stock, and (d) a need for a single stores system.

In October 1966 we were advised that a study of the control over expendable supplies and materials would be initiated by the Architect as soon as the necessary manpower could be made available. As of July 1968, we had not been informed of any plans for such a review. (B-161145, July 27, 1967)

220. **CONTROL OVER CONTRACTOR-HELD PROPERTY OWNED BY THE GOVERNMENT**--Our review of the procedures and practices of the Office of Education, Department of Health, Education, and Welfare (HEW), relating to the accountability and management of contractor-held nonexpendable personal property acquired under contract, title to which is vested in the Government, revealed that the Office of Education had not established an adequate system

of administrative controls over Government-owned nonexpendable property held by contractors and had not adequately assigned accountability responsibility with respect to such property. Our review revealed also that the surveillance activities at the Department level had not been adequate for ascertaining whether constituent agencies were complying with departmental regulations and procedures relating to the accountability and management of such property.

We found that at the Office of Education HEW's regulations governing accountability and control over Government-owned, contractor-held property had not been adhered to and that the Office of Education had not adequately assigned, either on an overall basis or an individual program basis, specific responsibility for accountability and control of contractor-held property. As a result, program officials were generally unaware of the amount and types of Government-owned property being held by contractors and of the use being made of such property.

We found also that at the departmental level the Division responsible for ascertaining whether constituent agencies were complying with departmental regulations and procedures had been unable to make reviews and had relied on HEW's Audit Agency to carry out the compliance function. Our review, however, did not show evidence that either the division responsible for making the reviews or the Audit Agency had made reviews designed to ascertain whether the Office of Education was complying with the applicable departmental regulations and procedures.

Office of Education officials informed us that a study had been made of the property management program in that Office with a view toward making recommendations for improvement.

In our report to the Secretary, HEW, in January 1968, we recommended that (a) a high priority be assigned to completing the study being conducted by the Office of Education and to improving the administrative controls over such property, (b) our report be brought to the attention of appropriate officials in the constituent agencies of HEW with instructions to review their controls and procedures applicable to contractor-held property owned by the Government and to report to HEW whether such controls and procedures comply with departmental regulations, and (c) HEW institute appropriate follow-up procedures to ascertain whether corrective action promised by the constituent agencies is actually implemented and that the prescribed reviews be made on a periodic basis to ascertain whether the constituent agencies are complying with departmental regulations and procedures relating to the accountability and management of contractor-held property owned by the Government.

In a letter to the Director, Bureau of the Budget, dated February 27, 1968, the Assistant Secretary, Comptroller, HEW, advised the Bureau that HEW was taking action in line with our recommendations. (B-114836, January 31, 1968)

MAINTENANCE, REPAIR, AND OVERHAUL

221. CONVERSION OF HEATING PLANTS TO FUELS OTHER THAN COAL--In a March 1968 report to the Postmaster General, we expressed the belief that the Post Office Department could achieve savings in operating costs at many Government owned or leased facilities through conversion of coal-burning heating plants to other fuels.We expressed the opinion also that elimination of coal-burning heating systems should afford an excellent opporrunity to assist in the abatement of air pollution, a requirement of Executive Order 11282, dated May 26, 1966.

We found that, although the Department had delegated authority to its regional offices in 1965 to process fuel conversion projects which would cost less than $25,000 each and to finance these projects from funds allotted for minor improvement projects, some of those offices had not developed plans for conversion of all the coal-burning heating plants in their regions. We estimated that net annual savings of $68,000 could have been realized if

the coal-burning heating plants at four selected postal facilities in the New York and Minneapolis Postal Regions had been converted to other fuels.

We recommended that the Postmaster General take appropriate action to ensure the conversion of coal-burning heating systems in Government owned or leased buildings within a reasonable period of time. We recommended also that the Department give priority to the conversion of heating systems at those facilities where the costs of conversion could be recovered within a relatively short period of time through savings in operating costs.

We recommended further that the Department provide the regions with additional funds where it determined that fuel conversion projects could not be accomplished with the regions' allotments for minor improvements and that the Department show such projects as a separate category in its budget requests.

The Deputy Postmaster General advised us in May 1968 that the Department did not fully agree with our recommendations. He said, however, that the Department's appropriation request for fiscal year 1969 had included an amount for modifying the heating plants in the 117 facilities having more than 3,000 square feet of interior space which did not meet the minimum requirements established by the Department of Health, Education, and Welfare with respect to the emission of particulate matter. He said also that the Department would instruct its regional offices to take the necessary actions to convert the fuel systems of smaller facilities under lease contracts which expired after calendar year 1971 if they met the criteria for conversion. (B-163572, March 20, 1968)

222. REPAIR OF USED SPARE PARTS AND COMPONENTS--At the Federal Aviation Administration's Aeronautical Center in Oklahoma City, Oklahoma, we found that used aircraft and avionics spare parts and components were being repaired even though there was an adequate, or even an abundance of, serviceable stocks of the same items on hand.

We concluded that the premature repairs resulted primarily from (a) the use of automatic repair designations, (b) the lack of adequate control over the repair of items by inventory managers responsible for maintaining stock levels, (c) inadequate supervision over inventory managers at the Center, and (d) the lack of instructions and guidelines as to when unserviceable items should be repaired.

In November 1966, the Acting Administrator of FAA told us that the agency concurred in our findings and that it had taken or would take action to eliminate the specific causes of premature repairs and to strengthen management controls in the areas noted above. We believe that the actions taken by the agency, together with proposed changes in its procedures, should strengthen substantially the control over the repair of spare parts and components at the Center. (B-133127, July 12, 1967)

223. RECAPPING OF AIRCRAFT TIRES--**We found that the Air Force and Navy did not recap aircraft tires as extensively as did commercial airlines because of arbitrary restrictions on the number of times a tire may be recapped and, in the case of the Navy, because of ineffective administration of the tire-recapping program. The Army had not established a program for recapping aircraft tires.**

We pointed out in our report issued to the Congress in February 1968 that the use of recapped aircraft tires often saves as much as 50 percent of the cost of new tires--as shown by the practices of the commercial airlines--and that such use is considered consistent with safety requirements.

We found that all three services could realize significant savings by recapping aircraft tires more extensively. These savings could be as much as $1,650,000 annually for the Air Force and the Navy. If it were found to be practicable to increase the recapping of tires for high-speed and jet aircraft, substantial additional savings could be realized.

The Air Force and Navy advised us of

actions taken or planned to increase the effectiveness of their respective aircraft tire-recapping programs.

We recommended that the Secretary of Defense issue policy guidance to the military departments relative to the recapping of aircraft tires. We further recommended that the Department of Defense periodically review the recapping policies and procedures established by the military departments.

The Department of Defense advised us in April 1968 that it had established a study group comprising representatives from the military departments to develop criteria and policies for uniform application. (B-146753, February 1, 1968)

224. MAINTENANCE OF MOTOR VEHICLES--In October 1967, we reported to the Congress that savings could be obtained by adopting specific programs of preventive maintenance developed by automobile manufacturers for their vehicles in place of General Services Administration (GSA) requirements which provide generally for more frequent preventive maintenance. We estimated that GSA could have saved about $26,600 during the year ended June 30, 1966, in the cost of preventive maintenance in the GSA region reviewed by adopting the manufacturers' programs for 1963 through 1965 models of vehicles. We estimated that, if these potential savings were typical of the savings that may have been available in GSA's nine other regions, about $250,000 could have been saved by the Government during the year ended June 30, 1966.

We brought our findings to the attention of GSA and proposed that it adopt the manufacturers' recommended programs. In August 1966, GSA advised us that it had been working with the manufacturers to revise its then-current guide for preventive maintenance.

A revised guide was issued in April 1967. We believe, however, that GSA would not achieve the full savings discussed in the report because the guide retained uniform service intervals for some preventive maintenance items. In addition, the revised guide was applicable only to 1966 and later models of vehicles. We estimated that, if the manufacturers' recommended programs for 1963 through 1965 vehicle models were to be adopted promptly, savings of about $350,000 could be realized on these vehicles during their remaining life.

We recommended that the Administrator of General Services adopt the manufacturers' recommended preventive maintenance programs for interagency motor pool vehicles, except in specific cases where GSA may have made evaluations or studies that supported different requirements. We recommended also that the Administrator, consistent with his authority, promote similar action by other Government agencies.

In January 1968, we were informed by GSA that (a) the 1967 guide would be made applicable, where feasible, to 1965 and earlier model vehicles in the interagency motor pool fleet and (b) it would work with the manufacturers on any significant changes in preventive maintenance requirements. Subsequently GSA advised us that it was requesting agencies' comments on a proposed regulation setting minimum standards for a preventive maintenance program to meet their specific requirements. These proposed actions should result in significant savings. (B-161340, October 12, 1967)

UTILIZATION AND DISPOSAL OF PROPERTY

225. COORDINATION AND CONTROL OF OFFICE COPYING MACHINES--Our review of the management controls exercised by the Department of Agriculture over office copying machines in its South Building and Administration Building, Washington, D.C., showed that each constituent agency of the Department determined its own copying needs without considering copying capacities or requirements of other Agriculture agencies housed in the same building.

We found that, to achieve economies in meeting copying requirements, the Depart-

ment of Agriculture and its constituent agencies needed to (a) acquire copying machines with production capacities commensurate with copying requirements, (b) perform adequate feasibility studies before acquiring copying machines, and (c) coordinate the location and use of copying machines. Moreover, we noted a need for periodic reports to management on the cost and output of office copying machines.

We proposed that the Assistant Secretary for Administration develop and implement a plan for centralizing, at the departmental level, the management of copying machine requirements in other Agriculture buildings or installations, as well as in the South and Administration Buildings.

In response to our proposal, the Assistant Secretary for Administration agreed that there was a need for a thorough study of centralized management of office copying machines and appointed a task force to make such a study. The task force concluded that the best method for improving service and reducing costs of obtaining copies in the various agencies of the Department would be to centralize the management of all copying requirements at the departmental level. The task force estimated that annual savings of about $400,000 would be realized from the proposed combined system.

Subsequently, the Assistant Secretary advised us that the Department was taking steps to implement the recommendations contained in the task force report. The Assistant Secretary also advised us that a study was underway at the major field installations of the Department to ascertain whether there were similar opportunities for improving operations at those locations. (B-146930, April 25, 1968)

226. EXPEDITING SALES OF UNNEEDED STRUCTURES--In a report issued to the Congress in May 1968, we expressed the opinion that improved administration by the headquarters of the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, was needed to assist ASCS's State and county officials in expediting sales of unneeded grain storage structures owned by the Commodity Credit Corporation (CCC). We found that State and county officials generally were not attempting to dispose of many unused structures and that significant costs had been incurred for their retention.

The storage structures had been acquired between 1939 and 1956 to alleviate shortages in the quantity of available commercial warehouse space in which to store Government-owned grain. Since 1962 the rate of utilization of these storage structures had gradually dropped. Accordingly, in 1964 the CCC Board of Directors approved a policy which directed the disposal of those storage structures not currently in use or expected to be needed in the foreseeable future, on as orderly and rapid a basis as possible.

CCC had long followed a policy of according priority to the use of commercial storage facilities over the use of its own storage facilities. We believed that, if CCC would continue giving priority to the use of commercial storage facilities, disposal of CCC's facilities could be expedited. We believed further that the progress of the disposal program had been hindered because ASCS headquarters officials had not formulated definite long-range plans or objectives for achievement of goals nor furnished local officials with adequate criteria for determining which structures should be sold.

CCC's comments in July 1967 on our finding did not specifically deal with the need for long-range plans or adequate criteria for determining which structures should be sold. CCC's comments indicated that it did not intend to dispose of the storage structures at a substantially faster rate than that provided for by the established sales goals because it would have to accept unreasonably low prices from purchasers.

Our limited follow-up review of the disposal program showed that by October 1967 CCC had disposed of storage structures having a total capacity of about 56 million bushels more than the national sales goal for 1967

and that the prices received for the structures sold were generally higher than those received in prior years.

Consequently, in order to expedite the disposal of unneeded storage structures and to achieve substantial reductions in program costs, we recommended that the Secretary of Agriculture require departmental officials to establish long-range plans or objectives for carrying out the disposal program and to furnish State and county office officials with adequate criteria for determining which structures should be sold. (B-114824, May 13, 1968)

227. MANAGEMENT OF LABORATORY EQUIPMENT--In July 1968 we reported on our review of the effectiveness and efficiency with which laboratory equipment was being managed by the Boulder Laboratories of the National Bureau of Standards (NBS) and the Environmental Science Services Administration (ESSA), Department of Commerce. On the basis of our review, we concluded that there was a need for improved management of laboratory equipment at the Boulder Laboratories.

We found that technical equipment with an original cost of about $294,000 and a net book value of about $94,000 at December 31, 1966--which was excess or had not been used for an extended period of time--was being retained by the four organizational units of the Boulder Laboratories covered in our review. We also found adequate evidence that more extensive pooling of infrequently used equipment would be possible and thus would provide for more effective utilization of such equipment and that equipment with an original cost of about $124,000 and a net book value of about $49,000, on loan to non-Federal entities, was unused, unneeded, or being retained by borrowers who were not entitled to use the equipment.

To provide for improved management of equipment at the Boulder Laboratories, we recommended that (a) a systematic program including procedures necessary to conduct periodic and controlled "walk-through" inspections of laboratory facilities be established and implemented to facilitate the identification and reassignment or disposal of unneeded equipment, (b) a more extensive system of pooling infrequently used equipment be adopted to provide for more effective utilization of such equipment, and (c) all outstanding loans of equipment be reviewed to identify equipment which is not directly benefiting the Boulder Laboratories and is unneeded, that the unneeded equipment be declared excess, and that procedures be instituted for the systematic periodic follow-up of loans of equipment.

Department of Commerce officials agreed, in general, with our findings and recommendations for corrective action and advised us that measures had been taken, or planned, to improve the management of equipment at the Boulder Laboratories. (B-164190, July 9, 1968)

228. INTERSERVICE TRANSFERS OF MILITARY SUPPLIES--TANK-AUTOMOTIVE REPAIR PARTS--The Marine Corps had significant quantities of excess tank-automotive repair parts and other material which the Army could have used to meet high-priority requirements including those of Vietnam. However, there were no procedures for the regular exchange of information on such excesses and requirements. In our report issued to the Congress in July 1967, we pointed out that notification by the Marine Corps that it had about $9 million worth of such excesses received no review by the Army and that notification by the Army of its critical need for such items received no review by the Marine Corps. When we brought these matters to the attention of the Army and Marine Corps, about $1.9 million worth of excess material was transferred to the Army.

The Department of Defense informed us that closer logistical coordination had been established between the Army and the Marine Corps and that internal audit coverage of the supply system would be increased. (B-146772, July 31, 1967)

229. INTERSERVICE TRANSFERS

OF MILITARY SUPPLIES--GENERAL--We examined into the effectiveness of the automated and centralized screening system maintained by the Department of Defense for matching material available at various of its locations with the material needed at other locations. The system included a master file of information on the needs and the availability of material, maintained by the Defense Logistics Services Center on the basis of periodic reports submitted by inventory control points. Our report on the examination was issued to the Congress in May 1968.

Although the screening system had greatly benefited the Department of Defense, we found that certain improvements could make the system more effective.

As operated at the time of our examination, the system depended on the voluntary cooperation of the organizations involved. We found many instances where inventory control points had not reported the necessary information or had reported information which was not accurate and not current. It appeared to us that there was a need for an organization vested with the responsibility for ensuring that the Defense organizations followed prescribed operating policies and procedures.

We recommended that, because the responsibility for establishing basic policies related to the centralized screening system was vested in the Office of the Assistant Secretary of Defense (Installations and Logistics), the Secretary of Defense should assign to that organization the responsibility for surveillance of the system. As of June 30, 1968, the Department of Defense had not yet commented on this recommendation. (B-163478, May 14, 1968)

230. REDISTRIBUTION OF MILITARY SUPPLIES--C RATIONS--In a report issued to the Secretary of Defense in June 1968, we pointed out that savings could be realized if the C rations included in the theater war reserve stocks of the Army in Europe were shipped to meet requirements in Vietnam rather than being consumed in Europe. Because of the limited shelf life of these rations (3 years) they were being substituted for normal fresh food menus as they approached the end of their shelf life. However, C rations are more costly than standard bulk-pack and fresh- menu items.

The Army released about 2.4 million C rations to Vietnam. This should result in savings of about $943,000 in the cost of meals in Europe. (B-164432, June 4, 1968)

231. REDISTRIBUTION OF MILITARY SUPPLIES--GENERAL--Our review of the Air Force system for redistributing excess parts and other material from Air Force bases to supply depots showed that, during the last 3 months of 1966, three Air Force supply depots received over 370,000 such shipments. In our report issued to the Congress in January 1968, we pointed out that over 125,000, or about 34 percent, of these shipments were uneconomical for one of the two following reasons. They involved material which was in an excess position, or with which the Air Force was already well supplied and material with a value less than the costs incurred for its return.

We estimated that the packaging, handling, and administrative costs incurred in connection with the uneconomical shipments totaled about $1.3 million for the 3 months.

In general, the uneconomical shipments were made because (a) the Air Force screening of items reported as excess did not include a determination of stock level status of all the items before authorization of their return, (b) a determination was not made as to whether there was sufficient serviceable material in Air Force stocks before unserviceable items were returned, and (c) the Air Force redistribution system did not provide for the identification of items valued at less than shipping costs.

After we brought these matters to its attention, the Air Force took certain actions to effect improvements. These actions included establishment of retention levels for excess stocks at Air Force bases and revision of

criteria for shipment of low-value items. (B-133019, January 22, 1968)

232. USE OF MISSION-SUPPORT AIRCRAFT--We evaluated the management of the aircraft used by the Army to maintain readiness proficiency for combat flying and for administrative purposes. Our report on the evaluation was issued to the Congress in May 1968. We found that, on the basis of recent flying experience and the utilization criteria established by the Department of Defense and the Army, the number of aircraft authorized at the locations we reviewed was about 25 percent more than the justifiable requirements. We believe that the overauthorizations resulted from the incomplete criteria and procedures prescribed and used for determining aircraft requirements and from insufficient evaluation of the justifications for aircraft submitted by the user organizations.

We found also, at most of the locations we reviewed, that the transportation and traffic management policies of the Department of Defense were not being followed and that aircraft were not being used economically. The procedures in effect at the time of our review generally did not provide for a determination, as required by Department of Defense policy, of whether use of commercial or other means of transportation would be practicable and more economical.

We recommended that the Army establish an effective integrated system for managing aircraft for mission-support purposes and outlined the elements we believed should be included in such a system. The Army agreed, in general, with our recommendations and cited actions already taken and being developed toward that end. (B-163453, May 10, 1968)

233. USE OF INACTIVE INDUSTRIAL PLANT EQUIPMENT--In May 1968 we issued to the Congress a report on our review of inactive industrial plant equipment in Army arsenals. We found that millions of dollars worth of equipment--such as woodworking and metalworking machines, crane and crane shovel attachments, compressors, power and hand pumps, and electric motors--had been permitted to lie idle in Army arsenals for periods up to 10 years while similar equipment had been purchased for use elsewhere in the Department of Defense.

The Department of Defense agreed that there had been instances of Army retention of inactive industrial plant equipment for considerable lengths of time and stated that Army regulations relating to such retention were being revised. (B-163691, May 23, 1968)

234. USE OF TRACTOR-TRAILER FLEET IN EUROPE--In January 1968 we reported to the Congress our findings in a review of the Army's management and utilization of highway transportation equipment in Europe. We pointed out that management procedures of the 37th Transportation Group were inadequate. We found that (a) daily inventory reports were insufficient to monitor the status and location of its trailers at all times, (b) control units were not making the required analyses of equipment use, and (c) full use of available equipment would have avoided the hiring of commercial carriers at substantial increases in costs.

There were indications also that costs had been increased unnecessarily because Army European commands had failed to promptly unload trailers and report them as available for further use.

The Army took corrective action in accordance with all but one of our proposals. We believed that action should have been taken on that proposal and, accordingly, we recommended that available refrigerated equipment be transferred and utilized to the maximum extent possible for the transportation of frozen food products. Subsequent to the issuance of our report, the Army advised us that it concurred in this recommendation. (B-162771, January 30, 1968)

235. RE-USE OF SHIPPING CONTAINERS--As stated in a report issued to the Congress in February 1968, we found a need for improvement in the Army's procedures

for making shipping containers available to manufacturers of electronic equipment for shipment of newly produced electronic equipment. Use of Government-furnished shipping containers would reduce procurement costs. Reusable containers were not being furnished to the contractors because Army procedures did not require procurement and supply personnel to coordinate their efforts and identify containers available in the supply system.

The Army concurred, in general, in our findings and proposals and agreed that additional actions must be taken to improve the management of reusable containers for all types of equipment.

The Department of Defense informed us that the military departments and the Defense Supply Agency had been directed to review their procedures for management of reusable containers and to correct any deficiencies. (B-146917, February 15, 1968)

236. UTILIZATION OF MOTOR VEHICLES--We reviewed the methods used by the General Services Administration (GSA) for evaluating vehicle use and estimating vehicle needs. We observed and recorded the number of vehicles (3,524) parked on motor pool lots in 25 cities throughout the United States during a week in one of the months of higher vehicle utilization. We found that the transportation required during the week could have been provided with 706 fewer vehicles.

We found that GSA, in gauging vehicle needs, generally relied on the average mileage traveled by the vehicles. We found, however, that there was poor correlation between average mileage traveled and the number of vehicles needed. We concluded that vehicle management could be improved if use in terms of time were considered. From its own study, completed in May 1967, the agency reached conclusions consistent with ours. Actions were subsequently taken by the agency to include time-of-use data in evaluating the use of vehicles and in forecasting vehicle needs.

We found also that a substantial number of vehicles assigned to the use of individual Government agencies were not moved during our observation and many more were idle much of the time. We concluded that, generally, the transportation requirements for which the vehicles were assigned could have been satisfied, with greater economy to the Government, through use of dispatch vehicles based at the same location. Action was subsequently taken by GSA to provide that the assignment of vehicles for the exclusive use of agencies be questioned routinely.

We believe these actions should improve the agency's management of interagency motor pool vehicles. (B-158712, March 12, 1968)

237. REBUILDING OF USED MOTOR VEHICLE TIRES--In July 1967 we reported to the Congress on our findings on the policies and practices for rebuilding used motor vehicle tires by the Soil Conservation Service, Department of Agriculture; National Park Service, Department of the Interior; Post Office Department; and General Services Administration (GSA). We estimated that savings of about $500,000 would have been realized by these four agencies during fiscal year 1965 through more extensive rebuilding of used tires.

We found that the tire-rebuilding policies and practices of the four agencies varied among the agencies and among installations within certain of these agencies and that, with the exception of the Post Office Department, these inconsistencies existed because of the lack of specific tire removal and rebuilding criteria and of conclusive determinations as to the reliability of rebuilt tires. GSA is responsible for prescribing policies and procedures, in respect of rebuilt tires, for implementation by the executive agencies.

Information obtained from tire manufacturers, tire rebuilders, users of rebuilt tires, and various organizations representing the tire industry indicates that, when tires are rebuilt according to recommended criteria, they are

safe, serviceable, and more economical than new tires. Our review showed, however, that no adequate tests or studies had been made and that available evidence was not sufficiently decisive to permit a conclusive judgment as to the reliability of rebuilt tires under all driving conditions.

We expressed our belief that, if rebuilt motor vehicle tires are considered unsafe under certain specified conditions, they should not be used under such conditions by any agency but that, to the extent that they are safe, they should be used by all agencies to achieve maximum savings.

We proposed that GSA keep in close touch with the program of the National Traffic Safety Agency for tire research, testing, and development so that it may be in a position to promulgate standards for the use of rebuilt tires on Government vehicles on the basis of the standards established for the driving public, pursuant to the requirements of the National Traffic and Motor Vehicle Safety Act of 1966 (Public Law 89-562). We proposed also that GSA provide specific guidance for the removal and processing of used tires, to prevent excessive wear and damage that would make them unsuitable for rebuilding.

GSA agreed with our proposal to keep in close touch with the National Traffic Safety Agency's program for tire research, testing, and development and advised us of its own plans for testing rebuilt tires and for issuing revised specifications for new tires, which will preclude carcass damage from excess tread wear.

We believe that the actions taken and proposed by GSA are adequate, pending developments from the tire research, testing, and development program of the National Traffic Safety Agency.

The Post Office Department, whose practice is to rebuild all tires that have sound casings, agreed with our proposals. The Soil Conservation Service and the National Park Service, however, indicated that they would continue to discourage the use of rebuilt tires.

In June 1968, GSA was performing tests for the purpose of evaluating the feasibility of establishing meaningful specifications for rebuilt tires. (B-161415, July 31, 1967)

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Note: For additional items on "Utilization and Disposal of Property," see section on "Economic Opportunity Programs," items Nos. 23 and 30.

TRAFFIC MANAGEMENT

238. USE OF LIGHTWEIGHT MAIL POUCHES--In a report to the Postmaster General in September 1967, we expressed the opinion that the Post Office Department could reduce transportation costs by adhering more closely to its policy that lightweight nylon pouches be used, instead of canvas pouches, to transport first-class mail by air.

Our examination into the handling of outgoing first-class mail by air at seven of the Department's 36 airport mail facilities revealed that about 14 percent of the pouches used for dispatching first-class mail by air had been canvas pouches. Because a canvas pouch and a metal lock weigh about 2 pounds more than a comparable-size nylon pouch and a metal seal, additional transportation costs are incurred as a result of the extra weight each time first-class mail is dispatched by air in a canvas pouch. We estimated that, if the conditions at the seven airport mail facilities were typical of normal operations, the Department could save about $125,000 annually by using only nylon pouches for dispatching first-class mail by air.

The Deputy Postmaster General advised us that the Department concurred in our finding and that, pursuant to our recommendation, it had again emphasized, in a Postal Bulletin, that maximum use should be made of the lightweight sacks for dispatching first-class mail by air. In addition, he said that the Department was in process of (a) increasing its inventory of nylon pouches and (b) completing a survey of all major airport mail facilities to determine their requirements for such pouches. (B-133039, September 21, 1967)

239. COMMERCIAL AIR SERVICE FOR TRANSPORTATION OF CARGO--In November 1967 we issued a report to the Congress concerning the costs of less-than-planeload shipments of Military Airlift Command cargo on regularly scheduled flights between the continental United States and overseas areas. We found that the Department of Defense (DOD) could have saved about $1.7 million during fiscal 1966, if cargo had been tendered in larger volume shipments qualifying for the lowest tariff rates available.

We discussed our findings with officials of the Military Airlift Command, Department of the Air Force and proposed that they plan their cargo shipments to take advantage of the lowest rates. In May 1967 the Civil Aeronautics Board amended its Economic Regulations and established a single uniform rate on military cargo, regardless of weight. This action solved the cargo rate problem on large shipments and provided DOD with the reduced rates and charges which it could have realized under the previous tariffs had its cargoes been tendered in the manner we had proposed. (B-157476, November 24, 1967)

240. AIRLIFT OF MILITARY CARGO TO SOUTHEAST ASIA--The Military Airlift Command of the Department of the Air Force has responsibility for providing overseas airlift services for all military departments to Southeast Asia. In May 1968 we released a report to the Congress regarding the utilization of aircraft space for the airlift of cargo to Southeast Asia. The report showed that during the period July 1, 1965, through October 31, 1966, airlift capacity for about 21 million pounds of cargo was unused, even though ample cargo was available for shipment. This critically needed cargo space, primarily on commercial contract aircraft, was valued at about $15 million at the contract rates in effect.

We brought our findings to the attention of the Secretary of Defense and proposed certain corrective actions. In reply, the Secretary of the Air Force agreed in general with our findings and advised us that improvements were being made.

A subsequent review showed that space utilization rates had been increased, but not to the degree considered fully effective. We recommended, therefore, that the Secretary of the Air Force take additional steps to ensure that accurate load information is prepared and forwarded to the appropriate air bases to increase the use of aircraft cargo space. We also recommended to the Secretary of Defense that periodic internal audits be made of aircraft loading results to provide additional assurance that the necessary corrective actions are taken and effectively implemented. (B-157476, May 14, 1968)

241. VOLUME MOVEMENTS OF HOUSEHOLD GOODS FOR CIVILIAN EMPLOYEES--In August 1967 we issued a report to the Secretary of Defense on the shipment of household goods of Air Force civilian employees, who were transferred in large numbers to various installations during fiscal year 1966 due to closure of Air Force bases.

Our review showed that, if the Air Force had managed these shipments as volume movements and had tendered them to the carriers on Government bills of lading, rather than having the employees make individual shipping arrangements on a reimbursable basis, the Government could have saved about $50,000 in transportation costs.

To improve the management of volume moves, we recommended that Department of Defense transportation managers give increased emphasis to (a) early recognition of potential volume moves, (b) timely notification to the Military Traffic Management and Terminal Service (MTMTS) of such moves, (c) more accurate cost comparisons, and (d) improved scheduling and consolidation of shipments. We also proposed that MTMTS consider in its negotiations with the carriers the possibility of reducing the minimum weight requirement of 12,000 pounds which is contained in most domestic volume movement rate tenders.

The Director for Transportation and Warehousing Policy, Office of the Assistant Secretary of Defense (Installations and Logistics), replied in October 1967 and advised that the Department of Defense concurred in our conclusions and recommendations and had initiated actions to comply with our proposals. (B-161831, August 31, 1967)

242. CONSOLIDATING LOW PRIORITY ITEMS FOR DOMESTIC SHIPMENT--In a report to the Administrator, General Services Administration (GSA), in February 1968, concerning transportation and traffic management activities at the Federal Service Center, Bell, California (Region 9), we pointed out opportunities for savings in transportation costs and reductions in the number of Government bills of lading (GBLs) issued through more effective consolidation of shipments to individual consignees.

We found that, if the GSA Regional Office had held requisitions for low priority items within allowable shipping time frames instead of processing them on a daily basis, consolidation of shipments to individual consignees could have been improved. This in turn would have resulted in savings through lower transportation costs and reductions in the numbers of GBLs prepared and processed.

The Commissioner, Transportation and Communications Service, GSA, replied in June 1968 and concluded that our comments on the March 1967 freight consolidation situation at the GSA Depot at Bell, California, were correct. He advised that several corrective actions were being taken and that a test of the concept of planned requisitioning cycles was being made in GSA, Region 9. If successful in Region 9, it would be adopted on a nationwide basis. (B-163858, February 29, 1968)

COMMUNICATIONS SERVICES

243. USE OF COMMUNICATIONS FACILITIES BETWEEN ALASKA AND THE UNITED STATES MAINLAND--The Alaska Communication System, a unit of the United States Air Force, was aware as early as 1961 that a microwave facility which served Alaska was more economical to use for communication with the United States mainland than the cable facility. In our report issued to the Congress in August 1967, we pointed out that savings could have been attained by use of the cable facility in a different manner and a greater use of the microwave facility.

This action was taken in mid-1965 after we had discussed the matter with officials of the Alaska Communication System. Had the action been taken on a timely basis, savings of about $3.9 million could have been realized. (B-139011, August 30, 1967)

244. USE OF COMMUNICATIONS FACILITIES IN EUROPE--In our review of 228 communications circuits leased by the Department of Defense from commercial carriers in and between Germany and the United Kingdom, we found that the traffic carried by 64 of them could have been routed over spare United States Government-owned circuits at substantial savings. Our report on this review was issued to the Congress in September 1967.

The traffic was not so routed because availability of Government-owned circuits was considered only before a commercial circuit was to be leased. No periodic reviews were made thereafter.

We were advised that a program had been started for annual reviews of communications systems in all overseas areas. Also, 10 of the 64 circuits were canceled. The remaining 54 circuits were not canceled pending determination of requirements under the planned Automatic Voice Network (AUTOVON). We pointed out that, since AUTOVON was scheduled for activation no earlier than November 1968, savings could be realized by canceling the circuits not then needed.

Subsequent to the issuance of our report, the Department of Defense advised us that the 54 circuits in question had been discontinued, rerouted over Government facilities, or otherwise lost their identity through system changes and that no circuits had been reserved for AUTOVON which were not in current use pending the actual cutover to AUTOVON. The Department advised us also that, pursuant to a request of the Deputy Secretary of Defense, instructions had been implemented by the U.S. Commander in Chief, Europe, to improve the management of leased communications in the European area on a continuing basis. (B-161992, September 22, 1967)

Note: For an additional item on "Communications Services," see section on "Economic Opportunity Programs," item No. 26.

USER CHARGES

245. ADMINISTRATION OF AGENCY POLICY ON REIMBURSEMENT FOR SERVICES FURNISHED TO OTHERS--We found that the military departments did not uniformly or consistently implement Department of Defense policy with respect to charges for services provided to nonappropriated fund activities and private interests. The practices varied among military installations. The military installations did not recover fully the costs of services provided, and they used mili-

tary personnel in lieu of civilian employees for nonmilitary activities without first attempting to employ civilians.

We pointed out, in a report issued to the Congress in February 1968, that the Office of the Secretary of Defense had not required military departments to issue uniform instructions regarding charges for services and to comply fully with Department of Defense instructions relating to such charges. Also the military departments had not, in all cases, provided adequate surveillance at the installation level to ensure that charges for services, sufficient in amount for the recovery of applicable costs, were properly developed and consistently applied. Moreover surveillance was not adequate to ensure that assignments of military personnel to nonmilitary and quasi-military activities were limited to positions of command supervision or were made only when qualified civilians were not available.

The Department of Defense concurred, in general, in our findings and acknowledged the need for added measures to improve the controls over user charges and over military personnel assignments. (B-163136, February 26, 1968)

246. ESTABLISHMENT OF CONTROLS OVER USER CHARGES--Potential revenues were not realized in the Pacific and the Alaskan Regions of the Federal Aviation Administration (FAA) during fiscal years 1963 through 1966 because (a) rental charges for Government-owned housing, (b) prices for meals furnished to bachelor employees on Wake and Canton Islands, and (c) charges for aircraft landings at Government-owned airports, had not been established in accordance with applicable laws and with Bureau of the Budget and agency policies.

We therefore proposed that FAA evaluate its revenue-producing activities for the purpose of ascertaining whether management controls could be strengthened by (a) assigning responsibility at the headquarters level for reviewing the establishment and for adjustment of the various charges and (b) developing a reporting system which would provide responsible headquarters officials with sufficient and meaningful data for making sound evaluations of regional office compliance with applicable laws and regulations pertaining to these activities.

The FAA Administrator acknowledged that there had been some undercharges in the past for the activities covered by our review and agreed to implement our proposals. (B-133127, April 29, 1968)

FINANCIAL SAVINGS ATTRIBUTABLE TO THE WORK OF THE GENERAL ACCOUNTING OFFICE

The measurable savings attributable to the work of the General Accounting Office during fiscal year 1968 are summarized in the following schedule and, except for collections, are described more fully in the accompanying listing.

There are also savings resulting from our work which are not fully or readily measurable in financial terms. A few examples of savings of this nature have also been described.

A number of the savings included in this section have also been discussed in more detail in the related sections on findings and recommendations.

Collections and Other Measurable Savings

(000 omitted)

	Collections	Other Measurable Savings	Total
DEPARTMENTS			
Army	$ 829	$ 99,628	$100,457
Navy	376	5,463	5,829
Air Force	142	39,110	39,252
Defense	97	42,968*	43,065
Agriculture	1	2,466	2,467
Commerce	11	464	475
Health, Education, and Welfare	104	784	888
Housing and Urban Development	-	1,375	1,375
Interior	1	2,315	2,316
Labor	49	366	415
Post Office	-	470	470
State (including AID, Peace Corps, and USIA)	15	824	839
Transportation	110	1,057	1,167
Treasury	-	13	13
AGENCIES			
Atomic Energy Commission	-	57	57
Civil Service Commission	1	2,257	2,258
Executive Office of the President	253	975	1,228
General Services Administration	-	8,166	8,166
National Aeronautics and Space Administration	45	3,513	3,558
Panama Canal Company	-	177	177
Selective Service System	-	74	74
Veterans Administration	3	652	655
Legislative and other	-	13	13
Total for departments and agencies	2,037	213,177	215,214
Transportation audit	14,681	-	14,681
General claims work	2,939	-	2,939
Total	$19,657	$213,177	$232,834

* Includes $33,557,000 resulting from reviews of Defense international activities.

DETAILS OF OTHER MEASURABLE SAVINGS

Details of other measurable financial savings including additional revenues attributable to the work of the General Accounting Office during the fiscal year 1968, totaling $213,177,000, are listed below. Approximately $30 million of the savings or additional revenues are recurring in nature and will continue in future years. The items listed consist largely of realized or potential savings in Government operations attributable to action taken or planned on findings developed in our examination of agency and contractor operations. In most instances, the potential benefits are based on estimates and for some items the actual amounts to be realized are contingent upon future actions or events.

ACTION TAKEN OR PLANNED	Estimated Savings
Supply Management:	
Savings due to a reduction in inventories resulting from a reduction in the time allowance for obtaining stock for use in Vietnam. Time experienced in obtaining stock had been substantially less than that used in establishing stockage objectives and enabled corresponding reductions in procurement funds required and appropriated--Army (nonrecurring)	$ 83,100,000
Military Assistance Program (MAP) property held for long periods for anticipated requirements that were not expected to materialize in foreseeable future years has been released to meet military and MAP current and firm future requirements--Defense (nonrecurring)	32,600,000
Cancellation of plans to procure equipment in excess of needs--Army (nonrecurring)	7,501,000
Adjustment of prices under existing contracts or proposed amendments--Army, Navy and Air Force (nonrecurring)	4,354,000
Savings through earlier use of formal advertising procedures in establishing Federal Supply Schedule contracts for magnetic computer tape--General Services Administration (nonrecurring)	4,000,000
Savings through competitive procurement of certain helicopter parts--Army (nonrecurring)	$ 2,105,000
Savings resulting from negotiated reductions in Federal Supply Schedule contract prices for lamps--General Services Administration (estimated annual savings)	1,900,000
Savings resulting from lower negotiated prices for additional quantity of bomb fuzes--Army (nonrecurring)	1,335,000
Savings on repair and maintenance of office machines resulting from phaseout of higher priced national Federal Supply Schedule contracts with machine manufacturers and expanded use of lower-priced GSA regional contracts awarded on a competitive bid basis to local repair firms--General Services Administration (estimated annual savings)	1,200,000
Avoidance of procurement through increased recapping of aircraft tires--Navy (estimated annual savings)	1,084,000
Savings resulting from use of less costly rations by the Army in Europe and overstocked "C" rations made available to meet requirements in Vietnam--Army (nonrecurring)	943,000
Savings achieved by obtaining gasoline from Government	

ACTION TAKEN OR PLANNED	Estimated Savings
Supply Management--Continued:	
outlets instead of from commercial outlets--General Services Administration (estimated annual savings)	$ 747,000
Cancellation of outstanding orders for medical equipment and supplies which were excess to the requirements for the pacification program in Vietnam--Agency for International Development (nonrecurring)	700,000
Recovery of excess bombs and associated hardware to satisfy other United States needs--Defense (nonrecurring)	553,000
Termination of contract for liquid hydrogen in excess of anticipated requirements--National Aeronautics and Space Administration (nonrecurring)	382,000
Acquisition and utilization of excess military assistance program jet engines in lieu of more costly overhaul of less modern engines--Defense (nonrecurring)	352,000
Disposal by the Army of obsolete telephone cable through sales to commercial users and transfers to Federal agencies--Army (nonrecurring)	318,000
Savings in costs for storage of processed commodities by revising payment provisions in storage contracts to eliminate payments for unused storage periods--Agriculture (estimated annual savings)	312,000
Cancellation of plans to procure new equipment for contractor's use--Navy (nonrecurring)	250,000
Use of items scheduled for disposal as acceptable substitutes for items in current demand--Defense (nonrecurring)	200,000
Savings obtained as a result of changes in contract terms and improved competition in procurement of propane gas--General Services Administration (estimated annual savings)	185,000
Avoidance of procurement through discovery of available items--Army (nonrecurring)	$ 143,000
Reduction in requirements for Apollo earth landing sequence controllers by diverting unused excess units and locating and diverting lost units--National Aeronautics and Space Administration (nonrecurring)	131,000
Savings resulting from transfer of excess materials to agencies in lieu of new procurements--General Services Administration (nonrecurring)	68,000
Avoidance of procurement through redistribution of excess material on hand overseas to locations at which needed--Air Force (nonrecurring)	52,000
Avoidance of procurement through redistribution of excess equipment to location at which needed--Defense (nonrecurring)	29,000
Miscellaneous (estimated annual savings, $43,000; nonrecurring, $62,000)	105,000
Payments to Government Employees and Other Individuals:	
Savings due to discontinuance of free medical care to Public Health Service civilian field employees--Health, Education, and Welfare (estimated annual savings)	275,000
The Department of State revised the Foreign Service Travel Regulations to provide for a reduction in the maximum rate of per diem for certain travel outside the continental United States (estimated annual savings)	124,000
Savings resulting from discontinuance of improper method of computing compensation payable to partially disabled Federal employees--Labor (estimated annual savings)	100,000
Savings resulting from improve-	

ACTION TAKEN OR PLANNED	Estimated Savings
Payments to Government Employees and Other Individuals--Continued:	
ment of procedures governing the prompt adjustment of disability compensation payments to injured Federal employees from temporary total disability to partial disability rates--Labor (estimated annual savings)	$ 75,000
Miscellaneous (estimated annual savings, $12,000; nonrecurring, $13,000)	25,000
Loans, Contributions, and Grants:	
Reduction in Government contributions to local housing authorities attributable to maximizing investment of excess funds held by local housing authorities--Housing and Urban Development (estimated annual savings)	1,200,000
Cancellation of funds tentatively allocated for airport development because analysis of airport income and expenditures showed that work could be completed without Federal financial participation--Transportation (nonrecurring)	580,000
Reduction of grant approved for construction of technical vocational institute due to reevaluation of grantee's contribution--Commerce (nonrecurring)	464,000
Reduction in grant for educational programs resulting from reevaluation of rates used to claim Federal reimbursement for indirect costs--Office of Economic Opportunity, Executive Office of the President (nonrecurring)	367,000
Savings resulting from greater use of resources through increased Headstart class size--Office of Economic Opportunity, Executive Office of the President (estimated annual savings)	365,000
Reduction in costs through elimination of ineligible students from the Headstart and Upward Bound programs--Office of Economic Opportunity, Executive Office of the President (nonrecurring)	$ 243,000
Reduction of Federal participation in the cost of excavation on a Federal-aid Interstate Highway project--Transportation (nonrecurring)	234,000
Reduction in Federal financial participation in cost of land not needed for airport purposes by amending grant agreement--Transportation (nonrecurring)	205,000
Reduction of hospital billing rate used by a county hospital in charging for hospital care provided to recipients under the Medical Assistance for Aged program--Health, Education, and Welfare (nonrecurring)	200,000
Reduction in Federal financial participation in the cost of public assistance programs as a result of adjustments for payments made during periods when recipients were not eligible for assistance--Health, Education, and Welfare (estimated annual savings)	179,000
Reduction of grants awarded to institutions of higher education as a result of amending grant agreements to conform with the provisions of approved State plans--Health, Education, and Welfare (nonrecurring)	84,000
Miscellaneous (estimated annual savings, $4,000; nonrecurring, $34,000)	38,000
Interest Costs:	
Savings in interest costs resulting from revised procedures for advancing Government funds to States under programs of the Federal Extension Service	

ACTION TAKEN OR PLANNED	Estimated Savings
Interest Costs--Continued:	
and Cooperative State Research Service--Agriculture (estimated annual savings)	$ 790,000
Savings in interest costs resulting from adoption of procedures providing for expeditious deposit of funds into the United States Treasury Agriculture (estimated annual savings)	231,000
Reduction in interest costs resulting from clarification of an ambiguous term in Cotton Cooperative Loan Agreements--Agriculture (estimated annual savings)	12,000
Leasing and Rental Costs:	
Unnecessary leasing costs eliminated when leases for communications circuits in Europe were discontinued and military communications were rerouted over Government-owned circuits or spare circuits--Defense (estimated annual savings, $47,000; nonrecurring, $302,000)	349,000
Savings resulting from purchasing rather than continuing to lease vehicles for use by contractors at Vandenberg Air Force Base --Air Force (estimated annual savings)	313,000
Savings resulting from obtaining more favorable terms in four leasing agreements for reproduction equipment; Rock Island Arsenal--Army (estimated annual savings)	25,000
Rental Income:	
Additional rental income for use of Government-owned equipment in possession of contractors--Defense (estimated annual savings)	24,000
Construction, Repair, and Improvement Costs:	
Savings resulting from Congress not appropriating funds for additional barracks requested for Naval Air Station, Oceana, Va., in the fiscal year 1968 construction program--Navy (nonrecurring)	$ 1,200,000
Savings by using existing storage facilities in United Kingdom and canceling plans to construct warehouse in Federal Republic of Germany--Army (nonrecurring)	540,000
Savings resulting from reduction in the size of facility approved for fiscal year 1968 Military Construction Program for Camp Pendleton, Calif.--Marine Corps (nonrecurring)	45,000
Manpower Utilization:	
Decrease in labor costs at Naval Ammunition Depot, Bangor, Wash., through reduction in overtime--Navy (estimated annual savings)	1,158,000
Reduction in personnel required for repair and overhaul of generators under Air Force base maintenance contract--Air Force (nonrecurring)	195,000
Transportation:	
Better utilization of expensive airlift capacity for shipment of high priority cargo to Southeast Asia--Defense (estimated annual savings)	7,300,000
Reduction in cost of overseas shipment of cargo by commercial air service resulting from tariff revision--Defense (estimated annual savings)	1,500,000
Elimination of transportation costs through direct delivery of petroleum, oil, and lubricant products to Korea--Army (estimated annual savings)	1,200,000
Savings resulting from changing procedures to provide for shipping certain military supply parcels by more economical	

ACTION TAKEN OR PLANNED	Estimated Savings
Transportation--Continued:	
modes than air parcel post--Air Force (estimated annual savings)	$ 371,000
Transportation costs reduced by the Army in Europe as a result of use of military tractors and refrigerator semitrailers in lieu of commercial transportation --Army (estimated annual savings)	129,000
Other items:	
Savings through resolicitation of contract proposals and proper award of contract following a decision rendered by the Comptroller General pursuant to a bid protest against Air Force procurement of electronic data processing equipment (nonrecurring)	36,000,000
Savings resulting from reduction in personnel and equipment by consolidating photographic operations at the John F. Kennedy Space Center and the Air Force Eastern Test Range--National Aeronautics and Space Administration (estimated annual savings, $1,400,000; nonrecurring, $1,600,000)	3,000,000
Reduction in cost of revising maps of the National Topographic Map Series--Interior (estimated annual savings)	2,150,000
Savings in cost of Federal Employees' Group Life Insurance program achieved through recommended amendment of the insurance contract to provide for the reduction of rates--Civil Service Commission (estimated annual savings)	1,450,000
Minimum flight pay requirements changed from a monthly to an annual basis to permit more orderly scheduling of flights and more economical use of aircraft--Air Force (estimated annual savings)	1,275,000
Additional revenue resulting from revised timber appraisal procedures which will increase the appraised value of timber offered for sale by the Bureau of Land Management--Agriculture (estimated annual savings)	$ 1,100,000
Revision of procedures and practices in accounting for reimbursable costs of investigations disclosed a surplus in the Civil Service Commission's revolving fund for investigations which was then deposited in miscellaneous receipts of the Treasury as was required by law, thus making these funds unavailable for expenditure (nonrecurring)	784,000
Termination of payment of proficiency pay to Navy enlisted personnel attending full-time college degree programs--Navy (estimated annual savings)	500,000
Savings in operating costs resulting from modifications of the accelerated business collection and delivery program at 45 participating offices--Post Office Department (estimated annual savings)	350,000
Savings and improved management of the guardianship program resulting from improved procedures over internal field investigations--Veterans Administration (estimated annual savings)	350,000
Savings resulting from use of available Government-owned laundry facilities instead of contracting commercially for such services and from expansion of services in some hospitals to provide service to others--Veterans Administration (estimated annual savings)	300,000
Reduction of labor costs in the contracts of a federally assisted low-rent public housing project because of more realistic wage rate determinations--Labor (nonrecurring)	191,000
Increase in interest payments to	

ACTION TAKEN OR PLANNED	Estimated Savings
Other Items--Continued:	
the United States Treasury due to correction of understated Government's investment in the Panama Canal Company (estimated annual savings, $42,000; nonrecurring, $135,000)	$ 177,000
Reduction in costs for documentary stamp tax because of adoption of nominal bid procedures at foreclosure sales--Housing and Urban Development (estimated annual savings)	171,000
Savings due to cancellation of plans to purchase peripheral lands through reevaluation of land needs at two migratory waterfowl refuges--Interior (nonrecurring)	165,000
Additional revenue resulting from the correcting of revised procedures for calculating transit service charges against foreign countries-- Post Office Department (estimated annual savings)	120,000
Savings resulting from use of substitute electrical power to fulfill contractual commitments thereby avoiding cash penalties--Atomic Energy Commission (nonrecurring)	$ 57,000
Additional billings to the Federal Republic of Germany because of undercharges for material furnished under the cooperative logistics program--Defense (nonrecurring)	52,000
Savings obtained as a result of changes in rates for electric service at Paine Field, Washington--Air Force (estimated annual savings)	37,000
Prevention of overpayments by correction of military leave records--Defense (nonrecurring)	16,000
Reduction by the Navy in cost of consulting services due to cancellation of plans to hire outside consultants and, instead, utilize services already available within the Department of Agriculture (nonrecurring)	11,000
Miscellaneous items (estimated annual savings, $109,000; nonrecurring, $23,000)	132,000
Total other measurable savings	$213,177,000

ADDITIONAL FINANCIAL SAVINGS NOT FULLY OR READILY MEASURABLE

Many significant financial benefits, either one-time savings or recurring savings, that are attributable to the work of the General Accounting Office are not fully or readily measurable in financial terms. These benefits result from actions that are taken or that are to be taken by the departments and agencies to eliminate unnecessary expenditures or otherwise correct deficiencies brought to light in our audit reports.

A few examples of these actions identified d ing the fiscal year 1968 are described below.

CHANGES IN AGENCY POLICIES, PROCEDURES, AND PRACTICES

Savings by Reduction in Shipments of Material Between Air Force Bases and Depots

Our report to the Congress in January 1968 disclosed that during the last 3 months of 1966 an estimated 34 percent of the total shipments of material received from bases by three Air Force depots were unnecessary or uneconomical because the material was already in a long supply or excess position, or it was material which had a value that was less than the costs incurred to process its return. Estimated packaging, handling, and other administrative costs incurred in connection with these uneconomical shipments totaled about $1,259,000 for the 3 months. In addition, substantial transportation costs were incurred in connection with these uneconomical shipments, which we did not attempt to estimate because of many unknown factors.

We proposed that the Secretary of the Air Force consider establishing reasonable retention levels for items managed on economic order quantity basis so that bases could retain limited quantities over their requisitioning objective. We made no recommendation for other items since the Air Force had implemented or was to implement new systems for other items which in our opinion should prevent uneconomical returns to the depot for many of these items.

Air Force officials concurred in our proposal and advised us of new procedures that were being established covering the retention, reporting, and return of these items. The Air Force stated it would establish retention levels requiring bases to retain up to a 365-day level of supply over the requisitioning objective. The action taken should result in substantial savings.

Army Procedures and Controls Improved to Provide More Assurance that Unserviceable Reparables Will Be Returned to the Supply System for Repair and Reissue

Our review of about 12,000 issues of spare parts at seven military installations, that should have resulted in the return of a like quantity of unserviceable parts, showed that some 70 percent of these parts were not returned to maintenance activities for repair and reissue. Many of the parts that were not recovered were, at various times, critical items in short supply Army-wide. The failure to return repairable parts results in unnecessary costs to procure new parts to meet requirements. If the recoverable parts had been returned, a large percentage could have been repaired at a substantially lower cost than that involved in procuring new assets. We believe that the recovery of repairable parts that are currently being "lost"--not available--to the Army supply system would result in substantial savings. For example, from July 1964 through March 1966, the Army procured $7.9 million worth of 13 parts that were included among the parts in our review. We found that significant quantities of these parts were not being recovered because of erroneous recoverability publications. These matters were disclosed in our report to the Congress in January 1968.

The Deputy Assistant Secretary of the Army (Installations and Logistics) informed us of the actions taken by the Department of the Army relative to our findings and proposals. He stated that Headquarters, Army Materiel Command, would instruct the National Inventory Control Points to review appropriate procedures and design new procedures where necessary to ensure compatibility of recoverability information in technical manuals, supply catalogs, and related publications and that this program would be closely monitored by the Department of the Army. He further stated that the Army had taken action to establish the necessary local controls which, when properly implemented, would ensure that unserviceable reparables are returned to the proper repair agencies expeditiously so that they can be repaired and returned to the supply system as efficiently as practicable. We believe that the Army's proposed actions, properly carried out, should improve

substantially the recovery of repairable items and reduce procurement costs.

Savings by Reduction in Size of Air Force Construction Project for Bachelor Officer Quarters

At Mather Air Force Base, Sacramento, we questioned the requirement to construct two increments of bachelor officer quarters totaling 460 units, estimated to cost $3.4 million, because there appeared to be a large number of vacancies in private housing in the nearby community which could have taken care of at least part of the need. A Federal Housing Administration (FHA) official also informed us that FHA owned, at the time, through default, a 565-unit apartment complex in Sacramento. In our opinion, greater consideration of the community support available was appropriate, especially in view of the then recently established Department of Defense policy to permit greater numbers of bachelor officers and higher grade enlisted personnel to reside in the community. Additionally, the amount to be invested, estimated at $7,000 per unit, was significant enough that further consideration of the matter was warranted.

In view of the imminence of the award of the construction contract for the first increment, we informally advised officials of the Department of Defense and the Air Force in April 1967 of our findings, requesting that they carefully reconsider the need for the project before making a final decision to proceed. By letter dated June 4, 1968, we were informed by the Assistant Secretary of Defense (Installations and Logistics) that, as a result of further study after the new off-base policy was announced, the Air Force had reduced the net requirement for new construction from 460 to 350 units. The letter further stated that this revised requirement was, in turn, reduced by the Deputy Assistant Secretary of Defense for Properties and Installations to 288 units by a more stringent application of criteria and to insure against the possibility of overbuilding. We were also informed that a supplemental reporting system has since been established to provide more complete and accurate data on requirements for bachelor housing. The action taken should result in substantial savings.

Recovery of Improper and Incorrect Payments of Loan Proceeds

Our examination of various loan transactions under the Agency for International Development (AID) Commodity Import Program showed that (a) certain commodities that were imported by the recipient country were not eligible for financing under the terms of the loan agreement, (b) an advance under a certain loan agreement was in excess of the value of the commodities accepted for financing under the loan, and (c) duplicate payments were made to a recipient country for commodities imported under their loan agreement. On the basis of our findings, AID has issued bills for collection to the recipient countries to recover $875,000, the amount of the improper payments.

Had these transactions gone undetected, the amounts involved would have been eventually recovered by AID as repayments of loan principal or by an adjustment in the repayment schedule of the loan. However, the recovery action taken by AID at this time will return these funds to current year operations for use in AID foreign assistance programs.

AID has advised us that action has been taken to strengthen their surveillance over commodity import transactions.

Balance of Payments--Conversion of Foreign Currency Resources in Australia to United States Dollars

We found that the United States had Australian currency equivalent to about a third of a million dollars in lend-lease settlement funds, although it had financial requirements for property and improvements and was making payments in United States dollars for an educational program. These funds were not being used to meet United States requirements and it appeared that they would remain unused for some time in the future.

The funds had been made available pursuant to a 1946 agreement between the Governments of Australia and the United States pertaining to lend-lease and surplus war property; and, at the time of our review, the funds were in an "Acquisition of Properties Account." No payments had been made from this account since September 1961.

We recommended that, to help alleviate the United States balance-of-payments problem, the Department take the earliest possible action to seek the use of the lend-lease funds to meet the planned requirements of the Department or other United States Government agencies in Australia, in lieu of spending dollars.

On April 11, 1968, we were informed by the Department of State that the Government of

Australia had paid the United States Government $365,515 in payment of the lend-lease balance, and that this payment had been transmitted to the United States Treasury for deposit to miscellaneous receipts.

Possible Savings in the Procurement of Measles Vaccine by the Agency for International Development

Our review of the procurement practices followed by the Afro-American Purchasing Center, Inc., with the Agency for International Development's funds disclosed that the implementing documents concerning the procurement of measles vaccine, for use in African countries, did not require that formal competitive bid procedures be followed. Consequently, the contractor followed the commercial practice of not revealing the award price to unsuccessful bidders.

We recommended that in order to ensure effective competition and an equal opportunity to vendors in supplying the needs of the Government at fair and reasonable prices, the Agency for International Development (AID) should incorporate a provision with respect to the expenditure of AID funds requiring that established United States Government procurement practices be followed, including disclosure of prices paid, unless compelling circumstances dictate otherwise.

We were informed by the Assistant Administrator for Administration, AID, that the Afro-American Purchasing Center, Inc., has now agreed that on all new AID-financed business it will utilize the formal competitive bid procedures, requiring public opening of bids, for any purchase contract estimated to exceed $50,000 unless waived by AID in specific cases. This action should encourage more effective competition and will provide an equal opportunity to vendors in supplying the needs of the Government at fair and reasonable prices.

Improved Efforts by Agency for International Development to Ensure that Alternate Free World Financing Is Considered Prior to Authorization of Loans

Our examination of 35 loans totaling about $347 million made by the Agency for International Development (AID) to 15 Latin American countries during calendar years 1963 through 1965 showed that, on the majority of these loans, the records did not demonstrate that AID had taken into consideration the borrower's ability to obtain financing from other free world sources prior to authorization of the loan.

We found that, with the exception of formal solicitation of the Export-Import Bank's interest in 32 of the 35 loans, there was no formal documentation on the majority of the loans reviewed of any efforts by AID or loan recipients to solicit private and other free world sources of finance. Without formal solicitation of other sources and documentation thereof, a void is created which denies to management a vital decisionmaking tool in the processing of loan proposals.

Moreover, if AID loans are made when financing from other free world sources can be obtained, loan funds may not be available to help other applicants who are solely dependent on AID for financial assistance; or, if such funds are not needed elsewhere, AID's future appropriations can be reduced.

The Agency for International Development concurred with our proposals and stated that procedures would be established to (a) prescribe the documentation required to evidence formal solicitation of United States private sources of financing, and (b) require a full explanation of the basis for a determination of nonavailability of alternate financing in the absence of formal solicitations to United States private lenders. We also were advised that AID would require that future loan applications contain statements indicating the applicant's efforts to obtain financing from other free world sources, including private sources of financing in the United States, and that steps were being taken to ensure the availability of more complete evidence of Agency efforts to determine alternative sources of financing.

Subsequently, AID circularized all Missions in the Latin American Bureau reaffirming the procedures to be followed concerning alternative sources of financing for proposed capital projects.

Establishment of Procedures for Recovery of Excess Military Assistance Program Property

We found that the Department of Defense, the United States European Command, and the Military Assistance Advisory Group had not effectively implemented an existing system, which in itself was not wholly adequate, for obtaining the return to United States control of ammunition and weapons which had become excess to the recipient country's requirements.

In compliance with our proposals, the Office of

the Assistant Secretary of Defense (International Security Affairs) notified the Departments of the Army, Navy, and Air Force and all unified commands of the existing urgent need to obtain declarations of excess United States-furnished material from countries where it was no longer required. Subsequently, this notification was incorporated in the Military Assistance Manual, establishing procedures for reporting excesses and resolving cases where the Military Assistance Advisory Groups encounter difficulties in inducing recipient countries to relinquish excess military assistance program property.

Clarification of Criteria for Federal Participation in Cost of Constructing Buildings for Field Maintenance Equipment

In a report sent to the Administrator, Federal Aviation Administration (FAA), in July 1967, we commented on the inconsistency of the eligibility criteria for Federal participation in the cost of constructing buildings for field maintenance equipment, under the Federal-aid airport program administered by FAA. FAA regulations provided that all airports located in any of 15 specifically named States were eligible for Federal participation in buildings of this nature, whereas airports located in the other 35 States had to meet specific temperature criteria to qualify for eligibility.

The eligibility of all airports in the 15 States was based on FAA's assumption that if it had been determined that the specified climatic conditions had been experienced at any weather station in a State, it was likely that similar conditions had been experienced at all airport locations in that State.

Airport developments recommended by FAA for the 5-year period 1966-70 provided for the construction of field maintenance equipment buildings at 49 airports in 12 of the 15 designated States. FAA estimated that it would cost about $1.2 million to construct the buildings at 25 of the 49 airports. Of this amount, 50 to 62½ percent would be paid for by the Federal Government.

Our review of climatological data showed that the conditions at the 25 airports did not meet the criteria applicable in the remaining 35 States. We therefore recommended that FAA revise its regulations to provide that only those airports, in any State, which experience the prescribed climatic conditions shall be eligible for Federal financial participation in the cost of constructing field maintenance equipment buildings.

FAA agreed with our conclusions and recommendation and revised its regulations to remove the blanket eligibility provided the 15 specifically named States.

Procedures Revised to Provide for More Effective Controls Over the Construction of Nondwelling Structures by Local Housing Authorities

During our review of selected aspects of project development activities in the low-rent public housing program administered by the Housing Assistance Administration (HAA), Department of Housing and Urban Development, we noted that HAA procedures relating to the construction of office buildings and other nondwelling facilities for local housing authorities (LHAs) did not require a timely reevaluation of the need for such structures prior to the solicitation of competitive bids and award of the construction contract. We found that HAA had approved a contract for the construction of a new central office building for an LHA without adequately considering that the LHA had reduced and decentralized a large part of its central office staff during the 3-1/2-year period between HAA's conditional approval of the need for the building and the award of the construction contract. As a result, the office building that was constructed was larger than needed for the administration of the LHA's Federal low-rent housing program.

The new building increased development costs under the LHA's housing program by a total of approximately $800,000, including financing costs. Since HAA has been paying a major part of the development costs applicable to the LHA's low-rent housing program, the $800,000 can be expected to ultimately be borne principally by the Federal Government.

In view of the numerous nondwelling structures proposed for construction at federally aided low-rent housing projects, we recommended in a report issued to the Secretary of Housing and Urban Development in September 1966 that existing procedures be revised to provide that, if more than a year has elapsed since HAA's approval of a development program for a nondwelling facility, HAA should reevaluate the need for a facility of the size and type proposed before authorizing the LHA to issue invitations for bids, and should disapprove the construction of any proposed facility for which need is not justified by circumstances existing at the time of the reevaluation. Revised procedures, along the lines recommended in our

report, were subsequently issued.

Issuance of Instructions and Establishment of Criteria for Purchases of Office Furnishings by Local Housing Authorities

During our review of financial management of low-rent public housing projects administered by a local housing authority (LHA), we noted that the Housing Assistance Administration (HAA), Department of Housing and Urban Development, did not have appropriate criteria as to the type and cost of office furnishings that should be considered eligible for Federal participation under the low-rent public housing program. We pointed out that such criteria was needed to help insure consistent and uniform determinations by HAA regional officials reviewing proposed purchases of office furnishings as presented in LHA budgets.

At the time of our review, about 1,600 LHAs were authorized to purchase office furnishings with HAA approval. The annual contributions contract between an LHA and HAA provides for reducing the maximum annual Federal contribution (subsidy) by the amount of residual receipts available from the operation of low-rent public housing projects. Thus, any reduction in an LHA's operating costs through more economical purchases tends to increase residual receipts and correspondingly decrease the Federal Government's liability for annual contributions.

In our April 1966 report to the Acting Deputy Assistant Secretary for Housing Assistance and in subsequent correspondence with the Department, we stated our opinion that appropriate criteria should be established as a basis for the approval or disapproval by HAA of planned purchases of office furnishings by LHAs.

Subsequently, the Department's regional offices were instructed to use the Federal Property Management Regulations covering use standards for office furnishings and the Federal Supply Schedules as guides in reviewing proposed purchases of office furnishings by LHAs. The instructions also pointed out that contracts were being negotiated with certain contractors supplying the Federal Government to extend their contract prices to LHAs.

Improvements in Purchasing Practices

In a report to the Veterans Administration in September 1967, we pointed out that our review at seven VA hospitals indicated that the agency would have a more effective supply program and might also have considerable monetary savings if supply officials adhered more closely to procedures prescribed by VA for determining the correct source of supply and for justifying and obtaining approvals for purchases from sources of supply other than designated sources when deviations are warranted.

In reviewing purchase orders for supplies costing about $400,000, we found that the field stations had purchased items costing about $30,000 from other than designated sources and that the items on which required procedures were not followed cost about $6,500 more than they would have cost if they had been purchased from designated sources. We believe that if the practices we observed were representative of those followed in other VA hospitals, their correction could result in considerable savings to VA. The amount of the savings, however, would not be readily measurable.

The agency agreed with our recommendation that action be taken to require supply officials to carry out their assigned responsibilities in the manner prescribed and took various actions to correct the deficiencies.

Improvement in Procedures Relating to Construction of Veterans Hospitals

In a report to the Congress in March 1968 concerning the administration of a contract entered into by the VA for the construction of a veterans hospital in Washington, D.C., we pointed to a need for VA to improve its procedures for onsite supervision of construction work, enforcement of contract requirements, and development of specifications for hospital roadways.

Our findings indicated that (a) the VA did not have adequate assurance that certain material and workmanship in the Washington hospital was of the quality required by the contract, (b) the risk of structural deterioration had been increased, (c) future maintenance and repair costs may be higher than normally expected, and (d) poor design and workmanship were apparently responsible for the VA incurring additional costs of about $41,600 to reconstruct a large portion of the hospital roadways which deteriorated shortly after the hospital was completed. In view of these basic weaknesses in agency procedures, we concluded that the construction deficiencies found at the Washington hospital could also exist at other VA construction projects.

As a result of our review, VA, in May 1968, informed us that it (a) had adopted the practice of contracting directly with commercial testing laboratories, (b) had rewritten the resident engineers' handbook outlining the duties and responsibilities of the staff that performs onsite supervision of construction work, (c) had established Field Representative positions for the purpose of, among other things, conducting intermediate inspections of major construction jobs; writing reports on such items as the effectiveness of VA supervision, contract deviations, and the status of construction units; and assisting in expediting actions on outstanding problems, (d) had issued a specific directive emphasizing the necessity for timely determination and enforcement of contract requirements, and (e) had revised its master specifications relating to the construction of hospital roadways. The VA's actions should, if properly implemented, result in significant benefits to the Government.

Consolidation of Requisitions on a Single Government Bill of Lading

Our report to the General Services Administration in February 1968 disclosed that supplies requisitioned on a low priority order were generally processed so as to be shipped daily by the warehouse. Our review established that if requisitions were held within the allowable time frames instead of being processed on a daily basis, consolidation of shipments to individual consignees could be improved. This in turn would result in savings through lower transportation costs and reduction in the numbers of bills of lading and related documents prepared and processed.

We recommended that procedures be implemented to specifically require routing requisitions to be held for maximum periods within allowable time frames to reduce the cost of transportation. By letter dated June 21, 1968, the Transportation and Communications Service informed us that the General Services Administration concurred in our finding and had instituted corrective measures which they thought would mitigate the identified condition. They plan to adopt new requisitioning procedures on a Nationwide basis; thus, there will be substantial savings in transportation costs and a reduction in the numbers of documents processed.

Savings by Selection of Lowest Cost Carrier for Freight Shipments

In a report submitted to the Selective Service System, we referred to freight shipments from Washington, D.C., that could have moved at lesser costs had a different type of carrier been selected. In its response in June 1968, Selective Service agreed that significant savings would have been realized by use of the mode suggested by us and stated that it would revise its Fiscal and Procurement Manual to indicate the nationwide availability of transportation assistance by General Services Administration central and regional offices so as to effect even more savings in the future.

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