REPORT TO

THE CONGRESS OF THE UNITED STATES

COMPILATION OF
GENERAL ACCOUNTING OFFICE
FINDINGS AND RECOMMENDATIONS
FOR IMPROVING GOVERNMENT OPERATIONS
FISCAL YEAR 1965

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, for the information of the Congress, a compilation of General Accounting Office findings and recommendations for improving Government operations. This compilation relates for the most part to the fiscal year 1965.

The purpose of this report is to provide the Congress with a convenient summary showing the nature, extent, and variety of matters examined by the General Accounting Office in carrying out its audit responsibilities. These responsibilities are derived from the Budget and Accounting Act, 1921, and other laws which require us to independently examine for the Congress the manner in which Government departments and agencies are discharging their financial responsibilities.

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

The financial savings and benefits attributable to our work cannot always be fully measured. However, our records show that collections and other measurable financial benefits identified during the fiscal year 1965, which were directly attributable to the work of the General Accounting Office, amounted to $186,780,000. Of this amount, $24,949,000 consisted of collections and $161,831,000 represented other measurable benefits. A summary of financial benefits appears on page 180 of this report.

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

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

Comptroller General
of the United States

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PROCUREMENT

PROCUREMENT PROCEDURES AND PRACTICES

1. Action taken by the Army to ensure more economical routing of shipments from suppliers--We found that the Army was incurring unnecessary transportation costs in the shipment of small arms ammunition components. These components were purchased for export under the military assistance program. The Army specified in its purchase orders, however, that the components be shipped from manufacturers' plants to the Lake City Army Ammunition Plant, Independence, Missouri, rather than directly from the manufacturers' plants to the ports. In our report issued in December 1964, we pointed out that this practice resulted in additional transportation costs of about $157,000 in the 15-month period covered by our review. After we brought this matter to its attention, the Army discontinued the practice at the Lake City Army Ammunition Plant and, in addition, emphasized to all its procurement activities the need for evaluating alternative routing for shipments to avoid incurring unnecessary transportation costs.

2. Action taken by the Department of Defense to use Qualified Products Lists more effectively--The specifications of certain of the items procured by the military departments are stated in terms of performance requirements. To ensure that products of potential suppliers will meet the specified requirements, the suppliers are required to submit their products for qualification tests in advance of procurement. Products which satisfactorily pass the tests are recorded in Qualified Products Lists (QPL) and the suppliers of the products become eligible for consideration in subsequent procurement. The Armed Services Procurement Regulation provides that, in the procurement of qualified products, bids and proposals of only those suppliers whose products have previously been qualified are to be considered in awarding a contract.

We found that competition in the procurement of electronic parts was unnecessarily restricted because of ineffective administration of the QPL. Undue reliance was placed on the use of formal advertising procedures as ensurance of competition even though only one qualified bid was received. Also, negotiated contracts were awarded to the single suppliers of products recorded in the QPL without an adequate effort to obtain competition. In our report issued in February 1965, we stated that the failure to obtain adequate competition increased procurement costs by about $1.5 million annually at the Defense Electronics Supply Center. So that a basis for obtaining greater competition may be provided, we recommended that (a) qualification requirements be eliminated where practicable, (b) aggressive action be taken to establish additional qualified sources where elimination of qualification requirements is impracticable, and (c) alternative methods of quality ensurance be considered where effective competition for products recorded in the QPL cannot otherwise be obtained. The Department of Defense agreed with our recommendations and cited the actions taken to implement them.

PROCUREMENT PROCEDURES AND PRACTICES (continued)

3. Armed Services Procurement Regulation revised to require consideration of General Services Administration sources of supply--In a report issued in September 1964, we presented our findings that motor vehicle parts and accessories were being procured by Navy installations in the open market at prices higher than those available under General Services Administration Federal Supply Schedule contracts. Our bringing this matter to the attention of the Navy prompted the Navy's submission of a proposal to the Armed Services Procurement Regulation Committee and, as a result, the Armed Services Procurement Regulation was revised in January 1965. The revision requires, with certain exceptions, that Federal Supply Schedules be considered equally with other sources by contracting officers in ensuring that purchases are made to the best advantage of the Government.

4. Action taken by the General Services Administration to revise its regulations on the procurement of brand-name items--In a June 1964 report on our review of the procurement of about 50 selected brand-name items, we stated that the General Services Administration (GSA) did not make an adequate evaluation of these items to determine whether similar, less costly items were available before the brand-name items were placed into its supply depots or self-service stores for sale to customer agencies. We found that (a) excess costs of at least $650,000 resulted by procuring certain of these items at prices higher than would have been paid if similar items had been procured under more detailed purchase descriptions and (b) GSA had been stocking over long periods a substantial number of items procured through the use of single "brand-name or equal" purchase descriptions.

Pursuant to our recommendations GSA took certain corrective actions, however, we expressed the opinion that further measures were needed to strengthen procedures for such procurements.

Subsequent to the issuance of our report GSA advised that it generally agreed with our views and that it had taken action to revise certain GSA regulations to (a) require agencies to use items in the Stores Stock Catalog when the items serve the same or similar functional purpose as those brand-name items previously procured and (b) reduce the dollar amount of the automatic Federal specification or Federal standard waivers on items for which specifications or standards have been written. GSA advised also that it would not, at the request of any agency, stock brand-name items or allow them to be procured or stocked by any agency or department unless GSA fully agreed that such stocking was in the Government's best interest.

Additionally, GSA initiated a special project to eliminate such items from the Stores Stock Catalog. For example, GSA developed a specification for desk-top distributor racks previously procured by brand name, which reduced procurement costs by about $85,000 annually. As of February 1965, GSA records showed that, of about 1,000 items identified by brand name, specifications had been developed for about 650 items. On the basis of our test of the estimated procurements under these specifications, we estimated that savings of about $1.3 million annually should result.

5. Action taken by the General Services Administration to correct deficiencies in preparation of purchase orders--In a report issued in November 1964, we stated that our review disclosed that overpayments of about $45,000 to vendors were made by the General Services Administration regional office in San Francisco, California, during a 17-month period ended September 30, 1963, and that a special, more complete review of disbursements made by agency personnel following our proposal disclosed additional overpayments of $85,000; action has been started to recover the overpayments. The primary cause of these overpayments was the preparation of purchase orders which showed incorrect prices or omitted pertinent information affecting prices. An internal audit review of financial transactions and related internal control procedures in fiscal year 1962 was too limited to be effective in the disclosure of the overpayments.

As a result of our inquiries, the agency emphasized to its staff in San Francisco that purchase orders are to be checked for accuracy and completeness before being signed and issued and that branch and section chiefs were instructed to make periodic tests to verify the completeness and accuracy of purchase orders issued. We expressed the belief that internal controls should be strengthened further and, therefore, we proposed that amounts on vendors' invoices be compared on a programmed test basis directly with the prices and terms of the contracts under which the purchases are made. The agency has advised us that it is developing a national procedure, based on accepted statistical sampling methods, to implement our proposal. So that management may be assured that prescribed internal control procedures are adequate and are being properly applied, we recommended that disbursements and related internal control procedures at regional offices be examined at frequent periodic intervals by the internal auditors.

6. Action taken by the National Aeronautics and Space Administration to improve procurement procedures--In a report issued in April 1965 on our review of a time-and-material contract awarded by the George C. Marshall Space Flight Center, Huntsville, Alabama, National Aeronautics and Space Administration (NASA), we stated that excessive costs had been charged to the Government.

The excessive costs resulted from the contractor's including in charges for direct labor certain indirect labor costs--contrary to the provisions of the contract, using a contract labor rate which was overstated because of a mathematical error and using an incorrect labor rate for certain supervisory engineers.

NASA concurred in the findings and took action that resulted in the recovery of $120,700 from the contractor. The Center has changed its procedures to provide for a more effective use of audits to prevent the recurrence of similar overpayments. Also, NASA has adopted procedures providing for annual reviews by Headquarters personnel of procurement practices at its centers and has notified the centers of the necessity for maintaining adequate control procedures. We believe that the procedures, if properly implemented by the various centers, should provide a more effective administration of time-and-material contracts.

PROCUREMENT PROCEDURES AND PRACTICES (continued)

7. Action taken by the Panama Canal Company to reduce costs by procuring supplies and equipment from the General Services Administration rather than from commercial sources--In a report issued in June 1965, we stated that during fiscal year 1964 the Panama Canal Company (PCC) incurred excessive costs of about $81,500 on selected procurements having a total cost of about $212,000 because it purchased numerous supply and equipment items from commercial sources, generally without competition, which were available through GSA or, in some instances, from other Government agencies at lower costs.

We expressed the belief that the incurrence of the excessive costs was attributable to (a) PCC's failure to establish organizational responsibility for determining whether supplies and equipment were available from GSA or from other Government sources, (b) the practice of giving preference to certain brand-name products where there was no substantive evidence that these products contained special characteristics which were necessary to the Canal organization's various uses, and (c) a lack of complete data on items available through GSA at the PCC operating division level and at its supply management level.

After we brought our findings to the attention of PCC officials, we were advised that PCC was taking appropriate action to correct the basic deficiencies and to provide maximum utilization of GSA sources of supply.

8. Action taken by the Panama Canal Company to evaluate bids on the basis of the lowest delivered cost--In a report issued in October 1964, we stated that the Panama Canal Company incurred or would have incurred unnecessary costs of about $90,800 on selected procurements having a total cost of about $548,700 because, in soliciting and evaluating certain bids, it had not considered transportation expenses as an element of procurement cost. PCC has generally followed the practice of soliciting bids from prospective suppliers and awarding the contract to the responsive bidder quoting the lowest price, without regard to the point of delivery or the availability of its own steamship for transporting cargo to the Canal Zone.

After we brought this matter to the attention of responsible PCC officials, they revised their procurement procedures to require that bids be evaluated on the basis of delivered cost. Also, they were able to reduce by about $24,400 the unnecessary costs identified by us by terminating two contracts and reawarding them on the basis of the lowest delivered cost.

9. Lack of competition in procurement practices by the United States Coast Guard, Treasury Department, corrected--In a report issued in March 1965 on our review of the procurement by the United States Coast Guard of power-unit clamps for securing batteries in lighted buoys, we stated that unnecessary costs of about $45,000 were incurred because the Coast Guard failed to use available technical data to obtain competition from potential manufacturers. These unnecessary costs were incurred in the purchase of 1,466 clamps having a total procurement cost of $127,000.

In 1962, 1963, and 1964, the Coast Guard purchased power-unit clamps from a contractor for $86.80 a unit; however, the contractor procured the clamps through a supplier who in turn purchased them for $56.15 a unit from the actual manufacturer. We estimated that, if anticipated requirements for about 5,700 additional clamps were met by direct procurement from clamp manufacturers through formal advertising, savings of at least $174,000 could be realized.

During our review we brought this matter to the attention of responsible officials who agreed to procure future requirements directly from clamp manufacturers by formal advertising.

10. Evaluations of preproduction models and systems to be improved by the Federal Aviation Agency--In our review of the procurement by the Federal Aviation Agency (FAA) of radar target simulators costing about $1.3 million, we found that FAA awarded production contracts without making operational evaluations of preproduction models to determine whether the simulators were, in fact, satisfactory for training air traffic controllers in the use of radar data. The simulators, accepted after extensive relaxations of specifications, were not operative for considerable periods of time because of early and widespread equipment malfunctions. FAA estimated that, using its own facilities, it would cost at least $168,000 to modify the simulators to remove the limitations on their usefulness, and FAA has allocated funds to perform this work.

The malfunctions of the simulators appear to have resulted, in indeterminable degrees, from a combination of factors attributable to both FAA and the contractors. We believe that FAA was remiss in (a) furnishing specifications which were deficient, (b) subsequently relaxing the specifications, (c) accepting simulators which were known, or which should have been known, to be deficient, and (d) not providing adequate maintenance support for the simulators after installation. The contractors' actions, to which FAA officials ascribed the malfunctions, included (a) inadequate packaging design which resulted in heat problems, (b) poor component identification which increased maintenance effort, and (c) poor quality control.

In our opinion, the early and persistent equipment malfunctions and the modifications still necessary to make the simulators operational show the adverse effect of procuring new and complex equipment without adequate preproduction tests to determine whether the equipment is reasonably free from mechanical defects and can accomplish its intended purpose. Accordingly, we proposed in a report issued in April 1965 that the Administrator, FAA, require that, prior to awarding full-scale production contracts, timely and adequate tests and evaluations be made of newly developed items for determining whether preproduction models and related drawings and specifications meet operational requirements and will satisfactorily accomplish the purpose intended.

In a report to the Congress in March 1964, we recommended that FAA establish procedures requiring thorough program planning, the

establishment of realistic project goals, and the development of prototype models or systems in order that areas of undue technical risk may be identified and eliminated before the production of operating models or systems is undertaken. We reported this matter to the Congress to further illustrate the unnecessary costs incurred because FAA had not established adequate directives to require the development of prototype models.

In commenting on our findings relative to the procurement of the simulators, the Administrator, FAA, informed us that steps had been or will be taken to preclude recurrence of situations similar to those reported and to avoid unnecessary costs in future development programs.

In a letter to the Bureau of the Budget dated June 18, 1965, the Administrator, FAA, stated that several steps had been taken by the Agency to ensure avoidance of unnecessary costs in future development programs.

11. Need for further action by the Department of Labor to improve control over procurement of office furniture and related equipment--Our review in the Department of Labor disclosed that new office furniture costing about $1 million was procured for the Department's bureaus and offices during fiscal years 1962 and 1963 to replace furniture which was still usable. Inadequate consideration had been given to the economy of retaining and, if necessary, reconditioning the replaced furniture, which was contrary to regulations of the General Services Administration. These regulations provide that furniture in use may be replaced with new furniture only after determinations have been made that replacement is essential for the efficient functioning of the agency and that the estimated cost of rehabilitating the furniture in use would exceed 55 percent of the cost of replacement. We found that the Department of Labor failed to make the required determinations.

We further found that the Department's system of property management, including related budgetary and accounting controls, was inadequate in that there was no overall departmental review of the procurement and utilization of furniture and other nonexpendable property by constituent bureaus and offices. For the most part budget estimates did not specifically provide for the procurement of replacement furniture. Rather, the Department financed the furniture by reprogramming unused funds budgeted for other purposes, thus circumventing the regular appropriation process. In addition, records of property acquisition and disposition were incomplete or inaccurate.

In our report issued in April 1965, we recommended that the Secretary of Labor call to the attention of the heads of bureaus and offices of the Department the need to limit the procurement of new furniture and related equipment to properly justified requirements in order to help preclude the uneconomical replacement and disposal of serviceable equipment. Also, because the practice followed by the Department of not specifically budgeting for equipment replacements encourages planned overestimating and underestimating, ineffective control, and a distorted record, we recommended that all valid equipment requirements be described separately as part of the basis for requesting the appropriation of funds.

12. Need for the Post Office Department to strengthen procurement practices and regulations with respect to the use of formal advertising procedures--Our review disclosed that in a number of cases the Post Office Department (POD) awarded contracts for the procurement of certain postal supplies and equipment by formal advertising procedures although there was no effective competition. Our report commented on contracts amounting to about $30 million awarded to sole bidders under advertising procedures and made recommendations as to additional action that we believe necessary to stimulate competition or to negotiate more effectively with the supplier.

After we called to POD's attention the lack of effective competition on the procurement of stamped envelopes, POD informed us that it would use competitive negotiation procedures instead of formal advertising procedures to award the next stamped-envelope contract for a 4-year period starting January 1, 1965. By letter dated June 25, 1964, the Postmaster General informed us that a stamped-envelope contract for the 4-year period starting January 1, 1965, had been awarded to a different manufacturer. This contract provides for the procurement of approximately 8.9 billion envelopes at a total cost of about $24.5 million. The Postmaster General pointed out that the contract price was $6.25 million less than the current contractor's price when applied to POD's estimated requirement over the 4-year period. We were advised also that competition (four firms submitted price proposals) was made possible this time by revising the specifications, terms, and conditions of the contract.

Although the action taken by POD produced some competition and resulted in lower prices, we believe that the decision to use negotiation procedures was premature and should not have been made until all possibilities for obtaining effective competition under formal advertising procedures had been explored.

Many potential suppliers have informed us and POD officials that they do not have the capacity to produce the quantity of envelopes (more than 2 billion annually) required by POD, and some suppliers have indicated that additional bids might be received if the requirement for an embossed stamp was eliminated.

In a report issued in November 1964, we recommended that, for future stamped-envelope procurements, negotiation procedures not be used until it has been clearly demonstrated that effective competition cannot be obtained by the use of formal advertising procedures. So that POD may be assured of securing the lowest price available for stamped envelopes, we recommended also that POD not only solicit prices for the total requirements for an embossed stamp but also solicit alternate prices on a partial-requirements basis for other types of printing.

We recommended also that, for instances where competition is less than that which could reasonably be expected, the Department's regulations should require that responsible procurement officials determine the reasons for the lack of competition and recommend steps to be taken to stimulate competition or, if it is impracticable to secure competition, to use

negotiation procedures. The Department has agreed to give consideration to this recommendation.

13. Savings could be realized if Government contractors used General Services Administration sources for procurement of office furniture and operating supplies--Our reviews of the procurement of office furniture and operating supplies by selected contractors disclosed that substantial savings could be achieved in Government contract costs through use of GSA supply sources. We found that the contractors were purchasing these items from commercial sources at prices higher than the prices of identical or comparable items available to authorized Government users through GSA supply sources. Inasmuch as substantially all the work of these contractors was being performed for the Government, generally under cost-reimbursement-type contracts, the higher costs were borne by the Government. The General Services Administration agreed with our conclusions and proposed a revision to the Federal Procurement Regulations which would permit Government contractors, under the circumstances discussed in our reports, to use GSA supply sources. We recommended to the Department of Defense, but the Department did not concur, that the Armed Services Procurement Regulation be revised in consonance with the action by the General Services Administration.

DEVELOPMENT AND PROCUREMENT OF NEW TYPES OF EQUIPMENT

14. Need for closer surveillance of development and procurement programs by the military departments--During fiscal year 1965 we issued six reports on our reviews of development and procurement of new types of equipment by the military departments. In these reports we presented our findings of instances where unnecessary costs were incurred because (a) production quantities of equipment were ordered before there was reasonable ensurance that problems and deficiencies revealed in the developmental stage could be solved (portable radar sets, $2.2 million; ground speed and distance indicators, $200,000), (b) prompt action was not taken to curtail or cancel programs when it became known that the equipment would not have the performance characteristics required for its intended purpose (rocket packs, $4 million; solid propellant facility, $825,000), (c) construction of submarines was accelerated, at additional cost, to meet ready-for-sea dates that were in advance of the dates planned by the Chief of Naval Operations ($2.8 million), and (d) diesel engines were unnecessarily introduced into the supply system as an interim item during the transition from gasoline engines to multifuel engines ($1.6 million).

The position of the Department of Defense on the findings we reported has been that its procedures for administration and control of development and procurement programs are generally sound. The Department expressed its belief that such unnecessary costs as may have been incurred in the instances we cited are attributable generally to decisions which involved calculated risks and that, in reaching the decisions, the military departments exercised reasonable judgment based on the circumstances existing at the time. We believe, however, that our reports show that the decisions did not reflect a prudent evaluation of all existing circumstances.

FACILITIES, CONSTRUCTION, AND LEASING

15. Action taken by the General Services Administration to develop criteria and guidelines for the purchase or lease of office copying machines--In our report issued in October 1964 on the respective financial advantages of purchasing rather than leasing office copying machines, we pointed out that substantial savings may become available by purchasing rather than leasing certain machines of the type now used by various agencies under Federal Supply Schedule contracts negotiated and awarded by the Federal Supply Service (FSS) of the General Services Administration. We found that GSA had not established criteria or guidelines that would assist Government users of copying equipment in making feasibility studies essential in arriving at management decisions as to whether the equipment should be leased or purchased.

We estimated that savings of about $6.5 million would be available to the Government over the initial 5-year period of use if about 450 copiers of a certain supplier operating at a volume of over 20,000 copies per month were purchased rather than leased. Moreover, because the estimated productive life of these copiers--based on the production of about 3 million copies per machine--may be expected to extend beyond the 5-year period, further potential savings of as much as about $17 million would be available.

Prior to the release of our report GSA issued a circular, generally consistent with our proposals, which provided agencies with guidelines to assist them in determining whether lease or purchase of copying machines not requiring sensitized paper for reproduction offered the greatest advantage to the Government. The circular also emphasized that the guidelines could be utilized in connection with the acquisition of office copying machines by and for contractors or subcontractors performing work under cost-reimbursement-type contracts. Subsequently, GSA informed us that guidelines and criteria to cover the financial advantages of purchase versus lease of all types and makes of office copying machines, regardless of the type of paper used for reproduction purposes, together with a procedure for review and appraisal of their application by agencies would be developed.

16. Action taken by the General Services Administration to develop criteria for the purchase or lease of telewriting equipment--In a report issued in October 1964, we pointed out that, although telewriting equipment had been offered for sale to the Government since July 1956, GSA had not established criteria or guidelines that would assist Government users of telewriting equipment in making feasibility studies essential for arriving at management decisions as to whether leasing or purchasing was the best method of procuring this equipment and therefore failed to meet its Government-wide procurement responsibilities.

At the time of our review, about 93 percent of the telewriting equipment in use under Schedule contracts, about 2,000 major components, was being leased and only about 7 percent had been purchased. We estimated that excessive costs of about $1.4 million would be incurred over the initial 8-year period of operation, the estimated useful life of the machines.

Furthermore, if all the machines were operated longer than 8 years under the leasing arrangement, we estimated further excessive costs of about $436,000 for each year of use.

GSA agreed that in many cases purchase of telewriting equipment would be preferable to lease but stated that some users would have to consider such factors as obsolescence and the related need for top performance and that, as a result, they may choose to lease rather than to purchase despite any potential monetary advantages. GSA advised, however, that monetary savings should be a major consideration.

With respect to our proposals, GSA advised us that instructions had been issued emphasizing the availability of telewriting equipment on a lease purchase basis and general criteria had been provided that must be used by ordering agencies before procuring the equipment by either method. We were further advised that a review and evaluation is presently being made by a GSA study group for the purpose of developing and publishing definitive criteria for use by ordering agencies when acquiring such equipment and that procedures would be established for review and appraisal of the compliance by user agencies with its instructions and guidelines.

17. Action taken by the National Aeronautics and Space Administration to purchase electric substations at Goddard Space Flight Center--In a report issued in February 1965 on our examination into a National Aeronautics and Space Administration contract for the leasing of electric substations at the Goddard Space Flight Center, we stated that the Government was incurring unnecessary costs that could have been avoided by the purchase of the substations. We pointed out that the unnecessary costs would amount to about $1.9 million if, as planned, two existing substations should continue to be leased for 25 years and that the unnecessary costs would be increased by about $385,000 if a third substation upon completion of construction is leased, as planned, for 25 years.

As a result of our proposals, NASA purchased the three substations in April 1965. Also NASA advised us that policies and procedures covering the pertinent factors to be analyzed in making lease-versus-purchase determinations would be included in an early revision of NASA's procurement regulations and that the subject of lease versus purchase would be included in procurement management surveys of field installations which are made periodically by NASA Headquarters.

18. Action taken by National Aeronautics and Space Administration to achieve substantial savings through purchase rather than lease of a fire alarm system--Our review of a proposed procurement by the Goddard Space Flight Center, National Aeronautics and Space Administration, involving the rental of a central-station type of fire alarm system showed that the proposed procurement would have been uneconomical. In a report issued in October 1964, we stated that, in our opinion, the record established for this proposed procurement did not demonstrate that the central-station feature of the system specified was needed by the Government and that it would be financially advantageous to rent rather than to purchase the system,

because the record was based on use of the system for a 10-year period and not on the period of its intended use or on its physical life. We determined that there was a continuing need for a fire alarm system at the Center, that the system could reasonably be expected to last much longer than 10 years, and that significant savings could be realized after 20 years of use by purchasing instead of renting the system.

NASA agreed that it was in the best interests of the Government to cancel the proposed procurement for the rental of the fire alarm system and subsequently awarded a contract for purchase and installation of the fire alarm system.

19. Action taken by the Post Office Department to improve leasing practices--In a report issued in January 1965 on our review of selected real estate activities of the Post Office Department, we noted that POD had paid excessive rent for the subleased terminal facility at Union Station, Washington, D.C. POD continued to pay rent for two 1-year renewal periods at the same rate paid during the basic 3-year sublease period, although the lease agreement provided that the rent for the renewal periods be negotiated on the basis of conditions then existing. After we advised POD of this matter, we were informed that the sublease agreement had been canceled and certain concessions had been obtained which had resulted in savings to the Government of about $112,000.

Our review disclosed that, in determining the annual rent to be paid for the additional parking and maneuvering space at the Memorial Station and Garage, Alexandria, Virginia, POD had not recognized that the land to be paved included approximately 5,800 square feet of land valued at $7,700 which was already under lease to POD. As a result, excessive rental costs were being incurred by POD of about $500 annually, or $3,700 over the lease term.

In both cases, all the facts needed to establish a reasonable rent were available and could have been ascertained prior to the acceptance by POD of the lease and sublease agreements.

The Postmaster General informed us that POD had emphasized to all concerned the need for analyzing all original lease information when considering a lease renewal to ensure that the rental rate is reasonable for the renewal period.

We were informed also that POD had taken every practical precaution to preclude errors, such as the one made in the rental for the Alexandria facility, by requiring that exact descriptions of all land involved in such transactions be furnished and included in both the agreement to lease and the lease.

20. Action to be taken by the Federal Aviation Agency on acquiring building sites and need for more equitable leasing arrangement at Cleveland Flight Service Station--Our report, issued in November 1964, disclosed that the Federal Aviation Agency incurred excessive costs of about $61,000 as a

result of (a) acquiring a site for the New York Air Route Traffic Control Center at costs in excess of costs that would have been incurred had adequate consideration been given to acquiring alternative sites available at lower land costs and (b) entering into an inequitable lease agreement for rented space at the Cleveland Flight Service Station.

We proposed to the FAA Administrator that, in the future acquisition of sites, he require that appropriate documentary evidence be prepared and that action be taken to better protect the Government's interests. He advised us that FAA directives on land acquisition would be reviewed and revised as necessary to implement our proposals. Although the Administrator did not concur with our conclusion on the lease agreement, the detailed presentation of our finding pointed out the basis for our continued opinion that the lease agreement is inequitable. Accordingly, we recommended that the Administrator take appropriate action to negotiate for a more equitable lease agreement and for the recovery of the excessive rental payments. We recommended also that the Administrator require a review of similar Agency leases to ascertain whether other such inequities exist and, if so, that appropriate corrective action be taken.

21. Action that should have been taken by the District of Columbia Armory Board to inform Congress of the increased cost of the District of Columbia Stadium--During our review of the construction and operation of the District of Columbia (D.C.) Stadium, we found that the D.C. Armory Board awarded the contract for stadium construction in July 1960 without informing the Congress of the great increase in estimated cost over the estimates considered by the Congress when it approved the stadium construction and financing in July 1958 and of the adverse effects that increased cost would have on the stadium's being a self-sustaining operation. We found also that interest costs relating to the purchase of a scoreboard and clock could be substantially reduced by use of different financing procedures.

The Congress, in amending the District of Columbia Stadium Act of 1957, provided that the stadium be constructed substantially in accordance with plans contained in an engineering and economic study dated March 31, 1958. The study indicated that estimated stadium revenues would be sufficient to meet annual operating expenses, pay bond interest, and provide for the retirement of an $8.6 million bond issue over an 18-year period. Estimates of stadium costs made at various dates in 1959 and 1960 were considerably higher than the initial estimates. The cost of stadium construction required a bond issue of $19.8 million, more than double the estimate on which the determination of economic feasibility considered by the Congress was based, with annual bond interest expense of $831,600, or about $488,000 a year more than was anticipated in the economic study. In a report issued in December 1964, we expressed the belief that, in view of the increase in estimated cost prior to the award of the contract which made it unlikely that the stadium operation would be financially self-sustaining, the Armory Board should have informed the Congress of the increase in costs and obtained congressional approval before proceeding with the plans for financing and constructing the stadium.

The scoreboard and clock at the stadium were purchased in March 1961 for $412,000 under a contract which provides for payment for the equipment over an indefinite period of time, and for interest at the rate of 6 percent a year on the unpaid balance of the indebtedness, out of revenues derived from the rental of advertising space. If annual advertising rentals continue at the present rate, the interest costs will total about $119,800 more than the interest costs that would have been incurred if arrangements had been made to pay for the scoreboard and clock at the time of purchase. Interest savings of about $59,400 were possible if the Armory Board had arranged to pay the balance owed on the scoreboard and clock by December 31, 1964.

The Armory Board did not agree, in view of the fact that the Congress had removed the financial limitations on the construction of the stadium, that it should have obtained further congressional approval before proceeding with construction of the stadium.

The Armory Board did agree with the observation made in this report concerning the savings in interest charges which may be realized by liquidating the debt due on the scoreboard and clock. We were informed in January 1965, however, that funds were not available for this purpose but that, if it is found that savings can still be effected when funds are available, arrangements would be made to liquidate the unpaid balance on the scoreboard and clock.

22. Need for stronger administrative control of the military construction program--We had reported in a prior year that more than $50 million worth of construction and construction-type work had been done by the military departments in the fiscal years 1957, 1958, and 1959 outside the military construction program and had been financed with other than military construction funds. As a result, the Congress had not had an opportunity to review and specifically approve the construction, as had been contemplated in the military construction authorization processes established by the Congress to control and limit the extent of military construction. In response to our report on these findings, the Department of Defense issued a directive in January 1961 which established basic policies for improving financial management in the area of appropriations for military construction. The Congress, in enacting the Department of Defense Appropriation Act, 1962, placed a limitation on the availability of operation and maintenance funds for acquisition of new facilities, or for alteration, expansion, extension or addition of existing facilities, as defined in the January 1961 directive of the Department of Defense. Similar provision was made in the Department of Defense appropriation acts for succeeding years.

In July 1964 we issued a report on our follow-up review of the programming and financing of construction in the Air Force. We found that, despite the Department of Defense directive of January 1961 and the enactment of legislation to control use of funds for construction projects, the Air Force had constructed or extensively altered real property facilities without authorization from the Congress. For example, (a) a facility was constructed, at a cost of $195,000, which did not include such basic items

as plumbing, lighting, and heating in an apparent effort to keep the cost under $200,000 and thus avoid the statutory requirement of obtaining congressional authorization and (b) projects were improperly classified as urgently needed--although it was apparent that the projects so classified were not urgent--to permit their construction without prior congressional approval. The Department of Defense agreed that there had been errors in judgment and misinterpretation of regulations and informed us that the basic directives governing military construction were being revised to improve management of the military construction program.

23. Need for National Aeronautics and Space Administration to comply with statutory limitations on the amount allowable for architectural-engineering services--In a report issued in June 1965, we stated that the estimated cost for architectural-engineering services for the design of the engine maintenance, assembly, and disassembly facility at the Nuclear Rocket Development Station, Nevada, under a cost-plus-a-fixed-fee contract exceeded the statutory limitation imposed by 10 U.S.C. 2306(d) by at least $530,000.

The Space Nuclear Propulsion Office (SNPC) was established by the National Aeronautics and Space Administration and the Atomic Energy Commission (AEC) to manage and direct the joint program for the development of a nuclear engine for rocket vehicle application. Negotiation and administration of contracts by SNPC that are funded entirely by one of the agencies are subject to the policies, procedures, and statutory requirements of the funding agency.

Funds for the design and construction of the engine maintenance, assembly, and disassembly facility were appropriated to NASA. The contract was subject therefore to NASA's policies and procedures and to the statutory requirements governing its contracting activities, including the limitation imposed by 10 U.S.C. 2306(d) that the amount allowable for architectural or engineering services shall not exceed 6 percent of the estimated cost of the facility.

In determining compliance with the statutory limitation, SNPC excluded the cost of certain "special" architectural-engineering work on the basis that the statutory limitation is applicable only to the cost of architectural-engineering work for traditional design services and is not applicable to the cost of architectural-engineering work brought about by special requirements applying to nuclear or other highly developmental facilities.

The Associate Administrator advised us that NASA would give consideration to the alternative (a) of obtaining clarifying legislation or (b) since AEC has made a determination that it is not subject to a statutory limitation on the cost of architectural-engineering work, of requesting that funds be appropriated to AEC for the design and construction of nuclear facilities in pursuance of joint programs.

24. Need for legislation to require the Post Office Department to negotiate rental agreements for space and utilities required for small post offices--Our review of allowances paid to postmasters of certain fourth-class post offices in seven postal regions for providing space and utilities showed that savings estimated at about $800,000 annually could be achieved if the Post Office Department was required to negotiate agreements with the postmasters as to the amounts to be paid for these items. The law now in effect, 39 U.S.C. 3544(h), provides that when a postmaster of a fourth-class office furnishes these items he shall be paid an allowance equal to 15 percent of his basic compensation. The basic compensation upon which the allowance is based is determined by the receipts of the fourth-class office and the length of service of the postmaster. The length of the postmaster's service has no relationship to the value of the quarters, equipment, and utility services needed, and their value does not change proportionately with increases and decreases in gross receipts. By contrast, the payments for these items at third-class offices were made on the basis of agreements negotiated by POD.

We compared the rental rates negotiated by POD for quarters, fuel, light, and equipment with the payments made for the same facilities, under the 15-percent allowance system, to postmasters of 260 of the 320 post offices that were either advanced from fourth to third class or relegated from third to fourth class at the beginning of fiscal years 1963 and 1964. Our review showed that the negotiated rates paid when these 260 offices were in the third class were 38 percent less than the allowances paid postmasters when these same offices were in the fourth class.

In a report issued in June 1965, we recommended to the Congress that consideration be given to the enactment of legislation requiring the Postmaster General to negotiate fair rental agreements with postmasters of fourth-class post offices having 18 or more revenue units (about $1,100 a year gross receipts) or to prescribe some other method of paying for these items which would be more economical and equitable than the present system when postmasters furnish space and utilities at the request of POD. We recommended also that POD be required to make a study of the advisability of changing the method of establishing the rental paid to postmasters of fourth-class post offices having less than 18 revenue units.

CONTRACTING POLICIES, PRACTICES, AND ADMINISTRATION

CONTRACT ADMINISTRATION

25. Action taken or promised by the Bureau of Public Roads, Department of Commerce, to improve contract administration so as to recover or preclude a recurrence of excessive or unnecessary construction costs--In a report issued in September 1964 on our review of selected construction activities of the Inter-American Highway program in the Republic of Costa Rica, we stated that the United States incurred excessive or unnecessary costs because of (a) excessive rental charges of about $69,500 for the use of Costa Rica-owned equipment, (b) an unwarranted waiver of a contractor's liability for liquidated damage charges amounting to $50,400, and (c) the unnecessary use of consultants for bridge design work which resulted in additional costs of about $68,000. The United States share of the excessive or unnecessary costs incurred was two thirds of the foregoing amounts or about $125,000.

The excessive or unnecessary costs were incurred because the Bureau of Public Roads took or approved certain contract actions without making a realistic evaluation of available or obtainable information or without developing the information needed to support such actions.

Although expressing disagreement with some of the matters cited in the report, the Bureau has advised us that, where possible, action has been or will be taken to correct certain of the matters and to prevent a recurrence of others. Regarding the excessive charges for the use of Costa Rica-owned equipment, the Bureau has advised us that appropriate adjustments have been obtained from Costa Rica.

26. Armed Services Procurement Regulation revised to limit contractors' charges for costs of relocating employees--Our reviews in a prior year disclosed that the costs of relocating employees, incurred by contractors and charged to Government contracts, were unreasonable in some instances. In some of these instances, employees newly hired and relocated by the contractors at Government expense had voluntarily terminated employment or they had been discharged for improper conduct before completing a year's service. Only a small portion of the costs incurred in relocating such short-term employees was recovered by the contractors. In other instances, the relocation costs were allowed for periods greatly in excess of the periods needed to establish their new residences. We proposed, and the Department of Defense agreed, that the adequacy of existing guidance on allowability of relocation costs be reexamined. On April 1, 1965, the Armed Services Procurement Regulation was revised to define more clearly those relocation expenses which are necessary and reasonable, and therefore allowable as charges against Government contracts, and those that are not allowable.

27. Armed Services Procurement Regulation revised to disallow contractors' charges for use of property acquired from the Government at no cost--In a report issued in August 1964, we presented our finding that a contractor (an Institute) had charged to Government contracts depreciation on buildings which it had acquired from the Government at no cost. The

buildings had been transferred by the Government for the sum of $1.00 to a University under the provisions of the Lanham Act and then transferred by the University to the Institute at no cost. (The board of directors of the Institute was comprised of certain of the trustees of the University.) In response to our finding, the Department of Defense stated that it would disallow such depreciation charges in current and future contract negotiations and that it would also review its policy to determine whether additional guidance was needed. On April 1, 1965, the Armed Services Procurement Regulation was revised to provide that no depreciation, rental, or use charge shall be allowed on property acquired from the Government at no cost to the contractor or an organization directly or indirectly controlling, controlled by, or under common control with, the contractor.

28. Action taken by the Bureau of Indian Affairs, Department of the Interior, to strengthen controls over contract payments--The controls of the Bureau of Indian Affairs (BIA), Department of the Interior, over computation of contract pay item quantities, on which the progress and final payments to contractors were based, were inadequate. Payments to contractors were reduced by $24,278 as a result of our review, and we believe that other payments totaling about $124,000 were unnecessary for the projects we reviewed. The principal inadequacy in control over contract payments was a failure to determine the cause of contract overruns. Our findings pertained to (a) unnecessary overruns in pavement materials because of excessive width and thickness of asphalt layers, (b) erroneous classification of 36,000 cubic yards of embankment material, (c) inclusion of 4,355 cubic yards of embankment material under two pay items, and (d) inclusion of a quantity of asphalt under two pay items. The number and nature of these findings indicated a need to strengthen procedures for determining contract payments at all levels of review. In a report issued in September 1964, we stated that BIA officials had taken corrective action on the matters which we had brought to their attention.

29. Action taken by the Bureau of Indian Affairs, Department of the Interior, to strengthen procedures for material-weighing operations--In a report issued in September 1964 relating to the Bureau of Indian Affairs, Department of the Interior, we stated that our review disclosed that BIA project personnel (a) prepared false weight tickets to evidence material deliveries, (b) did not require a contractor to furnish scales as provided in the contract, and (c) failed to test project scales for accuracy. Since payments to contractors are based on the weights of certain materials used on projects, the action of these employees has resulted in Government expenditures for quantities of materials which may not actually have been furnished. After we had advised BIA of our findings, disciplinary action was taken and corrective procedures were established.

30. Action taken by the Bureau of Indian Affairs, Department of the Interior, to strengthen inspection and testing procedures for road construction projects--Our review of selected road construction projects on the Navajo Indian Reservation showed certain inconsistencies and inadequacies in the inspection and testing procedures of the Bureau of Indian Affairs, Department of the Interior for verifying that contractors comply

with contract specifications. Specifically, we noted that (a) unannounced inspections and tests were needed, (b) required tests were not made, and (c) testing requirements were inadequate. We were informed by the Department and BIA that corrective measures had been or would be taken on these matters. We also found that a final inspection report to a contractor failed to note all road deficiencies requiring correction. Accordingly, in a report issued in September 1964, we recommended that the Commissioner of Indian Affairs impress upon BIA project inspectors the personal responsibility entrusted to them, as representatives of the Government, while performing their duties relating to the inspection and approval of contractors' work.

31. Action taken by the Veterans Administration to improve the administration of contracts for the construction of hospitals--In a February 1965 report on our review of selected aspects of a contract for construction of the Veterans Administration (VA) Hospital, Brecksville, Ohio, we stated that, because of inadequate management of the contract by Administration personnel, additional costs were incurred by the Government to repair and replace defective curbs, sidewalks, service courts, and other exterior concrete construction.

The exterior concrete was placed during the period December 1959 through October 1960, and, within a short time after installation, instances of cracked curbings and cracked and crumbling sidewalks appeared. The concrete progressively deteriorated, and, by the time of our review in fiscal year 1964, considerable portions of the exterior concrete required repair or replacement. In 1963 and 1964 VA spent $93,000 to repair and replace portions of the more deteriorated exterior concrete. Subsequent to our discussion of this matter with appropriate officials, VA made an investigation to determine the contractor's liability. On the basis of information disclosed by this investigation, VA accepted the contractor's offer to replace all remaining defective concrete, estimated to cost about $65,000, without any charge to the Government.

The Deputy Administrator of Veterans Affairs advised us that the employees responsible for the deficiencies in contract administration were "counseled" and that, in line with our proposals and the findings of VA's investigation into this matter, appropriate requirements for improved contract administration were established. We believe that the requirements established by VA, if effectively implemented, should strengthen contract supervision and administration.

32. Action being taken by the General Services Administration to ensure contractor compliance with price reductions clause of contracts--In a report issued in September 1964, we stated that our review of the Federal Supply Schedule contracts for the purchase of drugs and pharmaceutical products, administered by the General Services Administration and the Veterans Administration, disclosed that certain suppliers had been violating the price reductions clause of their contracts for many years. FSS contracts contain clauses which provide that price reductions given to a

Government agency by a contractor must be extended to all Federal agencies using the schedule.

The National Institutes of Health (NIH) had been receiving price reductions on purchases of drugs and pharmaceutical products under the FSS contracts since 1955, but such reductions had not been made available to other Government agencies. We noted that GSA had no procedures to determine whether suppliers were complying with the price reductions clause of their FSS contracts and had depended upon the suppliers for compliance with this contract provision. Contractors, which under the FSS contracts had given price reductions to NIH without extending such reductions to all other Federal agencies, had violated the price reductions clause of their contract, and, hence, these contractors were liable to the Government for the difference between schedule prices and the prices given to NIH.

We proposed that GSA determine the liability of contractors who had violated the price reductions clause of the FSS for drugs and pharmaceutical products and collect any moneys due the Government as a result of such violations. To help prevent future violations of the price reductions clause, we proposed also that GSA develop and implement appropriate procedures to determine whether contractors were complying with the price reductions clause.

GSA advised us that action was being taken to strengthen procedures and contract conditions by requiring, among other things, that agencies as well as contractors report purchases made at reduced prices under the schedules. Subsequent to the issuance of our report in September 1964, GSA advised us that letters had been sent to contractors requesting certification as to their compliance with the price reductions clause and that an ad hoc committee had been established to develop appropriate procedures to verify, on a spot-check basis, the statements and information submitted by the contractors.

33. Action to be taken by the Post Office Department to recover interest costs on excessive progress payments--Our review of the Post Office Department's administration of progress payment provisions contained in certain contracts disclosed that contractors engaged in the fabrication and installation of mail-handling equipment and the manufacture of nonmechanical equipment for POD during the period July 1960 to May 1962, received progress payments totaling about $2.4 million in excess of limitations provided by the contracts.

Progress payments in excess of established limitations resulted in additional costs to the Government by increasing borrowed-fund needs. We estimated that the Government's interest costs for the $2.4 million excess progress payments disclosed in our report were about $48,000.

In a report issued in March 1965 we recommended that POD negotiate with the contractors concerned for the recovery of the additional interest costs incurred by the Government as the result of excess progress payments. We also recommended that, if POD is not successful in its negotiations with

the contractors, information on these excess progress payments be submitted by POD to the Department of Justice for determining whether further action by the Government is warranted. We also suggested that POD examine the larger contracts, not reviewed by us or its internal auditors, on which progress payments were made during the period from July 1960 to April 1962.

POD informed us that it would attempt to recover the interest costs noted by us, through negotiation with the contractors, and that all other contracts over $500,000 on which progress payments were made between July 1960 and April 1962 would be reviewed to determine whether any other excessive progress payments were made. POD informed us that, if negotiations are unsuccessful, it will take up the matter with the Department of Justice.

34. Need for a Bureau of Public Roads, Department of Commerce, policy, applicable to all direct Federal highway construction projects, requiring full compliance with contract specifications--Our review of selected forest highway construction projects administered by the Bureau of Public Roads, Department of Commerce, in certain western States disclosed that, although its policy provides that construction work and materials be in full conformity with the approved plans and specifications, in practice the Bureau did not require such adherence to the specifications. On these projects materials which did not meet contract specifications were incorporated into the work. Also, deterioration of the roads during or shortly after construction necessitated repairs or further construction work.

The deficiencies noted at the various projects demonstrated the failure of the Bureau to require adherence to the specifications for the materials placed in the roadway. Some of the specific deficient practices which we found to exist on the project were (a) frequent acceptance of nonspecification material, (b) acceptance of material without making the required laboratory tests, (c) reliance on tests made by unqualified personnel, and (d) questionable payment made for correction of unsatisfactory material.

Therefore we recommended, in a report issued in November 1964, that the Federal Highway Administrator establish a policy, applicable to all direct Federal highway construction projects, requiring full compliance with the applicable contract specifications. This policy should prohibit acceptance at the project level of construction materials that deviate from appropriate predetermined limits, except in those cases where an adequately documented determination that acceptance of the material is in the public interest is made by Bureau authorities who are cognizant of all pertinent design considerations. In such cases, appropriate amendments should be made to the contract with specific consideration being given to any necessary changes in unit prices.

35. Need for Maritime Administration, Department of Commerce, to improve contracting practices and to provide effective control over spare parts procurement--Our review of selected activities of the Maritime Administration, Department of Commerce, and the Atomic Energy Commission

relating to the construction and outfitting of the nuclear-powered merchant vessel NS "Savannah" disclosed a number of deficient practices and procedures in contract administration.

The Government incurred excessive costs in an undetermined amount as a result of the failure of the Project Manager (who headed a Joint Maritime-AEC Group established to carry-out the program objectives and day-to-day administration of the project) to adequately monitor and control the procurement of spare parts. We found also that the Project Manager failed to establish a systematic procedure for documenting the accumulation, correlation, and evaluation of technical information essential to the determination of quantities of spare parts necessary for the vessel's nuclear power plant.

Maritime agreed generally with proposals made by us to assist in preventing the occurrence of similar deficiencies in the future procurement of spare parts required to support and maintain equipment and machinery of a developmental nature and advised us that, under normal circumstances, it had generally followed the suggested procedures. Maritime stated its belief, however, that the spare parts procurement for the vessel was properly conducted and that any appearance of failure on the part of the Project Manager to adequately monitor and control the conduct of the procurement function could be explained by the urgency of the project and the lack of sufficient time to fully document the bases for the decisions made.

In a report issued in April 1965 we recommended that the Maritime Administrator issue appropriate instructions requiring that, in the future, Maritime officials exercise greater care than was exercised in the instant case to properly document, or cause to be documented, the bases upon which purchase quantities are determined. Maritime subsequently stated that a study of its existing procurement policy and procedures would be made with a view toward developing additional instructions to better ensure that procurements of spare parts are properly carried out and that the bases for decisions related thereto are properly documented.

We found also that additional costs estimated at $185,000 had been or would be incurred by the Government for materials and services supplied by the shipbuilder pursuant to contract changes intended to centralize, to the extent practicable, the responsibility for completion of the vessel. Because of the advanced stage of the project at the time the changes were effected it was our view that little benefit could have been expected to result from the changes by way of centralizing responsibility. In our report, we stated our belief that the additional costs were attributable in large measure to the Project Manager's failure to adequately consider the potential magnitude of the costs involved in relation to the benefits to be derived by the Government as a basis for reaching an informed judgment as to the desirability of the proposed contractual changes.

Our review disclosed also that the circumstances which attended the selection of the contract operator for the vessel created an uncertainty as to whether the best qualified operator was selected. This uncertainty

stemmed primarily from the absence of documented records disclosing a convincing basis for the then Maritime Administrator's decision in selecting the contract operator.

36. Need for closer surveillance by the Department of Defense to assure contractors' compliance with patent provisions of research and development contracts--We reviewed the administration of the patent provisions of selected research and development contracts. We found, as stated in two reports issued in November 1964, that the contractors had not complied with the provisions requiring disclosure of inventions and submission of royalty-free licenses to the Department of Defense and that the Department had not established the necessary surveillance to assure compliance. Some of the inventions under the contracts had not been disclosed; others had been disclosed only after unreasonable periods of delay. Similarly, some of the licenses had not been submitted; others had been considerably delayed. As a result of such violations, the Government's patent rights were jeopardized. We recommended that the patent provisions of the Armed Services Procurement Regulation be amended to include contract clauses requiring financial sanctions in the form of liquidated damages in the event of contractor failure to comply or delay in complying with contractual patent provisions. The Department of Defense stated that it was making a study of patent administration and that it would consider our recommendation in connection with its study.

The Department later advised us that it proposed to revise the Armed Services Procurement Regulation to provide for (a) liquidated damages for failure to comply or delay in complying with contractual patent provisions, (b) forfeiture of title to undisclosed inventions, (c) submission of a confirmatory license within two months after filing of a patent application, (d) an increase in the amount to be withheld from the contractor, and (e) access to the contractor's records by the contracting officer for the purpose of discovering unreported inventions.

37. Need for General Services Administration to revise the Federal Procurement Regulations in order to prevent the incurring of unnecessary interest costs on excess progress payments received by contractors--In our report issued in March 1965, we stated that the Government incurred unnecessary interest costs because of excess progress payments to contractors by the Post Office Department.

We suggested that the Postmaster General initiate action to amend POD's progress payment procedures to provide for the collection of interest on any excess progress payments for the period of the overpayment. POD informed us that it currently had no special problems in this area and believed that any requirement for such a provision should apply to all agencies governed by the Federal Procurement Regulations.

We therefore recommended to the Administrator of General Services that the Federal Procurement Regulations be revised to require that all contracts containing a provision for progress payments include a clause requiring that interest be assessed, effective from the date of overpayment,

on excess progress payments resulting from any improper action of the payee--such as requests for payments contrary to contract terms or resulting from the use of incorrect, incomplete, or uncurrent data by the contractor--which results in the contractor's obtaining progress payments to which it is not entitled. We believe that the rate of interest charged on excess progress payments should be high enough, probably 6 percent, so that there will be no inducement to the contractor to use overpayments as a means of financing. The General Services Administration advised us that consideration would be given to amending the Federal Procurement Regulations as recommended by us.

38. Need for further action by the Department of Health, Education, and Welfare in its administration of contracts for resettlement of Cuban refugees--Our review of contracts awarded by the Department of Health, Education, and Welfare (HEW) to certain voluntary relief agencies for the resettlement of Cuban refugees from the Miami, Florida, area to other communities in the United States, disclosed that HEW negotiated the contracts shortly after the inception of the program in 1961 and renewed them annually without obtaining and reviewing adequate information on costs charged by the agencies to the resettlement program. As a result, HEW did not have an adequate basis for determining whether the $60-per-refugee resettlement rate specified in the contracts bore a reasonable relationship to the resettlement costs to be incurred.

Payments of Federal funds to the four voluntary agencies at the fixed contract rate totaled about $3.4 million through June 30, 1963. As of that date the agencies reported total expenditures of about $2.5 million, leaving net unexpended balances of about $900,000. Three of the agencies reported unexpended balances totaling about $1 million and one agency reported a net deficit of approximately $100,000.

By letter to us dated May 12, 1964, the Administrative Assistant Secretary of HEW indicated that annual reviews would thereafter be made of the financial status of the voluntary agencies in relation to expenditures and receipts under the resettlement program. Subsequently, HEW revised its resettlement contracts for fiscal year 1965 to require that the agencies submit statements of costs on resettlement activities and that unobligated balances of contract funds be returned to the Government after termination of the contracts.

We recognize that the above-cited contract revisions and the proposed annual reviews of the financial status of the voluntary agencies should enable HEW to administer the contracts for the resettlement program more effectively than in prior years. However, since HEW has not made any reviews of the costs charged to the resettlement program by the agencies since its inception in 1961, we believe that, in order to adequately evaluate the appropriateness of the contract rate and to determine whether an adjustment in the rate is warranted in future contracts, HEW should, as part of its reviews, verify the propriety of costs, particularly administrative expenses, charged to the resettlement program. In a report issued in March 1965, we recommended such action to the Secretary of HEW.

39. Need for a coordinated review of noncompetitive lease accounts by the Department of the Interior to ensure collection of royalties due the Government--Our review disclosed that, contrary to existing statute and administrative rulings, the Geological Survey and the Bureau of Land Management, Department of the Interior, changed certain noncompetitive leases from a required minimum royalty payment status to a lesser rental payment status when the leases became nonproductive. Under departmental instructions, the Survey transferred lease accounts to the Bureau of Land Management for administration when the leases became nonproductive. The Department advised us, in essence, that action would be initiated to make the Survey solely responsible for all leases continuing in a minimum royalty status when the leases became nonproductive. This action will provide for the administration of the collection of minimum royalty in the future. Because of the split responsibility which existed for administration of such leases, we recommended, in a report issued in August 1964, that the Secretary of the Interior require the Directors, Geological Survey and Bureau of Land Management, to make a coordinated review of a representative number of noncompetitive lease accounts which were in a minimum royalty status and which, after becoming nonproductive, were transferred by the Geological Survey to the Bureau of Land Management to determine that minimum royalties properly due the Government were collected. If the circumstances warrant, the review should be expanded to include a comprehensive examination of all leases in this category.

Our review of the findings contained in our prior report disclosed a continuation of certain of the deficiencies. However, the Department subsequently advised us that corrective action had been taken or that serious consideration was being given to our recommendations.

40. Need for contract specifications to be revised by the Bureau of Indian Affairs, Department of the Interior, to reduce construction costs--Our examination disclosed that (a) lack of timely action by officials of the Bureau of Indian Affairs, Department of the Interior resulted in additional bridge construction costs of at least $35,000 and (b) inadequate supervision of excavation work by engineers of BIA and Bureau of Public Roads, Department of Commerce, resulted in excess costs which may have amounted to as much as $42,500. In addition, as a result of our review, a proposed expenditure of $243,000 to resurface a road which the State considered to be in excellent condition was canceled. We found also that BIA road construction specifications provide for more work on turnouts and approaches to main roadways than is needed.

In April 1964, the Department advised us that coordination between branch officials to avoid any possibility of excess cost to the Government would be stressed.

In a report issued in September 1964, we recommended that contract specifications be revised to preclude the Government from paying for work which it neither needs nor obtains.

CONTRACTING POLICIES AND PRACTICES

41. Action taken by the Bureau of Indian Affairs, Department of the Interior, to establish procedures to negotiate unit price reductions for substantial material overruns--In a report issued in September 1964, we stated that our review of the road construction program for the Navajo Indian Reservation, Bureau of Indian Affairs (BIA), Department of the Interior disclosed that the Gallup Area Office contracting officer had not negotiated revised unit prices of major pay items when actual quantities substantially exceeded estimates, although such negotiations were provided for in the contracts. Moreover, only a limited number of items had been designated as major pay items and thus overruns of some high-cost pay items were excluded from the price negotiation provision. Consequently, BIA did not obtain lower unit prices for the additional items although such increased quantities usually result in lower average costs to contractors. After we discussed these matters with BIA officials, corrective procedures were established.

42. Department of Defense policy being clarified on the furnishing of subsystems to weapon system contractors--Because of the complexity of weapon systems, no one contractor is capable of manufacturing all of the various items of equipment, subsystems, and components which comprise the system. Although a specific contractor may be responsible for delivery of the weapon system, the ultimate product delivered represents the combined efforts of many manufacturers in many segments of industry. In negotiating contracts for production of systems, it is therefore necessary to determine, with respect to the items not manufactured by the contractor, which subsystems should be purchased by the contractor and which should be purchased by the Government and furnished to the contractor.

Purchasing of such items by contractors results in the pyramiding of profits or fees by contractors and intermediate-tier subcontractors on the cost of the items. On the other hand, purchasing by the Government, where feasible, reduces the profits or fees which otherwise would be negotiated with the contractor, requires the use of formal advertising procedures designed to obtain full and free competition (unless specifically excepted by law), and provides an opportunity to consolidate requirements and take advantage of the lower prices that may be available by purchasing larger quantities to meet the needs of the military departments.

Our reviews disclosed a number of instances where higher costs were incurred by the Government because the military departments permitted weapon system contractors to purchase equipment, subsystems, components, and accessories under circumstances where it was feasible, in our opinion, and would have been more economical for the Government to purchase the items directly from the manufacturers and furnish them to the contractors. Our reports issued during fiscal year 1965 on these reviews identified over $12 million of higher costs.

An important factor contributing to this situation has been the lack of a definitive policy and adequate criteria for determining under what circumstances subsystems and components of weapon systems should be purchased by the Government and furnished to contractors. In the absence of

such a policy and criteria, each of the military departments had developed its own procedures which varied widely in concept and in the degree of guidance they provided. The positions taken by the military departments ranged from the concept of the Air Force, that subsystems and components should be Government-furnished to the maximum practicable extent, to the concept of the Navy's Bureau of Ships, that the furnishing of such items by the Government should be "reduced to an absolute minimum."

On October 1, 1965, the Department of Defense added a new provision to the Armed Services Procurement Regulation (ASPR), to clarify its policy on furnishing subsystems to weapon system contractors and to provide guidance for identifying situations where it is feasible and more economical for the Government, rather than the contractor, to purchase the subsystems. This addition to ASPR provides a statement of policy, establishes guidelines for interpretation of the policy, fixes responsibility for decisions as to which items are to be furnished by the contractor and which are to be furnished by the Government, and requires documentation of the basis for decisions.

In its deliberations on the Department of Defense Appropriation bill, 1966, the Congress took note of our findings and reduced by about $44 million the amounts requested for procurement of the F-4 and F-111 aircraft. In recommending the reduction, the House Committee on Appropriations pointed out that this would encourage savings through the furnishing of certain equipment by the Government rather than by the contractor. The Senate Committee on Appropriations concurred in the recommendation.

43. Need for Bureau of Mines, Department of the Interior, to improve contract negotiation procedures--In a report issued in June 1965, we stated that our examination into the procurement of helium-bearing natural gas under negotiated contracts disclosed serious deficiencies in the contracting procedures and practices followed by the Bureau of Mines, Department of the Interior, in obtaining helium-bearing natural gas supplies to be processed in three Government-owned plants which are located in Keyes, Oklahoma; Shiprock, New Mexico; and Exell, Texas. The Bureau entered into negotiated, noncompetitive, fixed-unit-price contracts without an adequate determination of the justification for or the reasonableness of the fixed prices. Notwithstanding the absence of effective competition or other sound basis, the pricing arrangements agreed to under one of the gas supply contracts was subsequently used by the Department to justify a part of the price to be paid for approximately $1 billion worth of additional helium for the conservation program which was the subject of our previous report to the Congress issued in January 1963. At that time we reported that, on the basis of our review of the Bureau's estimates of the contract unit prices, it appeared that the Government would incur unjustified costs of at least $155 million over the life of the contracts.

The effective price negotiated for the gas delivered to the Keyes plant for processing and not returned to the company for transmission to fuel markets appears to be very high when compared to the company's cost representations--about four times as great--which were available to the

Bureau during negotiations and at the time of the first price adjustment. Accordingly, we recommended that the Secretary of the Interior examine into the existing pricing arrangements under the Keyes contract and that, if warranted, make every reasonable effort to negotiate an appropriate adjustment.

We believe also that the Bureau's justification for the negotiated fixed unit price for natural gas delivered to the Navajo plant in Shiprock is questionable because the Bureau failed to provide for a reduction in the transportation allowance after the gas supplier has been fully reimbursed for the cost of constructing pipeline facilities and because the Bureau assigned an allowance for the heating value of the gas even though it knew that this gas was commercially nonmerchantable as a fuel because of its low heating value. In addition, the Bureau, in negotiating the current gas-gathering service charge for natural gas delivered to the Exell plant, improperly allowed a depreciation allowance on the special gas-gathering facilities for which the Bureau had previously reimbursed the gas supplier. We believe that the Bureau's failure to recognize its previous action and disallow the depreciation charge for gas delivered to the Exell plant results in an unnecessary increased cost to the Government. We believe that, in these instances, it is unreasonable for the Government to incur increased costs and for the companies to realize equivalent amounts as profits. Accordingly, we recommended that the Secretary make every reasonable effort to amend the existing contracts to provide for a reduction in the negotiated gas purchase prices to eliminate excessive and unjustified costs.

Our review also disclosed certain overpayments of about $161,000 and potential annual savings of about $89,000 in natural gas purchases which we brought to the attention of the Department. We were advised that action would be taken to effect collection of the overpayments and to reevaluate the matter relating to potential savings.

PROPERTY MANAGEMENT

STOCK CONTROLS

44. Action taken by the Army to improve stock controls at military installations--Our reviews of supply management at selected military installations of the Army disclosed weaknesses in stock control at certain of the installations as discussed below.

We found that the United States Army Engineer Depot, Ascom, Korea, had an ineffective physical and accounting control of its inventory because of a lack of efficient and experienced supply management personnel. In a report issued in July 1964, we stated that, as a consequence, the Depot was unable to provide adequate supply support for the missile systems, communication systems, aircraft, and construction equipment of the Eighth United States Army, Korea. The Army agreed with our findings and proposals for corrective action and, in January 1965, advised us that the Depot had been completely reorganized and that an Army team had made a review of operations to ensure that the deficiencies we had found were not continued in the new organization.

Supply management in Okinawa--a responsibility of the United States Army, Ryukyu Islands--was also ineffective. We found, as stated in a report issued in December 1964, that there was an insufficient supply of combat essential equipment, valued at about $2.9 million, which was required to be on hand as support for certain military units in the Far East in the event of hostilities. In addition, there was an indeterminate quantity of spare parts which were in short supply and which were also required. At the same time, excesses of other equipment valued at $4.7 million were either on hand or on order from supply depots in the United States. Also, various types of ammunition valued at about $4.6 million had accumulated in excess of needs and were not reported to higher headquarters for disposition instructions. As a result of our bringing this to the attention of officials, ammunition valued at about $836,000 was shipped to fill requirements in Vietnam, Thailand, and Korea. The Army advised us that the Commanding General, United States Army, Ryukyu Islands, had taken the corrective actions we had proposed for improvement of supply management and that the United States Army, Pacific, had taken steps to increase surveillance of supply practices in its area of responsibility.

In the United States Army, Europe, inadequate supply management practices resulted in the accumulation and retention of substantial quantities of excess spare parts for the CORPORAL missile system. Moreover, the deficient practices were of such a nature that most of the excesses were not apparent and resulted in unnecessary procurement of parts valued at $370,000. As pointed out in our report issued in January 1965, the more significant causes of these conditions were the failure of the United States Army, Europe, personnel to follow existing regulations and the failure of higher level personnel to ensure that the regulations were followed. The Army agreed that the deficiencies existed at the time of our review and enumerated corrective actions that had been taken since our review.

We found deficiencies also in the supply management practices of the Third United States Army Logistical Support Group in Florida. In a report issued in February 1965, we stated that units of the Logistical Support Group had permitted the accumulation of $735,000 worth of missile spare parts in excess of needs. The primary supply management deficiencies in this instance were the failure of the Logistical Support Group to return parts to the depots for repair and their failure to establish and maintain adequate inventory controls. The Army agreed with our findings and outlined certain corrective actions to improve the overall supply management at Logistical Support Group installations.

45. Action taken by the Department of Defense to identify and redistribute excess vehicle spare parts and assemblies in Korea--In our review of selected practices followed in supplying supporting parts for Japanese-manufactured vehicles furnished under the United States Military Assistance Program (MAP) for Korea, we found that inadequate advisory efforts of United States personnel had contributed largely to ineffective supply management and costly deficiencies within the Korean supply system. As of April 1, 1964, overprocurement amounting to about $463,000 had already been incurred for unneeded spare parts and assemblies for vehicles because excesses within the Korean Army supply system were not identified and recovered. Additional overprocurement of similarly unneeded parts, valued at about $693,000, could have followed had timely corrective action not been instituted as a result of our review.

In our draft report to the Department of Defense in October 1964, we recommended that the Korea Military Advisory Group take timely action to identify and appropriately redistribute all parts and assemblies excess to needs at all levels within the Korean Army in order to obviate overprocurement of such parts in the future.

On February 15, 1965, the Deputy Director of Military Assistance, Department of Defense, informed us that instructions had been issued to the Korean Army to identify excess parts, adjust stock levels, and cancel requisitions for unneeded parts. We were also informed that United States advisers were to confirm by random sample or other means that corrective action had been taken by the Korean Army.

46. Action taken by the Department of Defense to recover excess radar modification kits and to redistribute excess training rockets in a European country--Our review of the programming, delivery, and utilization of aircraft and related equipment furnished to a European country under the Military Assistance Program disclosed that radar modification kits and 2.75" training rockets had been delivered to the country in excess of the country's requirements and ability to utilize them. In our report dated May 29, 1963, we recommended to the Department of Defense that aggressive action be taken by the Military Assistance Advisory Group to recover all identified excess equipment and, where appropriate, to redistribute this equipment to other MAP recipient countries.

In November 1964, we made a follow-up review on this matter and found that the Department of Defense had obtained excess radar modification kits, valued at $90,000, from the country and returned them to United States Air Force stocks and that excess training rockets, valued at $31,500 had been obtained from the country and redistributed to other MAP countries.

47. Action taken by the National Aeronautics and Space Administration to reduce an excessive photographic supply inventory and improve management practices over inventory procedures--Our review of the photographic supply inventory at the Manned Spacecraft Center, Houston, Texas, National Aeronautics and Space Administration, disclosed that the inventory contained 250 individual items--about 70 percent of the total items with a cost value of about $171,000--which were not required to provide adequate supply support.

In a January 1965 report, we stated that the principal factors contributing to the excessive inventory were the procurement of quantities of items in excess of those needed and the retention of items for which there was little or no demand. We believe that the accumulation of the excessive inventory could have been avoided by closer adherence to prescribed supply procedures and regulations.

NASA agreed that the inventory of photographic supplies was excessive and advised us that, as a result of our review, the inventory was reduced by 181 line items with a cost value of about $150,000. The reduction was accomplished mainly by transferring items to other organizational units and Government agencies having a need for them. We were advised also that appropriate steps had been taken to ensure that the supply system at the Center was managed in a manner that would avoid recurrence of the situation described in the report.

48. Action taken by the Navy to improve stock controls at military installations--We found that the Naval Supply Depot, Subic Bay, Republic of the Philippines, requisitioned from supply depots in the United States about $332,000 worth of aeronautical parts in excess of requirements. In our report, issued in April 1965, we stated that this occurred because the Depot failed to adjust the computation of its future needs to the lesser quantities indicated by actual usage of the parts. After being advised of our findings, officials canceled unnecessary requisitions for parts worth $228,000 but the remaining $104,000 worth of parts had been delivered. The Navy advised us that inventory managers and fleet commanders had been requested to review and update directives concerning stock levels of supply for materials in their areas of responsibility.

49. Action taken by the Navy to avoid general-purpose use of special-purpose stock--The Navy planned to purchase about $373,000 worth of special-purpose ammunition pallets although it had on hand about $2.5 million worth of such pallets which were being used for general purposes. In a report issued in May 1965, we pointed out that the special-purpose pallets were being used for unauthorized purposes and for the storage of materials which could have been stored either without pallets or on less expensive

pallets. The planned procurement was canceled as a result of our review. The Navy advised us of steps taken to ensure that special-purpose pallets are used for authorized purposes only.

50. Excess inventory of spare lighted-type buoy bodies corrected by U.S. Coast Guard--In a report issued in March 1965 on our review of the inventory of spare lighted-type buoy bodies at 11 Coast Guard districts, we noted that the Coast Guard was ineffectively managing the inventory and was maintaining about 258 lighted-type buoy bodies, with a replacement cost of about $900,000, as spares in excess of its current operating requirements. The expenditure of funds for inventory items not currently needed results in unnecessary costs to the Government for interest paid on the funds prematurely expended. In our opinion, the excess inventory occurred because neither the Coast Guard Headquarters nor the district offices had established adequate guidelines or criteria for determining realistic inventory levels of lighted-type buoys and because the Headquarters had not effectively reviewed the inventory levels established by the districts.

We found that, at the time of our review, the Coast Guard was planning to continue manufacturing additional lighted-type buoy bodies of the same standard types in which the excess existed. We believe that excess spare buoy bodies should be used for current operational requirements in lieu of manufacturing new ones. In September 1964, we advised the Commandant of the Coast Guard of our finding and stated our belief that a reduction in inventory levels of spare lighted-type buoy bodies and the use of the excess stock in lieu of manufacturing additional buoy bodies of these types would result in economies. The Acting Commandant of the Coast Guard advised us in November 1964, that instructions were being promulgated, revising the Coast Guard's management of buoy inventories, and that production of lighted-type buoys at the Coast Guard Yard was being curtailed. Subsequently, the Coast Guard established procedures for inventorying buoys, issued guidelines for establishing spare buoy allowances, and established procedures for annual reviews of the spare buoy allowances.

51. Savings to result at Department of Defense installations from requisitioning of paint products in economical-size containers--Our review of stock requisitions for paint products disclosed that about 55 percent of the quantity requisitioned in 1-gallon cans could have been requisitioned in 5-gallon cans (at a saving of about 10 cents a gallon) and that about 78 percent of the quantity requisitioned in quart cans could have been requisitioned in 1-gallon cans (at a saving of about 57 cents a gallon). In a report issued in September 1964, we stated that the failure of Department of Defense installations to requisition paint products in the most economical-size containers feasible was resulting in unnecessary costs of about $330,000 annually. In accordance with our proposal, the Department of Defense directed its installations to requisition paint products in the largest size containers practicable.

52. Need for the Veterans Administration to institute policies to correct deficiencies in supply management procedures--Our review of supply management procedures of the Veterans Administration at two of its supply

STOCK CONTROLS (continued)

depots during the period from May 1963 to March 1964 disclosed various procedural weaknesses resulting in overstocking of equipment and supplies.

We found that certain items obtained at a cost of about $270,000 had been held in inventory for periods up to 12.5 years. Some of these items were disposed of at losses totaling about $55,000. Also, funds available to the depots for the purchase of other equipment and supplies were limited to the extent that funds were invested in overstocked items. Moreover, such overstocking could result in additional transportation, handling, and storage costs and in obsolescence or deterioration of overstocked items.

The Deputy Administrator of Veterans Affairs agreed that in general, there was a need to improve procedures, and he informed us that VA had taken action to expand the criteria used in estimating supply requirements and to identify and dispose of overstocked items. VA did not believe it necessary to require supply depots to substitute overstocked items for similar items used by field stations, as we had recommended, but advised us that its approach was to have the Supply Service consult with the using services to encourage utilization of overstocked items and that such consultation would be required as a part of the routine analysis of overstocked items.

Although consultation with the using services may eventually result in increased use of overstocked items, we believe that this practice has not been effective. Since equipment and supplies are purchased to meet the expressed needs of the using services in field stations, we believe that the stations should be required to use the quantities that they have indicated are needed, unless a justifiable reason develops for not doing so. Therefore, we recommended that the Administrator of Veterans Affairs require the Supply Service to issue overstocked items to the field stations as substitutes for functionally similar items, whenever appropriate.

We believe that the actions taken by VA, if properly carried out, should improve the conditions disclosed in our report issued in June 1965.

PROCEDURES FOR DETERMINING SUPPLY REQUIREMENTS

53. Procedures strengthened by the Air Force to avoid repair of unneeded stock--Aeronautical spare parts and components were repaired although sufficient serviceable quantities were available to meet current and long-range requirements of the Air Force. Our selective reviews at the San Antonio Air Materiel Area (report issued in July 1964) and at the Oklahoma City Air Materiel Area (report issued in September 1964) identified about $500,000 of costs incurred for such repairs. Following disclosure of our findings, these Air Materiel Areas reviewed their repair schedules and canceled repair work which was estimated to cost about $6 million. The premature repair resulted from inadequate review of repair schedules (following receipt of more current supply data), from inadequate supervisory review of the performance of commodity managers, and from inadequate regulations pertaining to the repair of line-generated items. The Air Force agreed with our findings and recommendations for corrective action and stated that it had undertaken a review of repair schedules at all of its Air Materiel Areas.

54. Procedures strengthened by the Marine Corps for projecting future requirements--We reported that the Marine Corps had procured or was in the process of procuring, in excess of its needs, about $4.1 million worth of ammunition (report issued in August 1964) and about $1.2 million worth of spare parts and assemblies (report issued in April 1965). These procurement actions resulted from (a) erroneous requirements determinations which overstated needs, (b) use of incorrect demand and asset data, and (c) failure of stock analysts to review and question substantial changes in assets and requirements reported by the supply centers. After we brought these matters to the attention of the Marine Corps, uncompleted contracts and procurement actions in progress, totaling about $3.3 million, were canceled or reduced. The remainder, totaling about $2 million, had already been delivered. The Marine Corps concurred in our findings and recommendations for improving its procedures and also took steps to transfer the unneeded stocks of ammunition to the Army and the Navy to fill stated needs of those services. In addition, the Navy advised us that the Auditor General of the Navy had instructed Navy auditors to be particularly watchful of the Marine Corps procedures for determination of requirements.

55. Procedures strengthened to reduce the number of excess vehicles at military installations--Our review of the utilization of 505 commercial-type heavy trucks and buses at five military installations disclosed that 78, or about 1 in 6, were excess to the installations' needs. In our report issued in July 1964, we stated that the excess vehicles had accumulated because responsible management officials had not instituted controls or taken the action necessary to ensure that the number of these vehicles were kept commensurate with needs. In response to our findings and proposals for corrective action, the Department of Defense issued instructions to the military departments for improvement of administrative procedures for control of vehicles at military installations. The Department of Defense later informed us that, as a result of strengthened controls, inventories and allowances of heavy trucks and buses had been reduced by over 2,400 vehicles.

STANDARDIZATION OF SUPPLIES

56. Central office established to administer the Defense Standardization Program--The Secretary of Defense was directed by the Congress in July 1952 to develop and implement a Defense standardization program which would (a) require the development and use of single specifications for identical items, (b) reduce the number of sizes and kinds of items that are generally similar, and (c) standardize packing and packaging methods. Our reviews of the item-reduction phase of the program disclosed that the potential savings in supply management costs resulting from the elimination of unneeded items were not being fully realized. (Department of Defense studies show that the average annual cost to manage an item of supply is at least $100 and perhaps substantially more.) We found that (a) progress in the reduction of the number of items in the area of electronics has been negligible, (b) implementation of item-reduction decisions was delayed on an average of almost a year, and (c) items previously eliminated from the supply system were permitted to reenter the supply system.

We proposed to the Secretary of Defense that the central management role of the Defense standardization activity be strengthened to provide more effective guidance, direction, and control of the Defense-wide standardization effort. Following a study of the problem by a Department of Defense management group, the Office of Technical Data and Standardization Policy was established under the Assistant Secretary of Defense (Installations and Logistics) to provide centralized management and administration of the Defense-wide program.

STOCKPILE PROGRAM

57. Need for the Office of Emergency Planning to reduce the cordage fiber stockpile objectives--In a report issued in October 1964 concerning the stockpile objectives for the cordage fibers--abaca and sisal--we stated that the emergence of cordage substitutes in the form of synthetic fibers had eliminated the United States' dependence on foreign sources of supply for cordage fiber requirements and had obviated the need to retain the $79 million stockpile of cordage fibers. With respect to abaca, which is used to manufacture rope, synthetics such as nylon, Dacron, and polypropylene, according to industry sources, could satisfy the United States' emergency requirement for rope. With respect to sisal, used mainly in baler twine, an Office of Emergency Planning (OEP) in the Executive Office of the President report stated that a synthetic product in the form of rayon could serve as a satisfactory substitute. A sufficient rayon capacity to meet the United States' emergency requirement for baler twine already exists. Strategic materials, under existing statutes, are stockpiled for the purpose of decreasing and preventing, wherever possible, a dangerous and costly dependence of the United States upon foreign nations for supplies of materials in time of national emergency. The cost of maintaining the cordage fiber stockpile, including rotation to prevent deterioration, exceeds $6 million annually.

We recommended that, in view of the United States' ability to supply its emergency cordage fiber requirements through the use of synthetics and the high cost of maintaining the present cordage fiber stockpile, about $500,000 monthly, the Director, OEP, reduce the cordage fiber stockpile objectives to zero and that an orderly disposition of the inventories be initiated without disruption of normal market activities. On June 7, 1965, OEP reduced the stockpile objectives for abaca from 100 million pounds to 50 million pounds and for sisal from 300 million pounds to 200 million pounds; with this partial reduction in stockpile objectives, 150 million pounds of cordage fibers having an acquisition cost of about $26 million automatically became excess and available for disposal.

58. Possible need for the Office of Emergency Planning to provide for physical testing of tungsten powders inventory and periodic analyses while in storage--In a report issued in June 1965, we stated that since 1952 all purchase specifications for tungsten powders issued by the Office of Emergency Planning in the Executive Office of the President and its predecessor agencies had consistently required that the powders pass certain chemical and grain-size tests before acceptance. In general, industrial users of tungsten powders will not accept tungsten powders from suppliers solely on the basis of chemical and grain-size tests but they require, in addition, that the material pass tests for such physical properties as hardness and transverse rupture strength.

With respect to inspection of stockpiled tungsten powders during storage, we stated that the General Services Administration inspection consisted of a visual observation semiannually of the exterior of the storage containers and that the contents of the containers were not examined or analyzed to determine if the condition of the material had changed.

STOCKPILE PROGRAM (continued)

Until 1954, national stockpile specifications provided that tungsten powder be stored in steel drums with a lid held in place by a clamp-ring-and-lock arrangement. Beginning in 1954, the specifications were changed to require that all powder purchased be stored in sealed polyethylene bags enclosed in air-tight galvanized steel drums and treated with an inert gas, such as argon, to expel the atmosphere. Tungsten in its natural state is a trioxide, and we have been informed that, after being upgraded to a metal powder or carbide powder, it has a tendency to revert to its natural state through oxidation. Our inquiries indicated that industry, in recognition of the unstable nature of tungsten powders and their relatively high cost, generally does not store them for periods in excess of 6 months.

About 1.1 million pounds of tungsten metal powders, or about one third of the tungsten powder stockpile, were acquired during 1951 and 1952 and are still stored in steel drums without polyethylene liners.

We believe that there is a question of the extent to which the stockpile can be relied upon in the event of an emergency. GSA has informed us that oxidation is not a serious problem in today's processing and that, under the modern vacuum methods, high oxygen content is not a matter of particular concern. These comments are largely supported by OEP.

In commenting on our findings, OEP also stated that an industry-Government review of specifications, covering materials scheduled for fiscal year 1965 procurement, was under way on a priority basis and that this review would cover all upgraded tungsten materials, including tungsten powders. OEP stated further that, if the review indicated that physical properties tests of tungsten powders were an additional feature of industrial practice, OEP would direct a revision of the purchase specifications.

Because of OEP's overall responsibility for the quality of materials taken into and retained in the strategic stockpile, we expressed the belief that, if it is determined through the current industry-Government review that the specifications should be revised to include physical properties tests, OEP should give consideration to (a) performing such tests on tungsten powders now in the stockpile to determine their suitability and (b) revising storage specifications to require periodic analysis by GSA of stored tungsten powders.

59. Action taken by the Forest Service, Department of Agriculture, to strengthen procedures and criteria for the appraisal of timber-- Our review of selected timber appraisal activities in the Southern Region (Region 8) of the Forest Service, Department of Agriculture, disclosed that lumber selling prices of low-value rough green lumber were improperly combined with prices of dry finished lumber, the end product upon which timber appraisals were to be based, causing underappraisals of about $67,000. The Forest Service agreed with our finding but advised, that an offsetting factor of unknown amount reduced the understatement of selling values.

We recommended in our November 1964 report that the Forest Service emphasize to regional officials the need for effective reviews to detect distortions in data used in establishing appraisal guidelines and to ensure that both the lumber-selling-price data and the cost data used in appraising timber were related to the same specified timber end product.

We also found that sampling procedures were inadequate for producing reasonable weighted averages of the lumber selling prices realized by local mill operators. We stated that the sampling deficiency could produce understated end-product selling values and cause underappraisals of timber offered for sale, or it could produce overstated selling values and cause overappraisals. Although we were informed in May 1964 that sampling procedures had been revised, we expressed the belief that they were inadequate because they did not provide for a stratified sample of the various classifications of lumber included on mill invoices.

Accordingly, we recommended that the Chief of the Forest Service instruct the Regional Forester, Region 8, to prescribe a statistically acceptable sampling procedure for obtaining, from the invoices of mill operators, lumber selling price data that will permit reasonable appraisals of timber.

Pursuant to our proposal, the Department informed us in December 1964 that implementing instructions had been furnished Region 8, designed to permit reasonable timber appraisals, and that, additionally, an analytical study would be made to ascertain the best way to adequately sample lumber invoices.

60. Action taken by the Forest Service to strengthen procedures in the award and administration of timber sales contracts--In a report issued in October 1964, we pointed out that a tract of timber in the California Region (Region 5) was sold by the Forest Service (FS) to a sole bidder at the appraised value of $28,952, representing the minimum price acceptable to the Forest Service, under oral auction bidding procedures after rejection of a high bid on a prior offering of the same timber because the high bidder failed to furnish required data on his financial status. The reoffering under oral auction instead of sealed-bid procedures did not provide adequate competition and appears to have resulted in a loss of about $34,000. Also, it appeared that one of the operators who had bid on the original offering was not solicited by FS to bid on the reoffering, FS

instructions have been issued incorporating our proposals for correcting these inadequacies.

We also pointed out that, in appraising certain timber to be offered for sale in Region 5, the FS allowed a credit of $106,583 for the estimated cost of constructing an access road over Government-owned land to the timber sale area. An alternate access road along a right-of-way crossing private land could have been constructed at about $42,000 less than the amount of the road cost allowance used in appraising the timber. The right-of-way was subsequently obtained from the successful bidder after the sales contract had been entered into, but the FS failed to negotiate with the timber operator for additional payment to the Government in recognition of the cost reduction. As a result of our proposals new contract language has been developed providing for appropriate adjustments in timber payment rates if the purchaser does not construct all of the roads specified in the timber sales contract.

61. Action taken by the Department of Interior on administration of the timber disposal program--Our review disclosed certain weaknesses in the administration of the timber disposal program of the National Park Service, (NPS) Department of the Interior, indicating a need to strengthen management controls and review procedures.

In its program for the disposal of park timber, NPS and logging companies have entered into contracts which provide that the parks receive, in exchange for timber removed, finished lumber or other wood products for use in the parks. The practice of obtaining finished wood products by means of exchange for Federal property improperly augments the funds appropriated by the Congress for park operations. NPS does not have specific statutory authority for exchange contracts of this type; hence, the appropriation available for the purchase of finished lumber should have been charged with the equivalent purchase price of the materials received and a similar amount deposited into the Treasury in accordance with existing statutory provision.

During our review of timber disposal activities at three national parks, we noted that NPS lacked control over the volume of timber removed by contractors and the wood products received in exchange and that it failed to determine whether the Government received adequate consideration for the value of timber removed. We noted also that NPS had not recognized the Government's interest in concessioners' improvements which resulted from NPS's providing the concessioner with construction materials at no cost.

In a report issued in September 1964, we directed attention to a lack of timely correction by NPS of previously reported administrative deficiencies disclosed by both our Office and NPS internal auditors. We believe that these conditions are indicative of a lack of concern on the part of management for providing an effective mechanism for prompt correction of these deficiencies.

The Department has advised us that specific corrective action has been or is being taken or considered in line with our proposals, and, as part of our continuing review of NPS, we plan to evaluate the effectiveness of these actions.

62. Need for improved criteria for determining when lumber by-product values should be included in timber appraisals being studied by the Forest Service--Our review of selected timber appraisal activities in the Southern Region (Region 8) of the Forest Service, Department of Agriculture, disclosed that Federal timber offered for sale at certain locations in the Ouachita National Forest in Region 8 was underappraised by about $260,000 during fiscal year 1962 and the first quarter of fiscal year 1963 because FS, in computing the appraised value of the timber, did not give appropriate consideration to the value of wood chips, a by-product of lumber production.

We brought this matter to the attention of the Regional Forester, Region 8, and the value of wood chips was subsequently included in timber appraisals for the locations mentioned above. The appraisal guidelines, however, were not revised to provide adequate criteria for determining when a market area should be considered as one where chipping facilities represent a strong competitive factor.

We recommended in a report issued in November 1964, that FS instruct Region 8 to develop appropriate criteria for determining the circumstances under which the production and sale of lumber by-products constitute a generally established local industry practice warranting recognition of the value of the by-products in appraising national forest timber.

The Department informed us in December 1964 that a country-wide review of Regional procedures was being made by FS to determine the best procedures to use for reflecting the values of by-products such as wood chips and that Region 8 procedures would be improved and clarified as a part of that review.

63. Need for the establishment by the Forest Service of improved criteria for determining logging cost allowances in timber appraisals--Our review of selected timber appraisal activities in the Southern Region (Region 8) of the Forest Service, Department of Agriculture, disclosed that appraisal guidelines furnished Region 8 timber appraisers for use at two National Forests did not contain sufficient information (1) to guide the appraisers in establishing logging cost allowances which reasonably reflected the variable logging conditions existing in each sale area and (2) to provide FS reviewers of appraisals with an adequate basis for evaluating the reasonableness of the allowances computed by timber appraisers.

We recommended in our November 1964 report that the Chief of the Forest Service require the Regional Forester, Region 8, to furnish timber appraisers with detailed information that would (1) describe the variable conditions which affect the amount to be allowed for logging costs, (2) identify the average costs or range of costs for each logging function

which would be affected by variations from the average conditions, and (3) show the extent to which variations in logging conditions could be expected to affect the cost of each of the different logging functions. We recommended also that the Chief provide for adequate documentation of timber appraisal allowance determinations and for effective supervisory review of such determinations.

The Chief of the Forest Service agreed that criteria for the establishment of logging cost allowance would improve the appraisal process but stated that establishment of the criteria would involve certain difficulties. We noted that, while the development of such criteria would involve certain difficulties, it appeared that, under procedures prevailing at the time of our review, each appraiser was required by forest office guidelines to take into consideration local logging conditions in spite of the difficulties apparently involved.

64. Need for fostering competitive conditions on sales of public timber in certain areas to be studied by the Forest Service and the Bureau of Land Management--Our review in the Pacific Northwest of bidding practices employed in the sale of Federal timber by the Forest Service, Department of Agriculture, and the Bureau of Land Management, Department of the Interior, disclosed instances where the use of oral auction bidding did not appear to provide the Government with reasonable assurance that timber was being sold at competitive prices.

We found that, in an FS national forest and in a Bureau of Land Management area where Federal timber was offered for sale at minimum appraised values totaling $3 million, little competitive response for the purchase of the timber was elicited under oral auction procedures. As a result, much of the timber offered for sale was sold to sole bidders at or near the agencies' minimum acceptable price (appraised value), despite the existence of a number of potential purchasers and an apparent need by producers of timber products for the available timber. For certain other sale offerings, the bids received, which were significantly higher than the appraised values, appeared to be the result of efforts to prevent the award of a sale contract to a particular operator or operators.

In a report issued in February 1965, we recommended that the Secretary of Agriculture and the Secretary of the Interior arrange for FS and the Bureau of Land Management to use sealed bidding in their respective timber management areas where situations such as those noted by us exist, with the objective of fostering competitive sale conditions and thus obtaining for the Government reasonable, competitive prices for the public timber.

In May 1965 we were informed by an Assistant Secretary in the Department of the Interior that the Bureau of Land Management intended to use sealed bidding procedures in selected areas on a trial basis, for approximately 10 percent of the sales on a random selection basis, to obtain data for comparison with the results obtained under oral bidding

procedures. Also, the Secretary of Agriculture informed us in June 1965 that the use of sealed versus oral bidding would be studied by the Forest Service and that such adjustments in their bidding procedures as the information warranted would be made.

MOTOR VEHICLES

65. Savings to result from furnishing motor vehicles to defense contractors under certain circumstances--Contracts awarded by the Air Force for the assembly and checkout operations at MINUTEMAN missile launch sites provided that passenger-carrying and general-purpose vehicles, needed by the contractor because of the wide dispersal of the launch sites, would be leased by the contractor rather than purchased by the Government. We estimated, as stated in our report issued in October 1964, that this arrangement would increase cost to the Government by about $1,852,000 for the 1,634 vehicles which the contractor estimated would be required. The increased cost is attributable principally to the fact that the rentals are based on purchase prices of vehicles which are substantially higher than those of vehicles available to the Government through the General Services Administration.

We recommended (a) that the Secretary of Defense initiate appropriate action to provide that, where substantial numbers of motor vehicles are required for use by contractor personnel on major projects and where the contractor does not possess and normally use such transportation capability, the vehicles be acquired through direct purchase by the Government and be furnished to the contractor for use in performing the projects, (b) that existing regulations pertaining to the operation and maintenance of Government vehicles be modified to the extent necessary to enable contractors to meet the exigencies and special needs of such projects, and (c) that, upon completion of a contractor's work on a major project, those Government-furnished vehicles suitable for retention be used to replace uneconomically reparable vehicles included in inventories of the Government and that vehicles not required for replacement be disposed of in accordance with established procedures. On February 20, 1965, the Department of Defense issued instructions to the military departments which were substantially in accordance with our recommendations.

66. Costs for registration, titling, and inspection of Government-owned motor vehicles based in Washington, D.C., could be avoided--Our review of the required registration, titling, and inspection of approximately 5,800 Government-owned motor vehicles based in Washington, D.C., disclosed that savings of as much as $78,000 annually could be attained by the Federal Government and the District of Columbia if these requirements were eliminated from the District of Columbia Code.

In our opinion, under current Government vehicle identification, control, maintenance, and inspection standards, the application of these Code requirements to Government-owned vehicles is no longer necessary. Accordingly, we requested the General Services Administration, the Post Office Department, and the District of Columbia Government to comment on the advisability of seeking legislation amending title 40 of the District of Columbia Code to exempt vehicles owned by the Federal Government and by the District of Columbia from the application of the above-cited requirements.

GSA and POD concurred in our proposal. The President of the Board of Commissioners, District of Columbia, concurred in our proposal with respect to the requirements for registration and titling. However, he did not

concur in that portion of our proposal relating to the requirement for annual inspection. He stated that he would object to the relaxation of any traffic safety standards because of the rising traffic death toll in the District of Columbia.

Vehicle inspections to determine the adequacy of vehicle maintenance are the responsibility of the agencies or departments owning and operating the vehicles. However, because of a 26-percent rejection rate in the inspection of Government-owned vehicles there may be reason for continuing the Department of Motor Vehicle inspections on an interim basis until such time as the rejection rate for Government-owned vehicles decreases to a point that is more acceptable.

In our report issued in March 1965, we recommended that the Congress consider enacting legislation amending title 40 of the District of Columbia Code to exempt vehicles owned by the Federal Government and by the District of Columbia from the requirements for registration, titling, and inspection. Such legislation could provide, if deemed appropriate, that the District of Columbia continue its inspections of Government-owned vehicles until such time as the rejection rate for such vehicles decreases to a point that is acceptable to the Board of Commissioners.

67. Need for Soil Conservation Service to take advantage of savings available by replacing sedan delivery vehicles with pickup trucks--Our review of the type of motor vehicles used by the Soil Conservation Service (SCS), Department of Agriculture, disclosed that pickup trucks, instead of sedan delivery vehicles, could generally be utilized effectively in the agency's operations at significant savings to the Government. We estimated that future purchases of pickup trucks as replacements for the sedan delivery vehicles in the SCS fleet at June 30, 1964, could result in savings to the Government of as much as $870,000 over the average life of the replacement vehicles with additional savings of up to $125,000 in future interest costs to the Treasury resulting from the suggested economies.

Although SCS had made some reductions in the number of sedan delivery vehicles maintained in its fleet, it still had a total of 2,294 sedan delivery vehicles on hand at June 30, 1964. The Administrator, SCS, informed us in November 1964 that the minimum present need of the agency for sedan deliveries was about 1,200 vehicles, primarily because they were safer and more comfortable for long trips on paved high-speed highways, had lower operating costs in particular States, and had certain operating advantages. While a reduction of about 1,100 sedan delivery vehicles would, in itself, result in estimated savings to the Government of about $415,000 over the life of the replacement vehicles, exclusive of savings in interest costs to the Treasury, the specific reasons advanced by the Administrator for retention of the remaining 1,200 sedan delivery vehicles did not, in our opinion, justify the retention and use of such a large number of these vehicles.

We recommended, in an April 1965 report, that the Secretary of Agriculture require the Administrator, SCS, to issue a directive to all the

agency's State offices requiring these offices to discontinue the purchase of sedan delivery vehicles, except where specifically justified, and to replace them in the agency's fleet, at the end of their useful life, with pickup trucks. We also recommended that the Secretary require the Administrator to make periodic comparisons of the total costs of operating the different types of vehicles utilized by SCS, giving due consideration to the capabilities of the various types of vehicles to perform similar functions, so as to achieve maximum economies in vehicle management consistent with the agency's operating needs. As of June 1965 no action had been taken on our recommendations.

USE AND DISPOSAL OF SUPPLIES AND EQUIPMENT

68. Procedures strengthened by the Army to stop disposals in process in response to new requirements for the stock--The Army authorized the disposal of excess brake lining kits and certain other automotive repair parts on the basis of requirements studies. Subsequent studies, prior to actual disposal, showed increased requirements for these parts, but the authorizations for disposal were not rescinded. At the time of our review, the brake lining kits had already been sold for a fraction of the original cost of $169,000. However, the Army was able to stop the sale of other automotive repair parts which cost about $195,000 but would have been sold for about $14,000. Our findings were presented in reports issued in August 1964 (brake lining kits) and January 1965 (other automotive repair parts). In response to our recommendations for corrective measures, the Army directed all supply analysts to ascertain the current status of disposal actions whenever a need is found for an item which had previously been authorized for disposal.

69. Action taken to revise methods of screening and disposing of excess aircraft parts by the Utilization and Disposal Service, General Services Administration--In a report issued in August 1964 we stated that the Utilization and Disposal Service Office (UDS) in the Dallas Regional Office of the General Services Administration declared surplus and sold certain aircraft spare parts costing about $1.4 million, without adequately determining whether the excess parts were required by other Federal agencies. Our review disclosed that, at the time the aircraft parts were sold at two public sales, a requirement existed in the Department of the Air Force for certain items of the excess property costing about $77,000. Proceeds from the sale of the $77,000 worth of needed excess items were about $9,700. Therefore, to the extent that the Air Force was required to purchase these items, the Government incurred unnecessary costs. Also, we noted that other Federal agencies had needs for certain of the excess items during and after the sales.

GSA canceled a planned third public sale of additional aircraft spare parts costing about $344,000 when it was determined, on the basis of our inquiries, that the Air Force had a need for certain of the excess items costing about $94,000. We also found that, at the time of the third sale, the Department of the Navy needed about $21,000 worth of the excess property to be sold.

GSA regulations required the property to be screened and disposed of by the Area Utilization Officers who depended largely upon their judgment in carrying out these functions.

In response to our proposals, GSA revised its disposal regulations to require that material of this type be reported to GSA for formal screening including, where appropriate, referral of reported equipment to Federal agencies. Furthermore, we were advised that all regional offices were instructed to be certain in all cases to undertake full utilization efforts with respect to noncombat aircraft parts, components, and equipment.

70. Action taken to improve the capabilities of a European country to utilize military equipment furnished by the United States--In our examination of the Military Assistance Program (MAP) for a European country, we found that the Department of Defense (DOD) had delivered about $19 million worth of military equipment which the country's army did not effectively absorb, maintain, and utilize. In addition, we found that the United States had negotiated an extension of the Defense agreement with this country.

This agreement permitted continued United States presence in this country and committed the United States to deliver all military assistance previously programmed and to provide additional military assistance. Under this agreement, approximately $46 million worth of previously programmed military equipment will be delivered notwithstanding the country's inability to effectively utilize such equipment.

In view of the commitment made to the country for United States use of certain facilities, it appears that little could be done to control delivery of the equipment to the country in accordance with sound military logistical concepts. We did believe, however, that much could be done to improve the capabilities of the country's military forces to effectively absorb, maintain, and utilize the equipment furnished to them under MAP and made appropriate recommendation to this effect. We recommended that the Military Assistance Advisory Group (MAAG) make further efforts to assist the country's army in improving its capability to adequately absorb, maintain, and utilize MAP-furnished equipment and that MAAG take steps (a) to see that an operationally effective field maintenance capability is developed by the country's army, (b) to eliminate the current shortages of trained mechanics and vehicle operators and initiate action to have a sufficient quantity of such personnel adequately trained, and (c) to expedite the translation of MAP-furnished maintenance publications and to ensure that they are placed into the hands of the country's army technicians who must repair and maintain the equipment. DOD agreed with our findings and recommendations and informed us of actions taken or to be taken to assist the country's military forces in this respect.

71. Action taken to consider the use under the Military Assistance Program of available United States reserve fleet ships in lieu of constructing new ships--Our review of the furnishing of two new patrol frigates to a Near East country under the Military Assistance Program disclosed that Department of Defense officials had failed to give adequate consideration to the utilization of available reserve fleet destroyer escorts which would have resulted in a saving of about $3.6 million. The two new patrol frigates were constructed at a cost of about $7.4 million; whereas, the requirements of the country could have been met by utilizing available reserve fleet destroyer escorts at an estimated cost of about $3.8 million for their activation, overhaul, and modernization. Adequate consideration was not given to the use of reserve fleet destroyer escorts because responsible officials were reluctant to request the congressional approval required for their transfer to a foreign nation and because cost data used in evaluating the advantages of furnishing new patrol frigates was unrealistic.

USE AND DISPOSAL OF SUPPLIES AND EQUIPMENT (continued)

In our report dated February 3, 1965, we recommended that in the future the Secretary of Defense give adequate consideration to the use of available United States reserve fleet ships in fulfilling requirements for naval ships under MAP. On April 13, 1965, DOD advised us that the Department of the Navy had been requested to review all items of new ship construction in current and future MAPs and to advise DOD, after analysis, of requirements, costs, and availability of those items which the Department of the Navy considers should be provided through the use of reserve fleet ships.

72. New procedures instituted under the Military Assistance Program to require continuing reevaluation and revision of construction projects--Our review of a Military Assistance Program construction project in a Near East country disclosed that funds amounting to $8.4 million were, for the most part, wasted in construction of a storage depot. The depot, which was completed in January 1960, has had only negligible use, and present plans call for dismantling and relocating many of its storage facilities. We believed that the facts available when construction was started in 1958 indicated clearly that the depot was not needed or wanted by the recipient country's army.

United States officials responsible for MAP proceeded with the construction of the depot in 1958 despite prior knowledge of changes which had obviated the need for the depot in the initially selected area.

We advised the Secretary of Defense of our opinion that management shortcomings had existed throughout the history of this project from the inception of its planning, through the ensuing programming and construction phases, to its completion. We proposed that procedures be instituted to require that continuing reevaluation and necessary revision of all planned, programmed, and initiated MAP construction projects in foreign countries be made to insure that each project is justified, consistent with the extent to which the recipient country is capable and willing to effectively maintain and use the facility after completion and the extent to which the project effectively furthers the United States objectives in the recipient country. We also proposed that procedures be instituted to require that such responsive management actions be taken by responsible military assistance advisory groups, as well as by their higher and/or unified commands, as are dictated by changing international and national political situations affecting the recipient countries.

The Department of Defense advised us on November 24, 1964, that new procedures had been instituted to require that continuing reevaluation and necessary revision be made of each planned, programmed, and initiated MAP construction project.

73. Review to be made by the Post Office Department of unused mail-flo system equipment--In a report issued in February 1965 on our review of the utilization of the mail-flo system equipment installed at the Post Office Department's Chicago Post Office between 1959 and 1961, we noted that several large segments of the system, costing about $558,000, were never

used or were used for only a few days after installation. The mail-flo system is comprised of a network of conveyors which transport mail to, through, and from the various mail processing centers in a post office.

Most of the mail-flo system equipment at the Chicago Post Office was put to use, but no action was taken to either modify or dispose of several large segments of the system which were found to be unusable. In addition, we observed that segments of the mail-flo system equipment at the Washington, D.C., and Denver post offices were not being used. Accordingly, we proposed that the Postmaster General direct a reevaluation of the unused segments at the Chicago Post Office to determine whether they can be modified or used at other post offices or whether disposal action will be the most practical and economical solution. We also proposed that the Postmaster General have appropriate officials determine the extent to which mail-flo equipment is unused at other postal facilities and apply the same procedures with respect to such equipment.

In November 1964, commenting on our proposals, the Postmaster General advised us that an intradepartmental committee has been established to study all mail-flo installations, including the Chicago Post Office, in order to determine the precise nature and extent of any corrective action needed. In our future reviews of POD activities, we plan to review the adequacy of actions taken as a result of the studies by the intradepartmental committee.

74. Costs could be reduced through greater emphasis by military departments on alternative uses of excess stocks--The supply systems of the military departments generate a large volume of excess stocks in a broad range of categories of supply items. Unless alternative uses can be found for such stocks, they are ultimately disposed of at a fraction of original cost. Therefore, it is essential to explore all possibilities of alternative use. Excess spare parts and components frequently are needed by contractors engaged in production of equipment for the military departments. Transfers of the excess stocks to meet such requirements reduce expenditures for new procurement and ensure fullest utilization of the available stocks. Excess stocks can also be used, in many instances, as acceptable substitutes for other needed items of supply, or they can be adapted at relatively little cost to serve as acceptable substitutes.

We found that the military departments were not taking full advantage of the available opportunities to make economical use of excess stocks. During the fiscal year 1965, we issued six reports on these findings. The more significant of our reports presented findings that (a) the Air Force could have transferred excess radar system components for use in production of new aircraft and avoided procurement of about $2,075,000 worth of new radar system components (report issued in December 1964), (b) the Army could have transferred excess spare automotive parts for use in production of new trucks and realized savings which would have exceeded by about $682,000 the proceeds received from the sale of the excess parts (report issued in May 1965), and (c) the Defense Supply Agency procured about $700,000 worth of 6,000-pound trailers while excess stocks of

4,000-pound trailers, which could have been used as acceptable substitutes, were being disposed of (report issued in April 1965).

The military departments and the Defense Supply Agency took certain corrective actions with respect to the deficiencies we brought to their attention. We believed, however, that the problem was Defense-wide in nature. The Department of Defense agreed and undertook a study to devise methods and procedures for increasing alternative uses of excess supplies. We made a number of suggestions to the Department of Defense for its consideration in the study.

75. Need for additional positive steps by the Agency for International Development to achieve effective utilization of excess property in the foreign assistance program--Our examination into the utilization of excess property by the Agency for International Development (AID) showed that, in five aid-receiving countries, United States-financed property purchases and planned purchases estimated at $2,840,000 could have been avoided and that additional purchases and planned purchases estimated at $660,000 probably could have been avoided if excess property already owned by AID or available from other Federal agencies had been substituted therefor. In certain cases, AID was financing the procurement of new equipment while the military departments and other Federal agencies were selling or otherwise disposing of excess stocks of the same or similar type items.

Our examination covered only 5 of the approximately 85 aid-receiving countries. In those five countries, we covered a limited number but a wide variety of United States-financed activities, and we screened only a small percentage of the total available excess property. Accordingly, we estimated that the unnecessary procurements which we identified represented only a fraction of the total purchases which could have been avoided through the use of excess property already owned by AID or available from other Federal agencies.

Although the Agency has agreed to take certain corrective actions with regard to the effective utilization of excess property, we believe there is a need for a written certification from responsible individuals that, for each purchase of new property, either no suitable excess property was available or available excess property was not used for a stated reason.

76. Need to maximize use of surplus agricultural commodities in lieu of dollar assistance--In a report to the Congress on our review of certain aspects of the foreign assistance program to a foreign country, we noted that dollar grants made to the country during 1961 as part of the United States economic assistance program to that country had enabled the country to procure substantial quantities of wheat from a competitor of the United States at a time when the United States had large stocks of surplus wheat available for disposal. This situation occurred because the Agency for International Development and the Department of State did not exercise controls to ensure that the cash grants would be used by the country to import commodities from the United States and because these agencies were

not effective in reaching an agreement with the country that maximum utilization would be made of available United States surplus agricultural commodities.

AID advised us, in a letter dated August 10, 1964, that it believed that it had in fact maximized the use of surplus agricultural commodities under Public Law 480 in lieu of other forms of aid. The Agency pointed out that the United States was already providing the country with all the wheat it could absorb beyond the amount it was required to purchase from third countries. The requirement for such third-country purchases, called usual marketings, was established under the terms of a title I, Public Law 480, sales agreement signed in September 1960. This section of the law is designed to protect agricultural markets of exporting countries from the possible adverse effects of sales of surplus agricultural commodities by the United States. The Department of Agriculture took a similar position in its letter to us dated June 18, 1964.

AID pointed out also that the country was not restricted in its use of the cash grants to financing imports from only the United States because of overriding political considerations.

Our review disclosed, however, that the country's usual marketing requirements for third-country purchases, established under the September 1960 agreement, were unrealistically high and that, as a result, United States cash grants had enabled the country to purchase wheat from a competitor of the United States in fiscal years 1961 and 1962 in quantities considerably in excess of the quantities which would be justified on the basis of normal historical purchases.

We recommended that the Secretary of State and the Administrator, AID, consult with the Secretary of Agriculture in all instances in which dollar grants are made to foreign countries, to ensure that maximum use is being made of surplus agricultural commodities to meet recipient countries' requirements in lieu of making cash grants. Such consultation should include full consideration of existing Public Law 480 sales agreements, to determine whether such agreements can be amended to provide needed commodities from United States agricultural surplus.

77. Need for continuing surveillance of the Interservice Supply Support Program to ensure maximum coordination among the military departments--The Department of Defense has established an Interservice Supply Support Program and has, also, established procedures to provide interservice utilization of supplies. However, our reviews continued to disclose instances where material in long supply in one military department was not used to meet requirements of another military department. These instances either resulted or would have resulted in unnecessary procurement. During the fiscal year 1965, we issued five reports on such findings. When we brought these instances to the attention of the Department of Defense, action was taken to transfer the material from the military departments in long supply to the departments having need of the material. For example, about $882,000 worth of electronic equipment was transferred

to the Army from the other services (report issued in August 1964); about $209,000 worth of aeronautical instruments was transferred to the Navy from the Air Force (report issued in August 1964); and about $441,000 worth of jet engine parts was transferred to the Air Force from the Navy (report issued in April 1965). In the latter report we pointed out that the Air Force required about $916,000 worth of the jet engine parts--all of which could have been transferred from excess stocks of the Navy--but the Air Force had already procured about $475,000 worth of the parts from commercial sources prior to our review.

The Department of Defense concurred in our recommendation that the internal audit staffs of the military departments be required, as a part of their reviews of the Interservice Supply Support Program, to examine closely any instances in which interservice coordination has been ineffective so that faulty procedures may be corrected.

78. Need for reconsideration by the U.S. Coast Guard of replacement plans for high-endurance vessels--Our review of the United States Coast Guard's plans for replacing 22 high-endurance vessels assigned to the Eastern Area has shown that the stated requirements can be reduced, thereby saving about $55,000,000 in construction costs and about $3,800,000 annually in vessel operating costs. The belief that the requirements for high-endurance vessels are overstated is based on our review of operating experience of the present fleet of high-endurance vessels in the Eastern Area during fiscal years 1961-63. The Coast Guard did not consider actual operational data in developing its replacement plans.

Our analysis indicated that, on the basis of Coast Guard criteria relating to vessel capabilities and operating time, the work performed during fiscal years 1961-63 by the high-endurance vessels assigned to the Eastern Area could be effectively performed by 17 high-endurance vessels and 4 new medium-endurance vessels. This reduction in requirements could be accomplished if the Coast Guard increased the utilization of high-endurance vessels to more nearly approximate its maximum annual usage standard of 180 days and diverted those duties which do not require vessels with high-endurance capabilities to the new medium-endurance vessels.

The Commandant of the Coast Guard stated that the Coast Guard believed that its vessel replacement plan represented an acceptable balance between economic considerations and operating requirements. In view of the substantial savings that can be realized, however, we recommended, in a report issued in January 1965, that the Commandant of the Coast Guard reexamine the planned replacement program for the high-endurance vessels in the Eastern Area and consider reducing proposed acquisitions so that they conform more closely to needs, as indicated by actual vessel utilization data and current operating standards.

MAINTENANCE, REPAIR, AND OVERHAUL

79. Need for closer surveillance by the Army of the readiness condition of equipment assigned to combat units--Since February 1962 we have submitted to the Congress a number of reports on our continuing reviews of maintenance of equipment assigned to various high-priority combat units of the Army at overseas locations and in the continental United States. The reviews covered equipment essential to performance of the missions of the combat units involved and included such items as combat vehicles (tanks, self-propelled guns, personnel carriers), combat-support vehicles, communication and electronic equipment, aircraft, and air-defense equipment. We found instances where the equipment was not being properly maintained and essential equipment was unserviceable. In some of these instances, it had been recognized that the equipment was in need of repair and maintenance but that the necessary work was not performed on a timely basis and large backlogs of work had accumulated. In other instances the need for repair and maintenance had not been recognized and the necessary work had not been scheduled to be performed. Physical inspections of "serviceable" equipment disclosed that the combat units considered equipment to be in serviceable condition when, in fact, it had numerous defects. These physical inspections were made by technically qualified Army inspectors under our observation.

The position of the Army in response to our reports on these reviews has generally been the (a) agreement that the equipment we reviewed had not been maintained as well as it should have been, (b) disagreement that the defects in the equipment had the serious adverse effects, which we imputed, on the serviceability of the equipment and the combat readiness of the units, and (c) belief that actions of the Army, already taken or planned, will improve management and control over maintenance operations and correct the deficiencies we reported. We do not believe that we have overstated the maintenance problem confronting the Army, and, while the Army has taken commendable action to correct the situation, much remains to be done. With respect to the seriousness of the deficiencies we reported, it should be noted that our evaluations of the physical condition of the equipment were made with the technical assistance of qualified Army personnel.

In response to our reports, the Army Chief of Staff established a Special Board of Inquiry to investigate the readiness condition of equipment in selected Army units and to make such recommendations for corrective action as the Board deems appropriate. The report of the Board, submitted to the Army Chief of Staff in September 1964, generally confirmed what we had previously reported. In its recommendations for corrective action, the Board placed emphasis on a system of recordkeeping and reporting which would provide, to appropriate levels of command, realistic and informative reports on the readiness condition of equipment. The Army has installed a new readiness reporting system which appears to be an important step forward.

In January 1965 the Preparedness Investigating Subcommittee of the Senate Committee on Armed Services directed its staff to make an

extensive investigation and study of the equipment and materiel readiness status of the Army. We assisted and cooperated with the staff in the study. In May and June 1965, the Subcommittee held hearings on the results of the study.

80. Need for the Coast Guard to reconsider the need for rehabilitating and modernizing six high-endurance vessels during fiscal years 1966-69--We believe that the Coast Guard should reconsider the need for rehabilitating and modernizing six of its high-endurance vessels at a cost of about $15,600,000. If the replacement requirements for high-endurance vessels in the Eastern Area were reduced and if four new medium-endurance vessels were substituted for the same number of high-endurance vessels, as proposed in our report issued in January 1965, the resultant savings would enable the Coast Guard to accelerate the replacement of high-endurance vessels and possibly eliminate the need for the rehabilitation and modernization program which was predicated upon an extended replacement schedule.

The Commandant of the Coast Guard, in commenting on this finding, indicated that the vessel rehabilitation and modernization program is worthwhile because, at the present rate of funding, the vessel replacement plan cannot be completed by 1974. We recognize that further delays in funding for vessel replacements may eventually require implementation of a vessel rehabilitation and modernization program. The current funding, however, has delayed the procurement of only two high-endurance vessels in the Coast Guard's replacement program. In view of the feasibility of reducing the planned procurement of high-endurance vessels by five, as demonstrated in our report, we believe that the delay in funding is not now an appropriate reason for initiating the vessel rehabilitation and modernization program. We recommended, therefore, that the Commandant of the Coast Guard reconsider the need for rehabilitating and modernizing six high-endurance vessels during fiscal years 1966-69.

81. Need for congressional review of proposed repair projects estimated to cost significant amounts--The military departments are required to justify to the Congress, in military construction programs, those construction projects (other than those included in the minor construction category) costing as little as $10,000. They can, however, embark on repair projects costing millions of dollars without disclosure to the Congress. We found, for example, that a broad interpretation by the Secretary of Defense of the work constituting airfield pavement repair, not requiring congressional review, enabled the Air Force to overlay an airfield parking apron at a cost of $1.6 million without specific disclosure to the Congress. In a report issued in July 1964, we stated that the work performed was more in the nature of a complete reconstruction rather than a repair. We have generally found that in classifying borderline projects the decision had been made to categorize them as repairs rather than construction, thereby avoiding the requirement for congressional review. We recommended, therefore, that the Congress consider enacting legislation to provide for congressional approval of repair projects costing in excess of a specified amount.

82. Need for the Federal Housing Administration to make more timely repair of acquired properties--Our review disclosed that the failure of the Federal Housing Administration (FHA), Housing and Home Finance Agency, now Department of Housing and Urban Development, to make timely repairs on about 870 properties, which it had acquired in Wichita, Kansas, through foreclosure or assignment and had held for an average of 3 years, had adversely affected the sale of the houses and had reduced the opportunity for savings in the cost of holding these properties. These costs, such as real estate taxes, interest, and management fees, had amounted to about $1.8 million by June 1964. The general deteriorated condition of these properties had resulted in the lowering of housing standards and had contributed to neighborhood blight. Our review disclosed further that the cost of repairing 268 of these properties to make them suitable for rental was about $105,000 greater than the cost estimated for repairing them at the time they were acquired, including the cost estimated for maintaining them in a repaired condition until June 1964.

The agency agreed that there were some deficiencies with respect to the property disposition program in Kansas. It contended, however, that several factors, some of which were beyond its ability to anticipate or control, contributed to the deficiencies. These included the tremendous increases in the property disposition workload which began in 1960 and the necessity for considerable reorientation and reorganization of the property management and disposition activities of the agency. The agency also advised us that corrective action was being taken in Wichita.

Our surveys of the condition of the agency's acquired properties in other cities showed that the situation described in our report existed elsewhere, in varying degrees. In view of the increasing number of properties being acquired by FHA and the agency's responsibility for promoting improvement in housing conditions and standards, we recommended, in a report issued in June 1965, that the Commissioner establish effective control procedures which would require the Assistant Commissioner for Property Disposition and the directors of the ensuring offices to take aggressive action to repair acquired properties in accordance with FHA's basic repair policies.

83. Need for the Virgin Islands Corporation to authorize only the expenditures required for normal operation and maintenance of properties--In a report issued in May 1965, we stated that the President of the Virgin Islands Corporation (VIC) was planning to use funds derived from the management of certain naval properties for the Department of the Navy and aggregating about $257,000 at June 30, 1964, to make extensive improvements and repairs to these properties. We believed that these expenditures were unwarranted because action had been taken to transfer these properties to the insular government.

In its comments, the Department of the Interior advised us of its understanding that it is the purpose and policy of the Congress to assist in the development of civil aviation because it is of national as well as

local benefit and stated that as long as the airport is a responsibility of VIC it should be maintained in a condition suitable for use. We recognize that the airport property, which is scheduled to be transferred to the insular government at no cost, should be maintained in a condition suitable for use. Action was taken, however, in October 1964 by the Government of the Virgin Islands to provide for the construction of a larger airport at another location.

In our opinion, the extensive repairs, renovation of buildings, relocation of airport taxicab facilities, and the establishment of an aviation parts repair shop and an airport gasoline facility should be the responsibility of the insular government. In view of the pending transfer of the properties to the Government of the Virgin Islands, we recommended that the President of VIC authorize only those expenditures of Federal funds which are required for normal operation and maintenance of the properties. In May 1965 the President of VIC informed us that no further expenditures, except for routine maintenance, would be made on the naval properties.

OTHER AREAS OF OPERATIONS

84. Need for the Army to conform with existing policy governing retention of high-value urban land--We found, as stated in two reports issued in April 1965, that the Army was unnecessarily retaining high-value urban land at Fort DeRussy, Waikiki Beach, Hawaii (72 acres worth about $65 million) and Fort Gordon, Georgia (258 acres worth about $1.9 million). The retention of the land is contrary to the policy of the Department of Defense and to the position of a congressional committee that such land be released when it is no longer essential for national security purposes.

The land was not idle, but it was being used for purposes not justifying retention. The land at Fort DeRussy was being used principally to provide recreational facilities. It was also being used as a training site for reservists, who could have been trained elsewhere, and as a site for nine obsolete family housing units. The land at Fort Gordon was being used principally to provide a golf course. In our reports on these findings, we recommended that the Secretary of Defense take action leading to the disposal of the land. The Department of Defense advised us that our recommendation would be considered in connection with its current studies of base utilization.

MANAGEMENT OF AUTOMATIC DATA PROCESSING EQUIPMENT

ACQUISITION OF AUTOMATIC DATA PROCESSING EQUIPMENT

85. Action taken by National Aeronautics and Space Administration to recover rental overpayments for automatic data processing equipment--Our review of the administration of automatic data processing (ADP) activities at the George C. Marshall Space Flight Center, Huntsville, Alabama, of the National Aeronautics and Space Administration, disclosed that rental overpayments totaling about $296,000 were made during fiscal years 1960 through 1963 for ADP machines used by the Marshall Space Flight Center and by that part of the Army Ballistic Missile Agency which became a part of NASA in July 1960.

In a report issued in May 1965, we stated that about $181,000 of the total estimated rental overpayments was attributable to the incorrect accumulation and recording of operational use time for the central processing machines of seven major ADP systems. NASA informed us that the estimated overpayments had been withheld from other amounts due the lessor but that the amount recoverable would have to be negotiated with the lessor.

Effective April 1, 1964, the rental contracts for ADP equipment provide for the accumulation of operational use time of the equipment by use of automatic timers installed by the lessor. We believe that the use of automatic timers will result in a more accurate accumulation and recording of operational use time on which to base rental payments.

About $115,000 of the total rental overpayments had been made by the Army Ballistic Missile Agency and the Marshall Space Flight Center because separate use records had not been maintained for certain machines and the rental payments had been based on incorrectly assumed usage. As a result of our review, the Department of the Army and NASA recovered overpayments totaling about $108,700.

We noted that the Marshall Space Flight Center was leasing nine other major automatic data processing systems for which use records were being maintained in a manner similar to those for the seven systems for which rental overpayments had been made. Therefore, we proposed to NASA that, when sufficient information was obtained to serve as a basis for evaluating the use records for the nine systems, the Marshall Space Flight Center should determine whether rental overpayments had been made and, if so, take appropriate action to recover the overpayments. We were subsequently informed by NASA officials that evaluation studies had been completed and that rental overpayments totaling about $260,000 appeared to have been made and would be taken up with the lessor.

86. Recovery by National Aeronautics and Space Administration of rental overpayments for automatic data processing equipment and action taken to avoid further overpayments--In a report issued in March 1965, we stated that our review of the administration of selected automatic data processing activities at the Manned Spacecraft Center, National Aeronautics and Space Administration, disclosed that the Center had insurred unnecessary rental costs of about $74,000, of which $11,000 represented recoverable overpayments.

The unnecessary rental costs were incurred as a result of (a) installing a microfilm system before adequate preparations had been made for its use, (b) paying for computer services at higher rates than those available by making minimum use guarantees, (c) overpaying extra-use charges for two medium-size computers, and (d) leasing certain devices of a computer system which were rarely used.

We recommended that NASA require the Center to establish management controls to ensure that leased ADP equipment is not installed before adequate preparations have been made for its productive use. We recommended also that contracts for the lease of ADP equipment under which machine instructions are to be furnished by the lessor provide for the delivery of the instructions by a specified date and for the award of liquidated damages to the Government if the instructions are not delivered by the specified date or are not adequate for the productive use of the equipment.

Subsequent to our bringing this matter to the attention of Center officials, a refund of the overpayment was obtained from the lessor. In respect to the unused devices, the Center obtained an agreement with the lessor to discontinue rental payments and obtained a refund of certain payments that had been made after we had pointed out that the devices were rarely used.

87. Steps taken by the Social Security Administration, Department of Health, Education, and Welfare, to consider lease-versus-purchase alternatives for automatic data processing equipment--Our review of the acquisition of two ADP systems by the Social Security Administration (SSA), Department of Health, Education, and Welfare (HEW), disclosed that unnecessary rental costs of nearly $2.5 million were incurred because SSA delayed until June 1964 the purchase of the main components of the systems which were installed at its central office in October and November 1961. We found that SSA did not adequately consider the alternative of purchasing this equipment either at the time of ordering it or at the time that HEW subsequently instructed its constituent offices that such an alternative should be considered in compliance with Bureau of the Budget directives.

At the time of our review, SSA was leasing additional ADP equipment at an aggregate rental cost of about $2.3 million annually. In response to our proposal made in a report issued in March 1965, that a review be made to determine whether purchasing this equipment would be more economical, SSA informed us that steps had been taken to exercise its option to purchase one system and that it was currently reappraising the situation with regard to the rest of the leased equipment. SSA informed us also that steps had been taken to strengthen management controls over future acquisitions of ADP equipment, including the determination of which method of acquisition is most advantageous to the Government.

88. Action being taken by the Federal Aviation Agency on performing more timely lease-versus-purchase studies on automatic data processing systems--In a report issued in October 1964 on our review of the use of certain automatic data processing equipment by the Federal Aviation Agency,

we noted that FAA incurred excessive costs because it did not give timely consideration to the purchase of items of equipment which were being leased. We estimated that, if the equipment which FAA ultimately purchased had been purchased at earlier dates, the net savings to the Government would have amounted to about $305,000.

The Acting Administrator, FAA, agreed that the Agency could and should have performed a more timely lease-versus-purchase study on the automatic data processing systems in question and that there was some delay in purchasing the systems. He stated further that steps were being taken to ensure that automatic data processing lease-versus-purchase studies in the future would be made at the earliest possible date.

89. Need for action by the Department of Labor on cost comparisons of leasing and purchasing automatic data processing equipment--Our review disclosed that since 1958, when the Department of Labor installed its first computer in the Bureau of Labor Statistics, the Bureau has consistently leased the computer systems used for data processing and has not given adequate consideration to the financial advantage of purchasing such equipment. Although the Bureau's own cost comparisons made in 1963 showed that leasing a proposed computer system over a 6-year period would be about $900,000 more costly than purchasing, the Bureau decided not to purchase this equipment because of the prospect of eventual technical obsolescence of the machines and of anticipated problems of funding the purchase price. In view of the large potential savings to the Government through the owning of this equipment, we believe that undue consideration was given to funding and obsolescence.

The Assistant Secretary of Labor for Administration advised us generally that the Department is mindful of the need to achieve maximum economy in the acquisition and use of data processing systems and that its computer equipment would be subjected to careful lease-versus-purchase analysis. However, the Department believed that rental costs in the future would not significantly exceed purchase costs, since rentals would be reduced because of more accurate determinations of charges on the basis of meters which have now been installed and because extra-hour billing rates have been reduced. The Department presented computations on the basis of a one-shift-per-day rate of operation which we believe to be inappropriate because data processing operations of the Bureau have been consistently in excess of one shift per day.

In our report issued in May 1965, we recommended that the Secretary of Labor adequately consider the relative cost advantages of leasing and purchasing such computer systems as may be needed and that the equipment be purchased when a financial advantage to the Government can be shown. We suggested that, in making the cost comparison, the reduction in purchase price available on the installed equipment and the residual value of equipment at such time as it may no longer be suitable for the Bureau's and the Department's needs should be considered. In addition, excessive equipment capacity should be avoided so that a maximum effective rate of use of the equipment can be achieved.

ACQUISITION OF AUTOMATIC DATA PROCESSING EQUIPMENT (continued)

90. Need for National Aeronautics and Space Administration to establish adequate controls over rental payments for automatic data processing machines--In a report issued in June 1963, we pointed out that rental overpayments had been made during fiscal years 1961, 1962, and 1963. Subsequent to our bringing these overpayments to the attention of the Goddard Space Flight Center, a refund of $1.1 million was obtained from the lessor of the machines. In a report issued in May 1965, we pointed out that our continued review disclosed that the Center had made additional overpayments of about $124,000 during the same period. The Center obtained a refund of about $100,000 of these overpayments from the lessor of the machines.

In view of the extensive rental overpayments at the Center, we proposed to NASA that its Audit Division make reviews at the various other installations having major ADP activities. Our review of reports issued by the Audit Division on those reviews it did perform showed that, generally, the audit work was limited in both scope and depth in that it did not include a review of the adequacy of management controls for determining whether chargeable machine use time of the data processing machines was correctly accumulated, recorded, and paid for in accordance with the terms of the applicable rental contracts.

We recommended, therefore, that NASA direct its Audit Division to make reviews at the various installations having major data processing activities to determine whether controls have been established to ensure that chargeable use time of rented machines is correctly accumulated and paid for in accordance with the applicable rental contracts.

UTILIZATION OF AUTOMATIC DATA PROCESSING EQUIPMENT

91. Action taken by the Department of Defense to avoid unnecessary compilations of statistical data--In a report issued in December 1964, we pointed out that Army depots were incurring additional costs by processing and reporting cost information more frequently than was necessary. Information that was needed only weekly or monthly was being processed and reported daily. We estimated that this practice increased costs by about $365,000 a year at 10 depots. The Army agreed that daily reporting of the data was not necessary and took steps to eliminate the needless compilations. In addition, the Assistant Secretary of Defense (Comptroller) issued a memorandum to the military departments and Defense agencies emphasizing the need for continuing surveillance to ensure that needless compilations of statistical and cost data are eliminated at every management level and that automatic data processing equipment is used economically.

92. Action taken to correct deficiencies noted in the Department of Agriculture's conversion from a decentralized manual payroll system to a centralized electronic data processing payroll system--Our review of the conversion to a centralized electronic data processing payroll system showed that erroneous leave and related data were entered into the master payroll records for about 18 percent of the employees included in our test. Of the 111 errors which we found, only 42 errors had been detected by employees of the Management Data Service Center (MDSC). We noted that, if the results of our tests are representative of the general situation with regard to the approximately 12,000 employee payroll records converted with respect to the offices included in our review, it is possible that erroneous leave and related data still exist in about 850 cases.

Closely related to the entering of erroneous leave and related data into the master payroll records were the following matters which were discussed in our report: (a) procedural controls established by the Office of Management Appraisal and Systems Development for ensuring the accuracy of the centralized payroll system were not effective, (b) the audit of leave errors by MDSC was not fully effective, and (c) the audit work by the Office of the Inspector General did not include an examination of the accuracy of leave data introduced into the centralized payroll system.

Our review also showed that MDSC had overpaid employer's Federal insurance contribution tax for 1963 because the payroll conversion procedures did not adequately provide for the recording of employees' tax information at the time of conversion.

In a report issued in September 1964, we recommended that corrective action be taken on each of these matters.

The Assistant Secretary for Administration replied to our report in March 1965 and advised us that appropriate corrective action had either been completed or was in process to eliminate leave and other discrepancies entered into the automated system.

93. Action taken by the Federal Aviation Agency for more efficient utilization of automatic data processing systems--Our review of the Federal Aviation Agency's planning for and utilization of the automatic data processing system installed at the National Flight Data Center disclosed that the system was installed before FAA had made adequate plans and studies for its productive and economical utilization. When the system was installed and for a considerable period thereafter, employees needed to effectively implement the system were not assigned to the Center. Also, employees subsequently assigned required considerable training. In addition, relatively few computer programs had been developed and tested at the time the system was installed. As a result, productive utilization of the system was inordinately low. From July 1962 through November 1963, FAA incurred rental and contractual costs of $163,000 and related personnel costs of $76,000 without attaining most of the anticipated benefits of a productive system. We noted that unnecessary costs had been incurred because air traffic controllers were assigned as system analysts and programmers at higher salary levels than that required for such positions.

In our report issued in October 1964, we proposed to the Administrator of FAA that (a) future acquisitions of ADP equipment by FAA be preceded and supported by adequate feasibility studies, (b) installation of such equipment be correlated with the assembling of other resources necessary for effective utilization of the equipment, (c) all installations using ADP equipment be required to maintain appropriate usage records and submit periodic status reports of their progress for management review, and (d) qualifications of ADP personnel not include unnecessary specializations.

Since the date of our report, FAA has issued several directives which establish centralized control over the acquisition and coordination of ADP resources. These directives provide criteria which, if properly implemented, should prevent the recurrence of situations similar to those discussed in our report.

94. Savings to the Veterans Administration through more efficient utilization of data processing equipment--In a report issued in August 1964 on our review of the program of installing data processing equipment in Veterans Administration (VA) hospitals, we noted that the planning and administration of the program were seriously deficient and had resulted in significantly increased costs without commensurate benefits.

The VA Central Office began a program of installing International Business Machines Corporation series 50 punched card data processing equipment in hospitals without making adequate feasibility or systems studies, particularly for determining whether individual installations were needed and economically justified, and without making adequate plans to implement and administer the equipment installation at individual hospitals. Each field station had to rely primarily on its own initiative in implementing its machine installation, because the VA Central Office did not utilize sufficient technical manpower resources to comprehensively plan and effectively

administer the program so that a solid foundation could be provided for a successful data processing system.

We advised VA of our findings and proposed that the Administrator of Veterans Affairs determine the need for continuing machine operations at individual stations or extending data processing operations to additional stations. We proposed also that, where justified from the standpoint of economy and efficiency, consolidated installations be established.

VA concurred with our proposals and, in June 1964, began a program to establish about 18 consolidated data processing branches. VA expects to fully implement the program by June 1966 and estimates that the program, when fully implemented on a nationwide basis, should result in annual savings of over $900,000.

MANAGEMENT OF UNITED STATES-OWNED FOREIGN CURRENCIES

UTILIZATION OF UNITED STATES-OWNED FOREIGN CURRENCIES

95. Action taken to use United States-owned Vietnamese piasters in lieu of dollars for overseas spending--The Agency for International Development (AID) was buying piasters from the National Bank of Viet Nam to finance local costs of the counter-insurgency program in Viet Nam without giving adequate consideration to the use of piasters received as repayments of certain loans as a partial substitution for purchases of piasters. Since the use of United States-owned foreign currencies in lieu of dollars for overseas spending alleviates the United States balance-of-payments deficit and also results in an alleviation of the United States budget deficit, we concluded that the nonuse of these piasters was unsound financial management.

In March 1963, AID informed us that the piasters in question could not be used since the exchange rate used by the Government of Viet Nam in making the loan repayments was in dispute. Treasury and AID were of the opinion that these piasters could not be used until the exchange rate issue was resolved. Although the exchange rate issue has not yet been resolved, AID has since reversed its position. In February 1964 the Treasury began selling piasters received as loan repayments to various United States Government agencies for use in their operations, thereby reducing the need to purchase an equivalent amount of piasters from the National Bank of Viet Nam.

96. Action taken to increase use of available foreign currencies for payment of airline tickets--In a report to the Congress in April 1965, we noted that United States agencies were expending about $2.3 million annually to buy air tickets for official travel to or from eight countries instead of utilizing the excess foreign currencies which the United States owns in those countries. Agreements with seven of these countries permit the use of United States-owned foreign currencies for official air travel.

We proposed that the Standardized Government Travel Regulations be amended to incorporate instructions that excess foreign currencies be used to the maximum extent possible and that travelers be advised of the specific countries involved and of procedures that must be followed in making use of these currencies. We proposed also that Government agencies engaged in overseas operations requiring frequent international trips reemphasize the necessity of utilizing foreign currencies in payment for air travel ticket costs.

United States agencies generally agreed with our proposals for corrective action and we were advised of action that had been taken to amend and clarify travel regulations and to emphasize the utilization of foreign currencies to pay international air travel ticket costs.

Our report disclosed that a major concern exists on the part of the air transport industry with regard to the adequacy of the State Department's action in obtaining conversion of the foreign currencies which the carriers receive in payment for air travel. Since this matter is

fundamental to the success of the Government's efforts to avoid spending dollars where excess foreign currencies already owned can be used, we suggested that the Congress may wish to give consideration to the need for legislative action to ensure convertibility of foreign currencies.

The Senate Finance Committee reported an amendment to House bill 4750, a bill to extend the interest equalization tax, which would, to some extent, accomplish the purpose of our recommendation. The amendment, which was passed by the Senate would require that all international agreements, except those under Public Law 480, include provisions ensuring convertibility of foreign currencies accruing under the agreements in amounts necessary to pay United States obligations abroad. The amendment was approved in conference and was enacted in Public Law 89-243, October 9, 1965.

97. Federal benefit payments to be paid in Yugoslavian dinars instead of dollars--In our report to the Congress on the utilization of foreign currencies, we pointed out that, although United States-owned Yugoslavian dinars were in "excess" supply, the United States continued to make substantial Federal benefit payments in dollars rather than in dinars.

In our draft report, submitted to various agencies for review in February 1962, we proposed that this matter be studied to ascertain the feasibility of making these payments in United States-owned dinars.

Following the receipt of our draft report, the Department of State, after consultation with other concerned agencies, requested the Embassy's views on the feasibility of paying Federal benefits in dinars. The Embassy initially objected to this plan, but eventually the Department directed that dinars be used. Beginning in July 1965, Federal benefits were paid in dinars instead of dollars.

98. Need to use United States-owned local currencies for purchases of commodities in foreign countries--Our review of selected aspects of the economic assistance program to Brazil disclosed that, from July 1961 through December 1963, the Agency for International Development unnecessarily spent $3.8 million for financing shipments of Brazilian sugar and other commodities produced in Brazil to several other aid-receiving countries when it could have paid for these shipments with United States-owned Brazilian cruzeiros. If AID had spent cruzeiros rather than dollars, it would have (a) helped alleviate the United States balance-of-payments deficit, (b) provided the United States Treasury with an equivalent amount of dollar receipts which, in turn, would have acted to reduce the United States budget deficit, and (c) avoided a severe loss, from inflation, in the value of an equivalent amount of United States-owned cruzeiros.

In commenting on our disclosure, the Agency stated that it was preparing to mount a program designed to promote further third-country procurements in countries where the Treasury had declared that United States holdings of currencies were in excess and that this program would incorporate the objectives of our proposals. We reported that, while the Agency's planned action was a step in the right direction, it was not wholly

responsive to our proposals and would not achieve the maximum economies possible through the use of United States-owned foreign currencies since it related to only the so-called excess currency countries.

We recommended, therefore, that the Administrator, AID, in line with our original proposals, broaden the planned program for increasing the use of foreign currencies to include all countries in which the United States holds foreign currencies in a significant amount whether or not they have been designated as "excess currency" countries.

99. United States-owned foreign currencies should be used to pay for markings on containers for donated nonfat dry milk--United States-owned foreign currencies have not been used by the Commodity Credit Corporation (CCC), Department of Agriculture, which is contrary to law, to pay for foreign-language markings on containers of nonfat dry milk donated for foreign distribution, for the purpose of identifying the milk as being furnished by the people of the United States of America. Since September 1959 the law has required the use of foreign currencies received by the United States from the sale of agricultural commodities under title I of Public Law 480, where available, for this purpose. We estimated that the cost to CCC of marking one form of packaging--100-pound-net-weight bags--may total over $80,000 a year.

We recommended in a report issued in February 1965 that the Secretary of Agriculture require responsible officials to take the necessary action to bring about compliance with the law. In this regard, we believe that the problems hindering compliance with the law could be overcome if the Department is able to put into effect the procedure now being considered for converting some United States-owned foreign currencies to dollars which, in turn, would be used to defray the cost of applying foreign-language markings in the United States.

The Secretary of Agriculture informed us in June 1965 that the Department did not believe its procedure to be contrary to law and that our recommendation for the use of foreign currencies for foreign-language markings would not be implemented because the Department considered it impracticable to have foreign-language markings applied at overseas points or to require foreign currencies to be converted into dollars which, in turn, could be used to defray the cost of applying foreign-language markings in the United States.

AID has advised us, however, that in specific situations it is practicable to have foreign-language markings applied at overseas points. We have, therefore, requested the Department to reconsider its position.

INTEREST ON UNITED STATES-OWNED FOREIGN CURRENCIES

100. Legislation enacted and corrective action taken to obtain interest on United States-owned foreign currencies--In a report submitted to the Congress in November 1964, we noted that large balances of United States-owned currencies were being held in non-interest-bearing bank accounts in Taiwan. We estimated that the United States lost at least $7.4 million in interest from 1962 to 1964. This loss resulted from the failure of the United States agencies to seek the agreement of the Government of the Republic of China to pay interest on the large holdings of United States-owned local currencies. Management of local currencies, which the United States owns in the amount of about $3 billion, was so diffuse in the Departments of State and Treasury and in the Agency for International Development that we were unable to determine why this situation had been allowed to occur and who was responsible for it.

We recommended that the Congress consider enacting legislation requiring that agreement be reached with countries receiving economic assistance on the payment of interest on United States-owned foreign currencies. This recommendation was adopted and is included in section 301(c) of Public Law 89-171 (Foreign Assistance Act of 1965), approved September 6, 1965.

We also made a number of specific recommendations to the executive agencies for better control over foreign currencies. The executive agencies subsequently accepted our recommendations and worked out arrangements for obtaining interest on United States-owned currencies in Taiwan.

MANPOWER UTILIZATION AND ORGANIZATIONAL MATTERS

MANPOWER UTILIZATION

101. Action taken to correct overstaffing at Army Finance Center and at Naval Ammunition Depot--The functions involved in the processing and paying of allotments at the finance centers of the Army, Navy, and Air Force are substantially the same. We found, however, that the ratio of the number of personnel employed to the number of transactions processed at the Army Finance Center was about two times greater than that of the other services. We estimated that, as of December 31, 1963, the Army Finance Center had 353 civilian employees ($1.4 million annual cost) in excess of requirements. In our report issued in September 1964, we recommended that the Army make a comprehensive review of the allotment function. The Army agreed and later informed us that, as of December 31, 1964, the number of personnel engaged in the allotment function had been reduced by 350.

In a report issued in December 1964, we pointed out that the Naval Ammunition Depot, Hawthorne, Nevada, was staffed by at least 55 civilian employees in excess of requirements at an annual cost of about $313,000. The overstaffing existed because of failure (a) to identify and discontinue the practice of assigning personnel to perform unessential work, (b) to identify and eliminate inefficient work procedures, and (c) to reduce the number of assigned personnel as workloads decreased. The Navy later advised us that 47 of the 55 excess positions had been eliminated.

102. Action taken to preclude the granting of excused absences to civilian employees at district and division offices, Corps of Engineers (Civil Functions), Department of the Army--We inquired into policies for granting excused absences to civilian employees at selected district and division offices of the Corps of Engineers (Civil Functions), Department of the Army. Our inquiries covered six district offices, located at Omaha, Nebraska; Kansas City, Missouri; Detroit, Michigan; New Orleans, Louisiana; Mobile, Alabama; and St. Louis, Missouri, and one division office at Omaha, Nebraska.

We discussed with responsible district and division officials their policies with respect to excusing civilian employees from work, without charging the absences to annual leave, to attend office picnics and similar social activities. At the Kansas City and Omaha District Offices, we found that it was office policy to excuse civilian employees to attend annual office picnics without charging the absences to annual leave. At these offices we examined into the extent of such excused absences and reviewed selected time and attendance records. Corps officials at district offices other than those at Omaha and Kansas City informed us that excused absences were not granted for office picnics or for similar social activities.

The district engineer at Omaha and at Kansas City, in June and July 1964, respectively, permitted district employees to attend the annual office picnic held during working hours without charging the absences to annual leave, even though such excused absences are not allowable under Government leave regulations. Salaries and Government costs for

retirement, life insurance, health benefits, and annual leave during the excused absences aggregated about $16,900 in 1964.

We recommended in a report issued in February 1965 that the Chief of Engineers, Corps of Engineers, take action to ensure that the district offices discontinue the practice of excusing employees from work to attend picnics without charging the absences to annual leave. In March 1965 the Chief of Engineers issued regulations which directed that absences without charge to leave to attend office picnics be discontinued.

103. Changes made to eliminate inadequate supervision of Post Office Department collection carriers at the Washington, D.C. Post Office--In a report to the Postmaster General in August 1964, we stated that our review of selected aspects of the mail collection service activities at the Washington, D.C. Post Office disclosed that numerous collection carriers scheduled to report for duty in the mail-processing room during a part of their work tour failed to report as scheduled, and we estimated that, as a result, costs of about $19,500 a year would be incurred for duties not performed.

The carriers' work schedules provided for a total of 217 hours of duty in the workroom each week. Our examination of post office records showed that collection carriers were reported as having been on duty at the culling or facing table in the workroom for an average of only about 22 hours a week.

On the basis of our examination of post office records and our observation of collection carriers' activities, we believed that supervision at the Main Post Office was inadequate inasmuch as carriers were scheduled to perform certain duties and the duties were not performed.

The Postmaster General advised us, in December 1964, that supervisory control had been tightened and that collection carriers' schedules and workroom assignments had been revised. He stated that these changes would eliminate the costs previously incurred for nonproductive time and ensure that collection carriers are gainfully employed during their tours of duty.

104. Action being taken to preclude acceptance of physically unqualified personnel by the armed services--We reported in April 1965 that the Government was incurring unnecessary costs of over $1.5 million per year because the armed services were accepting physically unqualified personnel for active duty. About 3,250 enlisted personnel were separated from the services during fiscal year 1963 shortly after entering active duty because of physical defects that should have been disclosed before they were accepted for service. The acceptance of the unqualified personnel resulted from the (a) failure of the Armed Forces Examining Stations to follow prescribed medical procedures, (b) inadequate scheduling of examinees through the Armed Forces Examining Stations, and (c) failure of the National Guard and Army Reserve Forces to require an adequate physical examination for their personnel prior to accepting them for service. The Assistant Secretary of Defense (Manpower) generally concurred with our

findings and advised us of a number of actions taken to correct these deficiencies.

We recommended that the Secretary of Defense and the Director of Selective Service issue a joint regulation requiring the State Directors of Selective Service and the Armed Forces Examining Station Commanders to schedule examination workloads so as to provide an even flow of examinees. The Department of Defense later informed us that existing regulations were being reviewed and revised.

105. Action being taken to improve the training and readiness of the Naval Reserve Surface Program--We found that the Naval Reserve Surface Program could not entirely accomplish its mission of providing trained D-Day Augumentation Forces available for immediate assignment to the active fleet. We pointed out in a report issued in September 1964 that the Forces included raw recruits, potentially deferrable high school students, and others with not 1 day of active-duty experience. Those with active-duty-acquired skills were engaged in recruiting and training enlistees and in administrative duties rather than in advancing their own skills. We concluded from these findings that significant portions of the $40 million spent on the program each year were being wasted. The Department of Defense acknowledged that there were unqualified personnel in the program and advised us that, as a result of our report, a directive had been issued which provides training requirements designed to eliminate deficiencies in the program and to raise the quality and readiness of the Naval Reserve.

106. Savings to result from replacement by the Department of Defense of contractor-furnished personnel with Government personnel to perform technical services--In a report issued in the preceding year, we pointed out that certain technical services needed by the Ground Electronics Engineering Installation Agency, Fuchu Air Force Base, Japan, were being performed by contractor-furnished personnel at higher cost than if the services had been performed by Government personnel. We estimated that the additional cost to the Government was about $230,000 in fiscal year 1963 for the approximately 100 contractor-furnished personnel. Also, the contractual arrangement in this instance appears to have established an employer-employee relationship between the Government and the contractor-furnished personnel which is in violation of the provisions of the Civil Service Act and/or the Classification Act of 1949. Inasmuch as the Civil Service Commission is responsible for administration of these acts, we asked for their views. In February 1965 the Civil Service Commission advised us that, in its opinion, such contracts were a form of personnel procurement which is not authorized by law. The Commission stated further that it was satisfied that the Department of Defense was taking prompt steps to correct the employment practices and to prevent similar practices in the future and that it would maintain a close liaison with the Department to observe the Department's progress.

In July 1965 the Assistant Secretary of Defense (Manpower) stated that by the end of fiscal year 1966 about 8,300 contract technical service

employees will have been replaced by Government personnel--7,500 civilian and 800 military.

107. Savings could be realized through elimination of unproductive units from the Reserve Officers' Training Corps--Our review of the number of officers commissioned by Army and Air Force Reserve Officers' Training Corps (ROTC) units in relation to the Government resources involved reveals that many schools, primarily those affiliated with the Air Force ROTC, were producing so few officers each year that their retention in the program did not appear justified. We stated in a report issued in October 1964 that the Air Force could have saved up to $2 million annually, without reducing the total number of officers commissioned if it had terminated ROTC at certain of such schools. The Department of Defense generally agreed that efforts to disestablish unproductive ROTC units had not been satisfactory and advised that studies had been undertaken by the Army and Air Force to seek a solution.

108. Savings could be realized if local rather than stateside personnel were used to fill civilian positions on Guam--Unnecessary costs of about $516,000 were being incurred annually because at least 146 civilian positions at Naval installations on Guam that could be filled by qualified Guamanians were occupied by employees recruited from the United States. These costs included annual payments to stateside personnel of about $219,000 in salary differentials for overseas duty, $160,000 for home leave and transportation costs for travel of the employees and their dependents between Guam and the United States, and $137,000 for basic compensation in excess of wages which would be paid to local residents for the same type of work. The Navy had not made a concerted effort to replace stateside personnel with qualified Guamanians despite its policy to use local residents in civilian positions to the maximum extent possible. The Navy advised us that a program would be developed for resolution of cases where qualified Guamanians are, or will become, available for positions occupied by civilians recruited from the United States.

ORGANIZATIONAL MATTERS

109. Savings resulting from consolidation of security guard forces at the National Reactor Testing Station, Atomic Energy Commission--In August 1964, we submitted a report to the Congress in which we pointed out that the operation of four separate security guard forces at the Atomic Energy Commission's National Reactor Testing Station, Idaho, resulted in unnecessary costs to the Government and that the consolidation of these guard forces would result in annual savings by the elimination of duplicative supervisory staffs and by the reduction in the number of guards.

Subsequent to our review, AEC advised us that certain of the guard forces were being consolidated and that the resultant savings would amount to about $160,000 annually.

110. Action initiated by Federal Aviation Agency to revise its procedures for training activities--In a report issued in September 1964, we stated that excessive costs were incurred for training activities at the Federal Aviation Agency Academy, Oklahoma City, Oklahoma, because FAA (1) employed trainees for air traffic control positions without using appropriate aptitude and suitability tests, (2) enrolled students who did not have the required qualifications, and (3) programmed unrealistic student quotas for various training courses. Training costs of about $500,000 were incurred for trainees who failed to complete their courses. Because appropriate action by FAA should have prevented the enrollment of many trainees who subsequently failed, a significant portion of these costs was excessive.

We proposed that FAA develop and implement appropriate procedures designed to test the aptitude and suitability of prospective air traffic control employees before their employment and subsequent training, restrict training courses to those students who have the prerequisites, and establish more realistic student quotas. In his letter to us dated February 27, 1964, the Administrator of FAA expressed general agreement with the facts and conclusions in this report and informed us that steps either had been or would be taken to correct the reported situations.

111. Flight data processing duties to be more efficiently handled by the Federal Aviation Agency--Our review of the practice followed by the Federal Aviation Agency in assigning flight data processing duties to assistant air traffic controllers disclosed that FAA was incurring unnecessary costs amounting to about $1.4 million annually because this function could be performed by lower salaried clerical personnel. The performance of these duties does not require the degree of technical training or the specialized competence attained by the assistant controllers.

In the interest of eliminating unnecessary costs and providing a more permanent staff, we recommended, in a report issued in December 1964, that the Administrator, FAA, direct that (1) the flight data processing and regular assistant air traffic control functions be separated and (2) the flight data processing function be staffed by a permanent force of clerical employees trained specifically for the appropriate duties. We recommended also that employees who, were excess to requirements for regular

assistant air traffic controller positions be either (1) permanently assigned to flight data processing duties as operators and supervisors or (2) if possible, utilized in other positions.

To assist FAA in providing a permanent staff to perform flight data processing duties, we recommended that the Chairman, Civil Service Commission, direct the Commission's Bureau of Programs and Standards to promptly make a study of these duties in order to establish the proper grade classification of employees to be assigned to this function.

In a letter dated March 2, 1965, the Administrator, FAA, advised us that the Agency had completed a study based on our recommendations and proposed to correct the situation over a 2-year period by replacing, as appropriate, assistant controllers with flight data processing employees. The Agency's program to replace the assistant controllers with flight data processing employees was approved by the Civil Service Commission.

112. Need for action by the Post Office Department to consolidate operations and reorganize service areas--In our report issued in December 1964, we noted that, in certain Post Office Department proposals for acquiring additional facilities to meet expanding space requirements, consideration was not given to the potential reductions in operating costs, including manpower and rental costs, of more than $1 million a year that could be achieved through consolidation of postal operations in the areas. Our review indicated that, if POD consolidated operations of a number of post offices and converted certain post offices to stations or branches, it could in some cases eliminate the need for planned additions to buildings or the acquisition of additional space without impairing service to patrons. Since our examinations encompassed only a few of the more than 44,600 postal installations, significant reductions appear to be possible in the overall annual operating costs of over $4 billion.

The Postmaster General stated that POD's procedures for developing new facilities, or modernizing existing ones, take into consideration the feasibility of reorganizing service areas and merging operations. However, the records made available to us by POD pertaining to the locations which we reviewed and commented on in this report did not show any evidence that consideration had been given to reorganizing these particular service areas or consolidating operations therein.

Because of the significant cost reductions which are possible through consolidation of operations, we believe that POD should examine into the feasibility of reorganizing service areas and consolidating operations whenever there is an opportunity to do so. The magnitude of POD's 5-year program to acquire additional facilities affords an excellent opportunity to examine into the indicated economies of consolidating operations. Therefore, we recommended that, in connection with the planning for each new or expanded facility, the Postmaster General emphasize the need for a specific determination of the feasibility of reorganizing service areas and consolidating operations therein and that such changes be effected whenever more efficient and economical operations would result.

113. Need for specific determination of the need for an independent post office when postmaster vacancies occur--In a report issued in December 1964, we noted that the Post Office Department disapproved without adequate operational justifications regional recommendations to substitute less costly means of service for independent post offices at locations where postmaster vacancies occurred. As a result, POD failed to take advantage of potential savings of about $112,000 a year. We noted additional cases where the need for an independent post office was questionable, but the region did not request POD's permission to make a feasibility study of the need. Under POD's policy that generally a post office will not be discontinued unless a postmaster vacancy exists, future opportunities for effecting economies by changing the means of providing postal services in these postal areas may not occur again for a considerable period of time.

Because of improved roads and changing natures of communities and postal service, it is frequently possible to discontinue post offices and provide postal service by more economical means, such as service through stations, branches, or rural delivery routes. The POD's policy is to examine the service, cost, and local needs at a small post office when a postmaster vacancy occurs and to close or continue the office depending on the specific circumstances.

The Postmaster General did not comment on the specific cases discussed in the report but stated that POD was consolidating post offices to the fullest extent practicable as evidenced by the fact that, from a peak of 76,945 post offices in 1901, the total at June 30, 1963, had been reduced to 34,498.

Because of the economies possible through the discontinuance or conversion of post offices, we recommended that the Postmaster General require a specific determination of the need for an independent post office whenever a postmaster vacancy occurs and that post offices be discontinued or converted to branches or stations whenever adequate service could be provided more economically thereby.

114. Need for Veterans Administration to consolidate personnel offices of regional offices and hospitals located in the same area--Our examination into the feasibility of consolidating personnel offices of the Veterans Administration indicated that annual savings of about $100,000 could be realized if personnel offices of regional offices and hospitals located in the same city or metropolitan area were consolidated.

The Deputy Administrator of Veterans Affairs informed us that, although at some of the smaller installations it was possible to combine personnel functions with those of another organizational element, the total experience had been that consolidation of personnel services was not feasible in most instances. He said that VA at that time was giving primary consideration to its program to automate personnel and fiscal activities and that this program might result in opportunities for new economies and new concepts regarding utilization of personnel office employees. He said also that VA would continue to consider consolidation of personnel

offices at specific locations where effective personnel services could be provided, at less cost, by this means.

Although consolidation of personnel offices may not be feasible at all locations, we believe that the experience of VA with eight consolidated personnel offices clearly demonstrates that consolidated personnel offices can provide economical and efficient personnel services if the installations served by each consolidated office are reasonably accessible to each other and if management officials strive to make the consolidation successful. Therefore, in a report issued in January 1965, we recommended that the Administrator of Veterans Affairs give special consideration to the feasibility of consolidating, at each of the 10 locations identified in our report, the personnel office of the hospital and the personnel office of the regional office. The VA has not agreed, however, to consolidate the personnel offices at the locations identified in our report.

ADMINISTRATION OF PAY, ALLOWANCES, AND EMPLOYEE BENEFITS

ADMINISTRATION OF CIVILIAN PAY

115. Action taken by the Department of Labor on salary overpayments and overstatements of leave balances--In a report issued in February 1965 on our review of payroll activities of the Department of Labor, we stated that inadequate administration of centralized payroll functions had resulted in a substantial number of salary overpayments and overstatements of leave balances. The Department did not have adequate systems of accounting and internal control, including internal audits, to provide assurance that pay and leave amounts due employees were properly determined, and payroll and personnel employees were not adequately supervised or informed of the requirements of laws and regulations affecting pay and leave matters.

Not only may adjustment for errors be costly but repayment may result in hardships to the employees involved, particularly when overpayments have continued for an extended period of time. We proposed that the Department issue adequate written procedures for the guidance of employees concerned with payroll matters and initiate training programs to fully acquaint such employees with the requirements of laws and regulations affecting payroll matters.

The Assistant Secretary for Administration, Department of Labor, advised us that the Department was taking the actions we had proposed to correct the deficiencies noted. At the end of fiscal year 1965, we noted that the Department had made considerable progress in improving payroll administration.

116. Action taken by local management to strengthen control over civilian pay at military installations--Our reviews, at various installations, bases, and stations, of matters relating to civilian pay disclosed many erroneous compensation payments and deficiencies in local policies, procedures, and practices. During fiscal year 1965, we issued to local management officials 129 reports on our findings and our recommendations for corrective action. The recommended actions were either taken or promised. Examples of the deficiencies most frequently disclosed in our reviews are summarized.

1. Salary rates not in accordance with provisions of laws and regulations.

2. Credits for annual leave at rates inconsistent with length of employees' service.

3. Inadequate support for absences charged to military leave or to court leave.

4. Inadequate control over authorization of overtime and granting of compensatory time.

5. Improper payments for holiday and overtime work.

6. Questionable granting of administrative leave.

7. Inadequate control over time and attendance recording and reporting.

8. Errors and omissions in retirement records.

9. Inadequate control over distribution of checks to payees.

117. Action taken to strengthen internal audit procedures of the military departments with respect to civilian pay matters--Our examinations in prior years had disclosed that the internal audit agencies of the military departments were not devoting sufficient audit effort to payroll operations in the belief, apparently, that such audits could be curtailed because of the auditing work performed by us. Inasmuch as we had found similar conditions in other departments and agencies of the Government, we issued a circular letter in September 1963 to the heads of all departments and other Federal agencies, pointing out their responsibilities in this area and requesting them to review their internal audit procedures with respect to civilian pay matters and to strengthen their procedures wherever necessary. We were later advised by the Office of the Assistant Secretary of Defense (Comptroller) that the internal audit programs of the Department of Defense were being reappraised to ensure adequate coverage in the civilian pay areas. In March 1965, that Office reported to us on the status of this work. We believe that the reported actions taken or planned by the internal audit organizations of the Department of Defense represent a significant degree of improvement in the internal audit coverage of civilian pay.

ADMINISTRATION OF MILITARY PAY AND ALLOWANCES

118. Need for continuing surveillance by the Army to ensure that appropriate payroll deductions are made for allotments and for fines and forfeitures--Inadequate administration of the Army allotment system was resulting in erroneous payments of about $2 million annually--principally because of the failure to make appropriate deductions from the servicemen's pay. In addition, substantial but undetermined administrative costs were being incurred to identify the erroneous payments and to seek recovery. We stated in our report issued in July 1964, that at least $340,000 of the annual overpayment was not being recovered.

We found also, as stated in our report issued in March 1965, that the Army failed in some instances to deduct from servicemen's pay the fines and forfeitures imposed by court-martial sentences. We estimated that this was occurring at the annual rate of about 1,500 cases amounting to about $140,000.

In response to these findings and our proposals for corrective measures, the Army took certain steps to strengthen administration in this area of operations. We pointed out that the problem required the continuing attention of top management officials to ensure successful implementation of the corrective measures.

119. Need for simplification of legislation governing military pay and allowances to reduce incidence of erroneous or illegal payments--Our reviews of the administration of military pay and allowances at finance centers and at military installations continue to disclose many instances of erroneous or illegal payments despite the corrective efforts of the military departments and local officials to strengthen their administrative procedures. In our reports on these reviews, we have stressed our belief that the complexity of the present legislation is a major obstacle to significant improvement in administration. The number, variety, and complexity of entitlements provided by legislation generate many problems in the interpretation of laws, the promulgation of regulations and instructions to implement the laws, and the determination of the pay and allowances due an individual member of the uniformed services.

Public Law 89-132, approved August 21, 1965, which increased the basic pay for members of the uniformed services, provides also that the President shall direct a complete review of the principles and concepts of the compensation system for members of the uniformed services and that, upon completion of such review, he shall submit a report to the Congress together with any recommendations proposing changes in the statutory salary system and any other elements of the compensation structure. We are hopeful that the report of the President will include recommendations directed toward simplification of the salary system and of other elements of the compensation structure.

120. Need for correction of policy of paying hazardous duty submarine pay to personnel not legally entitled--The Navy was following a policy of paying hazardous duty submarine pay to certain Navy personnel who were on duty in staff positions (rather than crew members of submarines)

and seldom performed duty on board submarines. Under statutory provisions, off-board-based submarine staff members who do not perform the majority of their assigned duties on a submarine are not legally entitled to incentive pay, on a continuous basis, for the performance of submarine duty. In a report issued in December 1964, we pointed out that the payments made to such staff members--about $1 million in fiscal year 1963--were illegal. However, in view of the length of time the Navy had followed this policy, we did not question the payments made in order to afford the Navy an opportunity to present the matter to the Congress with a recommendation for new legislation if deemed appropriate or to take such other action as may be considered advisable.

Subsequently, a bill was introduced, passed by the Congress, and approved by the President on October 20, 1965 (Public Law 89-278), which clarified and restricted the entitlement of Navy personnel to hazardous duty submarine pay.

UNIFORM ALLOWANCES

121. Action taken by the Veterans Administration to review cash allowances to employees for uniforms--In a report issued in September 1964 on our review of the policies and procedures followed by the Veterans Administration in providing its employees with uniforms, we stated that savings of about $658,000 a year could be realized if VA were to issue Government-purchased uniforms to certain of its employees instead of paying them a cash allowance to defray the cost of providing their own uniforms.

The VA pays certain of its employees an annual cash allowance to defray the cost of providing themselves with distinctive articles of wearing apparel which they are required to wear as a uniform in the performance of their duties at VA medical treatment facilities. Other employees, however, are furnished uniforms from Government stocks.

In commenting on the results of our review, the Chief Medical Director of VA informed us in April 1964 that, because of the far-reaching implications of our findings, it had been decided to undertake a detailed review of existing policies on uniform allowances. In April 1965 VA informed us that their review had been completed and that, as a result, they had reduced the uniform allowances for nurses and other categories of employees and that the reduction will result in savings of about $481,000 a year. We were informed further, that, as a result of our review, VA is also revising its policies with regard to the furnishing of Government-purchased uniforms to employees, which will result in additional savings.

COST-OF-LIVING ALLOWANCES

122. Action taken by the Civil Service Commission to reduce the cost-of-living allowances paid to Federal employees in Puerto Rico and the Virgin Islands--The United States Civil Service Commission's postponement of a reduction in cost-of-living allowances to eligible Federal employees in Puerto Rico and the Virgin Islands, from the planned effective date of the reduction, April 1, 1964, until after the completion of a new survey of living costs early in calendar year 1965, resulted in Federal agencies' making excessive payments for cost-of-living allowances at the rate of about $2 million annually.

The Chairman of the Commission informed us that it was decided not to insist on carrying out the sizable reduction in the allowance rates when it became known that hearings had been scheduled early in 1964 on proposed legislation to terminate the cost-of-living allowances by gradually phasing them out. In our report issued in April 1965, we recommended that the Commission--in accordance with its determination that the application of certain factors in computing cost-of-living allowances was not justified--no longer delay in taking action to reduce the cost-of-living allowances paid to Federal employees in Puerto Rico and the Virgin Islands. In May 1965 the Commission, on the basis of a current review, reduced the cost-of-living allowance rates effective at the beginning of the first pay period on or after July 1, 1965.

123. Procedures strengthened to preclude improper payments of dislocation allowances to military personnel--Military personnel who elect to have their house trailers moved at Government expense are not entitled to dislocation allowances. We found, however, that dislocation allowances had been paid to such personnel in some instances. In a report issued in June 1965, we stated that there were about 970 instances of improper payment, amounting to about $95,000, in fiscal year 1963. This resulted from inadequacy of procedures for detecting and rejecting improper claims for dislocation allowances. In response to our recommendations for strengthening of procedures, the Department of Defense informed us that the voucher form and applicable regulations were being revised in order to more directly advise both the claimants and the paying officers regarding the loss of entitlement to a dislocation allowance when a trailer allowance has been claimed.

124. State Department regulations for computation of living quarters allowances for overseas civilian employees revised--The procedures prescribed by the Secretary of State for computation of living quarters allowances to overseas civilian employees resulted in overstated daily rates and subsequent payments, above the maximum annual allowances, totaling about $166,000 in 1964 and about $83,000 annually in prior years.

Under the Overseas Differentials and Allowances Act (5 U.S.C. 3031), civilian employees of the Government serving overseas are paid living quarters allowances to cover substantially all of the average employee's expenses for rent, utilities, taxes, and insurance required to be paid by the lessee. Section 135 of the Standardized Regulations (Government Civilians, Foreign Areas) provided, in effect, that living quarters

allowances should be computed and paid at an annual rate divided by 364 to obtain a daily rate which is multiplied by the number of days an employee is entitled to such allowance during each pay period. The use of 364 in this formula rather than the actual number of days in a year resulted in employees being paid more than their maximum annual allowance.

A Department official estimated that there are about 16,500 civilian Government employees overseas currently receiving living quarters allowances pursuant to the Department of State's regulations and that the average living quarters allowance paid is about $1,850 a year. The payment above the maximum allowance to each employee averaged slightly over $5 a year and, on that basis, would total about $83,000 for the 16,500 employees for a 365-day year. In a leap year of 366 days, such as 1964, this amount is doubled ($166,000).

We recommended that the Department revise the regulations to provide for determining the daily rate for living quarters allowances by using the actual number of days in a year rather than using 364 days as a basis.

On August 16, 1965, we were informed by the Deputy Assistant Secretary of State for Budget that, in response to our recommendation, Section 135 of the Standardized Regulations (Government Civilians, Foreign Areas) would be revised to provide for using the actual number of days (365 or 366) in a year in computing rates for living quarters allowances. (B-143933 transmittal letter)

125. Savings to result from reduction in unrealistic rates for living quarters allowances to civilian employees of the Air Force in Japan--The Air Force paid the maximum rates for living quarters allowances to its civilian employees in Japan. In a report issued in August 1964, we pointed out that the payments were about 40 percent higher than the estimated allowable expenses of the employees and resulted in increased cost to the Government of about $125,000 a year. We pointed out also that statutory regulations intended that the maximum rates be reduced by administrative action whenever such rates were found to be unreasonably higher than the expenses of the employees. The Department of Defense subsequently revised its living quarters allowance system to ensure compliance with the intent of statutory regulations.

TRAVEL ALLOWANCES

126. Payments for unnecessary travel days to Coast Guard Reserve officers corrected--In a report issued in July 1964, we noted that Coast Guard Reserve officers who were authorized to travel to and from annual active duty training assignments generally traveled by privately owned automobile for their own convenience and received military pay for up to 4 days' travel time in excess of that which would have been required by air common carrier. We estimated that this practice resulted in unnecessary costs to the Government of $56,000 for calendar years 1960 through 1963, in connection with training assignments at the Coast Guard Reserve Training Center, Yorktown, Virginia. The servicewide total amount of unnecessary costs to the Government may have been greater than $56,000 because, during the same period, a substantial number of officers were ordered to training locations other than Yorktown. We estimate also that, over the next 5 years, the Coast Guard could save about $115,000 in training costs at its Yorktown Training Center and other locations by using airline schedules in computing travel time.

We proposed that the Coast Guard Comptroller Manual be revised to require that commercial air travel time be used as the basis for computing the allowable travel time of Reserve officers going to and from active duty training assignments by privately owned automobile. In May 1964 the Coast Guard Comptroller Manual was amended to require that travel time be computed on the basis of commercial air schedules and be limited to 1 day each way except when air transportation is not reasonably available.

127. Savings to result from reduction in unrealistic travel time allowed by the Department of Defense to users of privately owned vehicles--Travel time allowed personnel who traveled in privately owned vehicles was greater than necessary. As a consequence, workdays were charged as travel which more reasonably should have been charged as leave. We estimated that this practice resulted in unnecessary costs of about $16 million annually--$14 million for travel of military personnel on permanent change of station (report issued in February 1965) and $2 million for travel of military and civilian personnel on temporary duty assignments (report issued in July 1964).

Regulations provided that travel time of one day be allowed for each 250 miles of travel or fraction thereof. We recommended, and the Department of Defense and the Bureau of the Budget concurred, that the constructive travel time for travel by privately owned vehicles be reduced to a more realistic basis. The Department of Defense established a basis of 300 miles a day for computing allowable travel time on permanent change of station. The Bureau of the Budget agreed with this basis. With respect to use of privately owned vehicles for the personal convenience of civilian and military personnel on temporary duty assignments, the Department of Defense and the Bureau of the Budget revised applicable regulations to provide that reimbursement for travel be limited to the constructive cost of either air or surface common carrier travel, whichever meets the requirements of the travel order and is the more economical to the Government.

GOVERNMENT-FURNISHED HOUSING AND LODGING

128. Additional revenues to the Veterans Administration from increases in rental rates and utility charges for Government-owned quarters and garages furnished to employees--In a January 1963 report, we stated that rental and utility charges to employee occupants of Government-owned quarters at certain Veterans Administration stations were significantly lower than the rates charged in nearby communities for comparable private housing. The lower rentals for quarters resulted from VA policy of permitting reductions based on restrictions or extra health hazards attributable to residing on hospital grounds and not inherent in the occupancy of comparable private housing. We recommended that these factors be eliminated in establishing rental rates because applicable Bureau of the Budget instructions did not include such conditions as reasons for deviating from the principle that rents should be set at levels similar to those prevailing for comparable private housing in the area.

In a May 1964 report, we stated that rental rates for garages used by VA field station employees to house personally owned automobiles had remained unchanged, for the most part, since 1935 and that the rates were significantly lower than rental rates for comparable private garages in the local communities.

In accordance with our proposals, the VA revised its quarters, garage, and utility rates to levels similar to those prevailing for comparable facilities in the local communities. On the basis of our review of the VA's reappraisals of rental and utility charges, we estimate that revenues increased by about $745,000 annually.

129. Charges to occupants of Government-owned housing at certain Agricultural Research Service field locations to be reviewed--Our review of procedures and practices relating to quarters rental activities of the Northern Administrative Division of the Agricultural Research Service (ARS), Department of Agriculture, disclosed instances of noncompliance with Bureau of the Budget Circular No. A-45 and ARS policies and procedures concerning the establishment of rental and utility rates, the performance of timely reappraisals of rental rates, and the proper documentation of the results of the appraisals.

In a report issued in December 1964, we commented that (a) rentals charged occupants of Government housing were not properly established, (b) the established utility charges were deficient, (c) timely reappraisal of rental rates was not made, and (d) garages were furnished State employees without charge. We were advised that generally corrective action would be taken on the deficiencies disclosed in the report.

130. Need for more adequate management control and review of rental and utility rates by the Department of the Interior--We identified undercharges for rents and utilities at 53 of the 55 housing locations included in our review of charges for rents and utilities by the Bureau of Indian Affairs, the Bureau of Reclamation, the Bureau of Sport Fisheries and Wildlife, and the National Park Service, Department of the Interior. At these locations, we reviewed 17 percent of the Department's quarters

to determine the correctness of allowances for isolation deductions, 10 percent to compare base rentals with private housing rentals, and 21 percent to compare utility charges with local domestic rates. For the quarters reviewed, we identified undercharges amounting to about $500,000 annually. Because undercharges were found to exist at most of the locations reviewed and were, for the most part, attributable to deficient and conflicting administrative policies and practices, we believe that similar conditions may exist throughout the Department. Because of these conditions, we believe that the Federal Government may have lost substantial revenues in renting the approximately 10,600 Government-owned housing units occupied on a permanent basis by employees of the Department of the Interior.

We recommended in a report issued in March 1965 that the Secretary of the Interior (a) require that rentals for Government-owned quarters be determined by private professional appraisers or appraisers of the Housing and Home Finance Agency and (b) require the Assistant Secretary for Administration to provide, at the Departmental level, for (1) the coordination and administration of charges for housing rentals and utilities, (2) the initiation of reviews at the housing locations where our review disclosed undercharges to determine whether the charges for rents and utilities have been appropriately increased, and (3) initial and periodic reviews at all employee housing locations to determine whether the charges for rents and utilities have been established in accordance with applicable legislation and regulations.

By letter dated May 14, 1965, the Assistant Secretary for Administration advised us that (a) quarters rental rates have increased since the completion of our field work, (b) further increases will take place with Department-wide application of the new Departmental regulations effective March 1, 1965, (c) the Bureau of Indian Affairs is now using outside professional appraisers to evaluate all quarters, and (d) the National Park Service has entered into an agreement under which the Federal Housing Administration will, upon request, make appraisals to be used in establishing quarters rental rates.

131. Savings could be realized through use of vacant Government-owned housing for military requirements--We found that annual savings of about $2.7 million in basic allowances for quarters could be realized through the use of available Government-owned housing to meet military housing requirements in Florida. Our findings were presented in three reports issued in April and May 1965. Potential savings were available in the Orlando area ($1.3 million), the Tampa area ($1.1 million), and the Jacksonville area ($.3 million). The available Government-owned housing represented properties awaiting sale by the Federal Housing Administration and the Veterans Administration. However, in view of the size of the inventory and the lack of demand for housing, the prospects for sale in the near future did not appear promising.

The Department of Defense was using its leasing authority almost to the full extent of the limitations imposed by the Congress. We

recommended that the Congress consider exempting from current leasing restrictions the housing owned by the Federal Housing Administration and the Veterans Administration and that the Department of Defense use such housing, if exempted, as public quarters for military personnel.

In order that possible savings under existing legislation may be realized, we recommended that the Department of Defense encourage military personnel to rent available Government-owned housing as individuals, and that the Commissioner of the Federal Housing Administration, the Administrator of Veterans Affairs, and the Secretary of Defense establish procedures to monitor progress of a leasing and rental program.

The Federal Housing Administration, the Veterans Administration, and the Department of Defense agreed generally with these recommendations; however, the Congress has not exempted the Government-owned housing from leasing restrictions imposed on the Department of Defense.

The House Committee on Appropriations took note of our findings in its report on the Military Construction Appropriation bill, 1966. The Committee expressed approval of the improvement in relationships among the Department of Defense, the Federal Housing Administration, and the Veterans Administration in the matter of housing and stated that, as a result of efforts of the General Accounting Office, the Federal Housing Administration and the Department of Defense have completed a procedure which will make FHA properties available on a long-term-lease basis. The Senate Committee on Appropriations also expressed gratification with the improved relationships.

132. Savings could be realized through more effective use of available quarters in lieu of quarters allowance payments to military personnel--Quarters allowances are paid to military personnel when Government quarters are not furnished them. We found that the payments for quarters allowances at some military installations could have been substantially reduced had a more effective use been made of the Government quarters available at those installations. Available and suitable Government quarters were not assigned for occupancy of eligible personnel because of (a) management decisions that quarters were not suitable if located at a nearby installation rather than at the duty site, (b) failure to assign to enlisted men the quarters reserved for but not needed by officers, and (c) delay in assigning new tenants to vacated quarters.

During fiscal year 1965, we issued four reports on our reviews at selected installations. In reporting our findings, we stated that the practices we found at these installations were resulting in unnecessary payments of allowances of at least $700,000 annually. In response to our recommendations for corrective measures, the military departments advised us of actions taken (a) to correct the practices at the installations we cited and (b) to strengthen surveillance of the practices at other installations by requiring quarterly reports on the percentage of utilization attained and by increasing emphasis in this area during internal audits at the installations.

GOVERNMENT-FURNISHED HOUSING AND LODGING (continued)

133. Savings could be realized through reduction of unrealistic rates for temporary lodging allowances paid to military personnel--Military servicemen in Hawaii were receiving an estimated $2 million to $3 million annually in temporary lodging allowances (TLA) in excess of the actual above normal expenses incurred by them. This was due primarily to unrealistically high rates for TLA. In our report issued in May 1965, we recommended that the Secretary of Defense direct the Per Diem Travel and Transportation Allowance Committee to establish TLA rates which realistically reflect the above normal costs of residing in temporary accommodations and that the Joint Travel Regulations be revised accordingly. We recommended also that (a) the Secretary of Defense and the Secretary of the Treasury jointly institute a study to ascertain the desirability and feasibility of leasing apartment-hotel accommodations in Hawaii to provide temporary lodging and (b) if the study proves the leasing of accommodations to be feasible, the Secretary of Defense and the Secretary of the Treasury take steps to obtain any legislation required. In reply, the Department of Defense stated that the Per Diem Travel and Transportation Allowance Committee had been directed to make a study of the TLA rates for Hawaii and that the Secretary of Defense and the Secretary of the Treasury had instituted the joint study we recommended.

GOVERNMENT-FINANCED SERVICES

134. Action taken by the Civil Service Commission to revise group life insurance premium rates for District of Columbia Government school teachers--In our report issued in August 1964, we stated that District of Columbia (D.C.) school teachers, since inception of the Federal employees' group life insurance program, had paid less annually for life insurance protection than other covered employees were required to pay because the United States Civil Service Commission had advised the D.C. Government to use a rate which was too low, in withholding insurance premiums from school teachers' salaries.

During fiscal year 1964, the insurance premiums withheld were insufficient and, as a result, D.C. school teachers' net salaries were overpaid about $30,000 and D.C. Government did not contribute its share of about $15,000, for a total underpayment to the life insurance fund of $45,000. We estimated that the group life insurance fund, since its inception in fiscal year 1955, had been deprived of insurance premium revenue of about $350,000.

After we brought this matter to the attention of the Commission, an amendment to the group life insurance regulations was approved, effective the first pay period after June 30, 1964, providing for the withholding, from the salaries of insured school teachers and other employees in similar categories, of insurance premiums at the appropriate annual rate prorated over the number of salary installments paid during the year. We did not recommend the recovery of the amounts underpaid by the school teachers for group life insurance protection and the contributions not paid into the insurance fund by D.C. Government since the improper premium rate for insurance coverage was used in reliance on instructions issued by the Commission which has regulatory authority over the Federal group life insurance program.

135. Changes made to eliminate free home-to-work transportation for military and Military Assistance Advisory Group personnel--Our review of the utilization of commercial-type vehicles by the Military Assistance Advisory Group and the Headquarters, Support Activity, Taipei, Republic of China, disclosed among other things that vehicles were being used to provide free transportation to and from home and work for military and MAAG personnel.

Subsequent to our review, the Assistant Secretary of the Navy (Installations and Logistics) authorized the use of Government vehicles for transportation of MAAG personnel to and from home and work. We believed that the justification for this authorization was questionable, and, therefore, in our report of July 31, 1964, we recommended that the Assistant Secretary examine into the validity of the justification and reconsider his decision authorizing MAAG to use Government vehicles for home-to-work transportation.

We were advised by the Assistant Secretary of Defense in September 1964 that Defense personnel are now required to pay $2.00-a-month fare for home-to-work transportation. We made a follow-up review on the

implementation of this new fare-paying system at MAAG Taipei and United States military installations located at Tachikawa, Yokosuka, Atsugi, and Kamaseya, Japan. We estimate that the Government will collect about $52,000 annually from these locations for providing home-to-work transportation.

136. Action to be taken by the Atomic Energy Commission to eliminate nonessential bus transportation services--Our review of the contractor-operated bus transportation system servicing the Hanford Works, Richland, Washington, of the Atomic Energy Commission disclosed that annual savings of as much as $145,000 were attainable by discontinuing bus transportation services between (1) various points in the city of Richland and the bus terminal and (2) the bus terminal and the "300 work area" on the Federal reservation.

AEC informed us that, in connection with the current implementation of a program of diversification under which the various activities at the Hanford Works will be conducted by a number of contractors rather than by a single contractor, the bus operation was one of the many facets of the activities that were being reviewed. AEC informed us also that, under the agreement with the replacement contractor in the "300 work area," bus transportation will not be provided to its employees and that other segments of the bus operations would be considered as the diversification program proceeded. Because the diversification program is not scheduled to be fully implemented until mid-1967, we recommended that AEC take such action as may be appropriate to attain a more timely discontinuance of all Government transportation services in the city of Richland and to the "300 work area."

137. Disparities in transporting overseas personnel to and from work to be corrected by Department of State--At 10 overseas posts visited by us, we found that, while one or more agencies were providing free transportation to and from work to their American employees on the grounds that there was no practical alternative, other agencies at the same post were not providing such transportation and their employees were commuting without using Government-furnished transportation. We found also that a substantial number of personnel at the posts we visited were receiving free Government-furnished transportation to and from work daily even though privately owned vehicles of these employees had been transported to their posts at Government expense.

On the basis of our review in the 10 countries and the limited information available on the worldwide practices of the principal United States Government agencies overseas, we estimated that the practice of providing free transportation to and from work to employees was resulting in unrecovered costs to the United States Government of several hundred thousand dollars annually. The Department of State informed us that it was aware of inequities in the treatment of overseas employees of the various agencies and that it was determined to overcome these differences. The Department agreed that, as a matter of principle, a charge for use of Government-owned vehicles to and from work was appropriate. The Department's plans call for the Ambassadors in the various countries to ensure

equitable treatment of all employees regardless of agency and to provide for the levy of a charge for transportation to and from work except in unusual and unique circumstances.

138. Savings to result from discontinuance of practice of furnishing free flight meals to certain military personnel-- An increased cost of about $640,000 annually has been incurred because Navy and Marine Corps flight crew personnel receiving cash allowances for subsistence are not required to reimburse the Government for flight meals furnished them. Personnel of the other military services receiving such allowances are not furnished free flight meals. (The legislative authority for the furnishing of free flight meals to certain Navy and Marine Corps personnel is permissive.) We suggested to the Secretary of Defense that he administratively discontinue the practice, and this was done as of July 1, 1965.

139. Need to consider modification of law relating to medical services furnished by the Department of Health, Education, and Welfare, without charge to civilian field employees of the Public Health Service--Pursuant to section 322(a)(7) of the Public Health Service Act, the Public Health Service (PHS), Department of Health, Education, and Welfare (HEW), furnishes medical services to its civilian field employees, without charge, for illnesses and injuries that are not proximately caused by their employment but occur during their regularly scheduled workday. Also, pursuant to the Federal Employees Health Benefits Act of 1959, PHS shares in the payment of premiums to commercial insurance companies for health insurance coverage for most of these employees. The terms of the insurance contracts, however, preclude PHS from recovering from the insurance companies any portion of the cost of the medical services furnished to insured employees because the employees are not legally obligated to pay for such services. As a result, the Government is in effect bearing costs relating to medical care for these employees twice--once as direct patient costs and again as a share of insurance premiums. During fiscal year 1963, the medical services furnished to PHS civilian field employees cost about $275,000 and the Government's share of the health insurance premiums for these employees was about $414,000.

Because there is no requirement that an illness or injury have a causal relationship to an employee's duties, the conditions under which medical services can be furnished to PHS civilian field employees without charge under section 322(a)(7) of the Public Health Service Act are broader than the conditions under which medical services can be furnished without charge to Federal employees under other laws, such as the Federal Employees' Compensation Act of 1916. Thus, section 322(a)(7) provides for Government medical care benefits to PHS civilian field employees, which are not generally available to PHS departmental headquarters civilian employees or to civilian employees of other Government departments and agencies stationed in the continental United States.

In a report issued in April 19[illegible], we reported this matter in order that the Congress might consider amending section 322(a)(7) of the Public Health Service Act to (1) discontinue the authority for furnishing medical

services, without charge, to PHS civilian field employees at locations where private medical care is available and (2) provide for furnishing such services, on a reimbursable basis, to employees at isolated locations where there is a lack of private medical facilities and services. Under such an amendment, the dual Government costs relating to medical care for PHS civilian field employees would be eliminated and the inequality in medical care benefits available to these employees compared with benefits available to other Federal employees would be minimized.

By letter dated December 18, 1964, the Assistant Secretary for Administration, HEW, stated that HEW had no disagreement with the principle of equitable treatment for all Federal employees and that HEW was actively considering a proposal to modify section 322 of the Public Health Service Act in a manner consistent with our observations.

COLLECTION ACTIVITIES

140. Action taken to eliminate the Commodity Credit Corporation's involvement in the collection of future dollar refunds and to collect dollars receivable on past transactions--In a report issued in November 1964, we pointed out that the Commodity Credit Corporation (CCC), Department of Agriculture, did not have adequate controls for determining and collecting dollar refunds due CCC from foreign governments because of adjustments in amounts financed on cotton exported under title I, of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480). As a result, CCC was not aware of and had not collected all dollar refunds to which it was entitled. We estimated that for fiscal year 1963 the amount of dollar refunds due, which were not claimed, may have totaled over $168,000.

As a result of our bringing this matter of inadequate controls over dollar refunds to its attention, the Department agreed to institute certain actions aimed at determining and collecting refunds which may be due on past transactions financed under title I. In addition, the Department adopted a plan which requires importing countries to pay United States exporters in dollars for 2 percent of the invoiced amount of cotton exported under title I and which provides that CCC finance only the remaining 98 percent, instead of the 100 percent financed by CCC under the then existing procedure. Under the plan, adjustment refunds are handled between exporters and importers generally without any further monetary settlement with CCC. Information obtained from the Department indicated that, on the basis of past transactions, the revised financing arrangement would result in a reduction of over $1 million annually in the net dollar expenditures which CCC would otherwise incur in financing the exportation of cotton under title I.

Our report also pointed out that CCC's collection procedures had been unduly complex, resulting in unnecessary interest costs of over $30,000 annually on borrowings from the Treasury and in an adverse effect on the United States international balance-of-payments position because uncollected amounts totaling over $1 million had generally not been available for use by CCC until claimed and received. The revised procedure cited above, which should generally eliminate CCC's involvement in the collection of future dollar refunds, and the action taken to collect dollars receivable on past transactions will save interest costs and contribute to an improvement in the balance-of-payments position.

141. Action taken by the Veterans Administration to collect debts resulting from default of housing loans made in Florida--In a report issued in December 1964, we stated that the St. Petersburg, Florida, Veterans Administration Regional Office did not effectively discharge its responsibility to attempt collection of about $7 million owed to the Government because of defaults on housing loans made in Florida under the loan guaranty program. We found that initial advice to the debtors of the amounts owed was not attempted for periods of up to 2 years after foreclosure of the mortgages and that collection letters were then usually addressed to

the properties which the debtors had vacated years before. The letters were returned undelivered, and generally no further efforts were made to locate the debtors. Also, in many cases, attempts were made to collect from only one persor. whereas other persons were also liable for the debts.

Thus, the Government's ability to collect these debts has been seriously impaired, and unnecessary losses may occur. For the 18-month period ended March 31, 1964, the St. Petersburg Regional Office determined that 680 debts involving about $1 million were uncollectible and referred them to the General Accounting Office for further collection effort. Our experience shows that debtors against whom no collection action has been taken for several years are more difficult and costly to locate and are generally more resistant to voluntarily settling the debts.

We included a finding concerning deficiencies in debt collection practices of the regional offices at Atlanta, Georgia, and Pittsburgh, Pennsylvania, in a July 1961 report. In commenting on that report, VA advised us that all VA stations would be reminded that they were expected to use all reasonable means at their disposal to collect receivables before determining the accounts to be uncollectible.

During our review at the St. Petersburg Regional Office, we discussed our findings with VA officials and certain corrective actions were promised. We proposed that VA take necessary measures to determine whether Central Office instructions, including revisions resulting from our review, are effectively carried out. We suggested that supervisory visits by Central Office officials, including internal auditors, be made with a view toward determining effective compliance. The Deputy Administrator advised us that renewed emphasis has been given to collection procedures in recent publications and that Central Office supervisory personnel and auditors will give this area special attention.

FINANCIAL REPORTING PROCEDURES

142. Changes made by the Farm Credit Administration to provide more meaningful financial statements--The presentation of financial statements prepared by the Farm Credit Administration (FCA) for various banks in the Farm Credit System needed improvements to adequately and fully disclose the financial condition of the System. In a report issued to the Governor, FCA, in March 1965, we commented upon, among other things, the need for FCA to explain material matters, such as surplus allocations and contingent liabilities, in footnotes to financial statements and to footnote fiscal year 1965 statements to show a departure from the past accounting treatment for depreciation of fixed assets. In April 1965 the Governor advised us that the agency would adopt these proposals.

FISCAL MATTERS

143. Action promised by the Area Redevelopment Administration to improve accounting system to enable the development of adequate financial information--In a March 1965 report, we stated that we found that the accounting system of the Area Redevelopment Administration (ARA) Department of Commerce, did not provide for the development of costs by activities and functions. We found also that other agencies, which were delegated certain functions and responsibilities under the area redevelopment program, were not required to report their administrative expenses to ARA by specific program activities performed on its behalf nor did all these agencies report such expenses on an accrual basis. These deficiencies were of such significance as to preclude approval of the accounting system. Therefore we curtailed our review pending thorough review and revision of the system by responsible officials.

The Area Redevelopment Administrator advised us that ARA would, in accordance with our proposals, begin immediately to design an accounting system which would have the flexibility to account for program activities and subdivisions thereof and that, upon completion of the revised accounting system, ARA would request the delegate agencies to provide program cost data on a comparable basis and in a timely manner.

144. Need for action by the Department of Agriculture to deter unauthorized expenditures for the alteration of buildings--In a report issued in December 1964, we pointed out that the Agricultural Research Service, Department of Agriculture, altered a building at the Agriculture Research Center, Beltsville, Maryland, to provide, in part, two environmental chambers for conducting animal research experiments and charged the cost,about $39,000, to the fiscal year 1961 and 1962 appropriations, notwithstanding a limitation of $5,000 in each appropriation for altering any one building.

We did not agree with the Administrator, ARS, that the chambers were special-purpose equipment and, therefore, not subject to the limitations because, in our opinion, these chambers were permanent rooms in which the temperature and humidity could be controlled and their proposed use for a special purpose was not a basis for classifying them as equipment. Consequently, we stated that the facts concerning the unauthorized expenditure should be reported by the Secretary of Agriculture to the President and the Congress as required by 31 U.S.C. 665(i)(2). Also, we recommended that the Secretary disseminate our views to appropriate officials of the Department to deter similar unauthorized expenditures on future projects.

In June 1965, we were advised, in effect, by ARS that the Department did not agree with our views.

145. Need for management controls in the Department of State to preclude obligation of funds after expiration of fiscal year appropriations--In January 1965, we reported to the Congress that the Department of State had obligated certain of its fiscal year 1964 appropriations after their expiration date of June 30, 1964. A total of 296 purchase orders in a

combined amount of $513,163 were processed between July 1, and July 13, 1964, but dated as of June 30, 1964, or before, and charged to fiscal year 1964 appropriations.

The Department's actions were not in conformance with provisions of the related annual appropriation acts and other applicable statutes regulations, and decisions of the Comptroller General, which stipulate that fiscal year appropriations can be obligated only during the year for which made. We informed the Department that a reexamination should be made of all obligations incurred since July 1, 1964, and that items improperly designated for payment from fiscal year 1964 appropriations should be redesignated for payment from fiscal year 1965 funds or canceled. The Department subsequently removed these charges against funds for fiscal year 1964.

We recommended that the Secretary of State cause corrective action to be taken through the institution of management controls, including appropriate internal audits, and take such other measures as may be necessary to preclude recurrence of the activities described in our report.

FUND CONTROL

146. Procedures adopted by the Commodity Credit Corporation to provide for timely deposit of collections--During our review, made in fiscal year 1965, of the accounts and financial reports of the Commodity Credit Corporation, Department of Agriculture, for fiscal year 1964 at the Evanston Commodity Office (EVCO), Agricultural Stabilization and Conservation Service, we noted that cash deposit practices of the EVCO and its Minneapolis Branch Office resulted in collections being credited to CCC's account up to 7 days after receipt. Because it was practicable to deposit collections on the day of receipt or on the following business day, depending on time of receipt, and because deposits reduce the balance of CCC's interest-bearing debt payable to the United States Treasury, we estimated that delays in depositing collections during fiscal year 1964 resulted in unnecessary interest cost of about $32,000 to CCC.

We discussed the delayed deposits with responsible officials who subsequently revised procedures to provide for timely deposit of collections.

147. Funds improperly retained under the control of the District of Columbia Redevelopment Land Agency subsequently deposited into Treasury--In a report issued in October 1964 on our review of selected aspects of the administration of urban renewal projects in Washington, D.C., we noted that the District of Columbia Redevelopment Land Agency (DCRLA) had used a portion of the proceeds received from the sale of a parcel of land outside the limits of an urban renewal area, which was covered by a loan and grant contract with the Housing and Home Finance Agency, to defray certain costs and had invested most of the remainder in Government securities. These funds were disposed of in this manner without congressional concurrence although most of the funds received from the transaction should have been expended only as directed by the Congress. After we advised DCRLA of the proper interpretation of the law in this matter, the agency remitted $270,258, a part of the net proceeds from the sale, to the Treasury for deposit to miscellaneous receipts and informed us that the remaining balance of the net proceeds, $1,374, would be remitted to the Treasury when received from the purchaser of the parcel of land.

148. Costly and inadequate procedures and practices by the Post Office Department to be corrected--In a report issued in August 1964, we stated that, during our review of the financial activities at the Regional Offices of the Post Office Department, we brought to the attention of regional directors or other officials, verbally or in reports, deficiencies and weaknesses which appeared to be within their authority and responsibility to correct. In some instances, a deficiency was observed in only one region; in other instances, the same or similar deficiencies were observed in two or more regions. The deficiencies noted consisted of such matters as (a) the excessive use of Treasury checks, (b) the unauthorized extension of credit to mailers of nonmetered mail, (c) the need to improve control over payments for utility services, (d) the unnecessary number of checks issued to the same vendor, and (e) the failure to obtain cash discounts. Regional officials took or promised to take corrective action on most of the findings.

149. Savings to the Department of Labor from more effective administrative control of funds for financing Federal-State training programs--In a report issued in April 1965 on our review of the administrative practices of the Department of Labor in funding various Federal-State programs for the training of the unemployed and underemployed, we stated that controls exercised by the Department were ineffective and that, as a result, $1.1 million of Federal funds advanced in fiscal years 1962 and 1963 to State employment security agencies were permitted to accumulate in the hands of such agencies although the funds were no longer available for use in the training programs. We estimated that, because of the delay in recovering the surplus training funds, the Government incurred unnecessary interest costs of as much as $58,000. We found also that $2.1 million in funds recovered from the State agencies were not promptly deposited after receipt by the Department's Washington offi .

We proposed that, to avoid the accumulation of surpluses and to help prevent unnecessary interest charges to the Federal Government, the Secretary of Labor (a) issue instructions requiring the continuous monitoring of funds advanced and the prompt return of all funds not currently needed or no longer available for use by the State agencies for project expenses and (b) consider the use of letters of credit for funding the operations of the State agencies through Federal Reserve banks, which procedure would permit State agencies to draw funds as needed for program operations and avoid premature withdrawals from the United States Treasury. We also proposed that the Secretary of Labor issue instructions requiring adequate control and prompt depositing of cash receipts.

We were informed by the Assistant Secretary for Administration that the Department had taken action to recover the surplus funds from the States, that it would apply the letter-of-credit procedure to payments to States for all major programs, and that it would prepare comprehensive written procedures for the handling of cash receipts.

The actions which the Department had taken and proposed to take appeared to be adequate to correct certain deficiencies noted in our review, and we planned to evaluate the adequacy of the Department's corrective actions when they had been completed. However, since the Department later informed us that it was deferring application of the letter-of-credit procedure to the area redevelopment program because legislative authority for this program would expire on June 30, 1965, we recommended that the Secretary of Labor offset surplus funds then in the hands of the States against any advances for training activities which may have been made prior to the expiration of the area redevelopment program and recover on a timely basis any surplus funds which could not be offset.

150. Need for National Park Service to discontinue use of rental revenues for rehabilitation and improvement of facilities--Our review disclosed that, contrary to section 321 of the Economy Act of 1932 (40 U.S.C. 303b), as amended, the National Park Service (NPS) authorized the Rainier National Park Company--the concessioner at Mount Rainier National Park--to retain about $300,000 of rental revenues due the Government, to finance the

rehabilitation and improvement of Government-owned facilities rather than to pay such amounts to NPS. NPS should have collected the rental income and deposited it into the Treasury as miscellaneous receipts.

The concession facilities were acquired by NPS from this concessioner in April 1952 at a cost of $300,000. The concession structures are for the most part log and frame structures 30 to 46 years old, which NPS has stated are worn out. They were purchased by the Government to permit construction of new facilities. Subsequently, NPS awarded a contract on June 30, 1964, for construction of the new facilities, at a cost of $1,388,000. We believe that the propriety of requiring the concessioner to expend significant sums of money on certain improvements of a permanent nature to Government-owned concession facilities is questionable because the facilities were generally recognized as being beyond economical repair and as needing replacement.

Our review showed also that the Department of the Interior had not fully complied with the requirements of the act of July 31, 1953, as amended (16 U.S.C. 17b-1), which requires that all proposed awards of certain concession contracts be reported in detail to the Congress prior to execution. Our review disclosed also that adequate control was not exercised by NPS over the expenditures of the funds by the concessioner.

We recommended, in a report issued in October 1964, that the Secretary of the Interior direct NPS to (a) negotiate an amendment to the existing concession contract to provide that the rental of the Government-owned facilities be for a money consideration only, (b) deposit all money derived from this rental into the Treasury as miscellaneous receipts, (c) promptly collect from the concessioner and deposit into the Treasury as miscellaneous receipts the unobligated balance of the funds in his custody for rehabilitation and improvement expenditures, and (d) finance future expenditures for work on Government-owned facilities, other than for routine maintenance and repair, only from funds appropriated by the Congress expressly for that purpose.

We recommended also that the Secretary of the Interior advise NPS that hereafter no concession contract shall permit a concessioner to retain Government funds to finance the rehabilitation and improvement of Government-owned facilities without specific legal or other authority therefor.

151. Need for revising procedures for remitting C.O.D. collections by the Post Office Department--We noted in our review of the financial activities of the Regional Offices of the Post Office Department that the number of money orders issued could have been substantially reduced, with resulting reduction in costs, if a single money order or Treasury check had been prepared daily or weekly for each shipper having multiple C.O.D. collections. Under present procedures, postmasters are required to issue one or two money orders for each C.O.D. collection. We therefore recommended, in a report issued in August 1964, that POD's procedures for remitting proceeds from C.O.D. collections at first-class post offices having annual receipts in excess of $1 million be revised to require the issuance of a

FUND CONTROL (continued)

single money order or Treasury check, on a daily or weekly basis or for some other suitable period, to shippers entitled to the proceeds of two or more C.O.D. collections. We estimated that savings of about $600,000 annually are possible if POD adopts this recommendation. Also, we believed that additional savings could be achieved if C.O.D. payments were consolidated at those smaller post offices which have a substantial volume of C.O.D. deliveries. Accordingly we recommended also that POD prescribe criteria for establishing this revised procedure in those post offices having annual receipts of less than $1 million but handling a sufficient volume of C.O.D. deliveries to warrant consolidation of payments.

The POD has appointed a study team to review our recommendations.

PROGRAM ADMINISTRATION

ADMINISTRATION OF THE ECONOMIC AND TECHNICAL ASSISTANCE PROGRAM

152. Potential sources available to borrowers to be considered by the Agency for International Development before making loans to foreign countries--Our review of two budget-support loans totaling $15 million made to the Government of Ecuador showed that, in determining the amount of United States assistance needed by the Government of Ecuador to fund its budget deficits for calendar years 1961 and 1962, the Agency for International Development did not insist, as a precondition to United States aid, that the Government of Ecuador avail itself of all potential sources of internal borrowings or that it fully develop certain tax sources. The Agency did not do so at the time the loans were made because it did not adequately consider the status of the Government of Ecuador's borrowings from the Central Bank of Ecuador, and it believed that, in view of the internal political situation in Ecuador, the development or utilization of other domestic financial resources was not warranted.

In our report we stated that we believe that, because of the existence of internal financial resources, the economic need for these loans was doubtful. It was also our belief that this aid was in questionable compliance with the intent of the Congress as expressed in the Foreign Assistance Act of 1961, as amended, to the effect that aid-receiving countries should mobilize their own resources and help themselves.

The Agency acknowledged that its loans to the Government of Ecuador were excessive by about $800,000 on the basis of the credit ceiling at the Central Bank of Ecuador, which the Agency stated had remained unused at the calendar period when the Government of Ecuador's receipts were the lowest. The Agency advised us that, in future transactions, it would follow our suggestion that recipient countries should first utilize available internal credit sources.

ADMINISTRATION OF FOOD FOR PEACE PROGRAM

153. Need to consider bases under which traditional levels of commercial dollar sales can be reduced for foreign policy reasons--Our review of surplus agricultural sales activities in the United Arab Republic disclosed that United States commercial dollar sales of tallow to the United Arab Republic had been displaced by sales of surplus tallow for foreign currency under title I, Public Law 480, programs.

We estimated that commerical sales totaling about $5.5 million were displaced between 1962 and 1964 and that, under existing agreements, additional sales were likely to be displaced in 1965. This situation resulted because United States agencies made increasing amounts of title I surplus tallow available without establishing realistic commercial import requirements for the United Arab Republic. Commercial import requirements are specified in each Public Law 480 sales agreement as a means of ensuring that title I, Public Law 480, sales do not displace normal commercial sales.

In 1958, the United Arab Republic's imports of tallow amounted to about 32,000 metric tons which were obtained from United States exporters for dollars. In 1964, the United Arab Republic's imports increased to about 56,000 metric tons but United States commercial dollar sales decreased to 21,600 metric tons.

The Department of Agriculture did not agree that local currency sales under title I, Public Law 480, agreements resulted in a reduction of United States commercial exports. The Department stated that, in retrospect, it might be an open question as to whether or not the correct decision was made on a quantity of tallow that the United Arab Republic would have purchased commercially in the absence of a Public Law 480 agreement but that this was not the result of improper procedure in determining usual marketing requirements. The Department advised us that it was most difficult to say with any degree of certainty what quantity of tallow the United Arab Republic would in fact have purchased in the absence of a Public Law 480 agreement, given its deteriorating foreign exchange position.

We believe that the responsible United States agencies, in setting commercial import requirements for the United Arab Republic, did not make a realistic assessment of the established pattern of the United Arab Republic's tallow imports from the United States, the country's needs for tallow, and the country's willingness to utilize its foreign exchange holdings to purchase tallow through commercial channels. More realistic import requirements should have been established which would have made possible a substantially higher level of United States commercial tallow exports. The requirements should have been set on the basis of the level of established imports from the United States in the period from 1956 through 1960 and the United Arab Republic's willingness to utilize its foreign exchange in 1961, when United States commodity assistance was not available, to import tallow at a level in line with imports of previous years.

We believe that the real reason for the unrealistic assessment by the United States agencies involved in this matter, and the consequent failure to protect United States commercial exports, is the overriding consideration by the Department of State of the foreign policy aspects and implications of Public Law 480 programs and the administration of these programs in a manner which focuses primarily on this consideration rather than on the safeguarding of United States commercial exports.

We recommended to the Congress that it may wish to clarify the provisions of Public Law 480 to express more specifically its intentions regarding the displacement of United States commercial sales by Public Law 480 programs for foreign policy considerations.

154. Need to consider revision of policy of donating flour instead of wheat to voluntary relief agencies--In a report submitted to the Congress in March 1965, we pointed out that unnecessary costs of about $3.7 million had been incurred because flour had been processed or bought in the United States and delivered to voluntary relief agencies for distribution to needy people in Taiwan even though it would have been more economical to furnish wheat and have the processing done in Taiwan. This is the result of an inflexible policy of the Department of Agriculture which has made only flour processed in the United States available to voluntary relief agencies for overseas relief programs.

We recommended that the Congress consider amending section 416 of the Agricultural Act of 1949, as amended, to permit the donation of processed commodities, such as flour, instead of whole grains, to voluntary agencies for distribution abroad only after the Secretary of Agriculture has determined on a case-by-case basis that it would not significantly increase costs to the United States to do so.

155. Need to identify and exclude payment of unallowable port charges on food shipments--About $393,000 was improperly paid on food shipments to Colombia between 1961 and 1963 because tariff rates included port charges properly chargeable to the Colombian Government under the terms of agreements between the United States voluntary relief agencies, which received and distributed the foodstuffs, and the Government of Colombia. This situation resulted from the failure of the Agency for International Development and the voluntary relief agencies to examine adequately the makeup of the tariff rates which included these charges.

We recommended that the Agency for International Development initiate action to obtain a refund and determine the extent to which such port charges are being improperly paid in other countries. We also recommended that, to provide for more effective reviews of tariffs in the future, the Federal Maritime Commission require all ocean carriers of United States-financed cargo to itemize and separately state in their tariffs the several factors comprising all port charges imposed by a foreign government.

156. Need to verify factual basis for granting commodities for famine relief--In our examination of the food donation program for the United Arab Republic under title II of Public Law 480, we found that the Agency for International Development granted about 186,000 metric tons of corn, costing over $23,700,000 in December 1961, on the basis of representations made by the United Arab Republic that a famine would occur as a result of crop failure.

The grant was made without adequate verification of the actual need for the requested assistance. Official statistics of the United Arab Republic, which were subsequently accepted by United States agencies, showed that the corn crop had not failed and most of the corn was undelivered many months after it arrived in Egypt.

Also, responsible United States agencies did not check on the distribution of 85 percent of the corn and did not know whether this quantity of corn ever reached intended recipients. The limited distribution checks which were made disclosed that substantial quantities, which the United Arab Republic had agreed to give to needy people, were sold. A subsequent audit of the records of agencies of the United Arab Republic disclosed that over 80,000 tons had been sold.

The Agency for International Development advised us that its approval of the title II program was based on a major shortfall in the corn and cotton crops. This approval was based not only on representations of the United Arab Republic but also on the observations and estimates of United States officials then stationed in the United Arab Republic. We evaluated these observations and estimates and found that they were not based on any factual evidence and were contradicted by statistical evidence.

The Department of State advised us that the decision to approve the grant of title II corn was justified on the basis of information that there had been a widespread crop failure in the United Arab Republic. The Department also advised us that the willingness to consider a title II program coincided with a conscious effort to improve relations with the United Arab Republic, its geopolitical importance, and the part it played in assuring peace and stability in the Near East. In our opinion, these foreign policy considerations were the underlying reasons for the grant of corn to the United Arab Republic and for the failure of responsible agency officials to adequately verify the need for title II commodities before approving the grant of corn.

We believe that there is a need to clarify, in existing legislation, the conditions under which the executive branch can donate surplus agricultural commodities to achieve political objectives. Public Law 480, as presently written, makes no specific provision for such donations. In our report, we recommended that the Congress consider enacting legislation which would require that commodities be donated under title II of Public Law 480 only upon certification by the United States Chief of Mission that he has verified the need for such commodities or upon the determination

by the Secretary of State that such food donations are in the interests of the United States.

We also recommended to the Congress that it might wish to consider whether it would be more appropriate to require that the expense of providing surplus agricultural commodities to foreign governments to meet United States foreign policy objectives be met from appropriations made available to the Department of State or the Agency for International Development rather than from Department of Agriculture appropriations.

ADMINISTRATION OF GRANT PROGRAMS

157. Action taken by the Area Redevelopment Administration to strengthen administration of grant funds--In a January 1965 report, we stated that although the Area Redevelopment Act provides for grant assistance only upon a finding that there is little probability that the project can be undertaken without such assistance, the Area Redevelopment Administration (ARA), Department of Commerce, authorized a grant of $118,000 to the Pueblo of Laguna, Laguna, New Mexico, for the purpose of financing the cost of public facilities to serve an industrial plant, notwithstanding the availability of financial information showing such assistance was unneeded.

We proposed that, to assist in preventing the recurrence of a similar situation, the Administrator, ARA, and the Commissioner, CFA, bring this case to the attention of the individuals responsible for evaluating the financial condition of the various government organizations applying for grant assistance under the Area Redevelopment Program. Although ARA did not fully agree with our conclusion that the grant was not needed, it agreed that a more thorough financial analysis should have been made and advised us that measures had been taken to prevent recurrence of the deficiencies attributable to its employees.

158. Action taken by the Department of Health, Education, and Welfare to strengthen administration of the Hill-Burton program--In a report issued in October 1964, we stated that, during our review of the hospital survey and construction grant program (commonly known as the Hill-Burton program) administered by the Public Health Service (PHS), Department of Health, Education, and Welfare, we noted certain weaknesses in the procedures for planning of hospital and medical facilities construction programs, which should be corrected to provide greater assurance that both Federal and private funds--totaling hundreds of millions of dollars each year--will not be used to construct facilities which are not needed or are poorly located. The weaknesses noted pertain to (a) the lack of specific criteria to obtain consistent determinations by the States as to the suitability of existing facilities, (b) inaccurate inventories of the number of beds in existing facilities, and (c) the method of estimating bed needs without adequately considering the extent that existing facilities are being utilized. In response to our proposals to correct the weaknesses, PHS has taken numerous actions to resolve the problem of evaluating the adequacy of existing facilities and to develop more effective planning procedures.

We noted also that the failure by PHS to obtain adequate justification for determining the need for proposed construction of chronic disease facilities resulted, in several instances, in grants for projects which were justified as chronic disease facilities but were subsequently used to provide other medical services. For two cases, Federal participation increased about $164,000 because of inadequately justified changes in proposed bed use from general to chronic disease. In response to our proposals, action was taken by PHS to require more adequate justifications in requests for assistance for chronic disease facilities.

Our review also disclosed that PHS approved additional grants totaling $2.1 million for 20 projects, for which grants had previously been approved, under circumstances where (a) the proposed construction did not provide for an increase in the number of beds, (b) the estimated total project costs remained the same or decreased, and (c) the 20 sponsors had previously given the required financial assurances in agreements with the Federal Government that these projects could be completed without further Federal aid. Although the total grants for these projects did not result in exceeding the maximum prescribed rates for Federal participation, the additional grants were questionable because the grantees had already agreed to accept smaller amounts and the project agreements contained no specific commitment for the Federal Government to provide additional funds. PHS took action to modify the agreements for all newly approved projects in a manner which satisfactorily resolved the question we raised.

Our review further disclosed that PHS had not established adequate procedures relating to recoveries of grant funds from project owners when projects ceased to be eligible under title VI of the PHS Act. We found that records were incomplete, that varying valuation methods were in use, and that States did not promptly report ineligible projects to PHS. On the basis of available records, it could not be determined whether appropriate recoveries had been made in all instances.

Section 625(e), title VI, PHS Act, amended, states that, if an eligible facility shall, at any time within 20 years after construction, be sold or transferred to any person, agency, or organization not qualified to file an application or not approved as a transferee by the State agency under this act, the United States shall be entitled to recover from either the transferor or the transferee an amount bearing the same ratio to the "then value" as the amount Federal participation bore to the cost of constructing such project or projects.

Subsequent to our review, PHS developed formal procedures on all aspects of the recovery procedure, which should improve future program administration.

159. Action taken by the Department of Health, Education, and Welfare to apply principles set forth in Bureau of the Budget Circular No. A-21 for determining indirect cost rates--Our review disclosed that eight grantee institutions received maximum amounts allowable for indirect costs from the Public Health Service, Department of Health, Education, and Welfare, even though they furnished only limited supporting services and facilities to the investigators working on the grant projects. Under these circumstances, we believe that consideration should have been given to basing payments for indirect costs on lower indirect cost rates to avoid reimbursement for costs of services and facilities not provided by the institution.

Accordingly, we recommended in a report issued in January 1965, that the Surgeon General revise the PHS Grants Manual to provide that management officials consider the need for negotiation of separate indirect cost

rates prior to award of individual grants whenever there are indications that the sponsoring institutions will furnish only limited support to the investigators working on the projects. Effective July 1, 1965, PHS revised its policy to provide that indirect costs will be negotiated where limited supporting services are furnished by the grantee institution for a project in which a major part of the work is to be performed off-campus.

160. Action taken by the Department of Health, Education, and Welfare to strengthen policies and procedures relating to payments for indirect costs--In our review of payments for indirect costs under research project grants awarded by the Public Health Service, Department of Health, Education, and Welfare, and administered principally by the National Institutes of Health, we found that certain grantee institutions were paid for indirect costs at the maximum legal rate of 15 percent of allowable direct project costs, even though PHS had information showing that lower actual indirect cost rates had been established and included in PHS and other Government agency medical research contracts with the same institutions. We believe that the available information should have made PHS aware of the need to review the appropriateness of its policy in effect prior to January 1, 1963--which provided for payment for indirect costs at the maximum 15-percent rate to all grantees--so that possible overpayments to grantees for indirect costs could be avoided. In January 1963, the agency established a policy which no longer provided for the maximum indirect cost rate to be applied uniformly to all grantees.

In June 1964, PHS advised us that it accepted the obligation to seek to recover any indirect costs that were in excess of a grantee's actual indirect costs prior to January 1, 1963, that recovery proceedings had been instituted against three grantees, and that steps had been taken to strengthen internal audit and review procedures. However, our review indicated that action had not been taken to ascertain if payments previously made to certain other grantees at the maximum rate of 15 percent were proper.

We recommended to the Surgeon General, in a report issued in January 1965, that, where warranted on the basis of information on indirect cost rates and the amounts of payments involved, action be taken to determine the propriety of payments for indirect costs made prior to January 1, 1963, and to recover amounts paid in excess of actual indirect costs applicable to the research projects. We also recommended that the Secretary of HEW strengthen internal review procedures at the Department level to provide better means for bringing to his attention the need to review established policies of the various constituent agencies.

Subsequent to the issuance of our report, the agency informed us of various actions it was taking to comply with our recommendations.

161. Need for comprehensive evaluation by the Area Redevelopment Administration of grantees' total financial resources in determining need for grant assistance--Although the Area Redevelopment Act required that grant assistance be made available only in those cases where there was little

probability that a project could otherwise be undertaken, the Area Redevelopment Administration, Department of Commerce, authorized the use of grant funds to assist a building company in financing the development of an industrial park without, in our view, having a sufficiently supported basis for determining that the grantee was not capable of financing the project without Federal grant assistance. As a result the Federal Government will incur unnecessary costs of about $322,000 representing the amount of the approved Federal grant.

Our review disclosed that, pursuant to its authority delegated by the Secretary of Commerce, and in accordance with ARA policy, the Community Facilities Administration of the Housing and Home Finance Agency, in its determination of whether the grantee's project could be financed with loan assistance, largely restricted its considerations of available revenues to those which might be generated by the project.

We believe that ARA gave insufficient consideration to the intent of section 8 of the Area Redevelopment Act. This section was intended to make grant funds available only to those applicants that can demonstrate an extreme case of need for a project which cannot be undertaken without grant assistance. Although its stated policy was that a loan for the maximum amount that could be reasonably repaid be made in preference to a grant, ARA, by restricting consideration of resources available for repayment to those that might be generated by the project, in effect, substantially minimized the possibility of loan assistance for certain types of public facilities projects. It seems obvious that, by excluding the basic sources of the grantee's revenues from consideration, the likelihood that a loan would be made was limited if not precluded.

Therefore, in a report issued in March 1965, we recommended that the Secretary of Commerce direct the ARA Administrator to clarify ARA's stated policy by requiring a comprehensive evaluation of a potential grantee's financial condition so as to provide a more realistic basis for determining whether grant assistance was essential to carry out the purposes of the governing legislation. We stated that such policy clarification should require that the evaluation recognize the current and prospective financial condition of the potential grantee, giving particular consideration to the total resources available to the potential grantee, in determining its need for a Federal grant.

ARA subsequently stated that, as no appropriated funds or authorization remained for extending grant assistance under the act, our recommendation would be recorded for consideration if a program extending grant assistance was authorized by the Congress on terms comparable to those contained in the Area Redevelopment Act.

AREA REDEVELOPMENT PROGRAMS AND ACTIVITIES

162. Action taken to provide a more reliable estimate of probable employment effect of proposed projects in economically depressed areas--Our review of the manner in which the Administrator, Area Redevelopment Administration, Department of Commerce, discharged his responsibilities under the Area Redevelopment Act, disclosed that the Administrator had approved Federal loans under section 6 without having adequately evaluated the estimate of permanent new employment opportunities to be created by each project, resulting in a substantial overstatement of the anticipated accomplishments of the program to the Congress.

In a report issued in May 1965, we stated that our review of 80 projects, which had received financial assistance under section 6 of the act and where the facilities provided by such assistance had been in operation for 1 year as of September 1964, disclosed that these projects had actually created 4,912 jobs, whereas, ARA had reported that 9,539 jobs would be created within that time. Thus, the agency's estimate of jobs to be created exceeded the number actually created by 4,627, or approximately 94 percent. If what we found to be true for the 80 projects is true for all of the 285 projects reported by ARA to the Congress as of February 1964, it appears that ARA's estimate of 34,168 jobs to be created was overstated by approximately 16,600 jobs.

Our review had been undertaken as a result of our previous reviews of certain individual section 6 projects which were the subject of separate reports to the Congress and which had disclosed inadequate evaluations by ARA and the Small Business Administration (SBA)--SBA being responsible for carrying out certain functions and duties in the area redevelopment program under authority delegated by the Secretary of Commerce--of the extent to which the projects could be expected to create new employment opportunities and, thus, further the primary objectives of the area redevelopment program. Instead, both agencies had placed almost complete reliance upon the applicants' representations as to the number of new jobs to be created by the projects.

Our review of one project showed that SBA did not consider or call to the attention of ARA the possible effect on employment opportunities of a material modification of a project. The modification, which had been made unilaterally by the borrower, could have had an adverse effect on the number of employment opportunities expected to be created by the project as originally approved.

Subsequent to initiation of our reviews, ARA issued procedures for estimating employment expected to result from its financial assistance projects. Detailed instructions were provided to its personnel for carrying out the evaluation, substantiation, periodic review, and adjustment of estimates of employment expected to result from the projects. In addition, as a result of our proposal, ARA requested SBA to make the evaluation of the number of employment opportunities, which could be reasonably expected to be generated by proposed projects, a formal requirement of all financial investigations undertaken for ARA. SBA advised us that, as requested, it would carry out this responsibility.

In our reports to the Congress, we expressed the belief that the revised procedures, if effectively implemented and administered, should result in a more reliable appraisal of the probable effect of proposed projects on employment opportunities in redevelopment areas and thus should provide a more realistic basis for judging whether a particular project would be effective in accomplishing the basic purpose of the Area Redevelopment Act. We stated also that effective implementation of the procedures should contribute to more reliable reporting to the Congress and the public of the anticipated accomplishments of the area redevelopment program.

163. Action taken to strengthen administration of loans--Our review of one project assisted under the Area Redevelopment Act disclosed that the Small Business Administration, which was responsible for carrying out certain functions under delegation of authority by the Secretary of Commerce in connection with loans made under section 6 of the Area Redevelopment Act, had improperly disbursed about $18,000 of Federal loan funds in excess of the amount permitted under the terms of the loan authorization which provided that Federal funds not be disbursed until project funds from other sources were exhausted and then only for project costs which the borrower had paid or was obligated to pay.

In a report issued in December 1964, we recommended that the Area Redevelopment Administration, Department of Commerce, request SBA to obtain immediate repayment from the borrower of the funds disbursed in violation of the terms and conditions of the loan authorization and, also, that ARA request SBA to reemphasize to employees responsible for administering area redevelopment loans the importance of strictly adhering to the terms and conditions under which the loan funds are authorized to be made available to the borrower.

Although agreeing that an excessive disbursement had been made, ARA did not require repayment of the funds in question but allowed the borrower to apply them to other purchases of equipment. SBA did, however, instruct its employees to determine that all terms and conditions of a loan authorization had been complied with prior to or simultaneous with disbursement.

164. Action taken to preclude disbursements to prospective borrowers prior to establishing ownership interests and/or corporate composition--The Area Redevelopment Administration, Department of Commerce, approved and disbursed a loan of $355,000 to a private corporation to assist in financing the purchase and improvement of an existing salmon cannery, although $500,000 of the $700,000 total project cost was to be paid by the borrower to its parent corporation for the plant which was owned and being operated by the parent corporation. Notwithstanding the fact that both ARA and the Small Business Administration (which was responsible for the performance of certain functions and duties under the Area Redevelopment Act), were aware that an intercorporate relationship might exist which would negate the justification for Federal assistance in financing the total project as proposed, and although the borrower was not yet incorporated

at the time of loan approval, neither agency made a sufficient review to disclose the true relationship between the two corporations.

Both ARA and SBA agreed with our finding and with our proposal that the circumstances of this case be brought to the attention of the individuals responsible for the actions taken thereon. Additionally, SBA admonished the staff members responsible and issued remedial instructions intended to prevent recurrence of a situation of this type.

Although the remedial instructions which have been issued by SBA were desirable, we believed that additional measures should be taken in cases where a prospective borrower had not been incorporated or organized at the time of loan approval.

Therefore, in a report issued in April 1965, we recommended that the ARA Administrator request the SBA Administrator to establish procedures under which, whenever a loan was authorized prior to the incorporation or organization of the prospective borrower, the ownership interests and/or corporate composition of the prospective borrower would be specifically reviewed at the time of loan closing and a positive finding would be made that the relationship of the borrower to any party having an interest in the project was not such as would adversely affect the justification for the requested financial assistance in the light of the objectives of the act. We also recommended that the ARA Administrator cause to be included in loan authorizations, executed prior to the incorporation or organization of the prospective borrower, a provision making the above finding by SBA a condition precedent to disbursement of loan funds.

ARA subsequently took action in accordance with our recommendations.

165. Action taken to preclude loans to borrowers imposing an investment requirement on prospective employees as a condition precedent to employment--Our review of the circumstances under which the Area Redevelopment Administration, Department of Commerce, in fiscal year 1963 approved a $140,000 industrial loan to a private corporation and the effect of the loan on unemployment problems in Lewis County, Washington, disclosed that the borrower generally required prospective employees, as a condition precedent to employment, to make substantial investments in the business venture without being given an opportunity to participate significantly in the management thereof. This condition, which ARA had stated was not consistent with the primary intent and purposes of the area redevelopment program, resulted in the denial of equal opportunity for employment to unemployed persons within the redevelopment area.

Although information contained in the project documents should have been sufficient to raise a question as to the compatibility between the employment practice and the purposes of the program; neither ARA nor Small Business Administration appears to have been aware of the objectionable practice until after loan approval. When ARA became aware of the true situation, prior to disbursement of the loan to the borrower, it took no effective action to require the borrower to revise its employment policies to conform to the objectives of the area redevelopment program.

In a report issued in October 1964, we recommended that the ARA Administrator issue a policy directive which would prohibit the imposition by borrowers of an investment requirement as a condition precedent to employment. We recommended that, to assist in the effective implementation of such a directive, the Administrator require that applicants for financial assistance submit definitive statements of employment policy, including a certification of compliance with the above policy directive, and cause such statements to be carefully evaluated as a part of the project review process. We recommended further that, to provide maximum effectiveness in this element of the project review process, the ARA Administrator delegate to the SBA Administrator the authority and responsibility to consider and report upon all aspects of a proposed project which could impair its effectiveness in promoting the purposes of the Area Redevelopment Act.

Subsequent to the issuance of our report, the ARA Administrator and the SBA Administrator established procedures, intended to accomplish the purposes of our recommendations.

166. Acceptance of recommendation to minimize inequitable allocation of accelerated public works funds among eligible areas.--The Public Works Acceleration Act authorized Federal assistance to Federal and local agencies to accelerate or initiate public works projects intended to provide immediate useful work for the unemployed and underemployed in eligible areas of the Nation.

In complying with the provision of the act that adequate consideration be given to the relative needs of eligible areas, the Area Redevelopment Administration devised programming guidelines, primarily on the basis of the number of unemployed persons, to allocate appropriated funds among eligible areas. To allocate the first appropriation of $400 million enacted in October 1962, ARA used unemployment rates for 1 month, generally February, April, or May, 1962, to determine the quotas for the labor surplus areas and used unemployment data for the calendar year 1961 to determine the quotas for the redevelopment areas designated on the basis of unemployment. Consequently, the unemployment data used to allocate the first accelerated public works appropriation were about 5 to 8 months old for labor surplus areas and about 9 months old for redevelopment areas.

When the second accelerated public works appropriation of $450 million was enacted in May 1963, ARA did not recompute area quotas on the basis of more current employment data, but, instead, allocated the funds on the basis of the allocation of the first appropriation. Therefore, the allocation of the second appropriation did not take into consideration current changes in unemployment inasmuch as the unemployment data were then about 12 to 15 months old for labor surplus areas and about 16 months old for redevelopment areas.

Annual unemployment rates were used to establish quota guidelines for redevelopment areas because the redevelopment areas became eligible for depressed area assistance primarily on the basis of long-term unemployment

problems and monthly rates were used for labor surplus areas because these areas became eligible on the basis of short-term unemployment problems.

In commenting on our findings, the ARA Administrator agreed that the most current unemployment data should be used. However, he attributed the use of 1961 annual data for redevelopment areas to the nonavailability of data for a more current calendar year.

Our review showed that current unemployment data on a fiscal-year basis were available at the Department of Labor for all major employment centers at the time ARA computed the area quotas for both the first and the second accelerated public works appropriations. Because of the close working relationships between ARA and the Department of Labor, unemployment data available to the Department would also be available to ARA.

Our review of the quota guidelines for selected areas disclosed that the 1961 average unemployment data used for allocating funds to redevelopment areas and the noncurrent monthly unemployment rates used to allocate funds to the labor surplus areas resulted in inequitable allocations among areas because area unemployment rates had changed significantly.

We stated that we believed that the judicious use of the most current unemployment data available would minimize allocation inequities, result in a distribution of funds to eligible areas on a fair and equitable basis, and better carry out the congressional mandate that adequate consideration be given to the relative needs of the eligible areas. In a report issued in May 1965, we recommended that, if the Congress authorized the continuation of the accelerated public works program or enacted similar depressed-area legislation, the Secretary of Commerce devise procedures that would give adequate recognition to changes in area unemployment problems and provide for periodic revisions of area quotas.

Subsequent to the issuance of our report, ARA stated that such a procedure would be possible under the provisions of the Public Works and Economic Development Act of 1965, which extends certain of the purposes of the Public Works Acceleration Act.

167. Action to be taken to establish policies to defer approval of pending applications for assistance in areas under consideration for termination of eligibility status--In our examination of the administration by the Area Redevelopment Administration, Department of Commerce, of the depressed area programs authorized by the Area Redevelopment Act and the Public Works Acceleration Act, we found that about $26 million had been spent or committed for accelerated public works projects in areas of the Nation which the Secretary of Labor had found were no longer burdened by substantial and persistent unemployment according to the criteria of the statutes or regulations. These areas received assistance because ARA's policy permitted the approval of accelerated public works program grants to such areas during the 7- to 13-month period when ARA was considering whether to terminate the depressed area designations.

So that assistance under the Public Works Acceleration Act might be provided only to those areas of the Nation most urgently in need of such assistance and which were then burdened by substantial unemployment, we recommended in a report issued in October 1964, that, if the accelerated public works program was continued, the Secretary of Commerce adopt policies which would result in deferring approval of accelerated public works applications for assistance from all areas which the Secretary of Labor found no longer met the criteria for designation as redevelopment areas. In the event that such areas again met the criteria for this designation, these applications might be reinstated and further assistance might be considered. Our recommendation was not intended to affect the validity of contracts or undertakings which were previously entered into.

ARA accepted our recommendation and stated that the change in procedures would become effective if additional funds were appropriated by the Congress under legislation similar to the act.

168. Need to strengthen policies and procedures for evaluating projects prior to disbursement of funds--Our review of the circumstances under which the Area Redevelopment Administration, Department of Commerce, included $494,000 in an industrial loan to a private corporation to acquire and improve an industrial facility at Happy Camp, California, disclosed that the loan was approved despite the existence of adverse information relating to the effect which the project would have on employment. Further, ARA permitted disbursement of loan funds without having evaluated firm plans and specifications for the plant improvements in the light of their effect upon proposed plant employment. As a result, Federal loan funds in the amount of $494,000 assisted the borrower in the acquisition and improvement of a plant which created no additional employment in the redevelopment area in which the plant was located.

The ARA Administrator acted on our proposal that procedures be instituted under which any modification in a proposed project in connection with which Federal loan assistance was granted would be evaluated as to its effect upon increased employment opportunities. However, he did not comment on our proposal that a policy directive be issued prohibiting disbursement of Federal funds for the benefit of any project that entailed the acquisition, modification, or construction of facilities or equipment of a nature which could affect the number of employment opportunities to be created until firm plans and specifications for such facilities or equipment had been reviewed and approved.

We recommended that the ARA Administrator issue a policy statement prohibiting the disbursement of Federal funds for the benefit of any project that entailed the acquisition, modification, or construction of facilities or equipment of a nature which could affect the number of employment opportunities to be created until firm plans and specifications for such facilities or equipment had been reviewed and approved by ARA.

ARA disagreed with our recommendation, stating that it did not appear that the recommended action would provide such additional safeguards as would justify the resulting delay in making disbursements. We believe, however, that, if funds are disbursed before firm plans and specifications have been received and reviewed, there exists no reasonable opportunity to evaluate the employment potential of the project for which Federal funds are made available.

169. Need for action to preclude assumption of unwarranted loan risks--A manufacturing company submitted applications to the Area Redevelopment Administration, Department of Commerce, requesting that loans be made to assist in financing a plant for the production of a three-wheel light delivery vehicle. The Small Business Administration, pursuant to its delegation of authority from the Secretary of Commerce, reviewed the overall feasibility of the project in the light of criteria established for the evaluation of loans to potential borrowers applying for assistance under the ARA program. On the basis of its analyses, SBA recommended that ARA decline to make loans to the company because there was no basis for a determination, as required by the Area Redevelopment Act, that repayment of the loan was reasonably assured. Specifically, SBA recommended this action because of the lack of (a) any concrete evidence that the product could be marketed on a scale sufficient to justify the investment to be made, (b) reasonable assurance that the project could be operated at a rate of profit sufficient to repay the loans and other obligations from earnings, (c) adequate working capital to operate the project, and (d) adequate collateral to secure the loans. Despite the existence of these adverse conclusions on basic credit considerations, ARA approved the loans in the total amount of $342,000, which may result in a loss of about $230,000, without demonstrating that SBA's conclusions were unsound.

Inasmuch as one of SBA's functions under the program was to make recommendations to ARA on the basis of its expert knowledge and skills and a detailed review of the economic feasibility of proposed projects, it was our view that ARA should have, in the absence of clearly convincing additional information negating SBA's conclusions, acted in accordance with the recommendations made. Accordingly, in a report issued in November 1964, we recommended that, to assist in preventing the assumption of unwarranted risks by the Federal Government, ARA act in accordance with SBA's recommendations in situations where the latter agency had clearly and convincingly demonstrated that a reasonable assurance of repayment did not exist.

EXCHANGE STABILIZATION FUND

170. Need for reevaluation or clarification of the nature and scope of the activities to be financed from the Exchange Stabilization Fund--In June 1965 we reported to the Congress that the Secretary of the Treasury used moneys from the Treasury's Exchange Stabilization Fund to purchase a residence for the Financial Attache in Tokyo at a cost of $150,000 under authority vested in the Secretary by section 10b of the Gold Reserve Act of 1934, as amended.

Section 10b of the act provides that the Fund shall be available for expenditure under the direction of the Secretary of the Treasury, and in his discretion for any purpose in connection with carrying out the provisions of this section, and that decisions of the Secretary relating to the use of the Fund are not subject to review by any other office of the United States.

Under this broad authority, the Secretary was able to purchase the property without subjecting his proposal to the scrutiny of the Congress which approves the acquisition of property overseas for most civilian agencies through Department of State appropriations. The Secretary of the Treasury justified the purchase of the house on the basis that it was a fair value and that the purchase was in the best interest of the United States.

We recommended to the Congress that it might wish to consider (a) the extent to which international activities of the Treasury which appear to be only slightly related to the stabilization of the exchange value of the dollar, but which are blanketed by the Treasury under the broad authority of the Exchange Stabilization Fund, should be brought under traditional congressional appropriation and control processes and be made subject to the Bureau of the Budget and General Accounting Office scrutiny and (b) the desirability of having an independent audit of the Fund because, apparently, no independent audit has been made since its creation in 1934.

In August 1965, a bill was introduced in the House of Representatives (H.R. 10474) which provides that the General Accounting Office make audits of the Exchange Stabilization Fund.

FEDERAL-AID HIGHWAY PROGRAM

171. Consideration being given to issuance of policy statement regarding protection of right-of-way--Our review of certain aspects of the Federal-aid highway program in the States of Utah and New Jersey, as administered by the Bureau of Public Roads, Department of Commerce, disclosed that unnecessary costs of about $595,000 were incurred in connection with the acquisition of rights-of-way needed for interstate highway projects because certain unimproved parcels of land, situated in the paths of the approved interstate routes, were not acquired before improvements were constructed thereon. The Federal share of these costs was about $538,000. Under existing Bureau policy there was little motivation for the States to take timely and effective action to acquire the parcels in advance of their improvement.

Therefore, in reports issued in October 1964 and April 1965, we recommended that the Federal Highway Administrator issue a policy providing that Federal funds will not participate in any right-of-way costs which can be reasonably avoided by a State if the State has an effective program, through advanced right-of-way acquisition or otherwise, to protect against the improvement of property known to be required for highway purposes.

The Bureau stated that there were many problems involved in protecting property needed for right-of-way but that it was considering the feasibility of issuing a specific policy statement pertaining to advance protection of right-of-way.

172. Current estimates of funds needed to complete the Inter-American Highway to be submitted--In a report issued in December 1964 on our review of the $32 million estimate of additional United States funds needed to complete the Inter-American Highway, which was presented to the Congress in 1962 by the Bureau of Public Roads, Department of Commerce, in support of its request for increased fund authorizations, we stated that (a) the estimate was not based on detailed contract plans as the Bureau had indicated to the Congress and (b) the estimate contemplated a better and more expensive type of pavement than Bureau records indicated would be used as the highway surface. Subsequent cost estimates for certain projects based on detailed contract plans indicated that actual additional United States funds necessary to complete the work will be about $1.4 million or about 15 percent less than the $9.2 million included for these projects in the $32 million estimate presented to the Congress.

The Bureau advised us that, in informing the Congress that the estimate was based on detailed contract plans, it had intended only to emphasize that the estimate was more reliable than were previous estimates which had been presented to the Congress in support of requests for fund authorizations. The Bureau advised us also that, at the time the estimate was presented to the Congress, it was the Bureau's intention to construct the better and more expensive type of pavement upon which the estimate was based and that the decision to use the less expensive type of pavement was premised on subsequent engineering studies. If there was any intention on

the part of the Bureau to construct the more expensive type of pavement, we could find no evidence which would indicate that either this decision or the fact that the estimate was based on the better and more expensive type of pavement was communicated to the Bureau field officials having immediate responsibility for the administration of the program. The subsequent engineering studies referred to by the Bureau consisted of the engineering judgment exercised in the development of detailed contract plans by personnel who, according to information furnished us, were not aware of the type of pavement contemplated in the estimate.

The Bureau agreed to our proposal that, before requesting an appropriation for the final portion of the $32 million authorization, it submit to the Congress current estimates of the funds needed to complete the highway.

173. Need for improving the effectiveness of quality-control programs established by States for highway construction--Our review of the manner in which the Bureau of Public Roads, Department of Commerce, has formulated and administered a program for evaluating the effectiveness of controls over construction on Federal-aid highway projects, generally called the record-sampling program, disclosed that the lack of effective direction and leadership at the policy-making level of the Bureau resulted in serious shortcomings in some States during the early years of the program and that problems of varying magnitude continued to exist which tended to impair the effectiveness of the program. The program was instituted by the Bureau in April 1960 to detect inadequate State construction control practices and was prompted by the disclosure by the Special Subcommittee on the Federal-Aid Highway Program, Committee on Public Works, House of Representatives, of significant deficiencies in highway construction practices.

It is our view that the desired degree of assurance that each State's quality-control program is adequately established will best be obtained by requiring the States, as a prerequisite for continued Federal aid, to formulate and submit within a reasonable period statements of their materials-testing and construction inspection organizations, policies, and procedures for Bureau review and approval. Therefore, in a report issued in May 1965, we recommended that appropriate action along these lines be taken by the Federal Highway Administrator.

The Bureau did not fully agree with our recommendation but stated that instructions would be issued to each Division Office to (a) evaluate each State's current construction manual for adequacy requiring the addition of a chapter on job control, progress record, and final record sampling and testing, (b) discuss the results of the evaluation with the State and, where weaknesses are found in existing manuals, request that appropriate corrections be made, (c) request States that do not have construction manuals to develop an adequate manual, and (d) impress on the State, where weaknesses or lack of construction manuals exist, the importance of assigning a high priority to developing an adequate manual.

174. Need for Bureau of Public Roads, Department of Commerce, policy governing the part-time employment of State highway department personnel by consultant engineering firms--The Bureau of Public Roads, Department of Commerce, has been aware of the fact that a considerable number of State of New Jersey engineering personnel were employed after regular business hours by consultant engineering firms that were under contract with the State to perform design work on various highway projects. There is no established Bureau policy, however, governing the action that should be taken by its field officials when such practice is found to exist.

We proposed in a report issued in November 1964 that the Federal Highway Administrator establish a policy that Federal participation in the costs of any contract work not be allowed in those situations where, during the period of the contract, the contractor engaged the services of professional or technical personnel who were employed by the State highway department.

The Bureau advised us that it recognized the serious problems of both a short-range and a long-range nature involved in this situation but expressed the view that our proposal looked to more drastic remedies than were necessary or desirable. The Bureau agreed, however, that a policy addressed to this general problem may be desirable and stated that it was giving consideration to the development of such a policy.

FEDERAL COMMUNICATIONS SERVICES

175. Action taken by General Services Administration to obtain full advantage of reduced bulk rate for intercity leased communications lines under consolidated leasing arrangements--In a report issued in October 1964, we stated that unnecessary costs of about $1.6 million were incurred by certain civil agencies of the Government for the period from February 1961 through June 1963 because of failure by the General Services Administration to take full advantage of reduced bulk rates offered by the telephone companies for intercity leased communications lines under consolidated leasing arrangements. The Government could have benefited immediately from the lower bulk rates in February 1961, when they became available, because no changes in equipment were necessary and all that was required was for GSA to centrally administer the leasing of the lines. Our review disclosed that 16 civil agencies continued as of June 30, 1963, to independently lease lines which could have been incorporated into the circuit management program of GSA. We estimated that unnecessary costs resulting from the independent leasing of these lines were being incurred at the rate of $1 million annually. GSA has since stated that, because of recent consolidations in the leasing of agency circuitry, this annual rate of loss has decreased substantially.

As a result of our review and proposals, GSA Circular No. 352 was issued to the heads of Federal agencies requesting (a) an inventory of intercity communications lines requirements and (b) executive agency participation in the GSA circuit management program. Other Federal agencies were urged to participate because of the inherent economies offered. In May 1965 we were informed by GSA that, as a result of this circular, all agencies that should participate in the program are now doing so.

176. Department of Defense to give consideration to the appointment of project coordinators for future communications projects--Our review of the military assistance program for a Far East country disclosed significant deficiencies in the planning, programming, and contracting for a nationwide fixed communications system for the country. As a result, over $13 million of military assistance program funds was contractually obligated and, of this amount, $11.6 million was paid to a United States contractor in the face of frustrating circumstances and compromises which led to a complete stalemate in the communications program.

Because we believed that deficiencies in the planning, programming, and contracting for the communications system resulted from lack of coordination between various responsible agencies of the United States, the contractor, and the recipient country, we recommended that the Secretary of Defense require that, for similar future projects of major scope and complexity, a project coordinator be appointed at the highest responsible level within the Office of the Assistant Secretary of Defense for International Security Affairs (ISA).

On July 2, 1965, the Department of Defense advised us that our recommendation regarding MAP project coordinators had merit and that, subject to other priority demands, full consideration would be given to the appointment of project coordinators for similar projects of major scope and complexity, recognizing, of course, that this would not relieve the

Assistant Secretary of Defense, ISA, of his responsibility to direct and administer military assistance programs in accordance with executive policies and decisions.

177. Action taken to regularly exercise legal authority to make independent examinations of operations of contract markets--In a report issued in July 1965, we stated that the Commodity Exchange Authority (CEA), Department of Agriculture, did not review, on a periodic basis, the records of contract markets. We noted that, as a result, CEA was not in a position to know whether it was being adequately apprised of the operations of the contract markets and may not have had in its possession the necessary information to effectively administer and enforce the provisions of the Commodity Exchange Act.

In August 1965 the Under Secretary of Agriculture informed us that the agency had recently put into effect a plan calling for a periodic review of the books and records of contract markets on which futures trading is active. The Under Secretary stated also that sufficient time had not elapsed for the agency to evaluate the effectiveness of these reviews and that at a later date an evaluation would be made to determine whether the plan should be continued in its present form, expanded, or discontinued.

178. Action planned to increase number of trade-practice investigations on certain commodity futures markets--The number of trade-practice investigations made by the Commodity Exchange Authority, Department of Agriculture, was not sufficient to disclose and discourage abusive trading practices by individuals trading on certain commodity futures markets. Our review showed that 21 of the 36 regulated futures markets had not been subjected to trade-practice investigations during the 5-year period ended June 30, 1964. These 21 futures markets had transactions averaging about $33.7 billion annually and representing 76 percent of the average annual value of all futures contracts. Of the 21 futures markets, 3 having transactions averaging $26.5 billion annually have never been subjected to a trade-practice investigation since their establishment.

Our review also disclosed questionable trading practices at a commodity exchange which, at that time, had not been subjected to investigation in 7 years. We stated that these and other abusive trading practices disclosed, and the corrective action required when CEA did make trade-practice investigations, demonstrate the importance of conducting such investigations. We found that CEA officials had not established and implemented a plan for the periodic review of the trade practices on each futures market.

We recommended in a report issued in July 1965 that the Secretary of Agriculture direct CEA to (a) establish and implement a policy requiring more frequent trade-practice investigations on a planned basis, giving due consideration to the volume of transactions in a particular futures market and the frequency of violations and (b) make timely follow-up reviews to determine that corrective action has been taken on previously disclosed violations.

In August 1965 the Under Secretary of Agriculture advised us that the agency was striving to improve its investigative methods and that steps were being taken to request additional funds for this type of work. He advised us also that CEA was instituting a plan under which it would, in

future trade-practice investigations, make follow-up examinations of the trade practices of persons found to have violated the Commodity Exchange Act.

179. Study required to determine whether certain floor trading adversely affects futures prices--The Commodity Exchange Authority, Department of Agriculture, had not evaluated the effect on futures prices of floor trading involving a practice whereby members of a commodity exchange trade for their own accounts. Floor traders enjoy special privileges and advantages over the trading public, and the possibility exists that floor trading may adversely affect the futures price of a commodity. We noted that a study by the Securities and Exchange Commission of floor trading on the securities markets resulted in the adoption of plans designed to eliminate such trading not considered beneficial to the market.

The Administrator of CEA advised us in March 1965 that, although a study of floor trading would be valuable, CEA did not have personnel or funds to make such a study. The Administrator stated that, even if additional funds should become available for market analysis work, such funds could best be expended to study areas other than floor trading where the Secretary of Agriculture or the Commodity Exchange Commission has the power under the Commodity Exchange Act to take corrective action if abusive practices are discovered. He advised us further that, if a study revealed practices which seemed to call for the restriction or abolishment of floor trading, CEA's only course of action would be to bring the matter to the attention of the Congress so that the Congress could consider the need for new legislation.

We stated that the fact that the only course of action might be to bring the results of the study before the Congress for its consideration should not be a deterrent to undertaking a study of floor trading. We noted that, in view of the results of the study of floor trading on the securities markets and the fact that limited information obtained by CEA indicates that floor trading may adversely affect the futures markets, a study of floor trading on futures markets appeared to be required to protect the public interest.

Therefore, we recommended in a report issued in July 1965 that the Secretary of Agriculture direct CEA to undertake a study of the extent of floor trading and the influence of such trading on futures prices of commodities. We suggested that the study should have as its objective the establishment of controls that may be needed to restrict or abolish floor trading to protect the public.

In August 1965 the Under Secretary of Agriculture informed us that it would be desirable, in the Department's opinion, to make a study of floor trading on commodity exchanges to determine the need for, and effect of, such trading. He stated that whether the amount of floor trading being done in the various commodity markets is essential to the proper functioning of the markets, and the manner in which this trading is being done, would be important subjects for study. The Under Secretary further advised

us, however, that a floor trading study would necessarily be a large undertaking and could not be made within the limits of CEA's present appropriation and that the Department did not feel that such a study was of sufficient urgency to require seeking additional funds at the present time.

LOW-RENT HOUSING PROGRAM

180. Action taken by the Public Housing Administration to preclude purchase of unnecessary and expensive property for developing a low-rent housing project--Our review disclosed that the Public Housing Administration (PHA), Housing and Home Finance Agency (HHFA), had authorized the St. Louis Housing Authority (SLHA), St. Louis, Missouri, to negotiate for the purchase of property occupied by a commercial laundry although the land appeared to be unnecessary and expensive for the development of a low-rent public housing project. If the property had been purchased, the cost of developing the low-rent project would have been increased by about $600,000, exclusive of the cost of demolition of the building.

In a December 1964 report, we referred to our proposal made in June 1964 that PHA advise SLHA against the purchase of the laundry property and to proceed with project plans without the property site, because the land was unnecessary for the development of the project and was conspicuously expensive by comparison with the other parcels acquired for the project. PHA subsequently disapproved the purchase of the laundry property by SLHA.

PHA's action resulted in savings of $1,140,000, consisting of the estimated cost of the property of $600,000 and estimated interest charges of $540,000 on the 40-year bonds to be used to finance the construction of the project; most of these savings could be expected to inure to the Federal Government.

181. Action taken by the Public Housing Administration to preclude allocation of excessive land costs in low-rent housing projects--Our review of costs incurred in constructing selected low-rent public housing projects in the Commonwealth of Puerto Rico under the housing program administered by the Santurce Regional Office disclosed that the Puerto Rico Urban Renewal and Housing Corporation allocated excessive land costs to four federally aided low-rent public housing projects, thereby increasing the costs of the projects by $214,052.

In a January 1965 report, we stated that we proposed that PHA issue instructions to the Santurce Regional Office to review and verify land costs claimed by the Corporation prior to approval of such costs. PHA concurred in our proposal. When we brought the matter to the attention of the Director of the Santurce Regional Office, he obtained reductions and reimbursements of $86,521 from the Corporation and agreed to reimburse development costs for the balance of $127,531.

182. Action taken by the Public Housing Administration to correct inadequate coordination of land-use activities by local housing authorities--PHA permitted the St. Louis Housing Authority to acquire property for a project site, including a portion of the property that both agencies recognized might be sold to the State Highway Commission of Missouri for a highway right-of-way, without requiring SLHA to obtain an agreement with the State Highway Commission for full reimbursement of its land acquisition and related costs. About four acres of land costing about $527,000 to acquire and clear, including estimated interest charges and overhead expenses incurred before the date of sale, were sold to the State Highway Commission

of Missouri for $120,000. As a result, the development costs of two low-rent housing projects were unnecessarily increased by about $407,000. Due to subsequent changes in planning, the development costs of the projects were further increased by about $159,000 because SLHA did not recover the full costs which it incurred on about 10 acres of project land sold to the city of St. Louis park department.

We estimated that the increased development costs totaling $566,000 would result in interest charges of about $509,000 over the 40-year life of the bonds issued, or expected to be issued, by SLHA to finance the costs of the projects. Since PHA has provided Federal contributions to meet about 89 percent of the costs of developing and financing the low-rent public housing projects administered by SLHA, the increased costs totaling $1,075,000 can be expected to be borne principally by PHA. The increased development costs of the two projects were equivalent to the costs of constructing about 38 dwelling units.

In an April 1965 report, we referred to our suggestion made in June 1964 that PHA issue instructions to its regional offices and the local housing authorities emphasizing the importance of proper coordination of their land-use activities with those of other public bodies and requiring local housing authorities to recover their full costs in cases where they acquire land in anticipation of sale to other public bodies.

Pursuant to our suggestion, PHA issued a circular to the local housing authorities and its regional offices pointing out the necessity for coordinating their land-use activities with those of other public bodies. The circular particularly emphasized the importance of coordinating activities with respect to land which may be needed for federally aided highways.

183. Need for the Public Housing Administration to develop criteria to identify and eliminate elaborate or extravagant designs or materials in constructing and equipping low-rent housing projects--Our review of the administration by the Public Housing Administration, Housing and Home Finance Agency, of statutory limitations on costs of low-rent housing projects disclosed that PHA had inadequate criteria for identifying and eliminating elaborate or extravagant designs or materials in constructing and equipping projects. Consequently, the costs of constructing and equipping projects in many cases had been higher than necessary and the objective of statutory limitations on costs has not been fully accomplished.

Section 15(5) of the United States Housing Act of 1937 provides maximum limits on the costs per room for constructing and equipping low-rent housing projects and provides also that projects be undertaken in such a manner that they will not be of elaborate or extravagant designs or materials and economy will be promoted both in construction and administration. The legislative history of these provisions indicates that the Congress intended low-rent housing projects to be built at the most economical cost consistent with providing decent, safe, and sanitary dwellings, simple in design and, to the extent practicable, constructed of inexpensive materials.

We recognized that a determination of whether an item is elaborate or extravagant in design or materials can be a matter of individual judgment. However, PHA has not provided well-defined criteria for exercising judgments in a manner that will promote economy in the low-rent housing program.

We recommended in a July 1964 report that HHFA (a) require PHA to define elaborate or extravagant design or materials in sufficient detail to provide the local housing authorities with well-defined criteria for planning future projects that will conform to the intent of the statute and (b) instruct PHA regional directors not to concur in plans for projects which provide for designs or materials that exceed the specified criteria.

PHA generally did not agree with our conclusions, and HHFA advised us that it had no other comments.

MILITARY ASSISTANCE PROGRAM

184. Legislation enacted requiring certification of recipient country's capability for using items of equipment furnished--Our reviews have disclosed numerous instances where items of equipment furnished under the military assistance program had been delivered to countries which did not have the capability for effectively utilizing such equipment. For example, our review of the utilization of aircraft and related equipment furnished to a European country under MAP disclosed that over $14.5 million worth of MAP-furnished equipment had been programmed and substantially delivered although the necessary capability to effectively absorb, maintain, and utilize this equipment did not exist. Some of the equipment which had been on hand in the country from 4 to 6 years at the time of our review had never been utilized.

The Department of Defense, in commenting on our draft report, agreed that the country lacked the capability to effectively utilize the equipment. In our report to the Congress, we recommended to the Secretary of Defense that future deliveries of major end items included in approved MAPs be made only upon a written certification by the Chief of the Military Assistance Advisory Group on the basis of a specific determination that the recipient country has the necessary capability to effectively absorb, maintain, and utilize the items to be delivered.

Both the Secretary of State and the Assistant Secretary of Defense in replies to our final report disagreed with our recommendation. They maintained that MAAG Chiefs already had continuing responsibilities for screening undelivered material and for taking timely cancellation, or deferral action, where delivery of material was not consistent with host-country capability to absorb, maintain, and utilize the equipment and that the certification would serve no significant, constructive purpose.

We did not agree because, even though MAAGs had been charged with this responsibility, MAP equipment nevertheless had continued to be delivered to countries which could not effectively utilize the equipment. We, therefore, believed that affirmative action by the MAAG Chief should be required before delivery. We recommended to the Congress that, in view of the position of the Department of Defense and the Department of State, if might wish to consider enactment of legislation requiring additional safeguards before delivery of military assistance program material. The Congress passed such legislation (Public Law 88-633) which was approved October 7, 1964.

185. New guidance issued to control the use of military budget support funds--In our reviews of military budget support (MBS) provided to numerous countries, we found that United States agencies had failed to exercise adequate controls to ensure that the funds contributed by the United States had been used to further those programs and projects considered essential to attain the military goals established for the mutual security objectives. The ineffective administration of the MBS program by United States agencies permitted recipient countries to use funds for purposes other than those approved by the United States agencies and for purposes not considered to be essential to mutual security objectives. At the same time,

attainment of specific mutual security objectives was adversely affected because available MBS funds were not being expended by the countries to provide, maintain, and utilize equipment and facilities considered essential by the United States.

As a result or our reviews of military assistance programs in several countries, we made numerous recommendations to the Secretary of Defense designed to improve controls over MBS through releasing contributed funds for mutually agreed upon projects and through more adequate reviews and inspections. The Department of Defense subsequently issued new guidance on the administration of MBS funds. This new guidance incorporated many of our proposals for the improvement in administration of the program. The stated purpose of this guidance was (a) to prescribe MAAG responsibilities for review and observation of host countries' implementation of local currency supported military programs and (b) to ensure that local currencies released to support host-country military budgets were expended in such a manner as to protect United States interests and to further United States-host government objectives. This guidance required that MAAG participate with the host country to the maximum extent feasible in drawing up estimates for support of the country's planned military forces. It also required that every effort possible be made by MAAG to relate the United States support to specific projects, or readily identifiable line items of a high United States priority, in the host-country military budgets and that such support should be applied to the extent possible to meet entire projects, specific identifiable subprojects, or to line item annual requirements, in order to avoid control difficulties inherent in commingling country and United States funds.

MORTGAGE ASSISTANCE AND INSURANCE ACTIVITIES

186. Action taken to avoid unwarranted financial risks under the Federal ship mortgage insurance program--In a report issued in November 1964, we noted that inadequacies existed in the evaluation by the Maritime Administration, Department of Commerce, of the economic soundness of proposed tanker operations under the Federal ship mortgage insurance program during a period of high ship construction activity prompted by the closure of the Suez Canal in 1956. These inadequacies demonstrated a need for the Administration to give more thorough consideration to the degree of financial risk assumed by the Government in insuring vessel mortgages for corporations which do not receive Government subsidies.

The Administration insured mortgages on 10 vessels despite the fact that an adequate evaluation of the information then available would have indicated that the mortgagors' vessels would operate at losses during initial periods of operation and that the mortgagor corporations had insufficient financial resources both to meet their mortgage obligations and to continue operations in the event significant losses occurred. In those instances where the likelihood of temporary unprofitable operation was recognized, the Administration did not adequately investigate the soundness of additional assurances of the availability of funds, in the form of guarantees or other contractual arrangements, required of the mortgage insurance applicants. Defaults on these 10 mortgages, which aggregated over $90 million and amounted to more than one fifth of the total amount of mortgages insured at December 31, 1962, were prevented only through the Administration's approving deferments of, or granting cash advances for, the mortgagor's principal payments. The Administration had subsequently found it necessary to make insurance payments of $15.4 million, representing the unpaid principal and interest due on two of these mortgages, and to institute foreclosure proceedings to protect the financial interests of the Government.

We proposed in a report issued in November 1964 that the Maritime Administrator, in determining the economic soundness of any project with respect to which Federal ship mortgage insurance is requested and the amount of financial resources necessary to enable the mortgage insurance applicant to maintain the project, (a) cause a full evaluation to be made of both the short-term and the long-term prospects for the project's financial success, (b) base the amount of financial resources required to be possessed by the mortgage insurance applicant on the projected needs of its individual project, and (c) cause a thorough investigation to be made of the financial ability of any party whose guarantee or other contractual obligation may be relied upon as assurance of the availability of funds.

Maritime advised us that, for some time, it had been conforming to the substance of the proposals made by us for more thorough evaluations of the economic soundness of the proposed operations of vessels with respect to which mortgage insurance was requested. Because of the very limited activity in the Federal ship mortgage insurance program, particularly in the granting of mortgage insurance with respect to vessels owned by operators not subsidized by the Government, it was not practicable for us to analyze the extent to which Maritime conformed to the substance of our proposals.

187. Procedures revised by the Maritime Administration to require disclosure of project costs by sponsor-controlled subcontractors--In connection with our review of two multifamily housing projects financed by mortgages insured by the Federal Housing Administration, Housing and Home Finance Agency, we noted that substantial and possibly unwarranted profits realized by sponsor-controlled subcontractors had been included in the sponsor/mortgagor's certification of actual project costs. The inclusion of these profits in project costs may have the effect of increasing the insured mortgages and the agency's risk of loss if the projects were not successful.

For some projects, the sponsor exercises control over the mortgagor and, to some degree, over the general contractor organization. Also, it appears that sponsor-controlled subcontractors may be frequently used in the construction of a project. As a result, the prices set for the work to be performed or materials to be supplied by these subcontractors may not be subject to the controls afforded by competitive bidding or arm's-length dealings.

For project cost certification to be a meaningful device, we were of the opinion that the agency should know the actual cost of the work performed by sponsor-controlled subcontractors. Since the agency's cost certification procedures were not, in our opinion, adequately designed to prevent excessive profits to builders as provided by the National Housing Act, as amended, we recommended, in a report issued in April 1965, that the Commissioner require sponsor-controlled subcontractors to disclose their actual costs in connection with the construction of a project. In July 1965, the agency revised its procedures in accordance with our recommendation.

188. Need for the Federal Home Loan Banks of Cincinnati and San Francisco to make more efficient use of Treasury checking accounts with a resultant savings in interest costs to the Government--Our review of the cash balances maintained by the Federal Home Loan Banks (FHLB) of Cincinnati and San Francisco disclosed that most of their operating funds were maintained in commercial depositaries rather than in their checking accounts with the Treasurer of the United States. These funds were available interest free to commercial depositaries with the potential of being interest producing to it by investment in Government securities and in other sources of income. Conversely, if the funds of the FHLB of Cincinnati and San Francisco were deposited in their checking accounts with the Treasurer of the United States, their availability would enable the Treasury to reduce its borrowings to the extent of such funds with a resultant reduction in interest costs.

Daily average cash balances of about $15 million were maintained in commercial depositaries in excess of the average cash balances considered by the depositaries as being necessary to compensate them for providing services for FHLB on San Francisco and its members during the calendar year 1963. Approximately $2,86 million in similar cash balances was maintained by FHLB of Cincinnati during fiscal year 1964. These amounts, if maintained in the Treasury checking accounts, would have been available to the

Treasurer of the United States to reduce Treasury borrowings and thereby reduce interest costs to the Government by about $500,000 for calendar year 1963 and $100,000 for fiscal year 1964.

FHLB of San Francisco, as a result of our review, reduced the balances in commercial banks and increased the average balances in its Treasury checking account during the period January through April 1964 without any apparent detrimental effects on its operations. The availability to the Treasury of this increased balance could result in substantial savings of interest costs to the Government. Additional savings could be accomplished if average cash balances maintained with the commercial depositaries were further reduced.

The Chairman, Federal Home Loan Bank Board, disagreed with our proposal that FHLB of Cincinnati maintain a larger part of its funds in its Treasury checking account rather than in a commercial depositary, but, in our opinion, advanced no substantive reasons for such disagreement.

We recommended in separate reports issued in January and May 1965 that the Chairman, Federal Home Loan Bank Board, direct FHLBs of San Francisco and Cincinnati to make maximum use of their checking accounts with the Treasurer of the United States consistent with facility in managing and utilizing their operating funds.

POSTAL SERVICE ACTIVITIES

189. Action taken by the Post Office Department to increase selling price of stamped envelopes--Our review disclosed that, in determining the costs allocable to the sale of stamped envelopes, POD had adopted an improper cost allocation practice which resulted in POD's selling stamped envelopes at a substantial loss. POD is required by law (39 U.S.C. 2503 (b)) to sell stamped envelopes as nearly as possible at cost, but not less than cost.

In April 1965 we reported this matter to the Congress because of the considerable congressional interest in the procurement and sale of stamped envelopes and because, in our opinion, POD had failed to fulfill the requirement of 39 U.S.C. 2503 (b) that stamped envelopes be sold at not less than cost. We estimated that the total costs incurred in selling stamped envelopes during the 4-year period ended June 30, 1963, exceeded revenues by about $7.5 million, as compared with POD's reported net loss of about $1.3 million on the sale of stamped envelopes for this period.

In response to our proposal that POD establish selling prices which would result in selling stamped envelopes as nearly as possible at cost, but not less than cost, the Postmaster General advised us that POD was awaiting the results of its fiscal year 1964 cost ascertainment review which would show the effect of (a) the cost adjustments proposed by us and (b) anticipated savings from a new stamped envelope procurement contract. The Postmaster General stated that, if these results revealed a significant deficit in the stamped envelope operation, corrective price action would be taken immediately.

The Department subsequently made substantial increases, effective September 11, 1965, in the prices of both printed and plain stamped envelopes.

190. Policies and procedures for scheduling city delivery carriers to be improved--The need for scheduling certain POD city delivery carriers to report for work on delivery routes before 6 a.m. is questionable and results in additional costs for night differential compensation of 10 percent of the carriers' hourly basic rate.

During the postal fiscal year ended June 21, 1963, night differential payments to city delivery carriers performing collection services after 6 p.m. and delivery services before 6 a.m. amounted to $2.6 million. POD's records do not show how much of the $2.6 million was paid for work performed on delivery routes before 6 a.m. The amount involved, however, may be substantial since the six post offices reviewed by us had incurred night differential costs of about $98,200 for work performed on delivery routes before 6 a.m., and there are approximately 6,000 post offices which provide city delivery service. We therefore, proposed to the Postmaster General that a review be made of the scheduling of city delivery carriers reporting for duty before 6 a.m. on the basis of criteria of providing reasonably satisfactory service as economically as possible and that appropriate adjustments be made to the scheduled starting times for carriers.

POSTAL SERVICE ACTIVITIES (continued)

On May 14, 1964, POD requested all Regional Offices to review carrier schedules having a starting time before 6 a.m. and to submit a report documenting the annual savings where starting times are adjusted. POD advised us in fiscal years 1965 and 1966 that adjustments made to scheduled starting times for carriers at certain post offices would result in savings of about $108,000 annually.

POWER MARKETING ACTIVITIES

191. Action to be taken by the Department of the Interior to prevent free use of electric power--In a report issued in June 1965, we stated that a power contract between a cooperative and the Southwestern Power Administration (SPA), Department of the Interior, did not contain appropriate language to prevent the cooperative from utilizing, without charge, a large block of Federal power, which would have a sales value of $41 million at existing contract rates and terms, upon the termination of the contract.

The Department advised us that the cooperative and the Department both hold the view that the power would be available for resale and would not be available to the cooperative without charge but that, if it is still believed that the language in the contract is not as clear as it could be, arrangements would be initiated with the cooperative to amend the contract. We stated that we believe that such action should be taken to ensure that the Government's interests are fully protected.

192. Amendment of section 5 of the Flood Control Act of 1944 suggested to enable the Federal Power Commission to effectively confirm and approve rate schedules for the marketing of hydroelectric power by the Department of the Interior--The Department of the Interior sold hydroelectric power and energy, generated at and not needed in the operation of three projects under the control of the Department of the Army, to the Tennessee Valley Authority during the period December 1948 to December 1964, although the rate schedules for the power and energy were specifically disapproved by the Federal Power Commission (FPC) in May 1958. Also, the Department of the Interior, in January 1961, agreed to an amendment to a power-marketing contract with the Arkansas Power & Light Company under which the Government received $822,000 less in revenues during 1961 than would have been received for the same amount of hydroelectric energy under the contract provisions in effect prior to the amendment. The Department did not consider the amendment to constitute a rate change and therefore did not submit the amendment to the FPC for confirmation and approval. When we brought this matter to the attention of FPC, the Chairman informed us that, in FPC's opinion, the amendment did constitute a rate change which required FPC's approval. The Chairman, however, stated that our advice of the matter was FPC's first notice of the amendment and that the Flood Control Act of 1944, under which the power is marketed, does not provide FPC with retroactive authority.

Section 5 of the Flood Control Act of 1944 (16 U.S.C. 825a) provides that rate schedules for the marketing of hydroelectric power and energy by the Secretary of the Interior from projects under the control of the Department of the Army become effective upon confirmation and approval by FPC. The act, however, does not state what action can or should be taken when power and energy are marketed at rates that have been disapproved by FPC or at rates which have not been submitted for confirmation and approval.

We believe that the circumstances indicate that, if FPC is to effectively confirm and approve rate schedules for the marketing of hydroelectric power by the Secretary of the Interior from projects under the control

of the Department of the Army, section 5 of the Flood Control Act of 1944 will have to be amended. The Assistant Secretary for Administration, Department of the Interior, has advised us that the Department does not believe that the circumstances which we have cited warrant such an amendment at this time. The Chairman of FPC has advised us that FPC also does not believe that an amendment is needed. He has stated that FPC believes that, where an operating agency fails to comply with the statutory scheme, the appropriate enforcement role which FPC should play is to report the violation to the President of the United States and the Congress.

We have been advised by an official of FPC that neither of the situations described above has been formally reported to the President or the Congress by FPC. Because of the significant amounts of revenue involved in the decisions of the Department of the Interior to market power at rates which were not approved by FPC, we recommended in a report issued in November 1964 that the Congress consider amending section 5 of the Flood Control Act of 1944 to (a) prescribe the course of action to be taken when schedules of rates are disapproved by FPC and (b) require the Secretary of the Interior to submit to FPC all proposed amendments to contracts for the marketing of power under section 5 of the act so that FPC can determine whether such amendments have an effect on previously approved schedules of rates.

193. Need for the Department of the Interior to eliminate excessive and inequitable credits in a power contract--Our review of a power contract between a cooperative, and SPA disclosed that the credits of about $171 million to be received by the cooperative over the term of the contract for performing services for the Government, and applied against amounts billed for power purchased from the Government, exceed the value of the services by at least $24.2 million and that the credits contain substantial inequities which could greatly increase the amount by which they are excessive.

The Department and the cooperative advised us that they did not agree that the contract was inequitable to the Government.

We recommended in a report issued in June 1965 that the Secretary of the Interior reconsider the Department's position and direct the SPA Administrator to negotiate with the cooperative to eliminate the excessive and inequitable contract credits. We recommended also that, if those credits are not eliminated by the termination date of the FPC's approval of the rate schedule applicable under the contract--July 1, 1967--the Commission consider the excessive and inequitable features of the contract credits in deciding whether to reapprove or disapprove the schedule at that time.

PRICE-SUPPORT PROGRAMS

194. Action taken by the Department of Agriculture to deter the movement of cotton over long distances prior to its placement under price-support loans--We reported in September 1964 on our examination into certain aspects of movements of the 1962 crop of cotton by some agents of producers from areas of growth in western States to higher price-support areas in southeastern States where the cotton was pledged as collateral for nonrecourse loans under the cotton price-support program of the Commodity Credit Corporation, Department of Agriculture. We estimated that, as of December 31, 1963, CCC had incurred losses totaling $566,200 as a result of these movements.

The Department advised us that, beginning with the 1964 cotton crop, price-support loan rates were revised so that the transportation costs for moving cotton to the southeastern area would be greater than the difference in the loan rates, and, therefore, the full cost of transportation would not be recovered by the producer on such movements. The Department was of the opinion that this action should tend to discourage such movement of cotton.

As a result of the cotton movements discussed in our report and permitted under the cotton price-support regulations, not only had CCC incurred additional costs in acquiring and managing its cotton but it was precluded from storing the cotton at locations which it considered more advantageous from the standpoint of marketability of the cotton and economy of operations. Although the cotton movements involved may have been beneficial to certain producers and to the producers' agents, we believe that CCC should not be put to additional expense or suffer loss of potential monetary benefits for purposes which, in our opinion, were not among those for which the price-support program was established. Therefore, it appeared that more stringent actions were required to effectively discourage or preclude such movements.

We recommended that, to help reduce Federal expenditures and effect savings under the cotton price-support program without adversely affecting the accomplishment of program objectives, CCC take the necessary action to amend the cotton price-support regulations, as soon as practicable, either to restrict the eligibility of cotton for price-support loans to designated geographic areas adjacent to the areas of growth or to make it economically infeasible for producers or their agents to transport cotton over long distances prior to placing the cotton under loan to the disadvantage of the Government. In June 1965, the Department further revised rate differentials so that producers could recover only 50 percent of the transportation costs on cotton movements to the southeastern area. We believe that this further revision should effectively discourage such movements.

195. Action taken to reduce costs associated with the dairy products price-support program--In a report issued in May 1965, we noted that the Commodity Credit Corporation, Department of Agriculture, incurred estimated additional costs of $1.2 million during fiscal years 1963 and 1964 under the dairy products price-support program because it purchased large quantities of bulk butter in the New York City area rather than in the midwestern

and eastern areas where this butter was produced. Furthermore, CCC was precluded from obtaining the butter at locations that were more advantageous from the standpoint of butter dispositions and economy of operations.

The additional costs resulted from a higher price for butter, higher warehousing costs for storage and handling, and higher costs for repackaging and processing the butter for disposition that CCC paid in the New York City area than it would have paid in the areas of production. Also it was necessary for CCC to ship some bulk butter back to the Midwest for repackaging and processing. Some of this butter, after having been held by CCC in high-cost storage in the New York City area for about a year, was backhauled to towns within 30 miles of the towns in the Midwest where it had originally been produced.

Certain measures, such as establishing a freight differential, were taken by CCC to discourage the movement of butter from areas of production to the New York City area for sale to CCC. However these were offset by other factors. We therefore proposed that CCC take corrective measures designed to effect savings under the dairy products price-support program without adversely affecting the attainment of program objectives.

In January 1965, CCC advised us that the agency was thoroughly reviewing developments in transportation costs, storage and handling costs, and CCC's purchases and dispositions to determine whether further adjustments should be made in buying prices and differentials, in storage rates, or in purchasing procedures. CCC also advised that it was considering whether the practice followed by New York City area warehousemen of paying commissions to handlers was reason to renegotiate contracts for lower warehousing rates and whether it should limit purchases to butter located in freezer storage and thereby eliminate CCC's cost for moving butter, acquired in cooler space, to freezer space.

In March 1965 the Secretary of Agriculture approved a dairy products price-support program, for the marketing year extending from April 1, 1965, to March 31, 1966, which provides that, in the northeastern area consisting of Pennsylvania, New Jersey, New York, and New England, CCC confine its purchases of bulk butter to butter produced in that area. On March 30, 1965, the effective date of this provision was postponed from April 1 to May 1, 1965, so that its effect on the price-support program could be appraised and any necessary adjustments by industry could be effected. The provision was allowed to take effect on May 1, 1965, without change.

196. Action taken to correct weaknesses primarily in disposition of nonfat dry milk--In a report issued in February 1965, we stated that our review of certain activities of the Commodity Credit Corporation of the Department of Agriculture disclosed various weaknesses, involving primarily the disposition of surplus nonfat dry milk acquired under its dairy products price-support program, which had an adverse financial effect on the Government.

PRICE-SUPPORT PROGRAMS (continued)

One of the weaknesses disclosed by our review relates to the inability of CCC generally to fix responsibility for the insect infestation of nonfat dry milk owned by it and, in most instances, to assert claims for recovery of losses incurred. As a result, CCC incurred losses of about $3.3 million during calendar years 1961 through 1963. During this 3-year period, about 81 million pounds of nonfat dry milk purchased by CCC under its dairy products price-support program and stored in commercial warehouses was found to be insect infested. This infested milk was considered unfit for human consumption and therefore was offered for sale at discounted prices on the domestic market for use as animal feed. We noted that the Department had initiated a program, which authorized CCC to purchase nonfat dry milk in insect-proof containers at prices slightly higher than the prices paid for such milk in regular containers, to encourage manufacturers to adopt the use of insect-proof containers. Subsequently, in April 1965, the Department announced that, after December 31, 1965, it would purchase nonfat dry milk only in bags with sealed closures.

Our review disclosed also that substantial quantities of nonfat dry milk donated by CCC for distribution to needy people in Hong Kong and Macao were sold by recipients to commercial buyers, contrary to the intent of the donation program, and used in making animal feed. We received information in Hong Kong which indicated that more than 1 million pounds of the donated nonfat dry milk a year found its way into the hands of chicken feed manufacturers. After we brought this matter to the attention of officials of the Departments of Agriculture and State, corrective measures were instituted.

Other weaknesses disclosed by our review concern (a) excessive allowances for transportation costs granted on export sales of nonfat dry milk which permitted monetary benefits to exporters at the expense of CCC, (b) unnecessary transportation costs incurred by CCC as the result of deficiencies in traffic management operations, and (c) excessive payments by CCC for nonfat dry milk because it accepted without verification incorrect dates of manufacture reported by contractors. CCC has taken corrective action with respect to these other weaknesses.

197. Action being taken by the Department of Agriculture to correct deficiencies affecting storage of cotton--We reported in November 1964 on our review of the decisions reached by the Department of Agriculture on various problems affecting the storage in commercial warehouses of cotton in which the Commodity Credit Corporation has an interest. We stated that it had been the practice followed by some warehousemen to offer inducements, such as cash rebates or the waiving or reducing of certain warehousing charges, to producers and ginners to store cotton in the warehousemen's facilities. The Department decided not to object to such inducements because, in the Department's opinion, this practice did not violate any provisions of law, the cotton price-support regulations, or the cotton storage agreements with warehousemen. The Department indicated also that it did not want to take any action which would be detrimental to the producers' interests.

PRICE-SUPPORT PROGRAMS (continued)

We expressed our opinion that the Department could not afford to disregard potential adverse effects on the Government that could result from this practice. The Department concurred in our proposal that it provide for surveillance on a continuing basis over the extent and effect of this practice so that prompt action can be taken to minimize such adverse effects. In January 1965, we were informed, in effect, that our proposal was being implemented.

We reported also on the Department's decision to continue existing storage rates on cotton pledged as collateral for price-support loans but to reduce, by 3 cents a bale, the monthly standard storage rates on Government-owned cotton that had not been reconcentrated. We recommended that, as long as the Department continued the practice of negotiating standard cotton storage rates, the Secretary of Agriculture require that appropriate studies of the costs of warehousing operations be made by the Department on a timely basis for use in future negotiations. At June 30, 1965, the Department was taking action to study costs associated with the warehousing of cotton.

PUBLIC ASSISTANCE PROGRAMS

198. Action taken by the Department of Health, Education, and Welfare to strengthen control over Federal participation in State of Massachusetts administrative expenses--In a report issued in January 1965, we stated that our review of Federal matching of administrative expenses for public assistance programs in the State of Massachusetts disclosed that certain expenses of the Boston Welfare Department were not allocated between the programs subject to Federal matching (matchable) and the programs not subject to Federal matching (nonmatchable) in accordance with the State plan approved by the Department of Health, Education, and Welfare. As a result, Federal matching of these expenses during the fiscal years 1957 through 1962 was excessive by an amount which we estimate to be at least $200,000. As of June 1965, adjustments have been made by HEW crediting the Federal Government with about $133,000 applicable to these overcharges.

We found also that certain salary, travel, and other costs of the Worcester Board of Welfare were allocated on the basis of personnel counts which incorrectly classified certain employees between the matchable and nonmatchable categories. We believe that the incorrect classification of these employees has resulted in Federal matching of Worcester Board of Welfare administrative expenses to an excess of an estimated $25,000 for the period April 1, 1954, through June 30, 1962. HEW informed us that, although the costs were claimed for Federal matching under a cost allocation plan that was approved on the grounds that it would not result in an unreasonable allocation, HEW nevertheless was reexamining the appropriateness of the allocation and, if excessive Federal matching was involved, it would ask the State to take corrective action.

At the time of our review, the Division of Grant-in-Aid Audits, HEW, was responsible for determining whether administrative expenses claimed for Federal matching had been allocated between matchable and nonmatchable programs in accordance with approved State plans.

In response to our findings, the Assistant Secretary for Administration, HEW, stated that, although the division auditors were knowledgeable concerning most of our findings, they were not knowledgeable concerning an inaccurate allocation of the salary costs of the Boston Welfare Department's Settlement Division. Because this deficiency in itself resulted in excessive Federal matching, totaling an estimated $150,000 since 1957, and had not been detected by the HEW auditors in completed audits in the State of Massachusetts through June 30, 1960, it appeared that the HEW Division of Grant-in-Aid Audits had not performed its audits in this State in a fully effective manner. The Assistant Secretary stated that the division's auditors have since been instructed as to the audit steps necessary to adequately review the cost allocation procedures.

199. Action taken by the Department of Health, Education, and Welfare to reduce excessive Federal participation in State of New York administrative expenses--Our review of Federal matching of administrative expenses for public assistance programs in the State of New York disclosed that the plan of the State of New York approved by the Department of Health, Education, and Welfare for allocating costs of certain activities of the

New York City Department of Welfare between the matchable and nonmatchable public assistance programs did not provide for an allocation of costs in a manner that was reasonably in line with the effort devoted to the various programs. As a result, Federal matching of New York City administrative expenses allocated under the plan was excessive.

We believe that the inequitable method used to allocate the salary costs of the Division of Employment and Rehabilitation in the New York City Department of Welfare resulted in excessive Federal matching of about $1.2 million for the period January 1, 1957, to June 30, 1961. Excessive Federal matching appeared to have occurred also with respect to the salary and machine rental costs of the New York City Division of Electronic Data Processing and salary charges for certain employees of the New York City Veterans Welfare Center.

By letter dated June 18, 1964, HEW informed us that the New York State Department of Social Welfare had submitted plan amendments which changed the basis for allocating the costs of the New York City Divisions of Employment and Rehabilitation and Electronic Data Processing and that the allocation of salary costs of employees in the Veterans Welfare Center was under further study. HEW informed us also that, although its Welfare Administration believed the existing policies for reviewing cost allocation plans to be adequate, instructions had been issued in March 1964 which provided for an annual review of the cost allocation plan in each State. HEW further informed us that a study was being made of its audit activities.

We believe that the existing policies and instructions for reviewing cost allocation plans are too general in nature and do not provide the necessary guidelines for making an effective review. In a report issued in December 1964, we recommended that the Secretary of HEW require all proposed new or amended cost allocation plans to be thoroughly reviewed and analyzed before unconditional approval is given. These procedures should provide for sufficient tests of the operation of proposed plans to ensure that the allocation of costs between the matchable and nonmatchable programs is reasonable. We recommended also that tests be made to determine the reasonableness of the revised allocation plans for the Divisions of Employment and Rehabilitation and Electronic Data Processing in New York City and that action be taken to recover the excessive Federal payments resulting from prior errors in matching of salary costs of employees in the Veterans Welfare Center.

As of June 1965, the Federal Government recovered about $219,000 as a result of revision by the Department of Social Welfare, State of New York, of its formulas for allocating salaries of the New York City Department of Welfare. Subsequent annual savings are estimated at $165,000.

200. Administrative procedures of the Department of Health, Education, and Welfare for providing financial assistance to Cuban refugees strengthened--Our review of selected aspects of a program for providing financial assistance to needy Cuban refugees, which is administered by the Florida Department of Public Welfare under a plan approved by the Department of

Health, Education, and Welfare, disclosed that Federal financial assistance was given to a relatively large number of refugees who were ineligible to receive all or part of the assistance because they had earnings from employment which, in most instances, had not been reported by the refugees to the State welfare agency or had been reported inaccurately. Using wage transcripts of earnings information, which we obtained from the Florida Industrial Commission (FIC), we found that refugees in 54 of 156 selected cases, or 35 percent, had received some financial assistance for which they were ineligible. Our review of pay records at selected business establishments disclosed 22 additional similar cases. In the limited number of cases covered by our review, the assistance paid, for which the refugees were ineligible, totaled about $43,000.

As a result of discussions of our findings with State welfare agency officials, procedures were established in December 1963 under which FIC now furnishes the State welfare agency wage transcripts on 240 cases each month for use in identifying any unreported earnings and payments for which refugees are ineligible.

We were told by HEW that consideration was being given to additional actions such as visiting selected employers that are known to employ large numbers of Cuban refugees in order to obtain employment earnings information. We recommended in a report issued in December 1964, that procedures being considered for such visits to employers be put into effect. We recommended also that HEW periodically make systematic reviews of the State welfare agency's operations to ensure that the program is being administered in accordance with the approved plan. Further, in view of the significant results obtained through the use of information furnished by FIC on earnings from employment, we recommended that efforts be made to obtain such information for more than 240 cases a month.

Since the issuance of our report, HEW has stated that the Florida State welfare agency would visit employers that are known to employ large numbers of Cuban refugees to obtain information on earnings and that HEW would reassess existing methods of the Florida Department of Public Welfare's operation to ensure that the program is being administered in accordance with the approved plan.

201. Ineligible recipients removed from the rolls of families eligible to receive Federal surplus commodities administered by the Department of Agriculture--Our examination into the eligibility of families under the program for direct distribution of Federal surplus commodities, administered by the Consumer and Marketing Service (formerly designated the Agricultural Marketing Service), Department of Agriculture, to needy persons residing in one county disclosed that, of 173 families selected from 1,109 families included on the agency rolls of eligible families, 25 families did not meet the State's criteria for eligibility under the program. The Acting Director of the county agency removed 24 of these families from the rolls. One family, although ineligible for a time, was retained on the rolls because its income had fallen below the limitation on income. The families that were removed from the rolls of eligible families as a result of our review

were in addition to a number of families previously removed from the rolls as a result of reviews by the Acting Director of the county agency and the Inspector General, Department of Agriculture.

In view of the deficiencies noted in our limited examination into the eligibility of families, we proposed in a report issued in September 1964 that the Secretary of Agriculture (a) request the Office of the Inspector General (OIG) to review the eligibility of families currently appearing on the rolls of the county, (b) require the removal from the rolls of any additional families found to be ineligible, and (c) establish claims for the value of commodities distributed to families found to be ineligible as a result of reviews by the county, the Department, and our Office. The Department initiated corrective action with regard to our proposals, and, in a subsequent review of the county's program, OIG reported that much improvement had been made in the certification of eligible families.

PUBLIC INFORMATION ACTIVITIES

202. Action taken by the Department of Commerce to update mailing lists for distribution of press releases and other informational material--In a report issued in October 1964, we stated that our review disclosed that more than one half of the approximately 400 mailing lists for the distribution of press releases and other informational material, which are maintained by the Office of Publications (OP), Department of Commerce, had not been circularized and had not been revised annually as required by paragraph 30 of the Government Printing and Binding Regulations published by the Joint Committee on Printing of the Congress. Unnecessary distribution costs resulted because these lists were not revised to eliminate mailings to incorrect addresses or to persons who no longer desired to receive the informational material.

On the basis of the results of prior circularizations of 12 mailing lists maintained by the OP for various bureaus and offices, we estimated that additional distribution costs amounting to about $6,500 a year were incurred because these lists had not been currently revised to eliminate mailings to persons no longer interested. We expressed the belief that unnecessary distribution costs attributable to the lack of timely revision of the mailing lists maintained by the OP and by various bureaus and offices could be substantial.

Accordingly, we proposed that the Secretary of Commerce direct the Assistant to the Secretary for Public Affairs to issue instructions to all bureaus and offices of the Department to accomplish circularizations and revisions of all mailing lists annually.

The Department advised us that it had issued instructions requiring such action except in specific instances when less frequent circularization is justified as being less costly.

203. Action to be taken by the National Aeronautics and Space Administration to prevent the production of basically similar motion picture films--In a report issued in October 1964 on our review of motion picture films produced by the National Aeronautics and Space Administration for public information purposes, we noted that NASA incurred unnecessary expense by producing certain basically similar films and that this situation occurred because there was inadequate headquarters control over the production of motion picture films.

We were advised in a letter dated July 29, 1964, that, on the basis of a recently completed study, NASA would issue a new directive on the management of its motion picture program which would require formal approval of proposed public information motion pictures. This approval system which would include both budgetary and management control of proposed films would be implemented on a film-by-film basis.

204. Economies to be realized by the Department of Agriculture in the mailing of informational material to the public--Our review of the mailing of informational material to the public by the Washington, D.C., headquarters office of the Department of Agriculture disclosed that, because

most of the Department's mailing lists in Washington, D.C., had not been maintained in a current status, substantial costs were incurred in mailing informational material to addressees who no longer had an interest in such information. We reported that, according to our estimate, 2,400,000 unnecessary mailings were made in fiscal year 1963 at a cost of about $180,000.

In a report issued in July 1964, we proposed that the Secretary of Agriculture establish adequate controls to provide for the annual revision of the Department's mailing lists as required by the Government Printing and Binding Regulations. The Department's Director of Information advised us that an annual revision would be made an integral part of an automatic data processing system which was being established for the Department's mailing lists and which was scheduled to be placed in operation in September 1964. We recommended that, if the scheduled operation was delayed, the Secretary provide in the interim for the necessary circularization of all addressees who have not been circularized within the past 12 months. As of June 30, 1965, the automatic data processing system was not in operation and most of the addressees had not been circularized.

Our review disclosed also that the Department incurred unnecessary insertion and envelope costs on mailings from Washington, D.C., amounting to about $35,000 in fiscal year 1963, by not using to the maximum extent practicable the technique of imprinting the penalty or postage indicia and mailing address directly upon printed materials. The Department has taken action to bring about maximum use of this technique.

205. Need for the Department of Commerce to fully utilize self-mailer technique in distribution of press releases--Our review disclosed that the Department of Commerce did not imprint penalty or postage indicia and addresses directly upon press releases and other informational material, where practicable, but, instead, used separate envelopes for mailing. We estimated that the use of the self-mailer method of distribution to the extent practicable, as required by paragraph 31 of the Government Printing and Binding Regulations published by the Joint Committee on Printing of the Congress, by only the Office of Publications and the Office of Field Services would result in annual savings in distribution costs of about $26,000. Additional savings could be achieved by greater use of the self-mailer technique by other bureaus and offices of the Department which distribute press releases and other informational material.

The Department advised us that self-mailers would be used for all suitable issuances; the Department believes, however, that the self-mailer technique is not suitable for the distribution of press releases because their acceptance by the news media might be adversely affected.

Since we were informed that the use of the self-mailer technique in the distribution of press releases by other departments of Government had achieved satisfactory results and because of the savings which could result from the use of this technique, we recommended, in a report issued in

October 1964, that the Secretary of Commerce direct the responsible Department officials to extend the use of the self-mailer technique to press releases.

Subsequent to the issuance of our report, the Department agreed to conduct a survey to determine receptivity of news media to the use of self-mailers for general news releases.

206. Action taken to establish uniform standards for evaluating the physical condition of residential structures for relocation and clearance purposes--In our review of the relocation of families displaced from the areas of urban renewal projects of the District of Columbia Redevelopment Land Agency (DCRLA), we noted that some families had relocated into substandard dwellings as a result of inadequate relocation policies and practices. In its relocation operations, DCRLA (a) used standards for determining the acceptability of dwellings for relocating families displaced from urban renewal areas, which were less stringent than the standards used for evaluating the physical condition of dwellings in determining the eligibility of an area for urban renewal, (b) made inadequate inspections of housing for displaced families, (c) prepared incomplete inspection reports, and (d) referred some displaced families to substandard or uninspected housing.

DCRLA advised us that action was being taken to prevent recurrence of most of the unsatisfactory practices disclosed by our review. However, some of the unsatisfactory practices appear to have resulted from inadequate relocation policies and procedures established by the Urban Renewal Administration (URA). In a report issued in October 1964, we recommended that the Administrator, Housing and Home Finance Agency, now the Department of Housing and Urban Development, require each local public agency participating in the federally subsidized slum clearance and urban renewal program to use uniform standards and procedures in evaluating the physical condition of residential structures within its community to determine the suitability for relocation housing and to determine whether the residential buildings in a proposed urban renewal area are standard or substandard.

Subsequent to the issuance of our report, URA's regulations were clarified by a revision providing that the physical and occupancy standards of the Relocation Program may not permit any housing to be used as a relocation resource which would be classified as "structurally substandard to a degree requiring clearance" under the criteria used to qualify clearance in a project area.

207. Action taken to reduce excessive noncash grant-in-aid credits--The Urban Renewal Administration, Housing and Home Finance Agency, now the Department of Housing and Urban Development, allowed tentative noncash grant-in-aid credits for 35.7 percent of the estimated cost of a junior high school, and 100 percent of the estimated cost of the extension of a school playground although the information submitted by the local public agency (LPA) supporting the claims did not, in our opinion, provide an adequate basis for the URA's determination that 35.7 and 100 percent of the benefits from the school and playground area would accrue to the project.

In a report issued in April 1962, we proposed that URA (a) require the submission of a revised estimate of the number of students who will reside in the project and attend the new school, (b) make a new determination from this revised estimate as to whether any grant-in-aid credit

is allowable for the school, (c) require that a survey be made to determine how much benefit the playground extension would provide to children both within and outside the project and, (d) reduce the noncash grant-in-aid credit accordingly.

URA agreed with our proposals, and, in August 1964, the LPA submitted a revised financing plan requesting noncash grant-in-aid credits for 17.5 percent of the construction costs of the school and 61 percent of the costs of the playground, resulting in a reduction of about $498,000 in the Government's share of project costs.

208. Reduction in net project costs resulting from retention of structurally sound buildings--A Housing and Home Finance Agency (HHFA), now the Department of Housing and Urban Development, regional office approved, in March 1961, an urban renewal plan for a project, which provided for the acquisition and demolition of five structurally sound buildings valued at about $350,000, without giving adequate consideration to less costly methods of redevelopment. We proposed to the Urban Renewal Administration that the regional officials review the planned demolition of the structurally sound buildings and that the Federal Government not share in the cost of acquiring and demolishing any such buildings that could be successfully integrated into the project.

URA informed us that the local public agency would attempt to integrate two of the properties and that the LPA's staff and planning consultants had made a subsequent review of the other three structures and decided that it was necessary that the structures be acquired and demolished.

In a report issued in June 1964, we recommended that URA direct that qualified HHFA personnel make thorough and critical on-site reviews and evaluations of local proposals to demolish sound structures to determine whether adequate consideration was given to alternative methods of redevelopment and whether such structures can be successfully integrated into a project.

In April 1965, the LPA informed us that, as a result of our review, two buildings were subsequently sold subject to rehabilitation, and a third building is scheduled for sale. LPA received about $25,000 more than would have been received from sale of the properties as unimproved land, thus reducing project costs. Since the Federal Government bears two thirds of project costs, the Government's cost was reduced about $16,000.

209. Reduction in noncash grant-in-aid credit--The Urban Renewal Administration, Housing and Home Finance Agency, now the Department of Housing and Urban Development, approved a noncash grant-in-aid tentative credit for 40 percent of the estimated cost for replacing an existing bridge, on the assumption that the new bridge would provide flood control benefits to an urban renewal area. Our review disclosed that the basis underlying the URA's determination of the propriety of the noncash grant-in-aid credit was erroneous.

In a report issued in October 1963, we recommended that URA disallow the noncash grant-in-aid credit for the bridge.

HHFA agreed with our finding that the bridge would not provide flood control benefits to the project area, and, in August 1964, the credit for the bridge was reduced to 22 percent of the bridge construction cost resulting in a reduction of about $415,000 in the Government's share of project costs. The revised credit is based upon the traffic benefits which will accrue to the project area from the new bridge.

210. Ineffective administration, contributing to unsatisfactory progress in obtaining voluntary rehabilitation of properties in an urban renewal project, being corrected--In a report issued in September 1964, we pointed out that unsatisfactory progress had been made in obtaining the voluntary rehabilitation of properties necessary for attaining the objectives of an urban renewal project, and that the unsatisfactory progress was due, in part, to ineffective administration by the Federal housing agencies.

Our review disclosed that, in December 1963, only 22 percent of the structures in the area were considered to have met the minimum standards adopted for the project area and only 49 percent of the structures had been inspected to ascertain whether rehabilitation work was needed. Many of the unrehabilitated structures--estimated by local officials as 350 to 400--are considered to be problem cases for which rehabilitation may not be feasible for economic or other reasons. These local officials stated that the Housing and Home Finance Agency, now the Department of Housing and Urban Development, probably would be requested to approve the acquisition of the properties for which voluntary rehabilitation could not be obtained. Inasmuch as the benefits expected from the proposed project cannot be attained without rehabilitating the entire project area, HHFA may not be in a position to disapprove such a request without jeopardizing the substantial Federal investment already in the project. If the acquisition of the problem properties is approved, the Federal contribution to the project will be increased substantially.

We believe that the Urban Renewal Administration approved the execution of the loan and grant contract for this project prematurely because (a) prior studies of the feasibility of obtaining large-scale voluntary rehabilitation were inadequate and inconclusive and (b) the rehabilitation plan proposed by the city (1) did not provide for an adequate administrative organization to carry out the rehabilitation program and (2) indicated that an undetermined number of the structures in the rehabilitation area might have to be acquired but did not disclose, and HHFA did not ascertain, the probable cost of these structures to the Federal Government. After the loan and grant contract was executed, HHFA did not take prompt action to require the city to emphasize the rehabilitation phase of the project concurrently with the acquisition and demolition phases. Moreover, members of the staff of the Federal Housing Administration (FHA) were not adequately trained in the procedures applicable to rehabilitation in urban

renewal areas, with the result that the mortgages which FHA agreed to insure were smaller than the maximum mortgages authorized by the Housing Act of 1961.

We made several proposals for strengthening the procedures applicable to urban renewal projects involving significant amounts of voluntary rehabilitation, and we also proposed that an evaluation be made of the current status of the project and that firm agreements be reached as to what each agency involved would do to successfully complete the project. HHFA advised us that, because the project was one of the first projects in the country to combine clearance for redevelopment with voluntary rehabilitation of remaining structures, precedents did not exist which would permit the formulation of conclusive criteria at the time of project approval. HHFA cited a number of changes that subsequently were made in operating procedures and stated that it believed adequate measures currently existed to prevent recurrence of conditions similar to those found during our review. HHFA advised us also that an evaluation of the status of the project had been proceeding for some time and that, after agreement had been reached as to the roles each agency would assume in completing the project, a revised financing plan would be prepared which would take into consideration the action necessary with respect to buildings for which voluntary rehabilitation could not be obtained.

211. Need for more critical evaluations of representations by local public agencies in support of claims for noncash grant-in-aid credits--In five reports issued during the fiscal year, we pointed out 11 cases in which the Urban Renewal Administration, Housing and Home Finance Agency, now the Department of Housing and Urban Development, had approved tentative and final noncash grant-in-aid credits for public facilities (5 streets, 2 parking facilities, a fire station, a school, a playground, and a sewer) which, in our opinion, were excessive by about $5.6 million. The Federal Governments' share of the cost of these allowances would have been about $3.7 million. We also pointed out three other cases (a viaduct, an underpass, and traffic signals) where the URA had approved tentative and final credits which we believed were excessive although we could not determine the extent to which they were excessive because sufficient information was not available. The approvals were based on incomplete or inaccurate data and, as a result, costs of the facilities were not being allocated, as required by section 110(d) of the Housing Act of 1949, as amended, between the project areas and areas outside the project on the basis of relative benefits to be provided. We believe the excessive credits resulted because the URA made inadequate reviews and evaluations of the claims for noncash grant-in-aid credits submitted by the local public agencies (LPA's).

Subsequent to our recommendations that the credits be reduced or reevaluated, the URA agreed to reevaluate credits which we believed to be excessive by about $4.7 million but disagreed with our recommendation insofar as they applied to other credits which we believed were excessive by about $900,000. Also, for the three cases for which we could not

determine the amount of the excessive credits, the URA agreed to reevaluate the LPA's bases for their claims.

To minimize the incidence of approving excessive credits, we recommended that the URA strengthen its review procedures for noncash grant-in-aid claims by requiring more critical evaluations of representations by LPAs in support of claims for noncash grant-in-aid credits. The URA informed us that instructions were issued to regional offices to report periodically on the status of facilities being furnished as noncash grant-in-aid which it believed should do much to meet our recommendations.

SMALL BUSINESS LOAN ACTIVITIES

212. Need to improve certain practices in making business loans--The Small Business Administration approved a $100,000 business loan which resulted in a loss to the agency of about $61,000 because its officials had failed to verify whether the borrower could obtain adequate performance bond coverage even though such coverage was necessary for the borrower to obtain larger contracts needed to realize sufficient earnings to repay the loan. In addition, although the appraised values assigned to the collateral at the time the loan was made were considerably at variance with the significantly lower amounts realized in liquidation about 1 year later, the agency did not specifically determine the reasons for the variances so that responsibility for any deficient actions which contributed to such variances could be fixed and losses resulting therefrom could be avoided in future loans.

In a report issued in April 1965, we recommended to the Administrator, SBA, that, in order to conserve funds for sound loans which would be of assistance to small businesses needing such loans for the achievement of successful operations, (a) loan officials verify, prior to loan approval and independent of the participating bank, whether conditions, such as bonding coverage, which are essential to the borrower's earning capacity and ability to repay the loan can be met by the borrower and (b) officials determine the reasons for substantial variances between appraised values and amounts realized in liquidation of collateral so that responsibility for any deficient actions which contribute to such variances can be fixed and losses resulting therefrom can be avoided in future loans.

In a letter to us dated January 7, 1965, the Administrator, SBA, disagreed with our conclusion that obtaining increased bonding coverage was indispensable to the borrower's ability to repay the loan. He advised us that, in spite of the reduction in bonding, the borrower reported a profit for the fiscal year 1958 which was about 3 months prior to the filing of the loan application. We pointed out in the report that, regardless of this fact, the borrower apparently was aware that profits could not continue without his obtaining higher bonding coverage and that he recognized this situation in his loan application wherein he emphasized the necessity for higher bonding coverage in order to obtain large contract work.

The administrator also advised us in his letter of January 7, 1965, that the agency's financial assistance manual had been revised subsequent to the approval of the loan and prior to our report to correct the matters contained in our recommendations.

We do not believe that the agency's manual revision relating to bonding is adequate inasmuch as the amendment relating to bonding coverage does not specifically require loan specialists to determine, prior to approval of the loan, that adequate bonding coverage is available to the borrower. In addition, we expressed the belief that neither the manual provision which requires a full explanation of substantial variances between collateral values assigned at appraisal and at liquidation dates nor a supplementing agency memorandum emphasizing the need for such explanations are adequate because they do not call for identifying any deficient actions and the reasons therefor so that corrective action can be taken.

213. Action promised to strengthen procedures and practices relating to selection of and review of performance of representative payees--Our review of policies, procedures, and practices relating to the payment of social security benefits to persons selected by the Social Security Administration, Department of Health, Education, and Welfare, to receive benefits on behalf of minor and incompetent adult beneficiaries disclosed certain deficiencies in the selection and review of the performance of these representative payees. In a report issued to the Congress in February 1965, we stated that in certain cases payees were designated without an adequate appraisal of all factors affecting their suitability; persons showing little interest in the beneficiaries' welfare were being named as payees for institutionalized beneficiaries in preference to the institutions having custody of the beneficiaries; agency reviews were not effectively disclosing unsatisfactory performance by payees; and prompt action was not being taken to discharge payees when the agency became aware of their unsatisfactory performance. As a result, social security benefits were paid to unsuitable payees who were not using the funds for the benefit of the persons entitled to them.

In line with our proposals, the agency agreed to rewrite its instructions and develop written guidelines aimed at improving the basis for selection of representative payees and strengthening its review of their performance.

214. Action taken by the Department of Health, Education, and Welfare to reduce interest costs--In a report issued in November 1964, we stated that during fiscal years 1960, 1961, and 1962, the Government may have incurred unnecessary interest costs, estimated to be several hundred thousand dollars, because the Office of Education (OE), Department of Health, Education, and Welfare, advanced a disproportionately high share of the Federal capital contributions to the Student Loan Funds during the early part of these years before all the funds were needed by the participating institutions. Adequate procedures had not been established by the agency to ascertain at what times during a year the funds were most needed. Following our discussions of this matter with officials of OE, certain changes were made in the procedures for advancing funds to participating institutions beginning in fiscal year 1963. These changes may have saved over $100,000 in interest costs for fiscal year 1963. Further, in April 1964 we were informed that OE was considering additional changes in procedures under which institutions would be required to submit a request for funds for a particular period within the year. This latter change was adopted in June 1964 and, if properly implemented, should contribute significantly to the objective of advancing the funds to the institutions at the time they were most needed for lending purposes and should therefore further reduce the amounts of funds advanced prematurely and should help avoid unnecessary interest costs to the Government.

215. Collection procedures issued for guidance of participating institutions--We found that, at 13 of the 35 institutions participating in the Student Loan Program that we visited, some loan repayments were not being made promptly and that some institutions did not notify the borrower prior to the time a payment became due and did not follow up promptly when a payment was not received. Information was available to OE indicating that collection problems were arising and could reasonably be expected to grow as more borrowers finish their courses of study and the loans to them become subject to repayment. OE had been slow, however, in taking effective steps to help establish good collection procedures at each participating institution.

HEW stated that there was no doubt that more improvement was needed in the matter of loan collection problems and that everything possible was being done to intensify efforts in that direction. A member of the staff had been assigned the responsibility of preparing detailed material on good collection practices for distribution to the colleges and universities as an aid in the collection of their accounts. HEW stated also that a concentrated campaign was inaugurated in January 1964 to work with colleges which had poor collection records.

As a further step to reduce possible losses on student loans, we recommended in a report issued in November 1964 that the Commissioner of Education establish requirements for minimum collection procedures to be followed by the participating institutions and require the institutions to describe their collection procedures in the agreements for Federal capital contributions. In February 1965, OE issued minimum collection procedures for the guidance of participating institutions. We were informed that the

matter of requiring institutions to describe their collection procedures in the agreements for Federal capital contributions would be given further consideration.

216. Procedures strengthened for properly supporting determinations of the amounts of student loans--We visited 35 institutions participating in the Student Loan Program and found generally that student loans were made in an orderly manner after giving consideration to the students' financial needs. In 20 of the 35 institutions visited, however, we noted inadequacies existed, in varying degrees, in the support for the determination of the amounts of some of the student loans. Adequate support for the determination of the amount of each loan is of particular importance in a loan program of this type because the attention is focused on the needs of each borrower and the lending of amounts within such needs is encouraged. Our findings indicated that efforts of the Office of Education to assist participating institutions in developing procedures for properly supporting determinations of the amounts of loans had not been sufficient, and we believed that more assistance was needed.

We proposed in a report issued in November 1964 that the Commissioner of Education emphasize to all participating institutions the importance of providing adequate documentation for loans. HEW stated that the needs for maintaining a continuing educational program on the techniques of assessing students' financial needs and for better documentation had been recognized and action was being taken. HEW, however, acknowledged the need for more assistance and stated that (a) because of the large number of participating institutions, frequent individual visits to them by OE staff were impractical and (b) much time of the headquarters staff during the last 2 years had been expended in a major revision of the manual for the guidance of institutions, which has since been issued.

The revised manual of policies and procedures issued by OE provides greater emphasis on the importance of adequate support for determinations of the amounts of student loans.

217. Reviews to be made of the adequacy of interest rates on loans to finance required institutional capital contributions--Our examination of the administrative procedures followed by the Office of Education in making loans to participating institutions to finance the required institutional capital contributions to Student Loan Funds disclosed that reviews had not been made to determine whether or not the interest rates charged were adequate. Section 207(a) of the National Defense Education Act provides that loans bear interest at a rate which the Commissioner of Education determines to be adequate to cover the cost of funds to the Treasury, the cost of administering the loans, and probable losses.

In view of the specific legal requirement and the ever-present possibility of program losses, we recommended in a report issued in November 1964, that the Commissioner of Education determine periodically, at least annually, whether the interest rate charged on loans to institutions for institutional capital contributions is adequate to cover the costs of

administration and probable losses and make such adjustments as may be warranted to maintain compliance with legal requirements. Following the issuance of our report the agency agreed to adopt this recommendation.

SUBSIDIES

218. Action taken by the Maritime Administration to preclude unwarranted operating-differential subsidy payments--In a report issued in July 1964, we stated that our review of operating-differential wage-subsidy-rate determinations disclosed that the procedures used by the Maritime Administration, Department of Commerce, in computing the rates resulted in substantial unwarranted subsidy payments to vessel operators.

The Administration concurred with our findings and has taken appropriate corrective action. The Administration's adoption of consistent procedures for computing vacation pay and social security costs in determining subsidy rates should result in substantial recurring savings to the Government; although neither we nor the Administration has estimated the effect of the changed procedures on subsidy payments for any specific year, the subsidized operators have estimated that such payments would be reduced by about $1,560,000 and $1,057,000 for calendar years 1962 and 1963, respectively. We estimated that the exclusion of ineligible wage costs from consideration in subsidy rate computation will result in the reduction of subsidy payments by about $50,000 for each of calendar years 1960 and 1961 and that the proper application of the foreign wage agreement provisions would result in annual savings of about $16,000.

219. Action to be taken by the Maritime Administration to implement a value engineering program to preclude unwarranted ship construction-differential subsidy payments--In a June 1965 report, we stated that the Government made substantial unwarranted construction-differential subsidy payments because of the participation by the Maritime Administration, Department of Commerce, in certain ship construction costs which could have been avoided if cost-saving proposals developed under the Administration's value engineering program had been incorporated into contracts for construction of the ships.

In our review we found that the Administration had not required shipowners to adopt the cost-saving advice contained in its value engineering informational letters. A 20-percent sampling of the value engineering letters issued by the Administration disclosed that cost-saving advice contained therein was not followed by shipowners for about 25 percent of the ships to which the advice applied. The amount of cost savings that could have accrued to the Government varied according to the subsidy rate for each ship. On the basis of a projection of our sampling of the remaining cost-saving proposals, we estimated that savings of about $1 million in construction-differential subsidy costs could have been achieved.

The Maritime Administrator expressed disagreement, regarding the magnitude of the indicated monetary savings, primarily on the basis that not all cost-saving proposals could have been designated for mandatory application until sufficient shipboard experience had been gained to prove that the application of the cost-saving proposals was successful. To the extent that the Administration may have been justified in requiring actual shipboard experience before designating certain cost-saving proposals for mandatory application, however, the amount of realizable savings may have been less than the amount indicated by our projection. The Maritime

SUBSIDIES (continued)

Administrator, however, agreed with our proposal that proven cost-saving proposals developed under the value engineering program be made mandatory for subsidy computation purposes and agreed also that suitable contract language was necessary to avoid unwarranted construction-differential subsidy payments. He advised us of a proposed change in policy intended to accomplish this result.

UNEMPLOYMENT SERVICES

220. Guidelines issued by the Department of Health, Education, and Welfare to accelerate the training of the unemployed--In a report issued in November 1964 on our review of the procedures and practices of the Department of Labor (DL) and the Department of Health, Education, and Welfare for establishing training projects under the Manpower Development and Training Act of 1962, we stated that training costs could be reduced and training could be accelerated by increasing the number of hours of instruction per week for selected courses thus shortening the course period and reducing the number of weekly training allowance payments.

We proposed during our review that, in lieu of the then existing guideline emphasizing 30 hours of weekly instruction, HEW, with the concurrence of DL, issue guidelines encouraging Federal, State, and local agencies to schedule weekly periods of instruction of maximum practical length, considering the course content and the availability of instructors and facilities. We further proposed that training courses scheduled for weekly instruction of less than 35 to 40 hours be required to be adequately justified in the record. In May 1964 HEW issued guidelines for the use of State and local communities providing that all classes be planned for a 40-hour week and that instructional time of less than 40 hours a week be approved only if facilities, instructors, transportation, curriculum, or the necessity for scheduling late hours, render a 40-hour schedule impracticable.

221. Need for action to be taken by the Department of Labor to preclude the financing of unnecessary employment services--Our review of selected practices relating to the administration of the employment service program of the Department of Labor disclosed that, as a result of encouragement by the Department, the States of Oregon and Washington have incurred unnecessary costs by extending their federally financed employment service activities to provide placement and other employment services previously performed and financed by employers, schools, unions, and other organizations. Our review disclosed several instances in which the extended services merely supplanted those services already furnished by private or other public agencies and did not ordinarily contribute to increased job placements.

The Department's policy of encouraging State employment service agencies to extend their services has been directed uniformly to all State agencies, and it is likely that other State agencies have responded to this encouragement in a manner similar to the States of Oregon and Washington. The cases and findings reported, therefore may be representative of practices of other State employment service agencies which unnecessarily increase federally financed expenses.

In a report issued in November 1964, we recommended that the Secretary of Labor limit the application of Federal funds to employment services which do not supplant services adequately performed by others and to services which may be expected to result in significant overall increases in job placements.

222. Action taken by the Veterans Administration to encourage private physicians to permit VA pharmacies to dispense generically equivalent drugs--In a report issued in February 1965 on our review of selected activities under the hometown medical care program, we noted that the Veterans Administration did not establish a nationwide program for encouraging private physicians to either write prescriptions generically or permit VA pharmacies to dispense generically equivalent drugs for the brand-name drugs prescribed. We found that private physicians write over a million prescriptions annually under the VA hometown medical care program. In fiscal year 1964 we visited 6 of the 67 outpatient clinics that filled private physicians' prescriptions under the hometown medical care program and found that annual costs of about $33,000 more had been incurred at 4 of the clinics by filling private physicians' prescriptions with the brand-name drugs prescribed than would have been incurred if less expensive generically equivalent drugs had been dispensed.

In December 1964 the Deputy Administrator of Veterans Affairs advised us that VA would implement our proposal that prompt action be taken to establish a nationwide program to encourage private physicians to either prescribe in generic terminology or authorize, at the time of prescribing, VA to dispense generically equivalent drugs for the brand-name drugs prescribed. Shortly thereafter the VA field stations were instructed to furnish a newly developed prescription form to the private physicians to afford them a means of authorizing the dispensing of a generically equivalent product at the time the prescription is written.

223. Guidelines issued by the Veterans Administration to clarify what constitutes reasonable and proper dental care to hospital patients and to achieve uniform hospital dentistry entitlement practices--In a report issued in January 1965 on our review of the inpatient dental program at selected VA general hospitals, we stated that many hospital patients were being provided with dental services that seemed to go beyond the limitation of reasonable and necessary care. Our conclusion was based on determinations by the professional staff at VA hospitals that substantial amounts of dental care for other than service-connected dental disabilities, relief of pain, and needs of long-term patients was not related to, or necessary for, the conditions for which the patients were hospitalized and treated. We estimated that, on the basis of our review at 10 general hospitals, VA may be incurring, nationwide, unnecessary costs of as much as $1.3 million annually in providing such dental services.

VA did not agree that dental care for other than the relief of pain and the needs of long-term patients should necessarily be limited to dental conditions related to the medical conditions being treated. It believed that such a limitation would be inconsistent with professional determinations as to what constitutes reasonable and proper care and that, in making such determinations, the staff must exercise individual professional judgment. The agency, however, recognized the wide variation in hospital dental practices and issued guidelines to its field stations to clarify what constitutes reasonable and proper dental care to hospital patients and to achieve uniform hospital dentistry entitlement practices.

224. Need for action to be taken by the Veterans Administration in adjusting compensation benefits to veterans according to new disability rates--Our review of the compensation and pension program at the Veterans Administration Milwaukee Regional Office disclosed that standards for evaluating certain disabilities had been revised but, pursuant to VA Central Office policy, disability compensation awards existing at the time that the standards were changed were not reviewed and adjusted to conform with the new standards unless the cases came routinely before a rating board for another purpose. As a result, veterans with comparable service-connected disabilities were being paid different amounts of compensation benefits.

VA took the position that no review should be made for the purpose of adjusting disability ratings to conform to the revised standards for rating types of disabilities until it completes its study to determine whether the rating standards represent the average degree of veterans' economic impairment. This study, however, is not scheduled for completion until the end of 1966, and there is no assurance that broad revisions of the rating schedule will result. We do not believe that the review we proposed should be postponed until the completion of the study because of the continuation of inequitable treatment of veterans with comparable types of disabilities.

In a report issued in August 1964, we recommended that the Administrator of Veterans Affairs revise VA policy to require that, when rating standards are revised, the regional offices review all applicable awards and adjust the disability ratings to conform with the revised standards. Revisions already made to the rating schedule should be used to adjust applicable disability ratings.

225. Need for action by the Veterans Administration on extra-hazard insurance determinations--On the basis of a projection of the results of our review of extra-hazard determinations made by the Veterans Administration and a VA field review, we estimated and reported in October 1964, that the National Service Life Insurance and the United States Government Life Insurance trust funds had received more than $100 million of excessive Federal contributions and interest earned thereon during fiscal years 1946 through 1963 because, for example, VA used what we considered unreasonable criteria, or VA personnel did not follow its own requirements, in making the determinations.

VA officials agreed with our conclusions that many of the determinations that we examined--made during fiscal years 1959, 1960, and 1961, nearly all involving failure of VA personnel to follow VA requirements--were improper, reversed them, and recovered from the trust funds about $1.4 million in Federal contributions and in National Service Life Insurance death cases, the interest thereon.

We proposed that VA revise its criteria for determining whether diseases or injuries incurred in the performance of military duty resulted from the extra hazards of military service. VA did not concur, but merely

modified its instructions to exclude civilian-type aircraft and motor vehicle accidents from its extra-hazard definition because exposure to identical hazards is now commonplace in civilian life. We therefore recommended that VA also revise the instructions concerning extra-hazard claims to recognize the normal risk involved in many military occupations so that future deaths and disabilities resulting from normal insurance risks will not be charged to appropriated funds.

In those determinations not made in accordance with VA's own requirements, VA took various corrective actions, including correction of most of the erroneous extra-hazard determinations and recovery of the applicable Federal contributions.

Because of our findings, VA initiated a review of all extra-hazard determinations on active insurance contracts where disability benefits were being granted to insureds and, at June 30, 1965, had recovered an additional $2.4 million in excessive Federal contributions from the trust funds. Additionally, VA's action will reduce the annual requirements for Federal contributions for extra-hazard determinations during the next few years. Because VA would not agree to expand its review to other types of extra-hazard determinations or recover interest earned on contributions for some types of extra-hazard determinations which were reversed the monies which can be recovered from the trust funds will be materially limited. We recommended that VA (a) extend its present review to cover all types of extra-hazard determinations not properly made under established criteria for benefits granted during fiscal years 1946 through the present, (b) recover from the trust funds the interest on Federal contributions recovered as the result of such review, and (c) establish any necessary trust fund reserves to provide for the recovery of excessive Federal contributions and related interest.

226. Need for Veterans Administration to review disability compensation awards--Our examination of selected compensation and pension cases reviewed by the Veterans Benefits Office (VBO), Washington, D.C., as a result of a prior recommendation by our Office, disclosed that VBO had not made an adequate review of certain types of disability compensation awards. From the evidence of record, it appears that in 17 cases, or about 8 percent of those we examined, the ratings which had been reviewed by VBO were still improper. In addition, we found that in five cases, or about 2 percent of those we examined, ratings which were made subsequent to the VBO review were improper.

The VA review involving about 1.7 million cases was completed during fiscal year 1962. Statistics compiled by VA showed that (a) benefit payments were reduced or discontinued in about 152,000 cases and were increased in about 21,000 cases, principally as a result of physical and mental examinations given to the veterans to determine the current level of disability and (b) the review resulted in net annual savings to the Government of about $54.8 million. VA statistics showed that the part of the review which was made at VBO had included about 22,000 cases and that, as a result, benefit payments were reduced or discontinued in about 4,100

cases and increased in about 435 cases. Annual savings to the Government resulting from the net reduction in benefit payments at VBO amount to about $1.2 million.

Our examination was conducted primarily to determine the adequacy of the review of cases by VBO. The 22 cases which appeared to be improper were brought to the attention of VBO and the VA Central Office. As a result, 7 ratings were increased, 5 were decreased, and 10 were left unchanged. The net effect of these changes was a small increase in benefit payments.

We agree with the action taken in those cases in which the ratings were changed, but we do not agree with the continuance of those which remain unchanged. The decisions to continue such ratings were based primarily on the history of the veterans' disabilities and veterans' complaints of symptoms perceptible only to themselves.

Shortly after the completion of our review, Public Law 88-445 (78 Stat. 464), effective August 19, 1964, was enacted. This law provides that a disability which has been continuously rated at or above any percentage for 20 or more years shall not thereafter be rated at less than that percentage. We believe that, if a review of compensation cases is not made in the near future, many excessive ratings will be protected under the law and that there will be no way of reducing the related excessive expenditures.

In a report issued in December 1964, we recommended that the Administrator of Veterans Affairs require (a) that a further review be made of those reviewed disability compensation awards under the jurisdiction of VBO where veterans have disabilities for which they have received compensation benefits for fewer than 20 consecutive years and which the VA has determined as not being subject to improvement, (b) that the individuals making the review adhere strictly to the criteria established for rating disabilities and that the major factor to be considered in rating veterans' disabilities be the findings by the examining physicians during the latest medical examinations of the veterans, and (c) that the review be independently evaluated periodically by the Central Office on a test basis to ensure control of the quality of the review.

Subsequent to issuance of our report in December 1964, the Deputy Administrator indicated that he did not agree with our findings and he did not believe that any further review of disability awards was necessary.

227. Need for Veterans Administration to revise eligibility requirements for Service-Disabled Veterans Life Insurance--Our review of the administration of the eligibility requirements for issuing Service-Disabled Veterans Life Insurance disclosed that VA had improperly issued policies of this insurance to certain veterans. This insurance is intended, by law, for veterans who cannot qualify for life insurance from commercial companies at standard rates, because of service-connected disabilities. Under incorrect criteria established by VA, however, insurance was issued

to many veterans who had met good health standards and who therefore were not eligible to receive such insurance. As of June 30, 1963, an estimated 22,000 improperly issued insurance policies, having face amounts totaling about $189 million, remained in force.

The Deputy Administrator of Veterans Affairs advised us that he believed that the program was being conducted legally under then current law. It was our opinion, however, that the program was not being administered in accordance with the law.

We therefore recommended in a report issued in October 1964 that the Administrator of Veterans Affairs revise the eligibility requirements so that future issuances of this insurance may be made only in accordance with the wording and intent of the law.

WAGE RATE DETERMINATIONS

228. Action to be taken by the Department of Labor to improve wage rate determination operations concerning certain federally financed construction--In reports issued in August 1964, and January and March 1965, on our reviews of determinations by the Department of Labor of the minimum wage rates to be paid laborers and mechanics employed on certain federally financed housing and other building construction projects involving the southeastern areas of the United States, selected New England areas, and the Dallas-Fort Worth, Texas area, respectively, we pointed out, generally, that many of the minimum hourly rates were improperly established at the higher rates negotiated by labor organizations and building contractors on commercial-type building construction projects rather than at the lower wage rates prevailing in the private project areas on private construction similar in character to the federally financed projects.

The difference between the wage rates determined by the Department and the rates prevailing in the southeastern and the Dallas-Fort Worth project areas, when applied to the federally financed housing projects reviewed by us, resulted in extra labor costs estimated at $1.4 and $1.1 million respectively. We expressed the belief that the extra labor costs were considered by the contractors in their project bids and generally have increased the costs of the project to the Government.

The Department informed us of its views on our findings and stated that, generally, as a means of improving wage determination operations through obtaining more reliable support, it established three field offices which would enable its representatives to work closely with representatives of management and labor and with public officials.

229. Action taken by the United States Section, International Boundary and Water Commission, United States and Mexico, for a firm allocation of construction costs of the Falcón Dam to power--In a report issued in June 1961 on the "Review of Power Activities, United States Section, International Boundary and Water Commission, United States and Mexico, Fiscal Years 1958-1960," we commented on the need for a firm allocation of construction costs of the Falcón Dam to power and we recommended that action be taken by the United States Section and the Bureau of Reclamation, Department of the Interior, to resolve the amounts that should be allocated to power and that the proposed allocation be submitted for approval by the Secretary of the Interior.

In a report issued in March 1965, we stated that a proposal to allocate costs to power under the incremental cost method was prepared by the Bureau and was forwarded in November 1961 by the Secretary of the Interior to the Secretary of State for his concurrence. In December 1961 the Secretary of State notified the Secretary of the Interior that the Department of State and the Commissioner of the United States Section concurred in the proposed allocation. Our review indicated that the costs allocated to power under this method appear to be reasonable.

230. Need for the United States Section, International Boundary and Water Commission, United States and Mexico, to limit expenditures for highway relocations to those necessary to construct adequate substitute roads--In a report issued in March 1965 we stated that our review of an agreement between the United States Section, International Boundary and Water Commission, United States and Mexico, and the State of Texas, providing for the relocation of sections of United States Highways No. 90 and No. 277 that would be inundated by the Reservoir at the proposed Amistad Dam, disclosed that the United States Section agreed to pay an amount greater than the amount that would have been required to construct an adequate substitute highway and, as a result, incurred unnecessary costs of about $2.3 million.

The Commissioner of the United States Section advised us in September 1964 that the Section believed that there was substantial evidence indicating that a route less adequate than the route selected would not have provided just compensation to the State of Texas. He presented no additional evidence, however, to indicate that the northern route would not have provided just compensation to the State.

The Assistant Secretary of State for Administration advised us in November 1964 that the selection of the more expensive route was based, in part, on considerations beyond those relevant to the adequacy of the substitute route and that the road had been located to provide the most effective access to the international crossing and to realize the most beneficial utilization of the dam and its facilities as an international attraction for tourists and as a center of recreation. In contrast to this statement, the Commissioner informed us that the intent of the United States Section was to relocate the highway in accordance with domestic practices.

In order to preclude the recurrence of a situation similar to that at the Amistad Dam project, we recommended that the Commissioner, United States Section, require that, in the future, expenditures for road relocations necessitated by the construction of water resources projects be limited to those necessary to provide adequate substitutes for the roads being replaced. We recommended also that, where further expenditures are considered to be advisable because of factors such as economic or international considerations which do not relate to the adequacy of the substitute roads, the Commissioner advise the Congress of those factors before agreeing to incur the additional costs.

TRANSPORTATION ACTIVITIES

TRAFFIC MANAGEMENT PROCEDURES AND PRACTICES

231. Action taken by the Department of Defense to monitor weighing practices of commercial carriers of military household goods--Carriers of foreign and domestic shipments of military household goods were overstating weights in some instances and understating them in other instances. In a report issued in July 1964, we stated that, as a result, the Department of Defense was overpaying about $9 million and underpaying about $4 million annually for a net overpayment of about $5 million. We found also, with respect to domestic shipments, that van drivers failed to follow weighing instructions of the Interstate Commerce Commission and that the Department of Defense did not maintain adequate controls over the weights certified on their shipments. The Department of Defense agreed with our findings and conclusions and advised us of corrective actions taken in conformity with our proposals. These actions include the reweighing of selected shipments and the reporting of the results to the Defense Traffic Management Service for evaluation and appropriate action.

232. Action taken by the Department of Defense to reduce cost of transporting empty cargo containers from Europe--Government-owned containers (CONEX transporters) are used to ship military cargoes to Europe. Because return cargoes are considerably less, most of the containers are returned empty. We estimated, as stated in our report issued in January 1965, that unnecessary costs of about $2.7 million were incurred in 1963 in returning empty containers to the United States. Of this amount, $2.2 million of transportation costs could have been saved had the containers been furnished to common carriers for use in shipping household goods to the United States. (Transportation charges for household goods are based on net weight; no charge is made for weight of the containers.) The remainder ($525,000), representing charges of common carriers for the use of containers they supplied for household goods shipments, could have been saved had the Government, instead of the carriers, furnished the containers. The Department of Defense agreed that unnecessary costs had been incurred and advised us of specific actions being taken to reduce costs.

233. Army regulations revised to reduce cost of protecting shipments of classified material--The Army incurred about $500,000 of unnecessary costs over a 3-year period in protecting its shipments of classified material. In our report issued in March 1965, we pointed out that, whereas the Navy and the Air Force used REA Express armed surveillance for shipments of classified material, at a rate of 64 cents per hundredweight shipped, the Army used REA Express armed guard service, at a rate of $5.55 an hour--the most expensive commercial protective service. We were informed that Army regulations had been revised to provide for selection of the most economical method of security compatible with the material being transported.

234. Action taken by the Panama Canal Company to reduce shipping costs--Our review of selected cargo shipments by the Panama Canal Company (PCC) on commercial vessels during fiscal year 1963 disclosed that shipments made at a cost of about $86,000 could have been made on PCC's steamship at a saving of about $39,000. Most of the additional costs could have

been prevented through more effective procurement planning and traffic management and the proper implementation of PCC's policy requiring the use of the PCC-owned vessel when economically advantageous.

As stated in our report issued in October 1964, we were advised by PCC that immediate corrective action was taken at the time our findings were brought to its attention. As a result, we noted a significant reduction in PCC's use of commercial vessels during fiscal year 1964.

235. Procedures strengthened by the Department of Defense to avoid unnecessary transshipment of privately owned vehicles--Over $1 million of excess transportation costs were incurred in calendar years 1960 through 1963 to transship 3,400 privately owned vehicles after delivery from overseas. This occurred because regulations were not complied with, controls over selection of destination ports were inadequate, and through service from overseas ports to destination ports was not used. We made a number of suggestions, with which the Department of Defense agreed, for avoiding unnecessary transshipments.

236. Central agency to be established for achieving more efficient utilization of passenger space available on flights of the Military Air Transport Service--Unnecessary costs were being incurred because the military departments were using commercial air passenger service, from points overseas to the United States, at times when seats on scheduled flights of the Military Air Transport Service (MATS) either were empty or were occupied by "space available" passengers. In reporting these findings, we pointed out that unnecessary costs of about $1 million were incurred for travel from Japan and Korea in the 16-month period ended April 30, 1964 (report issued in May 1965), and about $2.2 million for travel from Europe in the 18-month period ended June 30, 1963 (report issued in June 1965). These costs resulted from a lack of a centralized control over military passenger air transportation to ensure that requirements of transportation officials were coordinated with the space available on MATS flights. We recommended that such a control be established. The Department of Defense concurred and later advised us that MATS had been given the responsibility of establishing and operating a Single Airlift Reservation Agency.

237. Savings could be realized through elimination of duplicated sea transportation services by the Panama Canal Company and the Military Sea Transportation Service--Unnecessary costs of as much as $1.2 million were being incurred annually because duplicate transportation services were established by the Panama Canal Company and the Military Sea Transportation Service (MSTS) for transporting cargo between New Orleans, Louisiana, and the Panama Canal Zone. The Panama Canal Company agreed with the facts as presented in our report. The Department of Defense requested the Army and the Navy to study the matter.

On October 16, 1965, the Department of Defense advised us that the study had confirmed the existence of duplicate transportation services and that the situation had been corrected by transfer of one MSTS vessel to other service.

MISCELLANEOUS MATTERS

FIDELITY BONDING

238. Need for Congress to eliminate fidelity bonding or to enact legislation permitting agencies to discontinue fidelity bonding of their employees--In a report issued in December 1964, we noted that savings of about $190,000 annually could be achieved by the Government if the mandatory requirements for fidelity bonding of Federal employees were discontinued. About $128,000 of this amount could be achieved by the Post Office Department and about $62,000 by all other agencies.

The Postmaster General informed us that POD continued to regard its current bonding program as preferable to a self-insurance program, principally, because it did not believe it good public policy to deny patrons restitution for uninsured losses. The Deputy Director of the Bureau of the Budget advised us that the Bureau was inclined to agree with POD.

We do not believe that it is reasonable for POD to pay insurance premiums to protect patrons who lose cash or valuables sent through the mails unregistered or uninsured, since a determination has been made by these patrons not to pay the insurance fees required for such protection.

We recommended that the Congress repeal the mandatory requirement for fidelity bonding and require each agency to absorb any fidelity losses incurred. We also suggested that, if fidelity bonding and recoveries from the surety are eliminated and if the Congress should determine that payments to patrons for uninsured losses should be maintained to the extent that losses can be recovered from funds due employees, the Congress may wish to authorize POD to withhold such losses from the salary, retirement, or other funds due employees responsible for such losses.

If the Congress should decide not to require mandatory self-insurance, we recommended, as an alternative, that the Congress enact legislation which would permit agencies to realize the savings resulting from self-insurance by permitting them to discontinue fidelity bonding of their employees.

PLANNING AND PROGRAMMING

239. Action taken by Department of Agriculture to coordinate agencies' plans and programs for the control and eradication of pests--In a report issued in January 1965 on the fire ant eradication program of the Agricultural Research Service, Department of Agriculture, we noted that, although the insecticide, heptachlor, was considered a most effective and economical killing agent for controlling or eradicating the imported fire ant, application of heptachlor had to be restricted in the eradication program because it was found to be harmful to fish and wildlife and because the Food and Drug Administration, after January 1960, as a result of its findings, no longer permitted residues of the chemical to remain in or on most feed and food crops.

These circumstances indicated the need for responsible ARS officials, when planning programs for the control or eradication of plant pests, to (a) fully explore, together with the Fish and Wildlife Service, the Food and Drug Administration, and other interested agencies, the possible adverse effects which the use of a particular pesticide could have on humans and fish and wildlife and (b) provide for the safe use of pesticides or for alternate means of control and eradication.

Officials of the Department of Health, Education, and Welfare and the Department of the Interior generally agreed on the need for coordination among interested agencies of plans and programs for the control and eradication of pests. The need for restricting the use of pesticides was stressed by the Subcommittee on Reorganization and International Organizations, Senate Committee on Government Operations, and by prominent scientists.

The Department of Agriculture's current programs indicate an awareness of certain dangers posed by the use of pesticides, and these programs, if fully implemented, should enhance the objective of the safe use of pesticides.

In July 1965, we were advised by an agency official that the former Federal Pest Control Board (consisting of members from the Departments of Interior; Health, Education, and Welfare; Defense; and Agriculture), renamed the Federal Committee on Pest Control, had assumed added responsibilities for coordinating research in pesticides and the monitoring of their use by the Department of Agriculture.

240. Need for the National Aeronautics and Space Administration to strengthen project planning--In a report issued in January 1965 on our review of the management of the Nimbus meteorological satellite project, we stated that unnecessary costs of as much as $1.2 million were incurred because the Nimbus Project Manager, Goddard Space Flight Center, National Aeronautics and Space Administration did not effectively carry out his responsibility for project planning when it became evident that the weight design goal established for the Nimbus spacecraft had become obsolete.

In March 1961, shortly after the award of a cost-type contract for the design, integration, and test of the Nimbus spacecraft, information

available to the Nimbus Project Manager showed that the estimated spacecraft weight of 692 pounds exceeded the design weight of 650 pounds which, in turn, exceeded the reported 580-pound capability of the launch vehicle to be used to orbit the spacecraft. By May 1961, when the final official allowable spacecraft weights were provided by the Launch Vehicle System Manager, available information showed that the spacecraft's estimated weight had increased to 726 pounds while the launch vehicle's reported capability at the planned orbital altitude had decreased to 567 pounds.

We believe that, had the Nimbus Project Manager taken prompt action to either curtail or redirect the contractor's efforts in May 1961 when the known weight incompatibility indicated that further effort toward the development of the heavier spacecraft was unwarranted, as much as $1.2 million expended by the contractor on tasks that had to be redone to develop a lighter weight spacecraft could have been saved.

NASA did not agree that excess costs were incurred and pointed out that these expenditures were made in an effort to develop a fully redundant Nimbus spacecraft which would satisfy the requirements of the Plan for a National Operational Meteorological Satellite System. We believe that NASA's responsibility for satisfying the requirements of the Plan was not adequate justification for continuing contractor effort to develop the redundant Nimbus spacecraft after May 1961, because information at that time showed that launch vehicle capability necessary to orbit a redundant Nimbus spacecraft would not be available.

We reported on this matter for the information of the Congress and to point out the need for NASA to devise means of minimizing the possibility of the recurrence of similar situations in carrying out future research and development projects.

USER CHARGES

241. Action taken by the Federal Aviation Agency to establish user charges to recover costs incurred in certifying aircraft, aircraft components, and airmen--In our report issued in March 1964, we pointed out that the Federal Aviation Agency had not followed prescribed Government policies in assessing user charges. User charges were not assessed to recover any portion of the costs incurred in inspecting aircraft and aircraft components and issuing the required certificates or in determining the competency of airmen and issuing certificates of competency.

By letter dated January 29, 1965, the Administrator of the Agency informed us that the Agency had changed its position on our report concerning the need to establish user charges. The Administrator stated that the Federal budget for the fiscal year 1966 includes estimated receipts from administratively imposed user charges to be established by the Agency sometime during that fiscal year. The Administrator stated also that, during the balance of fiscal year 1965, the Agency would conduct studies to determine the types and levels of fees to be imposed, the degree of cost recovery to be anticipated, and the method and cost of administering a fee system.

242. Need for the Department of the Interior to establish charges to recover costs of producing and distributing hatchery-reared fish--Our review disclosed that, during calendar year 1961, the Bureau of Sport Fisheries and Wildlife, Department of the Interior, spent about $2.2 million to produce and distribute hatchery-reared fish which were stocked in Federal, State, and private waters without reimbursement from the recipients. The Bureau stocks hatchery-reared fish in Federal, State, and private waters without reimbursement even though (a) this practice may hinder the receiving Federal agencies from considering the actual cost of providing fish as part of their total program cost or in negotiating cooperative agreements under which Federal agencies share in the revenues received by the States from the sale of licenses or permits for fishing in Federal waters, (b) all States derive revenues from the sale of fishing licenses or permits for the privilege of fishing in State waters, and (c) the stocking of fish in private waters without charge is not consistent with prescribed Government policies on user charges.

The Department has advised us that it does not intend to change its practice and, in the absence of any statutory requirement, does not agree that charges should be established for such services. We believe that the cost of the Bureau's fish hatchery program should be borne by the primary beneficiaries to the fullest extent possible. Such an arrangement would effect substantial economies in the Government's cost of the national fish hatchery program and would be more equitable in that the primary beneficiaries of the program would ultimately assume a greater share of the program cost. Accordingly, we recommended in a report issued in October 1964, that the Secretary of the Interior modify the Department's present practice of distributing all hatchery-reared fish without charge by (a) establishing a charge, sufficient to defray cost, for fish supplied to owners of private waters, (b) charging to the receiving Federal agencies the costs incurred to produce and distribute fish stocked in waters under their jurisdiction, and

(c) negotiating cooperative agreements to share in revenues received by States from the sale of fishing licenses and permits when the Bureau stocks State waters with hatchery-reared fish.

243. Action taken by Treasury Department on compensation to Washington, D.C., banks for cashing Government checks--Our review of the Treasury Department program for compensating Washington, D.C., area banks for cashing salary checks for Federal employees disclosed that the circumstances under which the program was started in 1943 had changed materially and that compensating the banks for this service no longer appeared to be necessary and therefore should be discontinued. Discontinuance of this program would result in annual savings to the Government of about $270,000.

Futher, we found that banks were receiving compensation for cashing all types of Government checks, including those of its customers, contrary to the provisions of the agreement which provided that the banks be compensated only for cashing Government salary checks for noncustomers. Some banks in the Washington, D.C., area and banks located outside the Washington, D.C., area were not being compensated by the Treasury for cashing Government salary checks.

The Treasury Department maintained depositary balances with the banks in amounts sufficient to compensate them for cashing Government checks. At December 31, 1963, about $12 million in Government funds were on deposit with the 16 Washington, D.C., area banks participating in the check-cashing program.

In a report issued in March 1965, we brought our findings to the attention of the Treasury Department and proposed that the agreement for compensating Washington, D.C., area banks be terminated. As a result of this recommendation, the Treasury Department terminated the check-cashing agreement on June 30, 1965.

244. Department of Defense directive revised to clarify policy on community relations--The Army used military man-hours valued at about $20,000 to prepare Government quarters for visitors attending the 1963 and 1964 Masters Golf Tournaments and to provide transportation for the visitors. In a report issued in December 1964, we pointed out that the use of appropriated funds for unofficial purposes is not authorized and that the use of Government quarters to provide accommodations to civilians for unofficial purposes--especially at lower rates than those charged for competitive commercial facilities--is improper. The Department of Defense took the position that military participation in the tournaments was desirable as a part of the community relations policy of the Department but recognized that such participation should be within reasonable bounds. The Department stated further that its directive relating to community relations would be revised and clarified. The revised directive was issued in April 1965.

245. Need to consider reimbursement of the Virgin Islands Corporation for loss from sugar operations--In a report issued in May 1965, we stated that the Virgin Islands Corporation (VIC) incurred a loss of about $371,000 from its sugar operations in fiscal year 1964. Similar losses in recent years have been reimbursed by authority of the Congress from internal revenue collections--on articles produced in the Virgin Islands and

transported to the United States--which would otherwise be transferable to the Government of the Virgin Islands as Federal grants. Such congressional action was apparently based on belief by the Congress that the revenues of the insular government were adequate to meet VIC's losses from sugar operations.

In its comments, the Department of the Interior stated that consistent application of our recommendation made in prior audit reports on VIC, would require giving the Government of the Virgin Islands the profit from VIC's sale of electric power during fiscal year 1964 since our recommendation was based on reasoning that the insular government should assume responsibility for VIC's losses.

In view of the prior congressional action and the continued substantial increase in insular government revenues, the Congress may wish to consider reimbursing VIC, from internal revenue collections otherwise transferable to the insular government, for the fiscal year 1964 sugar operation loss. Reimbursement of VIC's loss in this manner would restore that portion of the Federal Government's equity in VIC which had been reduced by the amount of the loss.

SUMMARY OF FINANCIAL BENEFITS ATTRIBUTABLE TO THE WORK OF THE GENERAL ACCOUNTING OFFICE IDENTIFIED DURING THE FISCAL YEAR 1965

COLLECTIONS AND OTHER MEASURABLE BENEFITS

	Collections	Other measurable benefits	Total
	(000 omitted)		
Departments			
Army	$ 1,367	$ 13,334	$ 14,701
Navy	4,452	25,476	29,928
Air Force	2,234	33,458	35,692
Defense	5	33,274	33,279
Agriculture	409	2,493	2,902
Army Corps of Engineers (civil functions)	13	1,605	1,618
Commerce	488	2,872	3,360
Health, Education, and Welfare	397	337	734
Interior	272	1,832	2,104
Justice	-	204	204
Labor	12	9,789	9,801
Post Office	156	390	546
State (including AID and USIA)	275	4,279	4,554
Treasury	7	715	722
Agencies			
Atomic Energy Commission	82	1,089	1,171
Civil Service Commission	35	2,027	2,062
District of Columbia Government	4	5	9
Executive Office of the President	-	1	1
Federal Aviation Agency	10	177	187
Federal Home Loan Bank Board	-	525	525
General Services Administration	-	3,805	3,805
Housing and Home Finance Agency	72	3,038	3,110
National Aeronautics and Space Administration	220	14,203	14,423
Panama Canal Company	-	90	90
Veterans Administration	700	1,800	2,500
Other agencies	12	5,013	5,025
Total for audit of departments and agencies	14,922	161,831	173,053
Transportation audit	5,587	-	9,657
General claims work	4,070	-	4,070
Total	$24,949	$161,831	$186,780

DETAIL OF OTHER MEASURABLE BENEFITS

Details of other measurable benefits attributable to the audit work of the General Accounting Office, totaling $161,831,000, are listed below. These financial benefits were identified during the fiscal year 1965 and consist of realized or potential savings in Government operations directly attributable to action taken or planned on findings developed by the General Accounting Office in its 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 benefits
Supply Management:	
Reduction in the procurement costs of seven aircraft programs through substituting Government-furnished equipment for contractor-furnished equipment, estimated as follows:	
Fiscal year 1965 . . . $5,032,000	
Fiscal year 1966 . . . 5,058,000	
Fiscal year 1967 . . . 3,040,000	$ 13,130,000
Cancellation of plans to purchase materials for which there was no current need	10,924,000
Savings in procurement costs as a result of changes in designs and specifications	7,174,000
Transfer of excess material to agencies or contractors for use in lieu of making new procurements	6,445,000
Cancellation of scheduled repairs to aeronautical spare parts and components (sufficient serviceable spare parts and components were available to meet current or long-range needs)	6,380,000
Adjustment of prices under existing contracts or proposed amendments	3,055,000
Return to active inventory excess or surplus material and equipment which was either prematurely scheduled for disposal or not being recognized as an acceptable substitute for items in current demand	1,694,000
Reduction of procurement costs through development of detailed purchase specifications to eliminate purchasing under restrictive brand name or equal basis and thereby encourage competitive bids (estimated annual savings)	1,300,000
Cancellation of requisitions for unneeded signal equipment and spare parts	1,200,000
Reduction in new procurement resulting from redistribution of excess vehicle spare parts and assemblies in Korea	1,156,000

Action taken or planned	Estimated benefits
Supply Management (continued):	
Reduction in fiscal year 1965 appropriation request for unitized office furniture.	$ 1,000,000
Reduction in new procurement by diversion of deliveries and recovery of excess aircraft spare parts furnished to Portugal.	975,000
Readvertisement for bids	860,000
Reclamation of parts from excess aircraft engines. . . .	797,000
Release for redistribution of excess military assistance supplies furnished a recipient country	673,000
Deletion of a large number of unneeded vehicles scheduled for a foreign country under the military assistance program.	588,000
Revision of dairy products price-support program to deter certain movement of butter by processors and handlers (estimated annual savings)	533,000
Recovery and redistribution to other military assistance programs of excess ordnance repair parts	433,000
Procurement or transfer from a Government source rather than from a commercial source ($265,000) and revision of procurement procedures to require bid evaluation on the basis of delivered cost ($90,000).	355,000
Procurement of paint in more economical-sized containers (estimated annual savings)	330,000
Reduction in alleged damages due contractor concerning abaca resulting from disclosure of overstatement of damages claimed.	178,000
Standardization and consolidated procurement of certain items of protective uniform clothing	152,000
Recovery of excess radar modification kits and redistribution of excess training rocket heads	122,000
Redistribution of commercial-type vehicles assigned to Military Assistance Advisory Group and Headquarters, Support Activity, Taipei, Republic of China	114,000
Transfer of two excess late model vehicles to another agency instead of to a foreign country on a grant basis.	7,000
Other items.	320,000
Communications:	
Increased use of Federal Telecommunications System for long-distance telephone calls (estimated annual savings).	1,500,000
Incorporation of independently leased intercity communications lines into GSA circuit management program to obtain advantages of reduced bulk rates offered by telephone companies (estimated annual savings)	1,000,000

Action taken or planned	Estimated benefits
Communications (continued):	
Reduction in number of leased teletypewriter circuits and reduced rental rates of circuits continued to be leased	$ 54,000
Payments to Government Employees, Veterans, and Other Individuals:	
Revision of Joint Travel Regulation which will have the effect of reducing allowable travel time of military personnel using privately owned vehicles on permanent change of station travel (estimated annual savings).	7,000,000
Revision of Joint Travel Regulations to limit payments to civilian and military personnel using privately owned vehicles for their own convenience in performing temporary duty travel to the constructive cost of air or surface common carrier travel as appropriate (estimated annual savings).	2,000,000
Reduction in the rate of cost-of-living allowance payments to certain Federal employees (estimated annual reduction)	2,000,000
Reduction in per diem payments to ships' crewmembers at contractors' shipyards by making available to them quarters and messing facilities at a nearby Government installation	1,669,000
Revision of regulations placing more restrictive limitations on temporary lodging allowance payments to military personnel in Hawaii (estimated annual savings).	1,600,000
Discontinuance of free flight meals to Navy and Marine Corps military personnel receiving cash allowance for subsistence (estimated annual savings)	639,000
Discontinuance of per diem payments to Navy military personnel reporting to temporary stations prior to dates temporary duty is scheduled to begin (estimated annual savings).	549,000
Reduction in the amount of uniform cash allowances to certain employees (estimated annual reduction)	481,000
Improved housing administration procedures reduced vacancy periods and resulted in a reduction in payments for housing allowances (estimated annual savings).	220,000
Correction of erroneous pay and allowance computations and records.	165,000
Consolidation of selected hospital and regional office data processing operations (estimated annual savings).	161,000
Consolidation of three separate guard forces into a single guard force (estimated annual reduction)	160,000
Discontinuance of contracts for technical services where positions could be filled by civil service personnel (estimated annual savings)	157,000

Action taken or planned	Estimated benefits
Payments to Government Employees, Veterans, and Other Individuals (continued):	
Elimination of unnecessary night differential compensation payments and reduction of nonproductive time of postal carriers (estimated annual reduction)	$ 117,000
Reductions in future payments for retirement arising from correction of erroneous awards.	74,000
Issuance of instructions designed to preclude unauthorized payments for transportation and storage of household goods under certain conditions previously allowed because of a misinterpretation of Joint Travel Regulations (estimated annual savings)	27,000
Other items.	396,000
Loans, Contributions, and Grants:	
Reductions in length of training courses under the Manpower Development and Training Act of 1962 resulting from increased hours of instruction per week, for the period May 13, 1964, to May 31, 1965. (Additional savings to be realized during the future continuation of the program.)	8,000,000
Reduction in Government's share of cost of slum clearance and urban renewal projects resulting from reduction of noncash grant-in-aid credits to local agencies	1,847,000
Reduction in Federal contribution to the cost of certain irrigation districts resulting from a reallocation of project costs.	1,723,000
Reduction in Federal grants allotted to States for employment security administration purposes.	1,707,000
Cessation of purchase negotiations for expensive property for low-rent public housing project site.	600,000
Reduction in Government's share of the cost of a Federal-aid highway program resulting from the disclosure of the unauthorized use of State-owned materials by a contractor on an Interstate Highway project	190,000
Reduction in Federal matching funds for public assistance programs resulting from revision of plan for allocating administrative expenses between matchable and nonmatchable programs.	165,000
Reduction in need for borrowing by the Government with consequent decrease in interest cost resulting from a change in procedures for advancing Federal funds to institutions	100,000
Other items.	5,000

Action taken or planned	Estimated benefits
Leasing and Rental Costs:	
Purchasing rather than leasing automatic data processing and related equipment	$ 11,800,000
Purchasing rather than leasing electric power substations	2,388,000
Purchasing rather than leasing office copiers	732,000
Consolidation of selected hospital and regional office data processing operations	257,000
Cancellation of sublease agreement and certain other concessions resulting from disclosure of excessive rental costs for a certain postal facility	112,000
Termination of lease for recreational land not being used	47,000
Other items	228,000
Utilization of United States-owned Foreign Currencies:	
Utilization of excess U.S.-owned foreign currency rather than dollars for paying Federal benefit payments in Yugoslavia	4,000,000
Utilization of foreign currency received as repayment for loans made to a foreign country, reduced the need to purchase the currency with dollars for U.S. uses	3,000,000
Increased use of U.S.-owned foreign currencies in lieu of dollars for air travel costs to certain foreign countries	1,000,000
Cancellation of a project for the construction and improvement of an airport in a foreign country released the remaining foreign currencies for other U.S. uses	900,000
Annual accrual of interest on large balances of U.S.-owned foreign currencies previously held in non-interest-bearing accounts	451,000
Requiring Government employees and certain U.S. Government operations in Recife, Brazil, to purchase their foreign currency requirements from U.S. Government sources rather than from private Brazilian sources	180,000
Accrual of interest on recovered U.S.-owned foreign currencies that were advanced to a recipient country and were in excess of its needs	129,000
Foreign currency for which no plans existed were made available for payment of U.S. obligations that would otherwise require the expenditure of dollars	68,000
Rental Income and Fees:	
Additional annual revenues due to changes in rental rates and utility charges for Government-owned housing, quarters, and garages	1,373,000

Action taken or planned	Estimated benefits
Rental Income and Fees (continued):	
Increase in annual rental income involving low-rent public housing projects	$ 586,000
Additional annual revenues resulting from increasing fees for special-use permits for summer-home sites	213,000
Other items	20,000
Construction, Improvement, and Repair Costs:	
Cancellation of (a) plans to resurface roadway rated as excellent ($243,000), (b) requests for construction of employee housing units ($463,000), and (c) plans for extensive improvements and repairs of properties scheduled for transfer ($257,000)	963,000
Withdrawal of invitation to bid on the construction of an unneeded engine buildup shop for the Hawaii Air National Guard	40,000
Other items	89,000
Operation and Maintenance:	
Reduction in inventory of commercial-type heavy trucks and buses	11,250,000
Withdrawal of two aircraft and associated operating personnel not required at an Army command (estimated annual savings)	139,000
Reduced operation and maintenance expense resulting from use of commercial design vehicles instead of military design vehicles for administrative transportation (estimated annual savings)	30,000
Manpower Utilization:	
Elimination of the mission of Air Force Reserve recovery units which did not sufficiently add to the Air Force dispersal and reconstitution capability to justify ultimate expenditure of $20 million annually	20,000,000
Reduction in staff at a Naval ammunition depot (estimated annual savings)	267,000
Termination of the services of contractor employees at organizations manned with military and civilian personnel having the required skills	392,000
Subsidies:	
Reduction in payments by Maritime Administration to contractors resulting from revision of procedures for calculating operating-differential subsidy rates on certain wage items	2,500,000

Action taken or planned	Estimated benefits
Trade Development and Assistance:	
Reduction of annual net dollar expenditures in financing cotton sales under Public Law 480	$ 1,000,000
Reimbursable ocean transportation costs, financed by Commodity Credit Corporation under Public Law 480, to be recovered or claimed	148,000
Other items	62,000
Transportation:	
Military Assistance Program shipments made direct from contractors' plants to the shipping terminal rather than indirectly through the Army Ammunition Plant as previously shipped	212,000
Other Items:	
Reduction in cost of rehabilitation of aircraft for the Military Assistance Program resulting from a relaxation of stringent criteria	682,000
Use of existing land rather than reclaiming land for an expansion and improvement program	630,000
Depositing excess funds in Federal Reserve Bank in lieu of commercial banks	525,000
Deobligation of funds obligated from a prior year appropriation that had expired	513,000
Correction of errors involving sales prices of Government-owned timber	167,000
Reduction in mail transportation costs resulting from awarding contracts by competitive means for rates rather than negotiated contract rates with railroad companies	130,000
Collections from Military Assistance Advisory Group employees for home-to-work transportation which was previously provided free of charge	52,000
Funds transferred prematurely, by the Treasury Department and the Agency for International Development, to the Social Progress Trust Fund, resulted in additional interest costs being incurred annually	60,000
Miscellaneous Other Items	295,000
Total other measurable benefits	$161,831,000

ADDITIONAL FINANCIAL BENEFITS NOT FULLY OR READILY MEASURABLE

Many significant financial benefits of a one-time or recurring nature are attributable to the work of the General Accounting Office which are not fully or readily measurable in financial terms. These benefits often result from actions taken by Federal agencies in their efforts to eliminate the unnecessary expenditures or otherwise correct the deficiencies brought to light in our audit reports. The extent to which these corrective actions are motivated by our reports is not readily identifiable nor are the financial benefits readily measurable in all cases. A few examples of such actions identified during the fiscal year 1965 are described below:

Procurement of Materials and Supplies

Reduction in Army Tables of Allowances:

In reports issued in the fiscal years 1963 and 1964, we found that, at two Army installations reviewed, equipment requirements were overstated and, as a result, unnecessary procurements were being made. We concluded that equipment authorization documents did not accurately reflect the needs of the using units and that procedures were needed to periodically verify the validity of the lists. We recommended that the Department of the Army initiate a review of equipment authorization lists to establish realistic requirements in accordance with the actual needs of the Army.

In June 1963, the Army initiated a one-time review of all equipment allowances. Further, in October 1963, the Chief of Staff of the Army directed that a committee be established to study Army equipment authorization documents with the objective of reducing Army requirements for material. In December 1964, we were informed that the study of 255 lists, out of a total of 405, had resulted in reductions of equipment allowances amounting to about $332 million. Further, we were advised that as a result of the committee report, approved by the Army Chief of Staff in October 1964, the Army will convert to a new system designed to simplify the documentation and review of all equipment allowances in the Army and to provide for efficient management and effective control of all authorization documents. Our reports in this area may have motivated the Army's corrective action.

Conversion from noncompetitive to competitive procurement:

In recent years we have issued numerous reports on unnecessary costs incurred by the military departments through failure to purchase supplies competitively or through failure to purchase directly from the actual manufacturer repair parts customarily ordered through the supplier of equipment for which the repair parts were ordered. In testimony before the Subcommittee of the Committee on Appropriations, House of Representatives, in February 1964, the Secretary of Defense stated that in 1961 the Department of Defense had studied a large number of General Accounting Office reports and congressional committee reports which concluded that millions of dollars were being wasted because of the failure to obtain price competition more extensively in the procurement of spare parts and smaller end items. He stated that the Department's own analysis of procurement procedures

fully confirmed those conclusions, and, as a result, he had instructed the military departments to increase the proportion of the total value of contracts awarded on the basis of price competition.

In the third annual progress report to the President of the United States of accomplishments under the Department of Defense Cost Reduction Program, the Secretary of Defense reported the following estimated savings to have resulted from the shifting from noncompetitive to competitive procurement:

Fiscal years:	Million
1963	$237
1964	448
1965	550

Consolidation and Reconfiguration of Department of Defense Communications Circuits and Other Economies

In a report to the Congress in November 1959, we stated that we were recommending that the Department of Defense take coordinated action with the telephone company to secure the necessary regulatory changes to establish the Government as a single customer for rate application purposes.

In July 1961, the Secretary of Defense established a central office within the Defense Communications Agency to order and pay for all leased private line communications as the only Department of Defense customer. As a result, instead of being charged for communication services at rates applicable to 25 customers, the Department, as one customer, received the advantage of reduced rates applicable to larger customers. Also, in fiscal years 1963, 1964, and 1965, we issued other reports on communications in which we pointed out economies that could be achieved in the areas of long-distance message transmission, operation of teletype switching centers, and the leasing of teletype and teletypewriter circuits and equipment.

In the third annual progress report on the Department of Defense Cost Reduction Program, the Secretary of Defense reported that, through the consolidation and integration of leased long-line communications, the elimination of unneeded circuits and equipment, and other economies, $108 million was saved in fiscal year 1965. Much of these reported savings may have been the result of our recommendations.

Contractor-furnished Personnel

In March 1964, we reported that certain technical services needed by the Ground Electronics Engineering Installation Agency at Fuchu Air Force Base, Japan, were being performed by contractor-furnished personnel at higher cost than if the services were performed by Government personnel. In addition to identifying the uneconomical aspects of utilizing contractor-furnished personnel, we inquired of the Civil Service Commission whether this practice, which appeared to closely parallel an

employer-employee relationship within the Government, was in violation of the Civil Service Act and/or the Classification Act of 1949.

In February 1965, the Civil Service Commission advised that the current use of contractor-furnished personnel by the military services, under arrangements which are tantamount to an employer-employee relationship, is illegal.

In June 1964, the Air Force advised that net reduction of more than 100 contract technical services spaces was scheduled for the Pacific region, Ground Electronics Engineering Installation Agency, in fiscal year 1965. On July 14, 1965, the Assistant Secretary of Defense for Manpower stated that by the end of fiscal year 1966 about 8,300 contract technical services employees will be replaced with about 7,500 civil service personnel and 800 military personnel at an estimated annual savings of $30 million. The completed and proposed Air Force actions may have been motivated by our report.

Reduction in Vacancy Losses in Government-owned Housing

In the fiscal year 1965, the Department of Defense computed savings of $3.1 million as a result of reducing housing turnover time, thereby saving expenditures in basic allowances for quarters. Vacancy losses were reduced from 2,008,548 days in fiscal year 1962 to 800,000 days in fiscal year 1965. The saving was made possible by prevacate inspection, one-stop refurbishing, and improvement in move-in scheduling.

The General Accounting Office, in recent years, has issued several reports on the utilization of Government housing, pointing out instances where greater utilization could have been achieved. One such report was issued in December 1964, pointing out that the Government had unnecessarily paid over $389,000 at Fort Knox, Ky., during the 18-month period ended June 30, 1963, for quarters allowances to military personnel to provide their own housing although Capehart, Wherry, and other Government-owned family housing units at this location remained vacant. Our reports on unnecessary vacancies may have contributed to the reported savings in fiscal year 1965 of $3.1 million.

Reduced Use of Premium Air Travel

In a report to the Congress in March 1962, we pointed out that, at most of the transportation offices we visited, more than 90 percent of the travel by military and civilian personnel of the Department of Defense and the military departments was made in first-class accommodations. Many of the flights of first-class accommodations could have been made in lower priced accommodations at a large savings to the Government without affecting the missions of the travelers. In May 1962, the Department of Defense issued a statement of policy which requires all travelers to use less than first-class air accommodations to the maximum extent consistent with the successful accomplishment of missions.

ADDITIONAL FINANCIAL BENEFITS NOT FULLY OR READILY MEASURABLE (continued)

Department of Defense personnel flew 1.2 billion passenger-miles in fiscal year 1961 and 1.6 billion miles in fiscal year 1965. In fiscal year 1961, 62.7 percent went first class while in fiscal year 1965 only 24.1 percent went first class. Considering the difference in fares resulting from travel by less than first class in fiscal year 1965 as compared with the base year, fiscal year 1961, the Department of Defense considers that the savings for fiscal year 1965 are $1.1 million. These savings may be attributable, in part, at least, to our report on air travel.

Reduced Aircraft Inspection

In February 1962, we reported to the Congress that Air Force maintenance standards and practices for MATS transport aircraft appeared unnecessarily costly and complex in comparison with those of commercial aircraft and requires about twice as much maintenance labor per flying hour for similar aircraft. In reply to our report, we were informed by the Assistant Secretary of Defense of various studies, as well as completed actions, which the Air Force had undertaken to improve recognized deficiencies in its aircraft maintenance policies, standards, and practices.

In the fiscal year 1965, the Department of Defense reported savings of approximately $4 million as a result of reduced aircraft inspection. Previously, depot maintenance inspection was scheduled every 2,400 flying hours for each aircraft. Under a revised policy, inspection was changed to a 24-month schedule. This reduced the inspection for the fiscal year 1965 to 192 inspections for the MATS fleet compared with the previously required inspections of 279. Reduced inspection requirements also result in fewer aircraft out of commission for inspection. Our previous report on this subject may have motivated the actions of the Department of Defense in reducing aircraft inspections on its MATS fleet.

Leased Motor Vehicles

In a report to the Congress submitted in October 1964, we disclosed that leasing rather than Government purchasing of motor vehicles for use by contractor and Government personnel in the assembly and check-out operations at MINUTEMAN missile launch sites will result in increased costs of about $1,852,000 for the 1,634 vehicles estimated to be required. We also reported that the Air Force avoided statutory controls which require approval by the Congress for the acquisition of passenger motor vehicles for use by Government personnel.

In February 1965, the Assistant Secretary of Defense for Installations and Logistics issued instructions to the three military departments substantially along the lines of our recommendations. For all major projects in which substantial numbers of passenger vehicles will be required for use for a period of 1 year or more by contractor personnel and the contractors do not possess such transportation capability from their own resources, the military departments are instructed as follows:

1. The vehicles will be provided whenever feasible as Government-furnished equipment.

2. If there is insufficient time to obtain congressional approval and to purchase the vehicles, before the contractor commences work on the project, they will be supplied through redistribution of departmental assets or otherwise by temporary rental of commercial vehicles until authorized purchases can be effected.

3. Existing regulations will be modified as necessary to allow contractors to meet the needs of the project on an economical basis.

4. Upon completion of a project, Government-furnished vehicles suitable for retention will be used to replace vehicles beyond economical repair in Government inventories or be disposed of by the Government.

5. Vehicles required for use by Government personnel will be included in the annual budgets submitted to the Congress.

Reduction of Stockpile Objectives for Cordage Fibers (Abaca and Sisal)

At the time of our review the inventory of cordage fibers not only met but exceeded recently revised stockpile objectives. During our review we found that the emergence of cordage substitutes in the form of synthetic fibers had eliminated the United States dependence on foreign sources of supply for cordage fiber requirements and obviated the need for retaining stockpile objectives for abaca and sisal. Also, we found that it was costing the Government about $6 million annually to store and rotate the cordage fiber inventory.

In a report to the Congress (B-125067) in October 1964, we recommended that the Director, Office of Emergency Planning (OEP), reduce the cordage fiber stockpile objectives to zero and that an orderly disposition of the inventories be initiated without disruption of normal market activities.

In June 1965, OEP reduced the stockpile objectives for abaca and sisal. OEP stated that the decrease in objectives for the two fibers was due to the increased use of adequate synthetics and declining military requirements. With the material reduction in stockpile objectives, a like amount of cordage fibers having an acquisition cost of about $26 million automatically became excess and available for disposal.

Disposal of Excess Aluminum

In the interest of reducing the Government's excess inventory of aluminum and other stockpiled materials, we recommended in 1962 that the President consider requiring Government agencies and Government contractors to use, whenever practicable, such excess materials. Employing a different means, but accomplishing the same intended effect, the Office of Emergency Planning and General Services Administration completed disposal

of 106,000 tons of surplus aluminum in 1965 through sale in the amount of $49.3 million.

Revision of Urban Renewal Regulations

As a result of our recommendation in a report to the Congress (B-118638) in October 1964, the Urban Renewal Administration (URA) revised its regulations to clarify that the physical and occupancy standards of the relocation program may not permit any housing to be used as a relocation resource which would be classified as "structurally substandard to a degree requiring clearance" under the criteria used to justify clearance in a project area. We believe that URA's revised regulations, if vigorously enforced, would result in a more effective administration of the relocation program and preclude the unnecessary expenditure of Federal funds for relocating families displaced from an urban renewal area into housing that may be considered physically substandard and scheduled for demolition under a subsequent urban renewal project.

CHANGES IN REGULATIONS OF GOVERNMENT-WIDE SIGNIFICANCE

Armed Services Procurement Regulation

Contractors' employee relocation costs charged to Government contracts.--In a report submitted to the Congress in February 1963, we presented our findings that individuals newly hired by contractors, and relocated by the contractors at Government expense, either had voluntarily terminated employment or were discharged for improper conduct before they had completed a year's service and that only a small portion of the costs incurred in relocating these short-term employees was recovered by the contractors. In another report submitted to the Congress in May 1964, we represented our findings that a contractor charged to Government contracts relocation costs which represented allowances to relocated employees for periods greatly in excess of the periods needed to establish their new residences.

In the first of these reports we proposed, and the Department of Defense agreed, that the adequacy of existing policy guidance on allowability of relocation costs be reexamined. On April 1, 1965, the Armed Services Procurement Regulation was revised (sec. 15-205.25) to define more clearly those relocation expenses which are necessary and reasonable, and therefore allowable as charges against Government contracts, and those that are not allowable. (Relocation Costs Incurred by Contractors with the Department of Defense and the National Aeronautics and Space Administration for the Recruiting of Salaried Personnel Who Terminated Employment Shortly After They Were Hired, B-133340, February 19, 1963; Excessive Relocation Payments to Employees Transferred From One Company Location to Another by Lockheed Missiles & Space Company, Sunnyvale, Calif., B-146886, May 21, 1964.)

Depreciation charges to Government contracts.--In a report submitted to the Congress in August 1964, we presented our findings that a contractor (an institute) had charged to Government contracts depreciation on buildings which it had acquired from the Government at no cost. The buildings had been transferred by the Government for the sum of $1 to a university under the provisions of the Lanham Act, and then transferred by the university to the institute at no cost. In response to our findings the Department of Defense stated that it would disallow such depreciation charges in current and future contract negotiations and that it would also review its policy to determine whether additional guidance was needed.

On April 1, 1965, the Armed Services Procurement Regulation was revised (sec. 15-205.9) to provide that no depreciation, rental, or use charge shall be allowed on property acquired from the Government at no cost to the contractor or an organization, directly or indirectly controlling, controlled by, or under common control with the contractor. (Unreasonable Charges to Government Cost-Type Contracts for Depreciation on Buildings Acquired from the Government at No Cost by Stanford Research Institute, Menlo Park, Calif., B-146884, Aug. 31, 1964.)

Use of Federal supply schedules.--In a report submitted to the Congress in September 1964, we presented our finding that motor vehicle parts and accessories were being procured by Navy installations in the open market at prices higher than those available under General Services

Administration, Federal Supply Schedule contracts. Our bringing this matter to the attention of the Navy prompted the Navy's submission of a proposal to the Armed Services Procurement Regulation Committee, and, as a result, the Armed Services Procurement Regulation was revised on January 29, 1965 (sec. 5-104.1), to require, with certain exceptions, that Federal Supply Schedules be considered equally with other sources by contracting officers in ensuring that purchases are made to the best advantage of the Government. (Uneconomical Procurement of Motor Vehicle Parts and Accessories, B-146940, Sept. 18, 1964.)

Joint Travel Regulations

Criteria for classification of professional items shipped at Government expense.--In a report submitted to the Congress in March 1964, we presented our findings that military personnel avoided excess weight charges for shipment of household goods by claiming weight for more professional items than they actually shipped. (Household goods shipped at Government expense are subject to weight limitations; professional items are not subject to weight limitations.) Travel regulations did not clearly define what constituted professional books, papers, and equipment. We recommended that the Joint Travel Regulations be amended to provide definite criteria as to what may be claimed as professional books, papers, and equipment. The Joint Travel Regulations were amended on January 1, 1965, to provide such criteria. (Shipment of Household Goods Improperly Classified as Professional Items by Military Personnel to Avoid Payment for Excess Weight, B-146867, Mar. 5, 1964.)

Federal Property Management Regulations

Utilization of personal property items.--In a report submitted to the Congress in August 1964, we presented our finding that certain aircraft spare parts costing about $1.4 million were declared surplus and sold to the public for a fraction of their replacement cost, although some of these items were needed by other Government agencies. We found that, in accordance with General Services Administration (GSA) regulations, the items were classified as nonreportable property and, consequently, notice of their pending disposition was not circularized to other Government agencies.

We proposed that the Administrator of General Services consider revising GSA's regulations to provide that listings of all excess aircraft and spare parts be circularized to the Department of Defense and other Federal agencies having a potential need for such equipment. On April 15, 1965, Amendment No. H-5 to the Federal Property Management Regulations revised section 101-43.4901 to increase the number of excess personal property items required to be reported to GSA to facilitate GSA's circularizing of other Government agencies to ascertain their needs for all or part of the excess personal property before the property is disposed of to outside parties. (Premature Disposal of Certain Aircraft Spare Parts by the Utilization and Disposal Service, General Services Administration, B-146929, Aug. 4, 1964.)

Procurement from GSA stores stock.--In a June 1964 report to the Congress, we presented our findings that brand-name products of certain suppliers were placed into the GSA supply system without a comparison with similar lower cost products of other manufacturers, with existing Federal specifications covering products of the same general nature, and with products having the same general characteristics and end use already in the supply system. Consequently, the Government incurred additional costs of at least $650,000.

We proposed that the Administrator of General Services revise the practice of procuring brand-name items by limiting the use of brand name or equal purchase descriptions, in general, to those cases where Federal specifications or detailed purchase descriptions for similar items are not available, and then only on a temporary basis until an adequate review and evaluation is made of the Government's requirements for these brand-name items. On February 16, 1965, Amendment No. E-4 to the Federal Property Management Regulations supplemented section 101-26.301-1 with the objective of enabling GSA to reduce procurement costs by making greater use of detailed purchase specifications, thereby eliminating purchasing under restrictive brand name or equal basis and encouraging competitive bidding. (Uneconomical Practices Relating to Brand Name Procurements, Federal Supply Service, General Services Administration, B-114807, June 1, 1964.)

Guidelines for acquisition of certain types of equipment.--In October 1964 reports to the Congress, we presented our findings that (1) estimated savings of about $6.5 million would be attainable over the initial 5-year period of use if about 450 office copying machines not requiring the use of sensitized paper rented by certain Federal agencies at August 31, 1963, under Federal Supply Schedule contracts, were purchased, and that further potential savings of as much as $17 million would be attainable because their productive life may extend beyond that period, and (2) about 2,000 major components of telewriting systems, which were being leased at May 31, 1963, could have been purchased at a savings of about $1.4 million over the initial 8-year period of operation, the estimated useful life of the machines. The equipment was generally leased by the agencies without making comparative cost studies to determine whether it would be more advantageous and economical to lease or purchase.

We proposed that GSA develop and furnish appropriate instructions and guidelines to Government users to assist them in making management decisions as to whether machines of these types should be purchased or leased. On November 10, 1964 the Federal Supply Service issued GSA Bulletin FPMR No. E-1, Supply and Procurement, reemphasizing the intent of GSA Circular No. 353, dated September 29, 1964, which was also promulgated as a result of our review, to provide lease or purchase criteria and guidelines with respect to acquisition of office copying machines not requiring the use of sensitized paper. Also, a "Notice to Ordering Offices" was added in the special provisions section of the Federal Supply Schedule for Teletype and Facsimile Equipment for the period July 1, 1964, through June 30, 1965, to highlight the fact that ordering agencies have the option of renting or buying teletype equipment. As of August 2, 1965, more detailed

criteria and guidelines for the purchase or lease of office copying machines and telewriting equipment had been prepared by GSA and were being circularized for review and comment to user agencies prior to release. (Potential Savings Available Through Purchasing Rather Than Leasing Certain Office Copying Machines, Federal Supply Service, General Services Administration, B-146930, Oct. 19, 1964, and Excessive Costs Incurred by Leasing Rather Than Purchasing Certain Telewriting Equipment, Federal Supply Service, General Services Administration, B-146930, Oct. 28, 1964.)

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