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COMPTROLLER GENERAL OF THE UNITED STATES

ANNUAL
REPORT
1967

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Annual Report of the

COMPTROLLER GENERAL

of the

UNITED STATES

For the Fiscal Year Ended June 30, 1967



WASHINGTON : 1967

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



JANUARY 8, 1968.

DEAR SIRs:

In accordance with section 312(a) of the Budget and Accounting Act of 1921, I respectfully submit the annual report on the activities of the United States General Accounting Office during the fiscal year ended June 30, 1967.

A handwritten signature in cursive script that reads "Thomas B. Staats".

*Comptroller General
of the United States.*

The President of the Senate
The Speaker of the House of Representatives

COMPTROLLERS GENERAL OF THE UNITED STATES

and

ASSISTANT COMPTROLLERS GENERAL OF THE UNITED STATES

The General Accounting Office is under the control and direction of the Comptroller General of the United States. There is also an Assistant Comptroller General of the United States who performs such duties as may be assigned to him by the Comptroller General and who acts as Comptroller General during the absence or incapacity of the Comptroller General, or during a vacancy in that office. The Comptroller General and the Assistant Comptroller General are appointed by the President with the advice and consent of the Senate.

Comptrollers General of the United States

John R. McCarl	July 1, 1921–June 30, 1936
Fred H. Brown	April 11, 1939–June 19, 1940
Lindsay C. Warren	November 1, 1940–April 30, 1954
Joseph Campbell	December 14, 1954–July 31, 1965
Elmer B. Staats	March 8, 1966–

Assistant Comptrollers General of the United States

Lurtin R. Ginn	July 1, 1921–November 11, 1930
Richard N. Elliott	March 9, 1931–April 30, 1943
Frank L. Yates	May 1, 1943–June 29, 1953
Frank H. Weitzel	October 12, 1953–

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Highlights of Activities for the Year

Scope of GAO's Audit Work

The General Accounting Office conducted approximately 2,200 audits and reviews of U.S. Government activities and programs in the United States and in 33 other countries during fiscal year 1967.

Field of activity	Number of audits and reviews	Area of audits	
		U.S.A.	Overseas
Civil	1,226	1,901	6
Defense	772	941	85
International	205	99	135
Total	2,203	2,941	226

Most of these audits and reviews were undertaken at U.S. Government locations but work was done also at 520 other locations such as State and local governments, universities and similar recipients of Federal grants or loans, and approximately 240 plants and offices of private contractors holding Government contracts.

The primary purpose of these audits and reviews was to determine if Government agencies were discharging their financial responsibilities in an effective, efficient and economical manner. Particular emphasis was placed on matters requiring correction or improvement and on the means of so doing.

Financial Savings

As a consequence of suggestions or recommendations made in connection with a particular audit or review, actions were taken by Federal agencies to make improvements in their activities. For many of these it was impractical to determine the dollar savings that might be realized.

Refunds, collections, and financial savings or revenues that could be readily determined to have resulted from GAO audits and reviews

HIGHLIGHTS OF ACTIVITIES

amounted to \$190.1 million this year, as follows :

	<i>(In millions)</i>
Refunds and collections:	
Audits of departments and agencies	\$6.8
Transportation audits	13.0
General claims work	3.6
	<u> </u> \$23.4
Other savings:	
Supply management and procurement	\$96.0
Revenue from increased prices on sales contracts for uranium enrichment services	42.0
Reduction in interest costs plus savings in interest payments	11.1
Termination of long-term medical research contract	3.8
Use of U.S.-owned foreign currency	3.3
Revenue from increased sales price on Government-owned facility	2.4
Miscellaneous.	8.1
	<u> </u> \$166.7
Total savings attributable to the work of GAO	\$190.1*

+Approximately \$21 million are recurring in nature and will continue in future years.

Expenses and Staffing

GAO operating expenses for fiscal year 1967 amounted to \$49 million. Over 89 percent of this amount—\$44 million—was required to pay salaries and other personnel costs. The staff at June 30 totaled 4,216, a net increase of 68 over 1966. During the past 10 years, GAO staff has been reduced by 1,307—over 23 percent— but the professional accounting and auditing staff has increased by 631 to 2,326.

Audit Reports Issued

As a result of its audit work in the departments, agencies, commissions and corporations of the Federal Government, GAO issued 963 reports:

- 161 to the Congress,
- 177 to congressional committees, offices of the Congress, or individual Members;
- and,
- 625 to officials of departments and agencies.

Of these reports, 474 pertained to activities of the civil departments and agencies, 390 related to activities in the Department of Defense, 73 pertained to international activities, including military and economic assistance to foreign countries, 24 concerned Government-wide activities, and two related to organizations outside the Government.

A digest of GAO audit reports issued to the Congress during fiscal year 1967 is provided in Appendix C-3, starting on page 212.

Assistance to Congress

The primary effort of the General Accounting Office is to assist the Congress in maintaining the surveillance so necessary for effective legislative oversight of the complex of governmental programs and operations. Toward this end in fiscal year 1967:

GAO representatives testified on 18 occasions before congressional committees. 106 GAO staff members were assigned to the staffs of 23 committees or subcommittees.

530 reports were furnished to committee chairmen on pending bills—
288 to the Senate, and
242 to the House.

These activities plus additional services to meet congressional requests represented approximately 69,000 man-days, or 315 man-years, of GAO staff time.

Legal Services

Decisions prepared for issuance by the Comptroller General and other legal matters handled during the year totaled 4,633. The total included 749 legislative and legal reports submitted to committees and Members of Congress on information of interest to them and 96 reports to the Director of the Bureau of the Budget on proposed, pending, or enrolled bills and other legal matters.

Transportation

Audited transportation charges against the Government increased about 27 percent in fiscal year 1967 over 1966 as the GAO fulfilled its statutory responsibility of determining the propriety of rates and classifications on bills and claims for freight and passenger transportation services furnished for the account of the United States.

GAO audited about \$2 billion in transportation charges, consisting of \$1.2 billion paid for 5.6 million freight shipments and \$800 million for 2.9 million passenger movements.

Overcharges issued against carriers and carrier claims against the United States settled by GAO in 1967 were as follows:

U.S. Claims Against Carriers

	<i>Number</i>	<i>Amount</i>
113,010,.....		\$14 million

Carrier Claims Against U.S. Settled by GAO

[In millions of dollars]

	Number	Charges	Allowed	Disallowed
Original bills.....	4,911	\$81.8	\$81.5	\$0.3
Supplemental bills.....	21,222	5.2	2.4	2.8
Total.....	26,133	\$87.0	\$83.9	\$3.1

GAQ also furnished assistance to the Department of Justice in some 27 legal actions involving claims against the United States for approximately \$400,000 covering 25,121 shipments. Sixty-six, the subject of reports in this or prior years, were settled for about \$500,000, about \$400,000 less than claimed.

Carriers filed 75 suits covering 86,550 shipments. Fifty of these suits and about 80,000 of the shipments covered overseas movements of household goods by the Department of Defense. The amount sued for was not stated in the petitions. GAO estimates that the liability of the United States on these and 50 similar suits filed in prior years to be nearly \$70 million if the carriers prevail on all issues involved.

Claims Settlement and Debt Collection

General claims against the United States in fiscal year 1967 involved Government contracts, compensation to civilian personnel and pay and allowances to military personnel, retired pay, travel, transportation and per diem matters, and miscellaneous claims of Government personnel and other public creditors. General claims against and by the United States settled by GAO were as follows:

	Number	Paid by U.S. <i>(In millions)</i>	Collected by U.S. <i>(In millions)</i>
Claims against U.S.....	9,705	\$46.5	.....
Claims by U.S.....	32,208	.....	\$3.6

At the end of the year 11,041 claims under collection represented accounts receivable in the amount of about \$6.2 million. GAO reported 2,001 claims to the Department of Justice for collection by suit. As of June 30 there were 6,586 claims under collection by that Department, representing approximately \$4.1 million in accounts receivable.

Financial Management Improvement

GAO approved **six** complete accounting systems and two parts or segments of systems submitted this year by civil departments and agencies. At year end, **23** complete systems and six parts or segments of systems submitted for approval by **civil** departments and agencies were in various stages of review by GAO.

As of June 30, **GAO** had under review for the Department of Defense proposed construction accounting systems manuals of the three military departments, the Industrial Fund accounting system manuals for four Department of Defense components, and **13** directives and instructions setting forth accounting principles and standards.

Continuing congressional interest in improved financial management in the Federal Government was shown during the year. The House Committee on Government Operations held hearings September 19, 1966, and July 17, 1967, to determine the status of progress achieved by agencies in improving their accounting systems and related elements of **their** financial management systems.

GAO made two changes this year to the accounting principles and standards prescribed by the Comptroller General.

An amendment to make clear that the accounting systems of executive agencies must provide adequate support in the form of cost and other financial information for the planning-programming-budgeting system prescribed by the President for executive agencies.

A change to provide that future requests by agencies **for** approval **of** their accounting systems are to be submitted in two stages: **first**, the accounting principles and standards underlying the systems; second, the documentation representing the accounting system, or segments thereof, in operation.

These were published in April and May **as** official changes to the GAO Policy and Procedures Manual for Guidance of Federal Agencies.

The Steering Committee of the Joint Financial Management Improvement Program—comprising representatives from the Bureau **of** the Budget, the Civil Service Commission, GAO and the Treasury—started a project during the year to develop, and issue on a continuing basis, case studies explaining how specific agencies have benefited through establishing sound cost and financial information systems. Several cases were identified and the agencies concerned were preparing narrative and graphic descriptions, **as** the fiscal year ended, showing how their financial information systems now furnish their managers with data for use in planning and controlling agency operations.

During the year, the Committee also developed :

HIGHLIGHTS OF ACTIVITIES

A plan to report total Federal expenditures by geographic distribution.

A study on problems and possible improvement in the central financial reports and reporting practices of the Federal Government.

A preliminary consideration of problems in procurement and payment of various types of transportation of persons and things.

Training and Career Development

Over 1,500 members of GAO's professional staff were provided with special training this year through GAO internal facilities. Over 300 professional staff members participated in training or career development programs conducted in other agency or non-Government facilities. Thirty-eight staff members passed the C.P.A. examination given by State boards during the year. A total of 424 members now hold the C.P.A. certificate; 58 others who have passed the required examination will receive their certificate upon completion of their experience requirement.

Assistance to the Congress

The Congress established the General Accounting Office in the legislative branch to serve as an independent, nonpolitical and reliable source of assistance in carrying out its constitutional power over the public purse. Our duty to furnish assistance to the Congress, its committees, and Members, is one of our most important responsibilities, and receives the constant attention of our top officials.

In the development and formulation of our programs we relate our activities as directly as possible to the current interests of the Congress. To help focus proper attention upon this work, our Office of Legislative Liaison keeps in continuous contact with the committees and their staffs and is available at any time to give personal attention to the requests of individual Members.

The major forms of assistance to the Congress rendered by our professional staff of attorneys, accountants, auditors and investigators are (1) audit reports to the Congress, (2) special reports as requested by committees and individual Members of the Congress, (3) direct staff assistance to committees, (4) reports to committees on pending legislation, (5) advisory assistance in legal and legislative matters, (6) testimony at hearings, and (7) recommendations for legislation. Highlights of this work are described in this chapter.

We participated in the seminar held in January 1967 for the new Members of the House of Representatives of the 90th Congress sponsored by the membership and the American Political Science Association. This was our first participation in this program. It afforded us an excellent opportunity to discuss briefly with the new Members and their staffs the operations of the Office that may be helpful to them in performing their congressional duties. Also, our legislative liaison attorneys visited the offices of all new Members of the Congress to explain the services of the Office in the light of their particular interests and needs.

We issued a new publication entitled "Audits of Government Contracts by the United States General Accounting Office." Although this booklet was prepared primarily for the information of Government contractors whose contracts are subject to audit by the General Accounting Office, we distributed it to the committee chairmen having responsibilities regarding our audits of Government contractors. Copies of the booklet are available to all Members who desire them.

We furnished the committees copies of the first issue of a monthly

“GAO Newsletter” published for the benefit of our staff which summarizes current activities in carrying out our statutory responsibilities. This resulted in arrangements for the committees to receive future issues of the newsletter as a convenient means of being kept informed of our reports to the Congress, important legal decisions by the Comptroller General, and significant internal developments. The newsletter is available to all Members of the Congress upon request.

We maintain a special audit staff at the Capitol to furnish professional auditing and accounting assistance on financial and administrative problems requested by Officers of the Congress. Requests for service from this group are increasing each year. We are working closely with the new Clerk of the House of Representatives in his modernization efforts. For example, we reviewed with the Clerk available medium-priced electronic accounting machines and expect to cooperate with him in adapting current accounting procedures to the equipment which he selected with the approval of the Committee on House Administration. We are cooperating with the Clerk in the determination of his accountability for various classes of property and in the adaptation of current procedures to convert to machine operation accounting for property charged to House committees, Members, and Officers.

We collaborated with the staff of the Committee on House Administration in drafting an accounting systems manual for the committees of the House. After adaptation, the Committee issued the manual as a Committee regulation to strengthen its controls over expenditures of all committees.

We also assisted the new Secretary of the Senate when he assumed his duties by furnishing him and the retiring Secretary a special audit report on the accountability of funds transferred.

As in the past, at the request of Officers of the Senate and of the House of Representatives we audited and reported on the following activities:

- House Finance Office
- House Recording Studio Revolving Fund
- House Stationery Revolving Fund
- Senate Recording Studio Revolving Fund
- Capitol Guide Force
- Senate Office Beauty Shop
- Senate Employees Barber Shop

We assisted the Architect of the Capitol in various areas of financial management. The Architect has recently installed an electronic book-keeping system for payroll operations. Through the use of this machine certain of the deficiencies we had found in previous payroll audits were corrected. We provided consultative assistance in the installation of the new equipment.

AUDIT REPORTS TO CONGRESS

Foremost among the ways we assist the Congress is furnishing reports of our audits, investigations, and evaluations of the financial problems and operations of the civil and military departments and agencies. During fiscal year 1967 we issued 161 such reports.

Besides generally informing the Members of the Congress, these reports are designed to aid the congressional committees having legislative jurisdiction over Government operations and to furnish the Appropriations Committees information helpful in reviewing the annual budget requests. We are making strong efforts to shorten the time frame of our reporting to the Congress on the results of our work because we believe prompter reporting increases the usefulness of the facts, conclusions, and recommendations reported. Additional emphasis is being placed on broader reviews of financial management including accounting systems and agency operations. This step too we believe will make our reports more helpful to the Congress.

We are endeavoring to increase the reporting effectiveness of the Office by working closely with all of the committees and associating our audits as closely as possible with their interests and work. This effort has been particularly fruitful with the House Appropriations Committee through briefing sessions with the committee staff members before and after the appropriation hearings. At these meetings the major elements of our work in process are outlined and problems of mutual interest discussed. The committee staff requested us to accelerate our work on several reports covering subjects that they believed would be of particular interest to the committee and bearing upon the current budget requests of the military and civilian agencies.

Our audit reports submitted to the Congress during the year were utilized by the Appropriations Committees' Members as the basis for many of their questions and discussions with agency officials concerning the operations and funding of their agencies. We facilitated the use of the findings and recommendations in these reports by furnishing the House Appropriations Committee our 13th annual report of significant findings developed during the course of auditing the military and civilian agencies. This special report contains condensed information on the particular reports issued to the Congress which we believe warrant the committee's attention during the budget hearings.

The rules of the Senate and the House of Representatives require that all reports which we submit to the Congress be referred to the Committees on Government Operations for consideration. This is done to officially provide these committees, which have special responsibility to

review the operations of **all** Government activities, with the information developed by our examinations of the departments and agencies.

A good example of the effective utilization of our work concerns the report we issued on July 18, 1966, on the results of our survey of internal audit and management inspection activities of United States agencies operating in Vietnam (B-159451). The Subcommittee on Foreign Operations and Government Information of the House Committee on Government Operations held hearings which confirmed and enlarged upon our survey findings that too little effort generally was being made in this regard by the agencies. Later, in a report to the House, the full committee recommended that we follow up with a review of the specific audit and inspection programs initiated in Vietnam by the responsible agencies during 1966. This review, on which we reported to Congress in May 1967, showed significant increases in the number and scope of internal audits and management inspections since our earlier report, a result we think is directly attributable to the combined efforts of our Office and the committee.

We issued to the Congress a special report on a Government-wide review of the interpretations and applications by Federal agencies of the statutory 6 percent fee limitation provided by 10 U.S.C. 2306(d), 4540, 7212, 9540 and 41 U.S.C. 254(b) on architect-engineer (A-E) fees under Government contracts. We recommended the repeal of the 6 percent limitation as being impractical and that the Congress clarify its intent as to whether the competitive negotiation requirements of the "Truth in Negotiations Law" (Public Law 87-653) are to apply to architect-engineer services. (See page 29 for further discussion of this legislative recommendation.)

This review was made in response to a request in the conference report (House Report No. 1748, 89th Congress, 2d Session) on the fiscal year 1967 authorization for the National Aeronautics and Space Administration following the issuance of our report to the Congress in June 1965 advising that the fee payable under a particular A-E contract executed by NASA exceeded the statutory 6 percent limitation.

Again **this** year the Subcommittee on Economy in Government of the Joint Economic Committee held comprehensive hearings in the supply management and procurement areas. Numerous General Accounting Office reports were reviewed and agency representatives were questioned on the points raised in our reports. The subcommittee plans further hearings in the fall of 1967.

A list of all reports issued to the Congress during the year begins at page 174.

SPECIAL REPORTS REQUESTED BY COMMITTEES

Under the provisions of the Budget and Accounting Act, 1921, we are required to make such investigations and reports as shall be ordered by either House of Congress or by committees having jurisdiction over revenues, appropriations or expenditures. It is our policy to accept the requests for special audits, surveys and investigations from all committees and to give them highest priority. During the year we furnished 77 such reports to committees at their request on a wide variety of subjects ranging from fiscal data obtainable in Washington to complex international Government operations that often required the participation of our regional, overseas and Washington, D.C., staffs.

The Joint Atomic Energy Committee utilized our assistance in its surveillance of the vital activities of the Atomic Energy Commission. At the request of the committee we reviewed and furnished comprehensive reports on (1) policies, procedures, and practices of the Atomic Energy Commission and a Commission licensee relating to accountability of special nuclear materials, (2) problems associated with management of construction of the La Crosse Boiling Water Reactor, (3) selected aspects of the administration of General Plant Projects funds, and (4) the proposed toll criteria and contracts for uranium enrichment services by AEC. The chairman of the committee informed us that the toll criteria report "helped greatly in the committee's review of this complex problem."

As a result of our report on the administration of the general plant project funds, the Atomic Energy Commission established revised procedural requirements and proposed an amendment to the standard language heretofore used in the annual appropriation authorization to establish limitations on the use of such funds. The proposed amendment was incorporated in subsection 102(c)(1) of the 1968 fiscal year appropriation authorization for AEC (Public Law 90-56) and provides that the estimated cost of any building included in a general plant project shall not exceed \$100,000 unless the Commission determines that it is necessary in the interest of efficiency and economy.

As part of its continuing study of United States policies in Vietnam, the Senate Committee on Foreign Relations asked the General Accounting Office to study and comment on the report submitted to the President of the United States on January 9, 1967, by the Agency for International Development entitled "Management of AID Commodity Programs—Vietnam—1966." After we provided the committee with an analysis of AID's report the chairman released the documents to the public. Although our analysis showed that AID's report accurately enumerated what we considered to be a series of well-conceived actions, we expressed reservations concerning several points in the report.

During the year we issued three reports to the Subcommittee on Departments of Treasury and Post Office and Executive Office, Committee on Appropriations, House of Representatives, on reviews of Post Office Department operations which were made at the request of the subcommittee chairman. These reports related to selected aspects of the Department's labor-management program and the staffing and functions of the postal regional offices. The report on the labor-management program provided the subcommittee with information on the estimated cost of the Department's program and of compliance with the requirements of Executive Order 10988, concerning employee-management cooperation in the Federal service.

In response to a request by the chairman of the Subcommittee on Long-Term Care, Senate Special Committee on Aging, we inquired into and reported on certain allegations of improper practices in providing nursing home care, medical services, and prescribed drugs for old-age assistance recipients in the Cleveland, Ohio, area. On the basis of the inquiry, we advised the subcommittee that it was our opinion that because of inadequacies in pertinent policies, procedures, and controls, or in their implementation, the alleged practices or deficiencies could exist without detection, or, if detected, could continue without appropriate corrective action.

With respect to military activities, we furnished the House Appropriations Committee several special reports on phases of the F-111, the F-4 and A-7 aircraft programs as part of the cost analysis studies we are making for the committee on a continuous basis pursuant to its requests in prior years. In our review of acquisition of technical data for the F-111 aircraft program, we reported that much of the technical data provided by the prime contractor was found by the Air Force to be inadequate. The committee referred to this report and others by its own staff as the basis for substantially reducing the military agencies 1968 budget requests relating to technical data.

The House Appropriations Committee called on us for three special reports on problem areas in defense activities that were brought to its attention during hearings on the 1967 defense budget requests. The reports involved the use of weighted guidelines in negotiating profits and fees with Government contractors and the effect of the guidelines on the rates of negotiated profits and fees; the practice of furnishing Government-owned machine tools to Government contractors; and the policies and practices followed by the Government in determining amounts of corporate general and administrative expenses allowable as charges to Government contracts.

We furnished at the request of the chairman of the Senate Appropriations Committee a special report containing the findings on our

investigation of **18** allegations relative to the Child Development Group in Mississippi which was administering a Head Start Program.

At the request of the chairman of the Subcommittee on Agriculture, Senate Appropriations Committee, we investigated and furnished a report on certain allegations of improper use by a rural electric cooperative of funds borrowed from the Rural Electrification Administration, Department of Agriculture, and on the legality of electric construction contract loans by Rural Electrification Administration.

We issued to the House Committee on Foreign Affairs a classified report on NATO cost-shared infrastructure military facilities in France as of December **31, 1965**. This report was prepared at the request of the chairman, and members of our Washington and European Branch office staffs worked closely with the staff of the committee in preparing the report.

Also, we continued an examination of certain aspects of the procurement of the **F-111** aircraft at the request of the Senate Committee on Government Operations and made reports thereon to the chairman.

SPECIAL REPORTS REQUESTED BY INDIVIDUAL MEMBERS

Members of the **Congress** rely on the General Accounting Office for impartial and objective audit and investigation reports concerning the fiscal affairs of the Government and agency operations in which they have a particular interest. During the year we furnished **93** reports of this type at the request of individual Senators and Representatives. We do not release the information contained in such reports without permission of the person for whom it was prepared. For those reports covering subjects that we believe may be of special interest to the Congress and its committees, we encourage the requestor to make an early release of the report. The following are examples of such reports.

We reviewed for and furnished a special report to Congressman, Charles **A.** Mosher, with a copy to Senator Everett M. Dirksen, on selected construction activities at Plum **Brook** Station, Lewis Research Center, National Aeronautics and Space Administration, concerning irregularities in the management of construction activities of the Space Propulsion Facility alleged by an employee of NASA. **As** a result of this review, NASA took steps to provide more effective planning and coordination of facilities and to improve control of the construction program.

At the requests of Senator Wayne Morse, Congressman Robert B. Duncan and Congressman Wendell Wyatt, we examined into matters pertaining to two land exchange proposals filed by a private party involving his interests at Point Reyes, California, which are within the

boundaries of the Point Reyes National Seashore administered by the National Park Service and public lands managed by the Bureau of Land Management. We also examined into matters pertaining to the controversy between former Bureau of Land Management officials relating to the exchange. The preparation of this report required many months of intensive work in the field to complete a comprehensive account of negotiations conducted in connection with the land exchange proposals and to report the pertinent facts pertaining to the controversy of the former BLM officials.

In another case, after receiving serious allegations concerning the quality and costs of work performed during an overhaul of the aircraft carrier USS *Shangri-La*, at the Philadelphia Naval Shipyard, Congressman Richard S. Schweiker brought the matter to our attention and requested that we conduct an investigation. Our report dated April 5, 1967, to Congressman Schweiker substantiated the basic charge that the Navy and the contractor had failed in many respects to discharge their respective responsibilities in such a manner as to fully protect the interest of the Government.

In response to a request from Congressman John V. Tunney we provided him with a narrative summary of the history of the supersonic commercial transport program and a statement of the major problems to be considered in proceeding with the development of the program. In the preparation of this report we reviewed the published records of congressional hearings on the program, Federal Aviation Administration reports, and held a number of discussions with agency personnel.

REPORTS ON LEGISLATION

In fiscal year 1967, we furnished at the request of various committee chairmen a total of 530 reports on pending bills. Primary responsibility for the preparation of these reports rests in our General Counsel's office. The reports are prepared on the basis of original legal research augmented by the advice and comments of our accounting and auditing staffs.

Some bills on which we are asked to report contain provisions directly affecting our operations. (See citations to legislation enacted during the 89th and 90th Congresses, fiscal year 1967, beginning on page 163 of Appendix B.) Others referred to us may have been designed to correct deficiencies reported by our Office or to implement recommendations made by the Comptroller General. In the case of many others, although not relating directly to our own operations, we are able through experience with the agencies concerned and their programs to furnish worth-

while comments to the Congress. These comments usually relate to un-anticipated legal effects which particular language employed in the bill may have, as well as to the operational, fiscal, and administrative aspects of the proposed legislation.

In reporting to the Merchant Marine and Fisheries Committee, House of Representatives, on H.R. 165, we recommended against favorable consideration of that bill but indicated we would continue negotiations with representatives of ocean carriers to work out a satisfactory solution of certain problems in procuring and billing for ocean freight services furnished Government agencies other than the Department of Defense. Such continued negotiations culminated in procedures published in our circular letter of June 16, 1967, B-150556, which are believed to be agreeable to both the Government and United States ocean carriers. The committee was advised of such solution to the carriers' problems apparently making unnecessary any legislation along the lines of H.R. 165.

In reporting on pending bills we consistently urge, with respect to legislation creating loan or grant programs for specific purposes, that Congress include provisions under which the administrative agency and the General Accounting Office will clearly have access to pertinent records of the recipients for the purpose of audit. We consider it a matter of grave importance that the Congress retain for itself the right to review through its own audit and investigatory agency the manner in which such loan and grant funds are ultimately used. We are pleased to note that Congress has accepted our recommendations in this respect with increasing frequency in the past few years. (See excerpts from legislation enacted during the 89th and 90th Congresses, fiscal year 1967, beginning on page 163 of Appendix B.)

Many of the private relief bills considered by the committees concern overpayments by the Government, debts due the Government arising out of contracts, and obligations of accounting and certifying officers for erroneous and improper payments. Because we normally have information relating to most of these types of cases the committees request our comments on a large percentage of the private relief bills that receive committee consideration. This year we reported on 85 such bills.

Following is a table showing the number of reports on bills furnished to the various committees during fiscal year 1967 :

Senate:	
Agriculture and Forestry	3
Armed Services	2
Banking and Currency	7
Commerce	152
District of Columbia	1

ASSISTANCE TO THE CONGRESS

Senate—Continued

Finance	a
Foreign Relations	2
Government Operations	35
Interior and Insular Affairs	4
Judiciary	6
Labor and Public Welfare	3
Post Office and Civil Service	58
Public Works	3
Rules and Administration	4

288

House :

Armed Services	1
Banking and Currency	1
Government Operations	81
Interior and Insular Affairs	1
Interstate and Foreign Commerce	16
Judiciary	87
Merchant Marine and Fisheries	27
Post Office and Civil Service	10
Public Works	8
Science and Astronautics	8
Veterans Affairs	1
Ways and Means	1

242

Total 530

TESTIMONY AT HEARINGS

As an agent of the Congress, the Comptroller General, and his representatives, are called upon frequently for testimony on subjects under consideration by congressional committees. A summary of the 18 appearances during the past fiscal year is included in this section.

This summary is a quick indicator of the wide variety of activities in which our Office engages during the year. The expertise thus gained by our staff constitutes a unique source of assistance and advice which the committees use regularly.

For example, we continue to oppose legislative proposals to remove or seriously restrict the authority of carriers, under Section 22 of the Interstate Commerce Act, to afford the Government reduced rate transportation. In testifying before the Subcommittee on Surface Transportation of the Senate Commerce Committee on S. 754 and S. 1174, designed to limit Section 22 privileges to time of war or national

emergency, we stated our opposition to the bills but again expressed willingness to cooperate in the drafting of an appropriate substitute bill **which** would include provisions **for** some degree of oversight by the Interstate Commerce Commission. In our extensive written reports in opposition to S. **754** and S. **1174** (**as** well as to H.R. **6534** pending before the House Committee on Interstate and Foreign Commerce), we set forth various reasons in support of retaining the present Section 22 **authority**, including our view that the Government pays **as** much as, if not more than, commercial shippers for comparable transportation services.

Our reviews and testimony on the use of contractor-furnished personnel to perform engineering and related technical support services at certain **NASA** installations provided the primary basis for hearings before the Subcommittee on Special Studies of the House Government Operations Committee.

Appearances by General Accounting Office Representatives at Congressional Hearings During Fiscal Year 1967

Committee	Date	Subject
U.S. SENATE		
Banking and Currency: Subcommittee on Small Business.	July 19, 1966	Reviews being made by GAO of small business investment com- pany (SBIC) program of the Small Business Administration.
Government Operations: Permanent Subcommittee on Investigations.	Aug. 2, 1966	Results of reviews made by GAO of small business investment company (SBIC) program of the Small Business Administration.
Government Operations: Permanent Subcommittee on Investigations.	Aug. 24, 1966	Multi-family housing programs conducted by the Federal Housing Administration pursuant to the National Housing Act.
Public Works: Subcommittee on Buildings and Grounds.	Mar. 20, 1967	Extending the authority of the Postmaster General to enter into leases of real property for periods not exceeding 30 years, under 39 U.S.C. 2103 (S. 1039).

Appearances by General Accounting Office Representatives at Congressional Hearings During Fiscal Year 1967—Con.

Committee	Date	Subject
U.S. SENATE—Continued		
Government Operations.	July 17, 1967	Contracting for technical services. Results of the conversion of a contract with RCA Service Co. to an in-house operation at White Sands Missile Range, New Mexico.
Select Committee on Small Business: Subcommittee on Monopoly	May 16, 1967	The costs of prescribed drugs borne by the U.S. Government and the financial advantages that may accrue to the Government through the use of a formulary system and the supplying of drugs by established name rather than by brand names.
Appropriations : Subcommittee on Legislative.	May 22, 1967	General Accounting Office budget for 1968.
Finance	June 2, 1967	Legislation to amend the Presidential Election Campaign Fund Act of 1966 (S. 1883).
Commerce: Subcommittee on Surface Transportation.	June 6, 1967	Legislation requiring Federal, State and local governments to pay full rates for transportation provided by common carriers. Recommendations for retention of Section 22 rates for Government shipments (S. 754 and S. 1174).
HOUSE OF REPRESENTATIVES		
Government Operations: Subcommittee on Foreign Operations and Government Information.	July 29, 1966	GAO audit efforts in Vietnam.
Government Operations : Subcommittee on Executive and Legislative Reorganization.	Sept. 19, 1966	GAO activities to improve financial management in the Government, including accounting systems in Federal agencies.

Appearances by General Accounting Office Representatives at Congressional Hearings During Fiscal Year 1967—Con.

Committee	Date	Subject
HOUSE OF REPRESENTATIVES—Continued		
Armed Services: Subcommittee #3	Sept. 22, 1966	Price adjustments in contracts for the procurement of milk by the Dept. of Defense (H.R. 1750).
Armed Services: Subcommittee on Special Investigations.	Jan. 25, 1967	A review of the development of an alternate engine for the light observation helicopter (LOH).
Government Operations: Subcommittee on Executive and Legislative Reorganization.	Apr. 11, 1967	Legislation to establish a Commission on Government Procurement (H.R. 157).
Ways and Means.	Apr. 18, 1967	To amend the Social Security Act re information in audit report of March 31, 1967, concerning nursing home care and prescription drug practices (H.R. 5710).
Appropriations : Subcommittee on Legislative.	May 9, 1967	General Accounting Office budget for 1968.
Government Operations: Subcommittee on Special Studies.	June 21, 1967	Costs of using civil service personnel or contractor-furnished services to perform engineering and related technical support services at the National Aeronautics and Space Administration's Goddard and Marshall Space Flight Centers.
JOINT		
Economic: Subcommittee on Economy in Government.	May 8, 1967	Significant aspects of GAO audit and review work performed by the three operating divisions, Civil Division, Defense Division, and International Division.

ADVISORY ASSISTANCE IN LEGAL AND LEGISLATIVE MATTERS

We received many formal and informal congressional requests for advisory assistance in legal and legislative matters from both committees and individual Members during the year. In response to these requests we assisted in drafting proposed legislation and furnished legal advice regarding the proper interpretation of various laws and regulations. Our assistance was rendered by means of informal conferences and written opinions to committee chairmen and Members of Congress.

The requests we receive from committees and individual Members for assistance in drafting legislation are usually made informally. Many of these are for legislation to carry out recommendations contained in our audit reports to the Congress. Our response to these requests may necessitate drafting an entire bill or a special provision to be included in a bill and other times only appropriate words of definition or limitation to accomplish a very precise purpose. Due to the wide experience and competence that our legal staff has attained through close association with governmental activities, we believe that our assistance to the Congress in this area is beneficial in preparing legislation relating to fiscal operations of the Government.

This year members of our legal **and** accounting staff worked closely with the Joint Committee on Organization of Congress in its efforts to perfect Title 2, relating to fiscal controls, of Senate bill S. 355, the proposed Legislative Reorganization Act of 1967, passed by the Senate on March 7, 1967. The bill provides for several new functions in the General Accounting Office designed to increase our assistance to the Congress and places responsibilities in our Office, the Department of the Treasury, and the Bureau of the Budget in establishing and maintaining **a** standardized information and data processing system for budgeting and **fiscal** data.

We have worked closely with the Senate Finance Committee in the development of amendments to the Presidential Election Campaign Fund Act of 1966. This legislation is of utmost importance to the General Accounting Office since it gives the Office new and unique responsibilities in the regulation and audit of election campaign expenses.

We provided legal advice on numerous questions submitted to us by committees and individual Members. Our advice was requested, for example, on the legal authority of the executive branch to withhold funds authorized for expenditure by the States under the Federal-Aid Highway Program and financed from revenues dedicated to the Highway Trust Fund. Another example was the request for legal advice by the Senate Committee on Foreign Relations regarding the legal justification for the United States Information Agency's program of supporting tours in

Southeast Asia by foreign newsmen. In another case, at the request of **the** chairman of the Subcommittee on Manpower, House Committee on Post Office and Civil Service, we rendered advice on the propriety of granting administrative leave to employees who are representatives of Government employee organizations while they attend training sessions in union-management relations conducted by employee organizations.

STAFF ASSISTANCE TO COMMITTEES

As authorized by the Budget and Accounting Act, 1921, and other laws, General Accounting Office employees are assigned from time to time to work directly with and under the supervision of committee staffs on special studies and investigations. These assignments during the past fiscal year are summarized on pages 324 and 325, Appendix H-8.

During the past year we adopted the policy of generally limiting such assignments to periods of no longer than 6 months. While it is recognized that some flexibility must be allowed in special circumstances, we consider it important from the standpoint of the employee's career, **as** well as the interests of the Office, to adhere to the policy **as** firmly **as** possible in future assignments to committees.

In many cases, the work performed on committee assignments constitutes an extension of reviews already made with the General Accounting Office or work which might have been undertaken here. Other cases involve matters over which our Office does not have jurisdiction. The costs of the assigned employee's salary **and** travel may or may not be reimbursed to our Office from committee funds, depending upon the circumstances.

RECOMMENDATIONS FOR LEGISLATION IN AUDIT REPORTS

Each year **the** General Accounting Office submits a number of legislative recommendations to the Congress "looking to greater economy and efficiency in public expenditures" which we have the responsibility to make under the Budget and Accounting Act, 1921. In carrying out this responsibility we give special consideration to the need to inform Congress in our audit reports of areas in which legislative action is either required or desirable. To assist the Congress in its consideration of these legislative recommendations, we discuss them with staff members of the appropriate committees with a view to obtaining action on the recommendations.

Recommendations Considered in Fiscal Year 1967

The following legislative recommendations were considered during fiscal year 1967 by the Congress:

1. Better utilization of US.-owned foreign currencies.—A recommendation made in our report issued in October 1962 on administration and utilization of United States-owned foreign currencies by departments and agencies was adopted by the Congress in the form of permanent legislation enacted as Public Law 89-677 approved October 15, 1966. The new legislation permits foreign currencies on hand, which have been or may be reserved or set aside for specified programs or activities of any agency, to be used for current needs with such foreign currencies to be replaced as needed later, thereby helping to improve the balance-of-payments position. In prior fiscal years the Congress included in the annual Public Works Appropriation Acts a provision accomplishing the purpose of our recommendation.

2. Reduction in dollar *outflow* possible through use of American-made building materials in embassy and related construction projects.—In our report issued in April 1966 on reduction in dollar outflow possible through use of American-made building materials in embassy and related construction projects, we suggested that the Congress might wish to consider changing the language used in the annual appropriation act to the effect that the use of foreign currencies for constructing and operating foreign buildings is made mandatory only in those instances where such usage will be beneficial to the United States balance-of-payments.

The Department of State revised the applicable 1968 fiscal year budget language to give effect to our suggestion resulting in the elimination from the Department of State Appropriation Act, 1968, Public Law 90-133, under the heading of Acquisition, Operation, and Maintenance of Buildings Abroad, the provision used in prior appropriations requiring a minimum amount of such expenditures to be in foreign currencies. This change in appropriation language along with the administrative controls which have been established over the usage of excess foreign currencies will accomplish the objective of our recommendation. (Reduction in Dollar Outflow Possible Through More Extensive Use of American-Made Building Materials in Embassy and Related Construction Projects, B-158662, April 29, 1966.)

3. Financing *the Office* of the Government Comptroller of the Virgin Islands.—Since 1959 the activities of the Office of the Government Comptroller have been financed by appropriations made by the Federal Government. In view of the substantial increase in net revenues collected by the United States Treasury on the Virgin Islands' products transported to the United States and paid to the Government of the

Virgin Islands as Federal grants, and because the Government Comptroller's operations primarily benefit the insular government, we stated that the Congress might wish to consider financing the Office of the Government Comptroller from the funds which are otherwise transferable to the insular government as Federal grants.

A bill concerning this subject, S. 450, was passed by the United States Senate on July 18, 1967, and on July 19, 1967, it was referred to the Committee on Interior and Insular Affairs, House of Representatives. (Review of the Activities of the Office of the Government Comptroller of the Virgin Islands, B-114808, April 28, 1966; page 23, Annual Report of the Comptroller General for fiscal year 1966.)

4. *Potential savings available through use of civil service rather than contractor-furnished employees for certain support services.* — Our review of the relative costs of using civil service personnel or contractor-furnished personnel to perform engineering and related technical support services at the National Aeronautics and Space Administration's Goddard and Marshall Space Flight Centers showed that estimated annual savings of as much as \$5.3 million could be achieved with respect to the contracts we reviewed if these services were to be performed by civil service employees. It was our view that the Space Administration's policies had not been sufficiently clear as to the consideration to be accorded to relative costs in determining whether contractor-furnished or civil service personnel should be used and that there was a potential for savings from greater consideration of such relative costs.

Because the action to fully correct the situation would require a significant change in the Space Administration's policy relating to the use of support service contracts and because of the potential effect that a significant change may have on its civil service personnel requirements, we suggested that the Congress might wish to consider the policy aspects of this matter in further detail with agency officials.

We suggested also that the Congress might wish to explore with the Space Administration the impact that cost considerations should have in determining whether to use contractor or civil service personnel in those cases where either contractor or civil service personnel could equally carry out the operation.

Hearings on our report were held on June 21, 1967, by the Subcommittee on Special Studies of the House Committee on Government Operations. Subsequently, the House adopted an amendment to the NASA authorization bill (H.R. 10340) which would have required cost comparisons on all such contracts of \$100,000 or more before awarding, and a certification by the administrator as to the basis for the award. This amendment was eventually eliminated in conference. (Potential Savings Available Through Use of Civil Service Rather

Than Contractor-Furnished Employees for Certain Support Services, B-133394, June 9, 1967.)

5. Controls *over Post Office* Department's leasing authority—We appeared and testified before the Senate Committee on Public Works on legislation to extend the Post Office Department's 30-year leasing authority. This legislation, enacted as Public Law 90-15, established certain controls over the Department's leasing authority, the need for which we had previously disclosed in an audit report. (Review of Real Estate Program Relating To Leasing of Major Facilities and Certain Other Facilities Under Long-Term Leases, B-145650, November 20, 1962.)

6. Equitable claims.—We reported to the Congress two equitable claims and recommended private relief under the provisions of 31 U.S.C. 236. The bills, H.R. 2652, 90th Congress, providing relief from an indebtedness stemming from an advancement in grade and salary in contravention of section 1310 of the Supplemental Appropriation Act of 1952 otherwise known as the Whitten Amendment, and H.R. 2653, 90th Congress, providing for payment of advertisement placed without prior authorization in violation of section 3824, Revised Statutes, were favorably reported by the House Judiciary Committee, passed by the House, and are receiving consideration by the Senate Judiciary Committee.

7. Proposal *for* financing operations of the Bureau of the Mint.—A bill, S. 1156, was introduced that would provide for financing operations of the Bureau of the Mint by means of a Mint Operating Fund, into which revenues of the Bureau would be credited and from which all costs and expenses of the Bureau would be paid except for certain stated costs specifically excluded from the Fund. The proposed method of financing is similar to a recommendation that we made to the Congress in a report dated August 7, 1959, on the audit of the Bureau of the Mint for fiscal years 1956-1958.

8. Proposed repeal of requirement that Comptroller General make annual audit of General Supply Fund.—We submitted for the consideration of Congress a legislative proposal recommending that section 109(e) of the Federal Property and Administrative Services Act of 1949, be amended to discontinue the specific statutory requirement that the Comptroller General make an annual audit of the General Supply Fund.

We believe that the Accounting and Auditing Act of 1950 and the Budget and Accounting Act, 1921, provide ample authority for our Office to review the General Supply Fund when determined necessary or when requested to do so by any committee of the Congress. In the absence of the specific audit requirements of the 1949 act, we would have the same freedom of choice under the broad general audit authority given to us

under the 1950 and 1921 acts in selecting the period and scope of financial reviews that we have in other areas in the General Services Administration, and in other agencies in general.

A bill, S. 1767, that would implement our recommendation has been introduced.

Recommendations for the Congress During Fiscal Year 1967

1. Potential savings through changes in legislation affecting compensation of rural carriers.—Most rural carriers are compensated under a schedule, established by law, which is based on the length of the routes and years of service, regardless of the hours of work required to serve the routes. Carriers who serve heavily patronized routes are compensated under a schedule, established by the Postmaster General pursuant to law, which is based on the hours of work required to serve their routes and years service. **Basing** compensation chiefly on the length of a route ignores such factors as the number of families on the route and the volume of mail handled, which significantly influence the time required to serve a route. We recommended that the Congress consider enacting legislation authorizing the Postmaster General to compensate **all** rural carriers **on** the basis of the hours of work required to perform their duties. (Report on Potential Savings Through Changes in Legislation Affecting Compensation of Rural Carriers and Consolidation of Rural Routes, B-114874, December 13, 1966.)

2. Payment of certain severance benefits to former Foreign Service officers.—We found that certain former Foreign Service officers of the Department of State who had been selected out were reemployed by the Federal Government immediately or within a month thereafter at salaries at least equal to their salaries at the time of separation and were also being paid severance benefits. In contrast, severance benefits payable to civil service employees are terminated upon reemployment by the Federal Government or the municipal government of the District of Columbia and severance benefits payable to Foreign Service Reserve employees of the Agency for International Development are terminated or adjusted upon reemployment by the Federal Government.

Severance benefit payments are authorized by the Federal Service Act of 1946, **as** amended (22 U.S.C. 1004), which provides that Foreign Service officers in classes 4 through 7 who are retired under selection-out provisions shall receive the selection-out benefits. **A** Foreign Service officer is selected out because he (1) does not receive a promotion to a higher class within a specified period prescribed by the Secretary of State or (2) fails to meet the standard of performance required of officers of his class.

We suggested that the Congress might wish to consider the need for amending section 634 of the Foreign Service Act of 1946 to provide for the adjustment of payable selection-out benefits at such time as a former Foreign Service officer becomes reemployed by the Federal Government or employed by the municipal government of the District of Columbia before expiration of his selection-out benefit period. (Payment of Certain Severance Benefits to Former Foreign Service Officers, B-160300, January 31, 1967.)

3. *Potential savings through changes in legislation affecting consolidation of rural routes.*—The Post Office Department is prohibited by statute (39 U.S.C. 3339) from consolidating rural routes unless vacancies exist in the rural carrier positions. The restrictive statute was enacted in 1934, and the legislative history indicates that the action of the Congress of restricting the consolidation of rural routes was influenced, to a great extent, by the unemployment and depression conditions that existed at that time. In view of the changed conditions since enactment of the restriction, we recommended that the Congress consider repealing 39 U.S.C. 3339 so that the Department can consolidate rural routes whenever economies are possible without adversely affecting service. (Report on Potential Savings Through Changes in Legislation Affecting Compensation of Rural Carriers and Consolidation of Rural Routes, B-114874, December 13, 1966.)

4. *Elimination of tax exemption privileges on beer and tobacco products given free to employees and visitors.*—Since 1862, internal revenue laws have imposed excise taxes on beer and tobacco products. Breweries are permitted, however, to furnish tax-free beer to employees and visitors for consumption on the premises, and manufacturers of cigars and cigarettes are permitted to furnish these products tax-free to employees for personal consumption. These tax exemption privileges are not enjoyed by other producers, such as distillers. Although we recognized that these practices have existed for a long time, we expressed our belief that expenses incurred in producing and promoting the sale of products, including excise taxes, are appropriate costs to the manufacturers and that excise taxes should, therefore, be imposed on beer and tobacco products even when these products are given to employees and visitors free of charge. We estimated that if the beer and tobacco products given away during fiscal year 1965 had been subject to excise taxes, additional revenues of about \$1.6 million would have accrued to the Government.

We suggested that the Congress might wish to consider amending the Internal Revenue Code of 1954 to provide for payment of taxes by brewers on beer consumed by employees and visitors and by tobacco products manufacturers on cigars and cigarettes given to employees. (Review of Federal Excise Tax Exemption on Beer and Tobacco Products

Given to Certain Consumers, Internal Revenue Service, B-133365, April 25, 1967.)

5. Opportunities for reduction of interest costs on refunds attributable to net operating *loss* deductions. — Under the Internal Revenue Code of 1954, better treatment is accorded to some taxpayers claiming refunds than others at considerable additional expense to the Government. The Code permits taxpayers to offset net operating business losses of a current tax year against a prior year's taxable income and thereby receive a tax refund. Interest on these refunds is paid by the Government at the rate of 6 percent, commencing on the first day following the close of the year in which the business loss occurred. Also, there is no interest-free period allowed the Government within which to process refunds attributable to net operating loss deductions. Therefore, taxpayers who delay filing claims for refunds for periods up to 3 years receive interest for the entire period. Interest paid on all refunds attributable to net operating loss deductions during fiscal year 1964 was estimated to total about \$28 million.

We suggested that the Congress might wish to consider amending the Code to provide that interest on refunds resulting from net operating loss carryback deductions begin from the date that applications or claims for such refunds are filed instead of from the date following the close of the taxable year in which the net operating loss occurs, except that the Internal Revenue Service be authorized to establish a reasonable period after applications or claims are filed within which interest-free refunds may be made. This change would be consistent with current provisions which allow the Government an interest-free period within which to process ordinary refund payments. The Assistant Secretary of the Treasury for Tax Policy stated that the Treasury is prepared to support legislation to carry out our proposal.

We suggested also that Congress might wish to consider similarly amending statutory provisions concerning interest payments on refunds attributable to investment credit carrybacks, foreign credit carrybacks, and unused deductions of life insurance companies. (Opportunities for Reducing Interest Costs on Refunds Attributable to Net Operating Loss Deductions, Internal Revenue Service, B-137762, May 26, 1967.)

6. Financing the Civil Service Retirement System. — In a report to the Congress we expressed the belief that a consistent method of financing the System should be established that will recognize and provide for all costs of maintaining the System from year to year as the costs are incurred. We outlined in our report an approach which would attain this objective and stabilize immediately the unfunded accrued liability — the accumulated costs of the System for which funds have not been provided — expected to be about \$50 billion at June 30, 1967, if restrictions on the payment of certain benefits were removed.

The outline approach provided for (1) agency contribution and deductions from employees' salaries, in such proportions **as** may be enacted into law by the Congress, to cover the full normal cost of the System, (2) direct appropriations to the Civil Service Retirement and Disability Fund to amortize in level amounts over a 20-year period all future increments in the unfunded accrued liability, and (3) direct appropriations to the Fund under permanent indefinite authority in annual amounts equivalent to interest on the unfunded accrued liability.

We stated in our report that while there were many approaches that could be taken to improve the financing of the Civil Service Retirement System, it was our view that, regardless of the approach the Congress might choose to follow, it was important that a definite **plan** be adopted to improve the financing of the System at an early date. (Financing the Civil Service Retirement System Administered by United States Civil Service Commission, B-130150, April 24, 1967.)

7. *Determination of planned Federal contribution by Corps of Engineers (Civil Functions) toward cost of Del Valle Dam and Reservoir planned for construction by State of California.* — We reported that although it is the policy of the Corps of Engineers, Department of the Army, to recommend to the Congress a local contribution toward the costs of flood-control reservoirs that serve essentially **as** local flood-protection measures, the Chief of Engineers did not recommend a local contribution in the case of the Del Valle Dam and Reservoir because of his determination that the project benefits would be widespread. In our opinion, the flood-control storage to be provided by the Del Valle Dam and Reservoir appeared to be essentially a local flood-protection measure for which, under Corps policy, a local contribution could have been recommended.

We commented that we believed the Corps did not have adequate procedures for collecting and reporting information with respect to local benefits or projects such as Del Valle Dam and Reservoir. In our report **we** recommended that the Secretary of the Army request the Chief of Engineers to revise existing procedures to require a more complete analysis of the benefits expected to result from the construction of future flood-control works and clearly identify the recipients to whom substantial benefits will accrue, and that this information be made **a part of** each project report submitted to the Congress for approval.

During the 89th Congress, second session, legislation was proposed which would have authorized a reevaluation of the flood-control costs expected as a result of construction of the Del Valle Dam and Reservoir. This could have affected the amount of the Federal contribution. Therefore, we stated that the Congress might wish to consider the information presented in this report should legislation of a similar nature be introduced

in the future. (Review of Planned Federal Contribution Toward the Cost of the State-constructed Del Valle Dam and Reservoir, Alameda County, California, B-118634, January 31, 1967.)

8. Repeal of present statutory fee limitation on architect-engineer fees.—We found that major construction agencies contracted for architect-engineer services at fees in excess of the statutory provisions which limit the fees payable to architect-engineers to 6 percent of the estimated cost of construction. Generally, these agencies interpreted the limitation as applying only to that portion of the total fee relating to the production and delivery of designs, plans, drawings, and specifications. Under such interpretation, most of the architect-engineer contracts under which the total fee exceeded 6 percent would be in compliance with the limitation. However, we reported that in our opinion the military procurement statute and the Federal Property and Administrative Services Act of 1949 impose the 6 percent fee limitation on all architect-engineer services.

We reported that in our opinion the present statutory fee limitation is impractical and unsound principally because (1) the limitation is governed by estimated construction costs which do not necessarily relate to the value of the architect-engineer services rendered, (2) estimated construction costs may not be known at the time the limitation must be applied, (3) some architect-engineer contracts do not involve programmed construction projects, (4) the limitation may be partially avoided by agencies having their in-house resources perform services that have generally been contracted to architect-engineer firms, and (5) architect-engineer fees in terms of percentages of construction cost vary widely and thus render impracticable the establishment of a percentage at an appropriate level to effectively limit the fee for the majority of contracts.

The present requirements for competitive negotiation and the submission and certification of cost or pricing data, if properly applied to contracts for architect-engineer services, should provide adequate assurance of reasonable fees. Therefore, we recommended that the Congress repeal the 6 percent limitation imposed on architect-engineer fees by 10 U.S.C. 2306(d), 4540, 7212, and 9540 and by section 304(b) of the Federal Property and Administrative Services Act of 1949, as amended (41 U.S.C. 254(b)). (Government-wide Review of the Administration of Certain Statutory and Regulatory Requirements Relating to Architect-Engineer Fees, B-152306, April 20, 1967.)

9. Need to clarify intent as to whether competitive negotiation requirements apply to the negotiation of architect-engineer contracts.—Although Public Law 87-653 requires that, in all negotiated procurements in excess of \$2,500, proposals be solicited from the maximum number of

qualified sources and that discussions be conducted with all responsible offerors whose proposals are within a competitive range, price and other factors considered, Federal agencies subject to this requirement generally solicit a proposal only from the architect-engineer firm selected on the basis of technical ability.

In our view there is no statutory basis which would exempt architect-engineers from the requirements of Public Law 87-653. However, we advised the agencies that their present procedures may be followed until the Congress had an opportunity to consider this matter in view of past administrative practices in the procurement of such services.

We stated that in our opinion the procurement of architect-engineer services was and should be subject to the competitive negotiation requirements of Public Law 87-653. We suggested that (1) in view of past administrative practices in the procurement of such services, it was important that the Congress clarify its intent as to whether the competitive negotiation requirements of the law are to apply to such procurements and (2) if the Congress determined that it was not so intended the law should be amended to specifically provide for an exemption for this type of procurement. (Government-wide Review of the Administration of Certain Statutory and Regulatory Requirements Relating to Architect-Engineer Fees, B-152306, April 20, 1967.)

10. *Questionable application of expenditures for basic research by a State in matching Federal funds under grants for health control purposes.*—As part of our review of Federal grants to States for health services, we reported to the Congress that, in our opinion, the use by the State of Indiana of basic research expenditures for matching purposes with Federal funds received under health grant control programs was not in accord with the purpose of control programs which, as expressed by the House Committee on Interstate and Foreign Commerce, is to bridge the gap between basic research discoveries and their application to the benefit of disease victims. Because the Public Health Service expressed the view that in the absence of specific prohibitions to the contrary, such expenditures were legally acceptable and valid for State matching purposes, we suggested that the Congress might wish to consider amending the Public Health Service Act to specifically preclude the use of basic research expenditures as allowable State matching funds for health control programs. (Review of Financial Administration of Selected Grants for Health Services Made to State of Indiana, Public Health Service, Department of Health, Education, and Welfare, B-156635, September 23, 1966.)

11. *Need to clarify whether compensation increases granted to claimants were greater than those intended by law.*—The method used by the Bureau of Employees' Compensation of computing disability compensa-

tion increases under the 1949 amendment to the Federal Employees' Compensation Act resulted in the largest rate of increase for the least disabled and in partially disabled claimants receiving compensation increases ranging as high as 400 percent, whereas totally disabled claimants were limited to increases of 10 or 40 percent. We estimated that, from October 1949 through March 1965, approximately 1,700 partially disabled claimants had received payments that exceeded by about \$2.2 million the amounts we believe were intended by the amendment and that these higher payments were continuing at a rate of about \$123,000 annually.

The Department of Labor did not agree that the Bureau's method of computing compensation increases was incorrect. In view of this difference of opinion between the Department and the General Accounting Office as to the proper amount of increased compensation intended under the 1949 amendment, we suggested that the Congress might wish to express its views in this matter. (Review of Disability Compensation Payments Under Amendments to the Federal Employees' Compensation Act, Bureau of Employees' Compensation, Department of Labor, B-157593, December 14, 1966.)

12. *Policies and procedures used in determining the administrative office space to be provided in major postal facilities.* — In our review of the planning for administrative office space in 10 major postal facilities, we found that the Post Office Department's space standards provided for offices which averaged about 32 percent larger than would have been provided under General Services Administration standards. More than 60 Federal agencies had concurred in the adequacy of the sizes of offices provided under the General Services Administration standards. Our review indicated a potential for substantial savings to the Government through planning the office space in new postal facilities on the basis of standards comparable to those established by the General Services Administration for use in determining the office space needs of other Federal agencies. We recommended that the Congress give consideration to enacting legislation which would make the General Services Administration responsible for either establishing or approving the standards to be used in planning space for the Post Office Department's administrative activities in both leased facilities and federally owned buildings.

In commenting on our draft report, the Postmaster General stated that the Department had initiated a study of administrative office space standards prior to our review and that the Department's proposed new standards would result in adjustments more in line with current needs and General Services Administration's allowances. In a letter to the Director, Bureau of the Budget, in February 1967, relating to our report,

the Postmaster General stated that the Department had received an invitation from the General Services Administration to participate in a joint effort to issue an Occupancy Guide or something comparable for the Department's administrative office space. He further stated that the Department planned to work with the General Services Administration on this proposal.

In an appearance before the Subcommittee on Buildings and Grounds, Senate Committee on Public Works, on March 20, 1967, we advised the subcommittee of the Department's plan to work with the General Services Administration in developing an Occupancy Guide for administrative office space and expressed the opinion that, if an Occupancy Guide for the Post Office Department's administrative office space were developed under the standards used by the General Services Administration for other agencies, there would be little need for the Congress to enact the legislation proposed in our report. (Review of Policies and Procedures Used in Determining the Administrative Office Space to be Provided in Major Postal Facilities, B-153 129, December 27, 1966.)

13. *Exemptions from the payment of tuition for nonresident students granted on a basis other than the basis presented in the District of Columbia Nonresident Tuition Act.*—Our review of the records of the Board of Education of the District of Columbia Government pertaining to the granting of exemption from the payment of tuition for nonresident students showed that some exemptions had been granted on the basis that their parents were unwilling to provide care, custody, and support of the students rather than on the statutory basis that they were unable to do so.

The Superintendent of Schools stated that, in most cases, the nonresident students had been deserted by their parents and that the exemptions had been based on whether the student had been deserted by his parents. We expressed our belief, however, that the act does not provide for the granting of exemptions from the payment of tuition for nonresident students solely because they have been deserted by their parents or because their parents are unwilling to provide for their care, custody, and support.

Because the granting of exemptions in such cases may be desirable, and also because the act is not specific as to whether the payment of tuition for a nonresident student is the responsibility of the District resident with whom he resides, or of his nonresident parents or legal guardian, we suggested in a report issued in January 1967 that the Congress might wish to express its views on the manner in which the act is being implemented. (Review of the Administration of the District of Columbia Nonresident Tuition Act, B-125004, January 20, 1967.)

14. *Active duty retirement benefits for Army and Air Force Reserve officers.*—We made a review of the circumstances under which retired

Reserve officers of the Army and the ~~Air~~ Force were receiving active duty retirement pay based on a grade higher than the highest grade attained on active duty. We found that this benefit was not available to Reserve officers of the Navy and the Marine Corps or to Regular officers of any of the four military services. It was doubtful, in our opinion, that the Congress intended this special benefit.

The described situation developed as a result of the language of the Army and ~~Air~~ Force Vitalization and Retirement Equalization Act of 1948 (62 Stat. 1081) and the policy of the Army and the Air Force which permitted many Reserve officers on active duty to be promoted to a permanent Reserve grade higher than the temporary grade held by them on active duty.

The act does not specifically require active duty service in the retired grade, whereas the legislative history, although inconclusive, indicates that the Congress expected Army and Air Force Reserve officers to have served satisfactorily in the grade on which active duty retired pay is to be based. Also, the policy which permitted Reserve officers on active duty to be promoted to a higher rank on the Reserve officers' register—a policy initiated by the Secretary of War in 1946—was not intended as a basis for determining retirement pay. Its purpose was to assure Reserve officers on active duty that their rank and order of precedence on the Reserve promotion lists would not be jeopardized by their continued service on active duty. The combination of these two circumstances, however, led to the practice of retiring Reserve officers from active duty with retirement pay based on a Reserve grade in which they had never served.

The significance of this matter is demonstrated by the substantially higher retirement pay accruing to the Reserve officers who retired from active duty in fiscal years 1964 and 1965 in a grade higher than that in which they served. These officers will receive, over the years remaining in their life expectancy, about \$100 million more in retired pay than they would have received if retirement had been based on their highest active duty grade.

The Department of Defense agreed that the retirement grade and pay under active duty retirement laws should be directly linked with active duty service. The Department pointed out that a proposal to bring this about had been included in comprehensive officer personnel legislation submitted to the Congress in 1963 and again in 1965, but the Congress had taken no action.

Prior to the issuance of our report, the President endorsed and transmitted to the Congress the Report of the Cabinet Committee on Federal Staff Retirement Systems (House Document No. 402, March 7, 1966).

One of the recommendations in that report dealt specifically with

the issue of retirement grade and pay. Thereupon, on June 3, 1966, the Department of Defense submitted to the Congress a separate legislative proposal which incorporated substantially the same Reserve officer retired grade principles as had been included in the comprehensive officer personnel legislation previously proposed by the Department of Defense.

In our report, we stated that, in view of the significance of this matter, the Congress might wish to consider it in a separate legislative proposal. (Review of Certain Active Duty Retirement Benefits for **Army** and **Air** Force Reserve Officers, Department of Defense, B-146551, August 10, 1966.)

15. Restoration benefits under *the* Universal Military Training and Service Act.—In a letter report to the chairman of the House Post Office and Civil Service Committee we pointed out two apparently inconsistent provisions of law relating to job restoration rights of Reserve members of the armed services and members of the National Guard who leave Federal civilian positions to enter upon active military duty. We suggested that consideration might be given to introducing legislation to make the restoration benefits provided under the Universal Military Training and Service Act applicable equally to all persons leaving Federal civilian positions to enter upon active military duty. (B-152107, February 17, 1967.)

Restatement of Prior Year Recommendations

1. *Recovery of expenditures incurred in the management and operation of forest enterprises.*—In 1944 the Department of the Interior established a policy of deducting a maximum fee of 10 percent of timber sale proceeds as a means of recovering costs incurred by Bureau of Indian Affairs offices in the management and operations of Indian forest enterprises. Since that time, however, the Department has not increased the stipulated percentage despite a rapidly increasing Federal deficit in the management and operation of Indian forest enterprises in recent years and despite the fact that on several reservations income from forest enterprises was substantial. We brought this matter to the attention of the Congress in a report issued in March 1966 in the event Congress wished to express **its** views on the matter. (Examination Into Policies for the Recovery of Government Expenditures Incurred in the Management and Operation of Indian Forest Enterprises, Bureau of Indian Affairs, B-114868, March 24, 1966; page 24, Annual Report of the Comptroller General for fiscal year 1966.)

2. Rental rates paid to fourth-class postmasters.—We recommended that Congress give consideration to the enactment of legislation requir-

ing the Postmaster General to negotiate fair rental agreements with postmasters of fourth-class post offices having 18 or more revenue units, when they furnish space and utilities at the request of the Department, or to prescribe some other method of paying for these items which would be more economical and equitable than the present system. We also recommended that the Post Office Department 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. (Substantial Savings Available Through Change in Method of Obtaining Space and Utilities for Small Post Offices, B-85584, June 3, 1965; page 29, Annual Report of the Comptroller General of the United States for fiscal year 1966.)

3. *Cost of providing retirement disability and compensation benefits for Federal Deposit Insurance Corporation employees.* — We recommended that the Federal Deposit Insurance Act be amended to require the Federal Deposit Insurance Corporation to assume all costs of providing retirement, disability, and compensation benefits for its employees and that the requirement for an annual audit by the General Accounting Office be changed from a fiscal year to a calendar year **basis.**

Proposed draft legislation, supported by the Federal Deposit Insurance Corporation, incorporating these recommendations and providing that the Corporation pay interest on certain specifically recommended payments to the civil service retirement and disability fund and to the employees' compensation fund was considered by the Banking and Currency Committee of the House of Representatives (88th Cong., 2d sess.); however, it did not come before the Congress for action prior to adjournment of that session of the Congress. The proposed legislation was not introduced during the 89th Congress.

During the first session of the 90th Congress, legislation was introduced to amend the Federal Deposit Insurance Act to require the Corporation to reimburse the Government for costs of providing retirement, disability, and compensation benefits to its employees. The proposed legislation, however, did not incorporate our recommendation that the requirements for an annual audit by the General Accounting Office be changed from a fiscal year to a calendar year basis. (Audit of Federal Deposit Insurance Corporation Year Ended June 30, 1963, B-114831, February 7, 1964; Audit of Federal Deposit Insurance Corporation Year Ended June 30, 1964, B-114831, February 28, 1966; **and** Audit of Federal Deposit Insurance Corporation Year Ended June 30, 1965, B-114831, December 14, 1966; page 30, Annual Report of the Comptroller General for fiscal year 1966.)

4. Exemption of US.-owned vehicles from *D.C.* registration, titling, and inspection requirements. —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. Savings could be attained by the Federal Government and the District of Columbia if requirements for registration, titling, and inspection of approximately 5,800 Government-owned motor vehicles based in Washington, D.C., were eliminated.

The chairman of the House Committee on Government Operations requested the Comptroller General to comment on responses to the committee regarding the recommendation by the President of the Board of Commissioners, D.C., the Postmaster General, and the Administrator of General Services. Our comments were submitted to the chairman of the committee in April 1967, B-146974, April 19, 1967. (Potential Savings by Elimination of the Requirements for Registration, Titling, and Inspection of Government-owned Motor Vehicles Based in Washington, D.C., p. 14, B-146974, March 8, 1965; page 29, Annual Report of the Comptroller General for fiscal year 1966.)

Legislative Proposals to Heads of Departments or Agencies

1. Potential benefits *from* quarterly collections of Federal unemployment taxes. —We reported to the Congress that a significant acceleration in the availability of funds for financing the administration of employment security activities could be realized if appropriate legislation were enacted to provide for quarterly, rather than annual, collection of taxes under the Federal Unemployment Tax Act. The collection of these taxes after the close of the calendar year has necessitated the borrowing of funds at prevailing Federal interest rates to finance the costs of administering the State employment security offices during the first 7 months of the respective fiscal year.

For example, the employment security administration account, which is used by the Secretary of Labor to finance the cost of the administration of employment security activities throughout the country, incurred \$2.2 million in interest expense from July 1964 until the majority of calendar year 1964 taxes were collected in early 1965. We estimated that, if collections for calendar year 1964 had been made on a quarterly basis, the account's balance not only would have been adequate to meet the administrative costs of employment security activities but would have earned about \$7.1 million in interest.

Both the Treasury Department and the Department of Labor agreed in principle with the desirability of the proposal to change the collection

of Federal unemployment taxes to a quarterly basis. The Assistant Secretary for Tax Policy, Treasury Department, advised, however, that various policy and technical problems needed to be resolved. These problems related primarily to a proposal by the Department of Labor that the collection of these taxes be delegated to the States. We recommended that the Secretaries of Labor and of the Treasury cooperatively determine the most feasible method of making quarterly collections of Federal unemployment taxes and submit the necessary legislative proposal for consideration by the Congress to provide the authority for such collections. (Potential Benefits From Quarterly Collections of Federal Unemployment Taxes, Department of Labor and Department of the Treasury, B-133285, January 24, 1967.)

2. *Improvements needed in monitoring bonding requirements of reporting and disclosure laws.*—The Welfare and Pension Plans Disclosure Act and the Labor-Management Reporting and Disclosure Act of 1959 provide for the reporting and disclosure of certain financial and other information about welfare plans, pension plans, and labor organizations. Both acts require that all persons handling funds and other property covered by the acts must be bonded in certain specified minimum amounts.

We reported to the Congress the need for improved administration and enforcement by the Department of Labor of the reporting and bonding provisions of the cited acts and the need for the Secretary of Labor to seek legislative authority to establish certain reporting and verification requirements regarding compliance with the bonding provisions. During our review the Secretary had informed us that the Department lacked authority to require reporting of bonding coverage under the Labor-Management Reporting and Disclosure Act of 1959 or to make appropriate investigations of coverage under the Welfare and Pension Plans Disclosure Act.

In February 1967, shortly before the issuance of our report, a bill, S. 1024, was introduced to amend the Welfare and Pension Plans Disclosure Act. This bill provides, in part, for the Secretary to make investigations when he believes it is necessary to determine whether any person has violated or is about to violate any provision of the act. (Review of Certain Activities Related to Administration and Enforcement of the Reporting and Bonding Provisions of the Welfare and Pension Plans Disclosure Act and the Labor-Management Reporting and Disclosure Act of 1959, B-160557, March 14, 1967.)

3. *Clarification of legal authority for granting compensatory time off in lieu of overtime compensation to employees.*—We reported to the Congress that salaried employees of the Government Printing Office were

performing overtime work without pay and were being allowed to accumulate corresponding compensatory time credits. These compensatory time credits, which are valued at about \$83,000 in terms of employee salary rates, would enable such employees to take a comparable amount of time off at a later date or, if an employee dies before taking the time off, the unused time credits may result in payments to the employee's estate. The legal authority for this practice is not clear, and the General Accounting Office advised the Public Printer that he should initiate action with a view to obtaining specific legislative authority for granting compensatory time off in lieu of overtime compensation to employees of the Government Printing Office.

The Public Printer **has** drafted specific legislative authority regarding compensatory time off for inclusion in the current revision of Title 44 of the United States Code. (Examination of Financial Statements of Government Printing Office, fiscal year 1965, B-114829, August 29, 1966.)

4. Need *for* improvement in the Coast Guard Reserve Training **Program**. —In our report to the Congress we stated that, to a large extent, the Coast Guard Reserve Training Program, which cost \$23.5 million in fiscal year 1966, was not meeting its objective of providing the qualified enlisted personnel that would be needed in the event of mobilization. The Coast Guard was short of the total number of reservists required; however, the most acute shortage existed for reservists trained in specialized skills as petty officers second class and above. In April 1966, the reserve units, considered by the Coast Guard to be the principal source of reserve manpower available for immediate mobilization, could provide only about 19 percent of the requirement for second class petty officers and above and about 70 percent of the requirement for petty officers third class and for nonrated reservists.

We recommended that the Commandant of the Coast Guard explore, with appropriate committees of the Congress, the feasibility of increasing the number of reservists who will receive active duty training for periods longer than 5 months. (Need for Improvement in the Coast Guard Reserve Training Program, B-114851, June 28, 1957.)

Assistance on Improvement of Agency Management Practices

An important part of the work of the General Accounting Office is providing assistance to the agencies of the Government in bringing about greater effectiveness, efficiency, and economy in the conduct of their programs and activities. Such assistance is rendered principally in the form of (1) performance of audit work culminating in findings and recommendations to agency officials, (2) cooperation in the development of improved financial management systems, (3) promulgation of accounting principles, standards, and policies, (4) consulting advice in acquiring and using automatic data processing systems, (5) advisory assistance in traffic and transportation problems, (6) settling claims, and (7) legal decisions and advice.

This chapter describes the way in which we assist agencies in the establishment and maintenance of financial management information systems and improvement of the related management practices. Our assistance in other areas of management is discussed in Chapters Four through Seven with regard to findings and recommendations for corrective action resulting from our audit work and in Chapters Eight through Ten with regard to our assistance in the areas of transportation, claims, and legal services. Our assistance to the Congress on its internal accounting and financial management is discussed in Chapter Two.

CONGRESSIONAL INTEREST IN FINANCIAL MANAGEMENT

The House Government Operations Committee has continued its interest in the results attained under the Budget and Accounting Procedures Act of 1950. Their interest was stimulated by the Comptroller General's letter of May 19, 1964, which focused attention on the lagging progress in developing agency accounting systems to the point where they could be approved by our Office.

In 1964, the committee held hearings for the purpose of obtaining information about the lack of progress under the act and why so few agencies had approved accounting systems. Based on these hearings, the committee issued a report in March 1965 containing recommendations for increased action by the General Accounting Office, the Bureau of the Budget, the Civil Service Commission, and the agencies themselves.

ASSISTANCE TO THE AGENCIES

The committee specifically recommended that our Office vigorously and expeditiously implement our announced plan to intensify our review of agency accounting systems and make reports on such reviews to the Congress. The committee also recommended that we undertake to assist and encourage the agencies, through personal efforts of our staff, to expedite the development of their accounting systems to the degree necessary to obtain approval.

The committee conducted follow-up hearings on September 19, 1966, to determine the status of the improvement program at that time. This continued congressional interest has been helpful to the agencies and our Office in stimulating effort directed toward the achievement of the objective of improved Federal financial management. This committee interest was further emphasized by its hearings on accounting systems matters, conducted on July 17, 1967.

ASSISTANCE IN THE IMPROVEMENT OF FINANCIAL MANAGEMENT

The ever-increasing scope, complexity, and cost of the Government's activities increase the importance of the development and maintenance of sound financial management systems. The Government's annual expenditures are now running at a rate in excess of \$160 billion, including trust fund expenditures, with significant increases as a result of new and expanded social programs, defense expenditures, and interest on a steadily mounting public debt. New social programs have been developed in recent years to broaden educational opportunities, to develop economically depressed areas of the Nation, to help finance health services and medical care, and to launch a concerted attack on poverty.

The growth of these and other programs and the related decentralization of activities adds to the complex responsibilities of the Government's managers. Thus, the managers in Federal service need all available tools, including detailed and reliable data on the actual costs of activities, programs, and functions, to help them administer Federal programs and funds effectively and economically and in accord with the intent of the Congress.

One very important management tool is an adequate accounting system designed to provide control over funds, property, and other assets and liabilities; to provide current information on costs of operations and other related information of value to management officials; and to provide financial data to various levels of management related to the previous financial plans that were expressed in operating cost budgets of each agency. The availability of reliable cost information, related to cost budgets and assignments of management responsibility, is essential

in promoting in responsible officials and employees desirable attitudes of cost consciousness which are so important to the economical conduct of Government operations.

Although it is not feasible to estimate the potential savings that could be realized by developing adequate budget and accounting systems based on applied costs, the savings should be very substantial because of the improved output-oriented information in the hands of managers for their use in making more informed and better decisions. The need for improved budgeting, accounting, and reporting certainly warrants the unremitting efforts of all agency officials.

Joint Financial Management Improvement Program

The Joint Financial Management Improvement Program is a Government-wide cooperative effort of all departments and agencies under the joint leadership of the Comptroller General of the United States, the Secretary of the Treasury, and the Director of the Bureau of the Budget to establish and maintain systems of financial management that will be of maximum usefulness throughout the Federal Government. The Chairman of the Civil Service Commission has joined in the leadership of this program.

The program is coordinated through a Steering Committee composed of a representative of each of the central agencies. The Steering Committee meets regularly to consider problem areas, initiate work projects, and keep abreast of progress being made throughout the Government.

One of the problems the Steering Committee has been considering for some time is a means to demonstrate to Federal agency managers the advantages to them of having better cost and financial information. One means of doing this is through the issuance of actual case studies explaining how specific agencies have benefited through good financial information systems. The Committee, in conjunction with the staff of the General Accounting Office, has identified several such cases and the agencies themselves have been requested to prepare narrative and graphic descriptions of how their financial information systems furnish data to their managers for use in planning and controlling operations. These cases or studies were in various stages of completion at the end of the year.

Other matters which the Steering Committee has either recently been concerned with or is now considering are:

1. A plan to report total Federal expenditures by geographic distribution.
2. Problems and possible improvement in the Government's central financial reports.

3. Reported problems in the procurement and payment of various types of transportation of persons and things.
4. Meetings with officials of several Government agencies to discuss financial management improvement programs.

This is not a complete listing, of course, of the matters with which the Steering Committee is concerned since new matters are being presented to the Committee almost continuously.

There is a continuous need for competent financial management employees in the Federal agencies to improve and maintain financial management systems. The more direct association of the Civil Service Commission with the Joint Program should provide continued emphasis on increasing both quantity and quality of financial management employees in the Federal agencies.

Cooperative Work With the Agencies on the Development of Accounting Systems

We substantially increased the amount of manpower applied to the field of financial management including cooperative assistance to the executive agencies in the development of improved accounting systems.

Our manpower has been directed to such matters as working with agency officials and staffs so that, with our technical assistance and guidance, the agencies may proceed to develop and maintain accounting systems that are in accordance with our prescribed principles and standards. In our work with the agencies, we keep ourselves informed as to what the agency is doing and the problems it is encountering in order that we may reach a common understanding as to the concepts and principles to be employed. Our purpose is to be as helpful to the agencies as we can without actually doing their work for them. However, it must be remembered that the head of each executive agency has the statutory responsibility for establishing and maintaining adequate accounting and financial management systems.

A major organizational step was taken in March 1967 to strengthen our cooperative efforts in the financial management area by the creation of a separate Financial Management and Special Projects Group within the International Division. This organizational arrangement provides a focal point within the Office devoting its entire efforts to the financial management improvement program in the important international activities area. Last year we reported on a similar step taken in June 1966 to strengthen our efforts in the financial management area by the creation of a separate Management Control Systems Group within the Defense Division, to be responsible for our cooperative and review efforts regard-

ing planning, programming, budgeting, and accounting systems in the Department of Defense.

We have also increased substantially our central over-view capability in the area of financial management assistance to agencies. The Office of Policy and Special Studies now serves as the focal point in our Office to see that our efforts in the financial management field are sustained and carried out consistently. We added three senior officials in that office whose full time is devoted to keeping informed on the work of our Office and what the agencies under their individual cognizance are doing, and to providing guidance and policy interpretations as the need arises.

Review and Approval of Agency Accounting Systems

Our approval of an accounting system submitted by an agency is based on, among other things, a test of the operation of the system to the extent necessary to establish whether the system is adequate and conforms in all material aspects with our prescribed principles and standards.

After an agency's accounting system is approved, we have the continuing task of providing consultative assistance on further refinements and of reviewing approved systems from time to time to evaluate their continued adequacy and usefulness. If we subsequently find that the approved system is not being implemented as planned, or has been adversely modified since approval, then cooperative action is taken with the agency to achieve the corrective action needed and, where appropriate, a report on the financial management system will be submitted to the Congress.

The procedures to be followed by agencies in obtaining approval of their accounting systems are set forth in Title 2 of the "General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies." At June 30, 1967, the accounting systems of 60 organizational entities among the civil departments and agencies had been approved. In addition, we have approved 13 parts or segments of systems (covering such operations as payroll and property accounting) in other entities among the civil departments and agencies where the complete system has not yet been approved. When a complete system is approved, any prior approvals of segments are dropped from our count of systems segments. The only complete accounting system approved in the Department of Defense is the system employed by the Corps of Engineers for the civil functions of the Department of the Army.

We had under review 45 complete and nine parts or segments of systems submitted by civil departments and agencies. Six of these complete systems and two partial systems were approved during the year, and 16 complete and one partial system were withdrawn by, or

returned to, the agencies for further development. At the end of the year **23** complete and *six* segments of systems submitted for approval by civil departments and agencies were in various stages of review.

At the end of the year, the General Accounting Office had under review several submissions by the Department of Defense. These included the construction accounting system manuals of the three services, the Industrial Fund accounting system manuals for four Defense components, and **13** directives and instructions setting forth accounting principles and standards.

The Prescribing of Accounting Principles and Standards

One of the important accounting responsibilities assigned to us by law is the prescribing of accounting principles and standards to be followed by the executive agencies in establishing and maintaining their accounting systems. The first comprehensive statement of these principles and standards, issued in accordance with this requirement, was released in 1952.

Because the establishment of accounting principles and standards is not a one-time action, revisions and additions must be made from time to time to reflect benefits gained from experience, evolution in financial management concepts, and the requirements of newly enacted legislation. A restatement of the accounting principles and standards prescribed by the Comptroller General was issued on June **30**, 1965, as Title 2 of the General Accounting Office Manual for Guidance of Federal Agencies.

This restatement of the principles and standards was amended in April 1967 to make it clear that the accounting systems of executive agencies must provide adequate support in the form of cost and other financial information for the planning-programming-budgeting system prescribed by the President for executive agencies.

We made a recent change in our submission requirements by calling for submission of the accounting principles and standards underlying the system for approval in advance of requesting approval of the system in operation.

This modification of our approval procedures, published as an official change to our GAO Policy and Procedures Manual for Guidance of Federal Agencies on May 15, 1967, provides that future requests by agencies for approval of their accounting systems are to be submitted in two stages, namely, (1) the accounting principles and standards underlying the system, and (2) the documentation representing the accounting system, or segments thereof, in operation.

The purpose of this change is to recognize the desirability of giving priority to obtaining agreement on the underlying principles and standards to be followed in accounting systems development work and then carrying out such development work in the light of the approved principles and standards. A related reason for the change is to facilitate systematic and early identification and resolution of possible problem areas that might adversely affect ultimate approval of an accounting system. Also, the development and installation of a system, using sophisticated electronic equipment, based on principles that are not acceptable can result in subsequent large but unnecessary expenditures to redesign and reprogram the complex ADP aspects of the system so as to achieve conformity with acceptable principles.

Other Factors Affecting Accounting Systems Development

Three other major factors should be mentioned because of their impact on the future development of adequate accounting systems in the Federal departments and agencies.

First, about 2 years ago, the President directed the development of an integrated planning-programming-budgeting system (PPBS) in the agencies of the executive branch. He placed emphasis on the importance of "high quality, business-type information systems." Such systems require the use of realistic cost information in making estimates of future costs and in appraising current performance against approved plans.

The development of the planning, programming, and budgeting concept in the departments and agencies **has** created an environment conducive to the development of improved financial management. At the same time, however, it has made evident the degree to which the ultimate development of financial management systems, including the accounting system, is dependent upon the establishment of the significant program categories and subcategories, and their elements for each agency and bureau. The values to management are in the expanded role which financial management systems, including the development of concepts and techniques of accounting for costs, can play in the overall program management of an agency. The role of more effective management is stimulated by planning, programming, and budgeting emphasis on cost/benefit analyses. The potential for this type of financial management development **as** an assist to operating management, as well **as** the additional responsibilities which it places on financial management officials, is becoming increasingly evident.

Thus, the PPBS system has given added and renewed strength to the primary objectives of improved Federal agency accounting **as** set forth in the Budget and Accounting Procedures Act of 1950.

Second, increased interest at the highest executive branch level in Government-wide cost reduction focuses additional attention on the need for improved Federal agency accounting. Evidence of this increased interest in cost reduction is to be found in the Bureau of the Budget issuance of its Circular No. A-44, August 6, 1966, pertinent to the Government's Cost Reduction Program and in the establishment May 23, 1967, of the President's Advisory Council on Cost Reduction. The BOB Circular provides that savings be measurable and identifiable and, where appropriate, relatable to the unit cost of the year immediately preceding. To measure increased productivity and efficiency, the Circular calls for expression in terms of decreased unit costs. These requirements are a significant means of achieving increased attention by agency heads to the development of accounting systems that account for cost and the related output and performance data.

Third, the need for agencies to expand and accelerate the use of computers and other high speed information processing systems has become more apparent as the operations of Government expand. The use of these kinds of devices is highly necessary in major agencies and for large scale operations if agency heads expect to obtain timely financial information to be used in planning operations and evaluating program performance.

AUTOMATIC DATA PROCESSING IN THE FEDERAL GOVERNMENT

The acquisition and installation of automatic data processing systems by Federal Government agencies are still increasing at a rapid rate. During the past year over 400 additional computers were applied to a wide range of financial and other agency operational programs throughout the Government. Over 3,000 computers are now installed in Federal agencies.

Over a 3-year period the inventory of installed computers has almost doubled and the use of automatic data processing systems in carrying out Federal Government functions has had a significant impact on operations in almost every major agency of the Government. In the Department of Defense, the principal business applications continue to be in supply and logistics programs and related financial management operations. In these Defense supply management activities computer systems are now processing millions of transactions monthly in inventory control, distribution, cataloging, requirements forecasting, and financial management operations. Extensive communication facilities have been established to transmit data between using organizations and computer

centers. In addition, small-scale computers have been installed more extensively throughout field organizations for base-level operations.

In the civilian agencies, many of the large-scale automatic data processing programs are of the single-purpose type where voluminous paperwork and related data processing operations are part of major accounting, statistical, and agency program operations.

Some of these major programs are as follows :

1. Wage record processing, benefit payment activities, and medicare operations in the Social Security Administration.
2. Savings bond accounting and auditing operations in the Bureau of the Public Debt of the Treasury Department.
3. U.S. Treasury check issuance, payment, and reconciliation operations.
4. Benefit payment and insurance accounting operations of the Veterans Administration.
5. Inventory accounting operations in the commodity programs of the Department of Agriculture.
6. Statistical activities of the Census Bureau.
7. Post Office money order and payroll and accounting operations.
8. Internal Revenue income tax processing in the Treasury Department.

We continued to provide advice and assistance to Federal agencies on questions involving the acquisition and use of automatic data processing systems. Also, in carrying out our review and evaluation responsibilities, we assisted agencies by reviewing with agency officials deficiencies disclosed during our audits related to the planning for and the use of such systems.

We have also worked jointly with the U.S. Civil Service Commission and the auditing agencies of the Government in developing a training program for auditing in an automatic data processing environment. This course is currently being offered by the Civil Service Commission to auditors of all Federal agencies.

In addition to advising and assisting individual Government agencies, we have as a result of our continuing studies in this field made recommendations which were directed at achieving improvements in the management and administration of automatic data processing facilities on a Government-wide basis.

These studies are being made as a follow-up to our earlier Government-wide studies that were the subject of comprehensive reports to the Congress in June 1958 and December 1960. Copies of these reports were widely distributed to Government agencies to assist them in the development of their automatic data processing programs. On March 6, 1963, we reported to the Congress on the results of our study of the financial,

advantages of purchasing over leasing of electronic data processing equipment in the Federal Government. This report was widely used by the Congress and Federal agencies and has been a significant factor in the increased purchasing of electronic data processing equipment by Federal agencies.

In the Bureau of the Budget report of February 23, 1967, to the President on the management of computers by the Government, the Bureau reported the avoidance of approximately \$200 million in annual rental costs by the selective purchase of computers, many of which were purchased within the past 3 years and have already been amortized.

The Bureau of the Budget also reported the redistribution within the Government of equipment valued at \$70 million, thereby avoiding expenditures for new equipment, and a saving of \$26 million by using time available on Government computers at locations other than where the requirement existed rather than acquiring additional equipment. Both of these programs had been advocated by the General Accounting Office in a number of reports to the Congress over the past several years.

Also, we continued to provide assistance to the Congress in connection with hearings and studies being conducted by the Congress on the subject of management of automatic data processing in the Federal Government.

REVIEW OF AGENCY INTERNAL AUDITING

In the discharge of its statutory audit responsibilities and as a matter of generally accepted auditing practice, the General Accounting Office reviews and evaluates the effectiveness of departments' and agencies' systems of internal control, including internal audit or other methods of internal review.

We reviewed the activities of a number of the audit organizations in the civil departments and agencies and made recommendations for changes and improvements in several instances. On the basis of our review of the various audit organizations of the Department of Commerce we concluded that with the exception of the external audit activities of the Maritime Administration, nine separate audit staffs of the Department should be consolidated into a single audit organization at the departmental level and made responsible, preferably, to the Secretary or Under Secretary. In commenting on our findings, which were the subject of a report issued to the Congress in July 1967, the Department concurred, in general, with our proposal for consolidation but advised us that the organization would be responsible to the Assistant Secretary for Administration.

Our examination of the Department of Labor disclosed that in many instances, the Bureau of Employment Security did not take appropriate action to correct the conditions disclosed by its internal auditors in their audits of State employment security agencies. Our examination disclosed several expenditures which the internal auditors have questioned on the basis that State law had been violated but as to which the Bureau had not taken appropriate action to resolve the question of legality. We recommended that the Secretary of Labor strengthen the administrative procedures for follow-ups of internal auditors' findings and provide that the underlying causes of questioned expenditures be appropriately identified and resolved. Subsequently, the audit function was centralized under the supervision of the Assistant Secretary for Administration, and we were advised that the Assistant Secretary would monitor follow-up actions required.

As a result of our review of the internal audit function in the District of Columbia Government, we concluded that the effectiveness of management control would be increased by removing the Internal Audit Office from the Department of General Administration and establishing it as a separate staff organization directly responsible to the Board of Commissioners. The President, Board of Commissioners, informed us that the Board accepted our proposal but would delay implementing the realignment pending action by the Congress on a proposed presidential reorganization of the District Government.

In a report to the General Services Administration in March 1967, we pointed out areas of the internal audit program which we believed could be improved. We proposed that, in their reports, auditors (1) include appraisals of the adequacy or inadequacy of internal controls and the compliance of operating personnel with prescribed policies and procedures and (2) state the basic causes of deficiencies noted, including possible weaknesses or failures in internal controls, and recommend corrective actions to cure the causes of the deficiencies as well as the specific deficiencies. We proposed also that the Director of the Audit Division assign to specific members of his staff responsibility for (1) reviewing and analyzing all changes in GSA policy, organization, operating, and accounting handbooks on a current basis to evaluate their possible effects on existing internal controls and audit instructions, (2) revising audit guides whenever audit instructions are rendered obsolete by organization and procedural changes in GSA operations, and (3) providing audit guides in those areas where they have not been provided. GSA agreed to take appropriate action on our proposals.

We reviewed the activities of the Audit Division, Office of Organization and Management, National Aeronautics and Space Administration (NASA). The division is responsible for internal audit in NASA.

ASSISTANCE TO THE AGENCIES

In our July 1967 report to the Administrator, NASA, we discussed the need for increased audit coverage of payrolls and the need for a resident audit staff at Langley Research Center. NASA indicated concurrence in our findings and agreed to initiate corrective action.

We made a review of the adequacy and effectiveness of the audit function in the Department of Health, Education, and Welfare. At the fiscal year end, we were preparing a report on this review.

We also made a review of the internal audit systems of the Department of Defense. The review was directed toward an evaluation of the objectives and scope of the work performed by the internal audit agencies and the allocation of their audit efforts to the various operations and program of the Department of Defense. A preliminary report on our findings was submitted to the Secretary of Defense for comment prior to the end of the fiscal year.

Audit of Civil Operations and Programs

Our work in the civil departments and agencies in the executive branch, carried out by our Civil Division, was directed primarily to those agency operations and programs having major significance and evidence of interest in the Congress. Many of our reviews originated with congressional requests.

Where appropriate, we made concurrent and coordinated reviews of selected phases of matters of a Government-wide nature or related to more than one department or agency. In **April** 1967 we reported to the Congress that (1) the major construction agencies contracted for architect-engineer services at fees in excess of the statutory provisions which limit the fees payable to architect-engineers to 6 percent of the estimated cost of construction, (2) the agencies' practices in requiring the submission and certification of cost or pricing data in accordance with Public Law 87-653 and the Federal Procurement Regulations differed, (3) the agencies subject to the requirements of Public Law 87-653 were not complying with the competitive negotiation provisions of the law, and (4) the method of computing the architect-engineer fees differed among the major construction agencies. We made recommendations to the Congress and to certain agencies to effect the needed actions. Further discussion of this report is contained in Chapter Two, Assistance to the Congress.

We completed a review of the functional elements of construction, and, at the close of the year, we had in progress a draft of an audit manual for the guidance of our audit staffs for reviewing construction activities. The manual will consist of three major parts—design administration, inspection activities during construction, and general administration. At the close of the year we had in process a report on the policies and practices of selected civil agencies for rebuilding used motor vehicle tires.

As a result of our work in the civil departments and agencies of the executive branch and in the judicial and legislative branches, we submitted 105 reports to the Congress and 95 reports to committees or individual Members of the Congress in response to inquiries on specific subjects. We also submitted 300 reports to agency officials. These reports are listed beginning on page 174 of Appendix C-2 of this report. Our reports to the Congress are described in Appendix C-3 beginning on page 212.

Collections and other measurable financial savings resulting from our work in the civil departments and agencies during the year, the details of which are included, among others, in Appendix G on pages 301 through 307, totaled \$1,305,000 and \$98,236,000, respectively. The highlights of our work and the more significant results therefrom are summarized below.

DEPARTMENT OF AGRICULTURE

Our reviews of operations and programs of the various agencies and offices of the Department of Agriculture were carried out in Washington, D.C., and at numerous field installations.

We submitted 11 reports to the Congress during the year, and eight reports were submitted to committees or to Members of the Congress on reviews made at their request or in response to inquiries on specific subjects. In addition, we issued 24 reports to agency officials.

In a report to the Congress in August 1966 we commented on the practices followed by the Commodity Credit Corporation in providing protection from heat and cold on shipments of certain perishable commodities. We concluded that the Corporation could save on rail transportation costs by eliminating excessive protection on shipments of perishable commodities without risking spoilage or deterioration. For example, we estimated that during fiscal year 1964 savings of about \$219,000 in transportation costs for butter and cheese could have been realized if protective services comparable with those of commercial shippers had been required. The corrective action taken by the Corporation was consistent with our proposals.

In a report to the Congress in November 1966, we stated that Department regulations permitted certain wheat processors to purchase domestic wheat marketing certificates for less than the number of bushels of wheat actually processed. We estimated that the Commodity Credit Corporation's proceeds from the sale of the certificates would have been increased by about \$5.4 million for certificates on wheat processed into white flour during the 1964 and 1965 marketing years if processors had been required to purchase certificates equal to the number of bushels of wheat actually processed.

After we brought this matter to the attention of the Department, it amended the regulations, effective July 1966, and we estimated that this change could be expected to increase proceeds to the Corporation by about \$650,000 annually. On the basis of our recommendation for the Department to further revise its regulations to minimize its loss of pro-

ceeds to the Government, additional revisions were made in July 1967 which should further increase proceeds to the Corporation.

In December 1966 we submitted a report to the Congress commenting on the different appraisal procedures used in valuing timber offered for sale by the Forest Service, Department of Agriculture, and the Bureau of Land Management and Indian Affairs, Department of the Interior. We expressed our belief that substantial additional revenue could accrue to the Government for timber offered for sale if agencies coordinated their activities and used the more appropriate procedure of each agency in appraising like stands of timber. The agencies agreed to develop plans by July 1967 for an appraisal system that is uniform to the fullest practical extent and intend to implement their uniform appraisal system by July 1968.

We submitted two reports to the Congress on selected aspects of the commodity distribution program which is administered on an overall basis by the Consumer and Marketing Service. In one report, issued in December 1966, we commented on opportunities to reduce the costs of transporting certain Government-donated food commodities to State distributing agencies. The Service took corrective actions consistent with our proposals to provide for the optimum use of the most economical mode of shipping commodities and to increase the lot sizes for commodities whenever necessary. In another report, issued in February 1967, we estimated that of the 55,160 families participating in the commodity distribution program in three counties in one State, between 14,400 and 26,800 families did not meet program eligibility requirements. In response to our proposals for minimizing food distributions to ineligible families, the Service advised us of various corrective measures taken to improve the administration of program activities. We estimated that the action taken on our proposals would result in savings of approximately \$665,000 for 1 year.

In a report addressed to the Commodity Credit Corporation in March 1967, we made recommendations designed to expedite the deposit of collections and thereby reduce the Corporation's interest cost. We estimated that implementation of these recommendations would result in interest savings of at least \$125,000 annually. In June 1967 we were informed that our recommendations would be adopted.

We found that the Agricultural Research Service needed to strengthen its controls to avoid or minimize the harmful effect of modified live virus hog cholera vaccines which, when used under certain field conditions, impaired the agency objective of eradicating hog cholera. In order to effect appropriate action regarding the further use of such vaccines, the Department implemented our recommendation to make our report available to the Hog Cholera Biologics Study Group of the Secretary of

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Agriculture's Advisory Committee on Hog Cholera Eradication which, in March 1967, was appointed specifically to establish basic guidelines for using different hog cholera vaccines. Subsequently, our proposals for corrective action were generally supported by the study group. This matter was reported to the Congress in April 1967.

The results of our reviews of selected activities under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) are commented on in Chapter *Six*, Audit of International Operations and Programs.

DEPARTMENT OF THE ARMY CORPS OF ENGINEERS (CIVIL FUNCTIONS)

Our reviews of the civil functions of the Corps of Engineers resulted in three reports to the Congress and 13 reports to agency officials. Our work at the Corps is also directed toward reviews of operations in power generating and marketing that are interrelated with the operations of the Department of the Interior; the results of these reviews are dealt with in our comments on our work at the Department of the Interior.

As a result of one of our reports to the Congress, and in response to our recommendations, the Chief of Engineers issued instructions to all division and district engineers directing them to enforce the applicable provisions of law which prohibit depositing industrial waste solids into navigable waters unless a permit is obtained from the Secretary of the Army authorizing the deposits.

In another report to the Congress, issued in October 1966, we estimated that the cost of designing and constructing the New Second Lock at, Sault Ste. Marie, Mich., was increased by about \$651,000 because the Corps of Engineers decided to increase the authorized size of the lock without first adequately establishing the maximum-size ships that could be expected to use it during its economic life. We recommended that the Chief of Engineers stress the importance of conducting thorough studies before building new locks. We further recommended that the Chief of Engineers bring our report to the attention of the division engineers to demonstrate the need for more critical evaluations of representations and proposed actions of the district engineers to ensure that the representations and actions are in line with current and forecast lock-size requirements.

In a report to the Congress in January 1967, we commented that although it was the policy of the Corps of Engineers to recommend a local contribution toward the costs of flood-control reservoirs that serve essentially as local flood-protection measures or produce some specific local benefit, the Corps did not make a recommendation to the Congress in the case of the Del Valle Dam and Reservoir. We expressed our belief

that a more complete evaluation of the factors involved, which, in our opinion, reasonably should have been made in the circumstances, would have indicated that a local contribution of between \$1.1 million and \$2.4 million may have been appropriate in connection with the proposed project costs allotted to flood control. We recommended that the Chief of Engineers revise existing procedures to require a more complete analysis of the benefits expected to result from the construction of future flood-control works and clearly identify the recipients to whom substantial benefits will accrue, and that this information be made a part of each project report submitted to the Congress for approval. In March 1967, the Department informed us that our recommendations would be considered during the course of further studies on this subject.

DEPARTMENT OF COMMERCE

Our reviews of the operations and programs of the various agencies and offices of the Department of Commerce resulted in one report to the Congress, three reports to committees or to Members of the Congress in response to inquiries on specific subjects, and 10 reports to agency officials. The results of our audit efforts in the Bureau of Public Roads which was transferred to the newly created Department of Transportation effective April 1, 1967, are discussed on page 68.

We reviewed the activities of the various audit organizations of the Department and its constituent agencies in accordance with a request from the Subcommittee on Government Activities of the House Committee on Government Operations. On the basis of our review, we concluded that with the exception of the external audit activities of the Maritime Administration, nine separate audit staffs of the Department should be consolidated into a single audit organization at the departmental level and made responsible, preferably, to the Secretary or Under Secretary. In commenting on our findings, which were the subject of a report issued to the Congress in July 1967, the Department concurred, in general, with our proposal for consolidation but advised us that the organization would be responsible to the Assistant Secretary for Administration.

Our work in the Economic Development Administration—a new agency created by the Public Works and Economic Development Act of 1965—was directed primarily at preliminary reviews of the administration of its loan and grant program.

In a report issued to the Congress in November 1966, we questioned the Maritime Administration's requirement that shipbuilding contractors

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furnish performance and payment bonds on certain ship construction contracts. Our estimate for potential annual savings of about \$316,000 in construction-differential subsidies related to the fact that, without bonding requirements, bidders on ship construction contracts would not have to include amounts for bond premium expenses in their bids. Following discussions with agency officials, a policy was approved by the Maritime Administration providing for waiver of the requirements if the bidder is considered to have sufficient financial resources. We concluded that the waiver policy was a worthwhile change which may result in recurring savings in those instances where it is applied. We recommended, and the agency agreed, that a future evaluation be made of the waiver policy and that systematic comparisons be made of Maritime's contract administration activities to those of the Department of the Navy.

Also at the Maritime Administration at the close of the fiscal year, we were processing a report to the Congress on potential interest savings available to the Government in financing the operation of Government-owned vessels supporting military activities in Southeast Asia.

Our work at the Department's two major scientific agencies—the Environmental Science Services Administration and the National Bureau of Standards—was directed primarily toward reviews requested by congressional committees or by individual Members of the Congress. Such work at the National Bureau of Standards included reviews of the utilization and management of laboratory equipment and of the Bureau's program in providing Government-wide services and assistance in the automatic data processing (ADP) field. At the Environmental Science Services Administration, such congressional request work involved a review of certain of the Agency's procurement practices.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Our work in the Department of Health, Education, and Welfare (HEW) included reviews of selected aspects of management of Federal and federally aided programs. Subjects included in our reviews concerned :

Pricing methods used by various States in the purchase of prescribed drugs for welfare recipients.

Practices employed in providing nursing home care, medical services, and prescribed drugs to welfare recipients.

Work registration of certain categories of welfare recipients.

Allocation of administrative expenses to federally assisted welfare program.

Educational television programs.

Administration of programs for educationally deprived children.
 Construction of higher education facilities.
 Development and improvement of new educational techniques and facilities for elementary and secondary schools.
 Federal grants for health research, construction of hospitals, and air pollution control.
 Activities of State agencies concerning certification of the eligibility of facilities for participation in Medicare program.
 Controls over continuing propriety of social security benefit payments to certain types of beneficiaries.
 Audit activities of the Department.

Twenty-nine reports were issued during the year—nine to the Congress, five to committees or individual Members of the Congress, and 15 to agency officials. Examples of the significance of these reports follow.

In March 1967 we reported to the Subcommittee on Long-Term Care, Senate Special Committee on Aging, at its request, on our inquiry into alleged improper practices in providing nursing home care, medical services, and prescribed drugs, to old-age assistance recipients in the Cleveland, Ohio, area. On the basis of information obtained in our inquiry, we concluded that, because of inadequacies in pertinent policies, procedures, and controls, or in their implementation, it was possible that patients in nursing homes may have received inadequate care; nursing home operators may have been paid at the rate prescribed for maximum nursing care when only average nursing care, payable at a lower rate, was required and actually rendered; payments may have been made for physicians' services not actually rendered or drugs not administered to welfare recipients. We concluded also that the areas to which we directed our inquiry warranted further examination or investigation in greater depth, to ascertain the extent to which deficiencies actually existed and to develop suggestions for needed improvements in related policies, procedures, and controls.

Previously, in August 1966, we reported to the Subcommittee on Health of the Elderly, Senate Special Committee on Aging, at its request, on our examination into alleged improper practices in providing nursing home care and controlling payments for prescribed drugs for welfare recipients in California. We found that (1) the California State plan in effect at the time of our review did not clearly provide or fix responsibility for the exercising of controls designed to detect, and to require the correction of, improper practices or deficiencies in the areas of most of the allegations and (2) the representatives of the Welfare Administration had not made the reviews of State and county agency activities necessary for an evaluation of the adequacy of the State plan in this respect.

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We found also that the procedures, recommended in the State plan to provide assurance that payments made for prescribed drugs are actually delivered for the use of eligible welfare recipients, had not been adequately implemented at the county level. In this regard, we stated our belief that the State agency had not carried out its responsibilities for the evaluation of county activities and that the Department had not utilized the review processes necessary to ascertain the quality of this aspect of the administration of the programs.

HEW and the State expressed general agreement with our findings and conclusions and outlined certain corrective actions which had been taken or were being contemplated.

In April 1967, we reported to the Congress on the need for HEW to provide the States with appropriate guidance and criteria relating to the establishment or revision of pricing methods for prescribed drugs purchased for use by welfare recipients under programs which are federally aided under the Social Security Act. We pointed out that a lack of definitive guidelines had resulted in the establishment of inconsistent methods for determining the price of drugs in various States and in the establishment of pricing methods which provided pharmacies in certain States with an incentive to dispense higher cost drug products where suitable lower cost products which meet prescription requirements are available. We recommended that the Department establish a policy for pricing welfare prescription drugs which would be acceptable for the purposes of Federal financial participation and which would prohibit the use of methods which provide incentives for pharmacies to dispense higher cost products where suitable lower cost products meeting prescription requirements are available. We recommended also that the policy urge the use of pricing methods based on the cost of the product dispensed plus a fixed professional fee. This report, together with the results of other drug studies conducted by the General Accounting Office, was discussed by the Comptroller General and other representatives of our Office at a public hearing held in May 1967 before the Monopoly Subcommittee of the Senate Select Committee on Small Business.

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

We also made a review of the adequacy and effectiveness of the audit function in the Department. At the close of the fiscal year, a report on this review was in the process of preparation.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Our work in the Department of Housing and Urban Development (HUD) included a wide spectrum of reviews in such areas of HUD activity as urban renewal, housing assistance, metropolitan development, mortgage credit, and agency and Department-wide financial administration. As a result of these reviews, we issued during the year a total of 27 reports—nine to the Congress, 11 to the committees or individual Members of the Congress at their request, and seven to agency officials.

In a report issued to the Congress in October 1966 on urban renewal activities we pointed out that the agency had approved noncash grant-in-aid credits for a bridge and a limited access street which, in our opinion, were excessive because the allocations of the costs of the facilities between the project areas and areas outside the project did not adequately take into consideration the relative benefits to be provided. We pointed out also that the values of certain publicly owned buildings included in the cost of another project were, in our opinion, excessive because an improper basis was used in the valuations. The amounts of the excess allocations for the bridge and the street and of the excess value of the buildings could not be determined without detailed studies; however, we expressed our belief that the amounts could be substantial in relation to the \$3 million credits allowed for the facilities.

During fiscal year 1967, as a result of prior years' reports, non-cash grant-in-aid credits were reduced for a school, a fire station, and street lights and traffic signals thereby reducing the Federal Government's share of the costs of the projects by about \$410,000.

In the housing assistance area, we pointed out in a November 1966 report to the Congress on the utilization of local housing authority (LHA) manpower in performing maintenance activities at low-rent public housing projects, that certain federally financed low-rent housing projects appeared to be bearing substantially higher costs than their maintenance operations required. We recommended that action be taken to reduce costs through the establishment of appropriate wage rates and realistic job classifications.

In January 1967 we reported to the Congress that our examination into agency reviews of financial activities of certain LHAs showed that such reviews did not disclose that the LHAs were maintaining significant

amounts of cash in excess of estimated current disbursement needs instead of investing such funds to produce additional income and thus reduce Federal contributions. Agency management officials were, therefore, not in a position to initiate steps to obtain corrective action by the LHAs. It appeared that additional interest revenue could have been earned if further investments of available cash had been made by these authorities. As a result of our recommendation, the Housing Assistance Administration took appropriate action directed toward maximizing the investment earnings of LHAs and providing for more effective reviews of local authority investment program activities.

Our reports on various activities concerning the small home insurance programs of the Federal Housing Administration (**FHA**) pointed out certain opportunities for benefits available to the agency. In a report to the Congress in August 1966, we pointed out that **FHA** incurred annual premium costs of about \$340,000 for public liability insurance covering its acquired properties and proposed that **FHA** adopt the Government's long-standing policy of self-insurance. We were advised that the agency was favorably disposed toward the general premise of self-insurance and was studying our proposal.

In May 1967 we reported to the Congress that consolidation, within one agency, of the property management functions for single-family residential properties acquired under home financing programs of **FHA** and the Veterans Administration could provide, among other benefits, a basis for lower costs through a reduction in the overall size of the two staffs which now perform essentially the same functions separately. We were informed that a management consulting firm had been engaged by the Bureau of the Budget to make a study to determine what, if any, organizational and other actions should be taken.

In a report to the Congress in June 1967, we expressed the belief that in many cases builders prematurely requested **FHA** to make final inspections of new homes that were to be insured by the agency, and that such premature requests resulted in the need for additional **FHA** reinspections at the agency's expense. As a result of our finding, the agency took specific steps to control and reduce the number of premature final inspections. To make the agency's action more effective, we recommended that **FHA** require payment of penalty fees for reinspections clearly caused by premature requests.

We also submitted a report to the chairman of the Permanent Subcommittee on Investigations, Senate Committee on Government Operations, on statistics regarding multifamily housing programs administered by **FHA**. The report comments on the increasing number of projects in

financial difficulty and the relatively high losses incurred on the sale of acquired properties in the last few years, indicating that the situation needs close scrutiny.

DEPARTMENT OF THE INTERIOR AND WATER RESOURCES DEVELOPMENT PROGRAMS

Our work during the year in the various bureaus and offices of the Department of the Interior included reviews of selected activities of the Bonneville Power Administration, the Bureau of Reclamation, the Geological Survey, the Bureau of Land Management, the Bureau of Sport Fisheries and Wildlife, the Bureau of Commercial Fisheries, the Bureau of Indian Affairs, the Bureau of Outdoor Recreation, the Federal Water Pollution Control Administration, and the Virgin Islands Corporation. In addition, we made financial statement audits of the Columbia River Federal Power System, the Southeastern Power Administration, the Tennessee Valley Authority, and the Virgin Islands Corporation. Water development activities of the Columbia River Federal Power System and the Southeastern Power System are interrelated with the civil works activities of the Corps of Engineers.

The results of our work in the Department of the Interior and interrelated water resources development programs were the subjects of 41 reports—six to the Congress, four to congressional committees or individual Members of Congress, and 31 to agency officials. Examples of this reporting are summarized below.

We reported to the Congress in January 1967 that economies were available through improved coordination of geodetic surveying activities within the Federal Government. In commenting on our proposals, the Bureau of the Budget, which has responsibility for coordinating geodetic surveying activities in the Federal Government, agreed that it should continue to press for improved coordination and efficiency in the conduct of the Government's geodetic control activities. Subsequently, in September 1966, the Bureau of the Budget informed us that the Geological Survey, Department of the Interior, which establishes geodetic control points in its mapping program, and the Environmental Science Services Administration, Department of Commerce, which has the responsibility for establishing a nationwide network of geodetic control points, had entered into an agreement whereby horizontal geodetic control to national standards would be achieved as a part of the Geological Survey's topographic map program. We estimated that this action would result in annual savings of about \$420,000.

The Bureau of the Budget has also suggested that the Department of Commerce investigate further the possibility of concluding an agreement with the Department of Transportation to facilitate cooperation in the geodetic control surveying activities required for highway programs administered by the Bureau of Public Roads.

In a report to the Congress in February 1967, we described the details, circumstances, and legal background which gave rise to our opinion that section 4(f) of the Virgin Islands Corporation Act (48 U.S.C. 1407c(f)) did not provide authority for the sale to the Government of the Virgin Islands of the electric power and salt water distillation facilities owned by the Virgin Islands Corporation. Our report also described the subsequent actions by the Virgin Islands Corporation and the General Services Administration which resolved our objection to the legal authority for the sale. We also included our comments concerning the adequacy of the appraisal of the facilities that was obtained by the GSA and the need for improvement in appraisal evaluations by the Administration's appraisal staff. The Governor of the Virgin Islands and GSA renegotiated the original sales price to make adjustments on the basis of comments by our Office and the chairman, Government Activities Subcommittee of the House Committee on Government Operations, concerning the reasonableness of the appraisal of the facilities at an estimated fair market value of \$6.5 million. And, on January 26, 1967, GSA sold the facilities to the Government of the Virgin Islands under provisions of section 203(e) of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 484(e)) for \$9.5 million, or about \$2.2 million more than the original transfer price of \$7.3 million.

At the Bureau of Sport Fisheries and Wildlife we reviewed the use for new construction of funds appropriated for management and investigations of resources. In commenting on our finding that the Bureau had improperly used about \$296,000 of such funds to construct a new National Fish Control Laboratory at Warm Springs, Ga., and a number of small buildings and projects in the Bureau's Region 3, the Department informed us that it could not conclude that there had been any conscious violation of the Anti-Deficiency Act (31 U.S.C. 665(a)), which prohibits an officer or employee from involving the Government in any contract or other obligation for the payment of money in advance of appropriations made for that purpose. The Department agreed, however, that the Bureau's interpretation of the availability of these funds for incidental construction within defined limits should be the subject of specific congressional expression on a current basis and stated that efforts were being made to obtain such expression. We reported this matter to the Congress in September 1966.

DEPARTMENT OF JUSTICE

At the Department of Justice we reviewed the following matters:

- Contracting practices and procedures for hiring appraisers to value land in Indian claims litigation.
- Policies and procedures for collecting judgments, fines, penalties, and forfeitures.
- The financial statements of the Federal Prison Industries, Inc., for the fiscal year 1966.
- The feasibility of transferring the United States marshals' check-issuing function to the Department of the Treasury.
- Utilization of duplicating equipment at departmental locations in Washington, D.C.

The results of our work were summarized in a total of 18 reports—three to the Congress and 15 to agency officials.

In a report to the Congress in August 1966, we commented on the need to strengthen the contracting practices for hiring appraisers to value land in Indian claims litigation. In response to our proposals and recommendations, the Department (1) issued formal contracting procedures to govern the procurement of appraisal services, (2) requires appraisers to furnish financial or other fee information in support of bid proposals, (3) prescribed criteria to guide attorneys in determining the reasonableness of appraisers' proposed fees, (4) requires contracting officials to negotiate with appraisers after receipt of initial proposals, and (5) provided for periodic reviews of contracting activities to determine that prescribed policies and procedures are being effectively carried out.

In a June 1967 report to the Congress, we stated that the policies, procedures, and practices followed by the Department and United States attorney offices in collecting debts owed the Government showed a need for more timely and effective collection efforts and the need to improve the accounting for and reporting of outstanding indebtedness. In commenting on matters discussed in the report, the Department informed us that several of our proposals for corrective action were being considered and set forth the measures it had taken to improve collection activities.

In April 1967 the accounting system of the Immigration and Naturalization Service was approved by the Comptroller General.

DEPARTMENT OF LABOR

Our audit work in the Department of Labor involved selected reviews of various programs and activities of the Bureau of Employment Security,

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the Neighborhood Youth Corps, the Bureau of Employees' Compensation, and the Labor-Management Services Administration. Also, we reviewed selected phases of manpower training and other projects under the Manpower Development and Training Act of 1962, departmental determinations of prevailing wage rates under the Davis-Bacon Act and related laws, and certain Department-wide activities, including internal audits.

We submitted nine reports to the Congress, one to a Member of the Congress, and five to agency officials.

In a report to the Congress in January 1967, we stated that, in many instances, the Bureau of Employment Security did not take appropriate action to correct the conditions disclosed by its internal auditors in their audits of State employment security agencies. Our examination disclosed several expenditures which the internal auditors had questioned on the basis that State law had been violated but the Bureau had not taken appropriate action to resolve the question of legality. We recommended that the Secretary of Labor strengthen the administrative procedures for follow-ups of internal auditors' findings and provide that the underlying causes of questioned expenditures be appropriately identified and resolved. Subsequently, the audit function was centralized under the supervision of the Assistant Secretary for Administration, and we were advised that the Assistant Secretary would monitor follow-up actions required.

In another report to the Congress in January 1967, we pointed out that a significant acceleration in the availability of funds for financing the administration of employment security activities could be realized if appropriate legislation were enacted to provide for the quarterly, rather than annual, collection of the Federal unemployment taxes. The collection of these taxes after the close of the calendar year has necessitated the borrowing of funds at prevailing Federal interest rates to finance the costs of administering the State employment security offices during the first 7 months of the respective fiscal year. We estimated that, if collections for calendar year 1964 had been made on a quarterly basis, not only would adequate funds have been available to meet the administrative costs of employment security activities but the funds would have earned about \$7.1 million in interest.

Both the Treasury Department and the Department of Labor agreed in principle with the desirability of the proposal to change the collection of Federal unemployment taxes to a quarterly basis. The Treasury advised us, however, that various policy and technical problems needed to be resolved. We recommended that the Secretaries of Labor and of the Treasury cooperatively determine the most feasible method of making quarterly collections of Federal unemployment taxes and submit the

necessary legislative proposal for consideration by the Congress to provide the authority for such collections.

In January 1967 we issued a report to the Secretary of Labor concerning a contract for on-the-job training of bus drivers, which lacked provisions to ensure that Federal funds authorized under the Manpower Development and Training Act of 1962 would not be used as a subsidy to replace existing training programs or efforts by contractors. The Department advised us that this was one of the first contracts under the program and that in making future contracts it would seek to avoid these basic contract problems.

In three reports submitted to the Congress in December 1966 and January and June 1967, we expressed the need for improving the Department's method of computing and adjusting disability compensation for civilian employees of the Federal Government. The Department did not agree with our conclusion that the method of computing compensation increases had resulted in estimated excess payments of about \$2.2 million and that higher payments were continuing at a rate of about \$123,000 annually. However, the Department advised us that it would install procedures to (1) avoid delays in adjusting certain compensation from total disability rates to partial disability rates which, according to our estimate, might have resulted in additional payments of \$1 million, and (2) discontinue the practice of adjusting the percentage of wage-earning capacity in favor of claimants for disability awards and thus achieve estimated annual savings of at least \$100,000.

In March 1967 we issued a report to inform the Congress of the need for improved administration and enforcement by the Department of the reporting and bonding provisions of the Welfare and Pension Plans Disclosure Act and the Labor-Management Reporting and Disclosure Act of 1959 and the need for legislative authority to establish certain reporting and verification requirements regarding compliance with the bonding provisions. A primary objective of the applicable laws is to protect the interests of participants in the plans and of members of labor organizations through the public disclosure of financial and other information.

The Secretary of Labor advised us of certain corrective actions being taken or to be taken. He noted, however, that the Department lacked authority to require reporting of bonding coverage under the Labor-Management Reporting and Disclosure Act of 1959 or to make appropriate investigations of coverage under the Welfare and Pension Plans Disclosure Act. Accordingly, we recommended that the Secretary of Labor seek appropriate legislative authority from the Congress. In February 1967, shortly before the issuance of our report, a bill was introduced in the Senate to amend the Welfare and Pension Plans Disclosure

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Act. This bill provides, in part, for the Secretary to make investigations when he believes it is necessary to determine when any person has violated or is about to violate any provision of the act.

POST OFFICE DEPARTMENT

At the Post Office Department we examined into construction and lease of postal facilities, procurement of supplies and equipment, transportation of mail, manpower utilization and staffing of postal facilities, and payrolls and other financial activities. Our work resulted in six reports to the Congress, five reports to committee chairmen or Members of the Congress on matters of interest to them, and nine reports to agency officials.

In August 1966 we reported to the Congress that the Department could achieve substantial savings by replacing overage vehicles in a more timely manner. To accomplish these savings, it would be necessary for the Department to initiate vehicle procurement more expeditiously and to fully consider procurement lead time in establishing vehicle requirements. The Postmaster General agreed that the Department's program for replacement and procurement of motor vehicles should be strengthened. He informed us that vehicle deliveries to the Department had improved as a result of the earlier submission of requisitions to the General Services Administration and that studies were being made to determine means of further reducing the time required to complete delivery of vehicles.

In a report to the Congress in September 1966, we pointed out that the Department could achieve substantial savings by discontinuing the uniform allowances granted certain categories of postal employees and entering into contracts for the furnishing of uniform items. The Postmaster General informed us that, with certain qualifications, he intended to initiate action on our proposals. He said that he had requested the Department's Uniform Allowance Advisory Board to submit a plan for effecting a supply program for window service uniforms and that close attention would be given to our proposal concerning uniforms for other categories of employees.

In December 1966 we reported to the Congress that our review of the planning for 10 leased facilities had indicated that the Department's space standards provided for administrative offices which averaged about 32 percent larger than would have been provided under General Services Administration standards. We estimated that, if the 10 facilities had been planned on the basis of GSA standards, the savings in rentals might have amounted to as much as \$2,580,000 over the lives of the leases. We pointed out also that the Government could reduce rental costs by about

\$147,500 annually by subleasing the planned excess office space in eight of the facilities to other Government agencies that lease space. A portion of these savings would be offset by moving and partitioning costs. The Postmaster General informed us that the Department proposed to adopt office space standards more in line with current needs and GSA's allowances and that the Department concurred with our proposal for subleasing excess office space to the maximum extent practicable. He said that appropriate procedures would be established to implement this policy.

In another December 1966 report to the Congress we reported that significant savings in manpower costs could be realized and that certain inequities in the hourly earnings among rural carriers could be eliminated if the Congress were to authorize the Postmaster General to compensate all rural carriers on the basis of the hours of **work** required to perform their duties. We estimated that the costs incurred in providing rural delivery service in the Cincinnati postal region could be reduced by about \$3.4 million annually if the Postmaster General were given this authority. The Department's internal auditors estimated that nation-wide savings would be about \$58 million annually. We recommended that the Congress consider enacting legislation authorizing the Postmaster General to compensate all rural carriers on the basis of the hours of work required to perform their duties.

We also reported that the Department was prohibited by statute (39 U.S.C. 3339) from consolidating rural routes unless vacancies exist in the rural carrier positions. The restrictive statute was enacted in 1934, during a time of high unemployment and depressed economic conditions. In view of the changed conditions since enactment of the restriction, we recommended that the Congress consider repealing 39 U.S.C. 3339 so that the Department could consolidate rural routes whenever economies are possible without adversely affecting service.

DEPARTMENT OF TRANSPORTATION

The Department of Transportation was established in April 1967. The Federal Aviation Agency; the Bureau of Public Roads and the Saint Lawrence Seaway Development Corporation, Department of Commerce; the Alaska Railroad, Department of the Interior; and the United States Coast Guard, Department of the Treasury, were transferred to the newly created Department.

Our work during the fiscal year 1967 in the agencies making up the Department of Transportation resulted in a total of 48 reports—eight to the Congress, six to chairmen of congressional committees or Members of the Congress, and 34 to agency officials.

Selected reports and accomplishments resulting from our audit work in the Department of Transportation are discussed briefly below.

Our reports to the Congress on the operations and programs of the Federal Aviation Administration dealt with the administration of grants under the Federal-aid airport program, the procurement and utilization of technical equipment, inadequate planning for research activities, and selected procurements and costs of dedication ceremonies in the Pacific Region. As a result of our reviews of the Federal-aid airport program, FAA reduced Federal participation in the cost of airport development by about \$223,000 and initiated action for further reductions of about \$444,000. We reported also that FAA paid large sums of money to airport sponsors without obtaining information essential for determining the reasonableness of the sponsors' costs.

Our audit efforts at the Federal Highway Administration during the year continued to emphasize reviews of the Federal-aid highway program, with particular reference to the \$51 billion Interstate System. Our reports to the Congress on Federal Highway Administration activities dealt with significant problems in the administration of right-of-way acquisition activities for the Federal-aid highway programs, justification for a frontage road adjacent to an interstate highway, and circumstances surrounding the collapse of an interstate system bridge.

We also reviewed various aspects of the Federal-aid highway program in 21 States. We continued our examinations into property appraisal aspects for highway rights-of-way; policies and standards relating to traffic signs; location of interstate system segments in major metropolitan areas; and various financial, administrative, and audit procedures, including the Administration's present practices for reimbursing States for costs incurred on Federal-aid highway projects.

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

The Acting Commandant of the Coast Guard concurred with our conclusion that certain weaknesses existed in the training provided by reserve units and informed us that he recognized the inability of the Coast Guard Reserve to meet stated mobilization requirements. He said that our report

should assist the Coast Guard in gaining recognition for its Reserve Multi-Year Plan, which is considered by the Coast Guard to be essential if an effective and efficient trained reserve is to be maintained.

TREASURY DEPARTMENT

In our work at the Treasury Department, we reviewed selected programs and activities of the Bureau of Accounts, the Bureau of Customs, the Bureau of Engraving and Printing, the Internal Revenue Service, and the Office of the Treasurer of the United States. We issued five reports to the Congress, two reports to committees or Members of the Congress, and 29 reports to agency officials.

Our audit of Internal Revenue Service (IRS) activities included reviews of (1) the controls in effect to insure that taxpayers are reporting as taxable income State tax refunds received by taxpayers for which Federal tax benefits had been received in prior years, (2) delays in processing claims for income tax refunds, (3) procurement of an automatic mail processing system, and (4) interest payments on certain Federal income tax refunds. At June 30, 1967, reports were being prepared on these audits.

In a report to the Congress in November 1966 we disclosed that, on the basis of our tests in four IRS district offices, a high percentage of taxpayers were not voluntarily reporting as income, interest received on their tax refunds. Because of our limited access to records we could not reasonably estimate the total amount involved. In response to our proposals, IRS informed us that certain measures would be taken to establish internal controls and procedures for determining the extent that taxpayers are not reporting interest received on tax refunds and that better use would be made of instructional publications to communicate to taxpayers that interest received on tax refunds is income.

In two other reports issued to the Congress we proposed certain legislative changes in the Internal Revenue Code. In one report, concerning net operating loss (NOL) deductions, we suggested that to provide more equitable treatment to taxpayers claiming refunds and, at the same time save the Government millions of dollars in interest payments annually, the Congress might wish to consider amending the Internal Revenue Code of 1954 to provide that taxpayers claiming NOL carryback refunds be placed on a similar interest-payment basis as taxpayers claiming ordinary refunds. In the other report we suggested that the Code be amended to eliminate the tax exemption privileges on beer and tobacco products given free to employees and visitors. These two reports are commented on in more detail in Chapter Two, Assistance to the Congress.

On the basis of our review of pertinent provisions of the Tariff Act of 1930 relating to the utilization and disposition of certain excess wool, we reported to the Congress in June 1967 that the Bureau of Customs should be able to increase revenues to the Government through more consistent application of duties on wool material designated as waste. **As** a result of our review, we were informed that Customs is now requiring that a determination be made that wool material designated by manufacturers as waste is not usable in the manufacture of certain specified articles before permitting its use or sale without the assessment of duties.

ATOMIC ENERGY COMMISSION

Our work in the Atomic Energy Commission (AEC) was performed at AEC Headquarters, 10 AEC field offices, 17 AEC contractor-operated facilities, and 19 suppliers' plants. It included reviews of fixed-price research contracts with educational institutions, control and use of stores items, selected contractors' wage payment practices, procurement of security covers for nuclear weapons, and the AEC internal audit functions. Our work also included reviews undertaken at the request of the Joint Committee on Atomic Energy with respect to (1) AEC's proposed criteria for uranium enrichment services, (2) selected aspects of the administration of General Plant Projects funds, (3) accountability controls over special nuclear materials, and (4) delays in construction of the Lacrosse Boiling Water Reactor.

We submitted two reports to the Congress, four reports to the Joint Committee on Atomic Energy, three reports to Members of the Congress, and 13 reports to agency Headquarters officials and managers of AEC field offices.

We pointed out, in one report to the Congress, that savings of about \$309,000 might have been achieved during the period extending from fiscal year 1963 through the latter part of fiscal year 1965 if contractors which operate facilities for AEC had procured selected operating supplies and equipment through the General Services Administration rather than directly from commercial suppliers. We proposed that AEC re-emphasize to its operations office officials the importance of making thorough reviews of operating contractors' practices and procedures relating to the use of GSA as a procurement source. We proposed also that AEC instruct the operations offices to require the contractors to include in their records written documentation in support of decisions to purchase from sources other than those of **GSA**, common-use items for which there is a continuing need. AEC has taken action to implement our proposals.

In another report to the Congress we pointed out the savings achievable through reduced procurement of specially designed security covers for nuclear weapons. We expressed our opinion that a substantial portion of the approximately \$650,000 spent for security covers between January 1961 and March 1965 for four weapons systems included in our review could have been avoided if there had been adequate consideration of the need for such covers. **As** a result of our review, the remaining production of security covers for two of the weapons systems included in our examination was canceled and procedures were established to evaluate the requirements of the military services in determining the need for future procurements of covers.

In a report to the Joint Committee on Atomic Energy on AEC's proposed criteria and contracts for uranium enrichment services, we presented for the consideration of the committee our observations on (1) AEC policy applicable to certain fixed costs relating to excess plant capacity, (2) the potential for accommodating future changes in AEC policy by contract amendments, (3) the financial consequences to AEC in the event of cancellation of contracts by customers, and (4) the limitations on AEC for entering into contract commitments in excess of its present productive capability. These matters were discussed at hearings held by the Joint Committee and later were the subject of correspondence between the Joint Committee and AEC. **As** a consequence, AEC made a number of changes designed to strengthen and improve the program.

One of these changes related to the inclusion of additional costs of depreciation and interest on investment amounting to an estimated \$42 million in establishing charges for enrichment services. AEC also revised its proposed contract for toll enriching services (1) to permit AEC to initiate negotiations for amendments or revisions to restrictive provisions in the contracts and (2) to increase from 3 to 3½ years the contract termination notice period to provide better assurance that there would be no costs accrued to the Government for any electrical power cancellation caused by customer contract terminations. Finally, AEC agreed to establish mechanisms for recording and for reporting annually to the Joint Committee as to its commitments and available capability to meet such commitments.

Our report to the Joint Committee on Atomic Energy on our survey of selected aspects of the administration of General Plant Projects funds by AEC contained a number of observations for the consideration of the committee relating to situations in which AEC's control over such funds might be improved. These situations concerned the use of General Plant Projects funds in accordance with planned expansion programs, the effective and economical nature of certain practices employed in the construction of projects to obtain compliance with funding and/or statutory re-

quirements, and AEC's interpretations of the statute relating to the limitation on building costs. As a result of our review, AEC strengthened its procedural requirements and proposed an amendment to the standard language heretofore used to establish limitations on the use of General Plant Projects funds. The statutory change was included in AEC authorizing legislation for fiscal year 1968.

DISTRICT OF COLUMBIA GOVERNMENT

At the District of Columbia Government we reviewed the operation and maintenance of school buildings, selected matters related to highway construction, and the internal audit function. We also made an investigation of the operations and expenditures of the United Planning Organization. Our work was summarized in three reports to the Congress, three reports to congressional committees or Members of Congress on matters of interest to them, and one report to District officials.

Federal-aid highway right-of-way costs totaling about \$1.4 million were withheld from the District of Columbia Government by the Bureau of Public Roads, Department of Transportation, during the period from 1962 through 1966 because the District did not observe prescribed Bureau requirements in the acquisition of certain highway rights-of-way and in contracting for clearing highway rights-of-way. We expressed our belief that the withholding of Federal reimbursements and the delay in recovering the withheld amounts were attributable mainly to uncoordinated relationships between the three District organizational units responsible for highway rights-of-way acquisitions and to inadequate follow-up control procedures. In commenting on our findings, the President, Board of Commissioners, said that he recognized the need for the District to develop improved procedures in certain departments and offices and specified corrective actions which had been or would be taken. Our report to the Congress on this matter was in process at June 30, 1967.

On the basis of our review of the internal audit function in the District of Columbia Government, we concluded that the effectiveness of management control would be increased by removing the Internal Audit Office from the Department of General Administration and establishing it as a separate staff organization directly responsible to the Board of Commissioners. The President, Board of Commissioners, informed us that the Board accepted our proposal but would delay implementing the realignment pending action by the Congress on a proposed presidential reorganization of the District Government.

In January 1967 we reported to the Congress that in school year 1964–65 not all nonresident students attending the District public schools and subject to the payment of tuition under the Nonresident Tuition Act were identified and that, as a result, the Board of Education may have failed to consider tuition requirements for as many as 400 students during the school year. The Board of Education has agreed to consider requiring additional reviews to identify nonresident students.

The Board of Education also granted exemptions from the payment of tuition for some nonresident students on the basis that their parents were unwilling to provide care, custody, and support of the student rather than on the statutory basis that they were unable to do so. The Superintendent of Schools stated that in most cases the students had been abandoned by their parents and that this was the basis for granting exemptions. We expressed our view that the act does not provide for granting exemptions in these circumstances. Because the granting of exemptions in such circumstances may be desirable, however, we suggested that the Congress might wish to express its views on the manner in which the act was being implemented.

In June 1967 we reported to the Congress that the need for adopting guidelines for use in determining custodial and engineering staffing requirements in the District of Columbia public schools was indicated by apparent overstaffing in these categories, the cost of which could amount to as much as \$1.2 million annually. In response to our proposal, the President, Board of Commissioners, stated that the Board of Education would make a study of its custodial and engineering needs and establish standards of performance consistent with standards in cities of comparable size and in conformity with special requirements of the District.

GENERAL SERVICES ADMINISTRATION

At the General Services Administration (GSA) our work included reviews of the procurement, management, and distribution of supplies and nonpersonal services; the management and utilization of automobiles in the interagency motor pool system; the management of the Government's communications system within and between the Federal civilian departments and agencies; the administration of construction contracts and the extent and quality of supervision rendered over construction work while in progress; and the financial management system, including accounting, reporting, internal auditing, and budgeting.

We submitted nine reports to the Congress, five reports to committees or individual Members of the Congress, and 15 reports to GSA and other agency officials.

CIVIL OPERATIONS

As a result of a report to the Congress in August 1966 on mileage rates paid to employees who use their cars on Government business, the Bureau of the Budget revised the Standardized Government Travel Regulations to provide policy guidelines for determining (1) whether it is feasible and advantageous to the Government for employees to use their own cars for official travel and (2) the reimbursement to which employees are entitled for using their own cars when such use is not most advantageous to the Government. We had said in our report that if the mileage and reimbursement patterns we observed at selected field offices of three agencies were typical nationwide, the annual costs to these agencies for reimbursing high mileage drivers for using their cars on official business exceeded the Government's costs of operating interagency motor pool cars by about \$1.6 million.

In an October 1966 report we said that we estimated that the Government could save about \$600,000 annually if responsible GSA officials took action to more effectively control credit card purchases of gasoline from commercial service stations. As a result of our proposals that GSA establish procedures and controls which would require the drivers of Government cars to obtain their gasoline and oil at Government outlets to the fullest extent practicable, GSA issued guidelines to Federal agencies for obtaining motor vehicle fuel and oil at Government outlets.

In another report, submitted to the Congress in February 1967, we pointed out that the Government could have saved up to \$1.2 million during fiscal year 1965 for repair and maintenance services of office machines through the greater use of reliable local repair firms instead of using GSA's national contracts with machine manufacturers. GSA agreed that the use of regional contracts with local firms should be expanded and that it would phase out national contracts with machine manufacturers. GSA also revised its Government-wide regulations to provide guidelines on the advantages and disadvantages of per-call and annual maintenance contract methods for servicing office machines.

One of our reports issued to the Congress in May 1967 concerned the transfer of about \$65 million worth of handtool and paint stocks from the Department of Defense (DOD) to GSA. Our review of the handtool and paint inventories at the DOD supply depots, after management responsibility had been assumed by GSA, disclosed that significant quantities of GSA-owned stocks on hand at the supply depots were not recorded on GSA inventory records and consequently were "lost" to the supply system. After we brought this situation to the attention of DOD and GSA officials, complete physical inventories were taken and about \$4 million worth of stocks were found, which had not been recorded. During the period when the stocks were "lost," GSA purchased about

\$1.1 million worth of identical stocks. We expressed our belief that the transfer difficulties would have been largely avoided if DOD inventory records had been accurate when the stocks were transferred, effective controls had been maintained over GSA-owned stocks in DOD depots after the transfers, and GSA and DOD had cooperated more closely in solving their mutual problems. DOD and GSA officials generally agreed with our proposals that steps be taken to eliminate these difficulties in future stock transfers.

Our review of the Central Office's direction of the internal audit activity disclosed that the internal auditors worked independently of the operating services, that audit findings were discussed with cognizant operating personnel and submitted to high-level officials to ensure authoritative consideration, and that audit recommendations were followed up to appraise the corrective action. We expressed our belief that all these points are necessary for an adequate internal audit activity.

In a report to GSA in March 1967, we pointed out areas of the internal audit program which we believed could be improved. We proposed that, in their reports, auditors (1) include appraisals of the adequacy or inadequacy of internal controls and the compliance of operating personnel with prescribed policies and procedures and (2) state the basic causes of deficiencies noted, including possible weaknesses or failures in internal controls, and recommend corrective actions to cure the causes of the deficiencies as well as the specific deficiencies. We proposed also that the Director of the Audit Division assign to specific members of his staff responsibility for (1) reviewing and analyzing all changes in GSA policy, organization, operating, and accounting handbooks on a current basis to evaluate their possible effects on existing internal controls and audit instructions, (2) revising audit guides whenever audit instructions are rendered obsolete by organization and procedural changes in GSA operations, and (3) providing audit guides in those areas where they have not been provided. GSA agreed to take appropriate action on our proposals.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Our work in the National Aeronautics and Space Administration (NASA) was concerned principally with the adequacy of management controls over space research and development programs, contracting and procurement, and administrative activities. Emphasis during the year continued to be given to aspects of the Apollo program, as this program, which has as its objective a manned lunar landing in this decade, involves the largest part of NASA's appropriations.

We issued two reports to the Congress, four reports to committees or individual Members of the Congress, and *six* reports to agency officials. In general, these reports pointed out areas of the agency's operations which we believed required correction and improvement and we suggested the means of effecting the needed action.

In an October 1966 report to the Congress concerned with the scheduling for design, integration, and test of the Nimbus spacecraft, we expressed the belief that, had NASA given timely recognition to the effects of expected delays in delivery of subsystem hardware on the spacecraft integration effort at the time these delays became known, substantial costs might have been avoided. Although NASA did not agree with our findings in this instance, we noted that NASA has issued a new agency-wide policy directive for the planning, approval, and conduct of future major research and development projects, which will, if adequately implemented, improve the management of these projects.

In another report to the Congress, issued in June 1967, we stated that our review of the relative costs of using civil service personnel or contractor-furnished personnel to perform engineering and related technical support services at NASA's Goddard and Marshall Space Flight Centers showed that estimated annual savings of as much as \$5.3 million could be achieved with respect to the contracts we reviewed if these services were to be performed by civil service employees. Although NASA, in essence, agreed that relative costs should be given more consideration in decisions regarding contracting for support services, it was our view that the action to fully correct the situation discussed in this report would require a significant change in NASA's policy relating to the use of support service contracts.

Because of the potential effect that a significant change may have on NASA's civil service personnel requirements, we suggested that the Congress might wish to consider the policy aspects of this matter in further detail with agency officials. We suggested also that the Congress might wish to explore with NASA the impact that cost considerations should have in determining whether to use contractor or civil service personnel in cases where either contractor or civil service personnel could equally carry out the operation.

In July 1967, we reported to the Administrator, NASA, on our review of the activities of the Audit Division, Office of Organization and Management, which is responsible for internal audit at NASA. Our review disclosed, among other things, the need for increased audit coverage of payrolls and the need for a resident audit staff at Langley Research Center. NASA indicated concurrence in our findings and agreed to initiate corrective action.

NATIONAL SCIENCE FOUNDATION

Our work in the National Science Foundation (NSF) was performed at NSF headquarters, at two NSF contractor-operated national research centers, and at several other contractor or grantee sites. Our work included reviews of selected aspects of operations conducted at the national research centers, administration of Project Mohole (a project to penetrate the mantle of the earth), and grants and contracts for research in oceanography. We also reviewed the policies and procedures governing allowances paid under fellowship and training grant programs administered by NSF and other civilian agencies.

At the close of the fiscal year reports were being prepared for submission to the Congress on our work at the national research centers and on our review of the administration of Project Mohole.

OFFICE OF ECONOMIC OPPORTUNITY

Most of our audit effort at the Office of Economic Opportunity (OEO) was devoted to work initiated in response to requests from committee chairmen and Members of the Congress on matters of interest to them. Our programmed work included field reviews of five job corps centers, four community action programs, two legal services program, one head start program, one migrant program, and 13 upward bound programs. We also made surveys of various activities at OEO headquarters in Washington, D.C. At the close of the year, reports were in process on seven of these reviews.

We issued seven reports to Members of the Congress and committee chairmen. One of these reports covered an investigation of alleged participation in political and union activities by employees of certain grantee organizations conducting programs for migrant workers in Florida with grant funds provided by OEO.

In our report to the requesting Congressman in May 1967, we stated that it appeared from our review that certain employees of these grantees engaged in political and union activities and that Federal funds were used to reimburse some of those employees for certain travel expenses incurred while carrying out such activities. OEO took the position that such use of grant funds was not permitted under the terms of the grant. Consequently, we expressed our belief that OEO should take action to identify, and obtain refunds from grantees for, any expenditures made under their respective grants for what, in our opinion, were union organizing activities. We said also that any further transportation of

individuals to the polls on election day by a grantee would be in violation of the agency's Community Action Memo No. 50-A issued in December 1966 in implementation of the provisions of section 603 of the Economic Opportunity Act, as amended by Public Law 89-794, approved November 8, 1966.

SELECTIVE SERVICE SYSTEM

As a result of our site audit work at the Selective Service System (SSS), we issued nine reports to agency officials. Reports on our reviews of selected phases of the SSS records management program, proposed consolidation of the clerical operations of selected local draft boards, and greater use by local draft boards of the closer Armed Forces Examining and Entrance stations were in process at June 30, 1967.

In a report to the Director of Selective Service in February 1967, we estimated that, during fiscal year 1966, savings of more than \$50,000 in clerical time could have been realized at 12 State offices visited if window envelopes had been used for mailing form letters to registrants. The savings from using window envelopes nationwide could have been as much as \$154,000. The Director of Selective Service agreed to present the matter to the State Directors of Selective Service for their consideration.

VETERANS ADMINISTRATION

At the Veterans Administration (VA) we reviewed selected phases of the medical, compensation and pension, loan guaranty, insurance, construction of facilities, and supply management programs. The results of our work were summarized in four reports to the Congress, one report to the chairman of a congressional committee, and 20 reports to agency officials.

In an August 1966 report to the Congress, we pointed out that the VA could realize substantial savings in operating costs if it were to convert the boiler plants at certain of its field stations to enable the use of more economical fuels. We estimated that annual savings of about \$133,000 could be realized at the four field stations we reviewed, and a much greater amount nationwide, if the boiler plants were converted to the use of more economical fuels. The costs of converting the plants would be recovered from savings in fuel and other operating costs. In response to our proposals, the VA agreed to show self-liquidating improvement projects, such as the conversion of heating plants to the use of more economical fuels, as a separate category in their budget pres-

entation so that such projects can be evaluated by the Bureau of the Budget and the Congress in the light of their costs and benefits. The VA informed us also that several operational fuel studies to determine the economic feasibility of converting boiler plants to more economical fuels were scheduled for later in the year.

Two reports to the Congress during the year related to defaults of guaranteed housing loans. In one of these reports, we expressed our belief that about \$112,000 could have been realized in fiscal year 1965 at six VA regional offices, and a substantially greater savings nationwide, if available refunds on unexpired insurance policies had been obtained and regulations had been revised to enable cancellation of hazard insurance policies in certain States granting mortgagors redemption rights. In the other report, we expressed our belief that court costs, legal fees, and property management expenses incurred in connection with guaranteed loan defaults in Illinois could be reduced by about \$300,000 a year if the VA were to revise its procedures, whereby the VA would (1) acquire defaulted guaranteed housing loans and related mortgages immediately prior to initiating foreclosure suits and (2) refer them to the Department of Justice for foreclosure action in United States District Courts and for petitioning the courts to appoint VA as the mortgagee-in-possession of the mortgaged property during the redemption period. We recommended appropriate correction action to be taken.

At June 30, 1967, reports were being processed on our reviews of the accuracy of income reported by pensioners receiving VA pensions subject to income limitations and of the VA's administrative controls over fiduciaries administering VA funds for the benefit of minors and incompetents eligible for VA benefits.

OTHER AUDIT ASSIGNMENTS

Legislative Branch

In April 1967 we reported to the Congress on the results of our examination of the cost of constructing the Rayburn House Office Building and directly related facilities. Our examination did not disclose any questionable aspects of the solicitation of bids or the award of contracts. We reported that all construction, exclusive of contract changes, and substantially all procurement of furniture and furnishings were contracted by publicly advertised competitive bidding and represented the bulk of the costs of the building. The significant findings of our examination dealt with certain elements of contract changes, architect-engineer fees, and conformance with plans and specifications.

CIVIL OPERATIONS

We also completed and reported to the Congress on an annual audit of the financial statements of the Government Printing Office. During the year we were informed that, pursuant to our recommendations, the Public Printer had established an internal audit program.

In addition, we made examinations at the site of operations of the following activities:

- The Senate:
 - Senate recording studio revolving fund
 - Senate employees barber shop
 - Senate office beauty shop
- The House of Representatives:
 - House finance office
 - House recording studio revolving fund
 - House stationery revolving fund
 - The Sergeant at Arms
- Architect of the Capitol:
 - Payroll activities
 - Settlement of accounts of accountable officers
 - U.S. Senate Restaurants
 - House of Representatives Restaurants
- Capitol guide force
- Joint Committee on Atomic Energy

At the joint request of the Clerk of the House for the 89th Congress and the Clerk of the House for the 90th Congress, we verified the accountability which was transferred to the incoming clerk as of January 10, 1967. Also, at the request of the retiring Secretary of the Senate, we made a verification of his accountability at September 30, 1966.

The salaries, mileage, and expense allowances of Senators, salaries of officers and employees of the Senate, clerk hire of Senators, and other expenses of the Senate are examined on the basis of documents submitted to our Office.

Under an agreement entered into between the Clerk of the House of Representatives and the General Accounting Office, the original fiscal documents of the House finance office will be retained for audit at the site effective July 1, 1967.

Judicial Branch

The administrative accounts of the following agencies were retained at the Administrative Office of the U.S. Courts for our examination at the site:

- U.S. Court of Appeals
- District courts of the United States
- U.S. Court of Claims

U.S. Court of Customs and Patent Appeals

U.S. Customs Courts

Territorial courts

Administrative Office of the U.S. Courts

The vouchers covering expenditures made from appropriated funds of the Supreme Court of the United States were submitted to the General Accounting Office for examination.

Audit of Defense Operations and Programs

Nature of Audit Work Performed

Our audit efforts in the Department of Defense continued to be directed toward aiding in the improvement of management and operating controls and financial administration of the complex operations of the Department. Our audit efforts were directed generally to those programs having major significance. Where appropriate, we made concurrent and coordinated reviews of those departmental activities that are a part of, or are related to, broader activities and involve more than one military department or the Defense Establishment as a whole.

Our regular audits and reviews completed during the year or in progress at the close of the year related to programs and operations in such functional areas as (1) management control systems, (2) supply management, (3) procurement (including negotiation of contract prices and administration of contract terms and conditions), (4) manpower (including administration of military and civilian pay and allowances), (5) support services, (6) research and development, and (7) facilities and construction.

In addition to these reviews, we made a number of special audits, investigations, and surveys at the request of various committees of the Congress and individual Members of the Congress. This special work related principally to (1) administration of major programs such as procurement of the F-111 aircraft, (2) contracting policies and practices in negotiation of profits and fees, acceptance of certain overhead costs as charges to Government contracts, use of contractor-furnished personnel in Government functions, and control of Government-owned property in the possession of contractors, (3) methods of financing various agency programs, (4) management of laboratory equipment and technical manuals, (5) allegations of waste, extravagance, or other improper practices by the military departments in various areas of their operations, and (6) procurement practices and administration of specific contracts.

Approach to Audit

Because our manpower resources are limited in relation to the magnitude and complexity of the operations of the Department of Defense, it

is essential that our audit efforts be directed to selected areas where our findings and recommendations can be of most assistance in bringing about needed improvements in management and control and be most responsive to congressional interest in the operations. Therefore, we subject our audit and system review procedures and practices to continuous reevaluation in the light of our experience and expressed interest of the Congress and make such revisions as are deemed necessary or desirable. We have made the following recent changes in keeping with this concept.

Reorganization of *staff*.—Our responsibilities for audit of Defense operations and programs are carried out by our Defense Division. In the report for the preceding year, we discussed an internal reorganization of the Defense Division which had been approved by the Comptroller General and made effective June 8, 1966. The organizational structure is now done functional rather than departmental lines. Pursuant to the approved plan, a staff was established for each of seven functions: (1) management control systems, (2) supply management, (3) procurement, (4) manpower, (5) support services, (6) research and development, and (7) facilities and construction.

An important result of our reorganization has been a closer liaison with congressional committees and their staffs and with officials of the Department of Defense, both prior to undertaking new work assignments and during the course of our reviews.

Greater emphasis on *basic* management systems.—The Budget and Accounting Procedures Act of 1950 charged the heads of executive agencies with responsibility for establishing and maintaining systems of accounting and internal control which conform to the principles, standards and related requirements prescribed by the Comptroller General. The executive agencies had made slow progress in developing such systems and submitting them to the Comptroller General for approval. The Department of Defense, for example, had only one complete accounting system at June 30, 1967, that had been approved—a system covering the civil functions of the Army Corps of Engineers.

We are encouraged, however, by the definite general increase in activity in this area during the past year by the executive agencies including the Department of Defense. The Department of Defense has developed and recently (June and July 1967) submitted to us for evaluation and approval, seven accounting systems for certain of its operations. We are reviewing these systems. The systems cover military construction of the three military departments, industrial activities of the Defense Supply Agency, ordnance plants of the Navy, printing and duplication service of the Air Force, and an arsenal of the Army. We have also received in recent months, but have not yet approved, 13 statements of principles

and standards proposed to be applied by the Department of Defense in the development of accounting systems for other areas of its operations.

The House Committee on Government Operations had recommended that the General Accounting Office intensify the review of agency accounting systems and assist and encourage the agencies, through personal efforts of our staff, to expedite the development of their accounting systems to the degree necessary to obtain approval. In consonance with this recommendation, we are placing an increasing emphasis on the adequacy of basic management systems as they relate to those areas of Department of Defense operations we select for review.

In addition, we have broadened our efforts in carrying out our cooperative responsibilities by developing a continuing day-to-day working relationship with officials and staff of the Department of Defense; by being currently well informed on what improvement efforts are being made; by identifying specific areas in which we believe improvements are needed; and by working closely enough with agency officials and staffs to enable us to reach a common understanding of the concepts of the systems to be developed. We have also made ourselves available to provide such technical assistance and guidance as may be needed in the design and development of agency accounting systems and in resolution of problems.

Our primary efforts in this area were directed toward assisting the Department of Defense in its development of Project Prime. This project is designed to improve accounting systems for operations and has been given the most emphasis by the Department of Defense. The systems are intended to provide a more effective accounting for the costs incurred in the attainment of objectives programmed and budgeted under the appropriations for operations and maintenance and for military personnel. Testing of the systems at selected military installations was continuing at June 30, 1967.

We also made a review of the internal audit systems of the Department of Defense. The review was directed toward an evaluation of the objectives and scope of the work performed by the internal audit agencies and the allocation of their audit efforts to the various operations and programs of the Department of Defense. A preliminary report on our findings has been submitted to the Secretary of Defense for comment. The comments of the Department of Defense, received in August 1967, are being evaluated prior to the issuance of our report in final form.

Audit Reports Issued

We submitted 108 congressional reports on our audits and investigations, 40 of which were submitted to the Congress and 68 to committees

or Members of the Congress on special investigations made at their request. In addition, we transmitted 282 reports to officials of the Department of Defense. Of these 282 reports, 80 were directed to the secretarial level and dealt principally with contract matters and other phases of procurement; 202 were directed to lower level officials and dealt principally with matters relating to local policies, procedures, and practices disclosed in our site examinations of civilian payrolls and related records.

A list of the audit reports issued is presented on pages 195 to 206 in Appendix C-2 of this report. Digests of the reports issued to the Congress are presented on pages 250 to 262 in Appendix C-3.

Significant Findings and Recommendations

Our reviews of the policies, procedures, and practices followed by the Department of Defense and the military departments in the management of various areas of their operations frequently result in findings which indicate weaknesses or deficiencies in management controls. In our reports on such findings we include recommendations for improvement.

The replies of the Department of Defense officials to our reports in which administrative actions on the part of Defense officials are recommended have been generally responsive, indicating, in a large percentage of the cases, agreement with our findings and an intention to institute corrective measures. During the fiscal year 1967, such actions on our findings and recommendations resulted in collections and other measurable benefits of \$70,741,000 (see pages 301 through 307 of Appendix G to this report).

We have received numerous replies which advise that new directives and instructions have either been issued or are intended to be issued. To assure that the revised directives and newly announced policies are being carried out, we are stressing the need for independent reviews at higher echelons within the Department and by internal audit organizations.

The principal weaknesses or deficiencies in management controls, reported during the year to the Congress or, where appropriate, to Department of Defense officials, involved management of supplies, management of procurement programs, administration of military and civilian pay and allowances, administration of transportation matters, and administration of certain other programs.

Supply management.—Our findings in the area of supply management included instances of (1) stocks procured, or requisitioned from supply systems, on the basis of projections of future requirements which were inconsistent with the experienced rates of usage, (2) unreported excess stocks at certain locations which could have been transferred to meet requirements at other locations, (3) unwillingness of the military

departments to accept interservice transfers of excess stocks which could have served as acceptable substitutes for the items they required, and (4) unnecessary repair of combat vehicles because of inadequate inspections to determine scope of work required.

We found, also, an opportunity for improvement in the management of certain nonperishable food items used by the military services for feeding of troops and for sale to commissary stores. In a report submitted to the Congress in November 1966, we stated that about \$2 million could have been saved in the year under review (1) had maximum use been made of foods packaged in large-size, more economical containers and (2) had foods sold to commissary stores been priced at actual cost. The Department of Defense agreed with our proposal that a program be established for the periodic review of food items used by the military departments to identify and correct uneconomical practices.

In another case, reported to the Department of Defense in September 1966, we found that an economical alternative use could have been made of certain excess stock of cotton duck cloth and webbing. As of March 1966, the Defense Personnel Support Center had on hand about \$15.7 million worth of such stock which was excess to the needs of the Department of Defense. Substantial portions of the stock could have been used by the Army as Government-furnished material under various contracts for production of covers for vehicles. This would have resulted in savings of about \$4.6 million. However, the Army had refused to use any of the stock as Government-furnished material under a given contract unless the Support Center could supply full quantities, and in the widths desired, of all the duck cloth or webbing required under the contract. Following our discussion of this matter with Army officials they agreed to furnish periodically to the Support Center forecasts of their requirements for duck cloth and webbing and to use the excess stocks whenever possible.

Management of procurement programs.—That portion of our work in the area of procurement which relates to defense contracts is discussed in Chapter Seven, Audit of Contracts, beginning on page 103. The following discussion relates to other aspects of management of procurement programs.

We found that significant savings could be realized by purchasing, rather than leasing, certain commercial two-way radio equipment used by the military services. Annual rental cost of the equipment was about \$9.5 million. In a report submitted to the Congress in January 1967, we pointed out that about \$12 million could be saved over the 5-year minimum useful life of the equipment if it were purchased rather than leased. We proposed, and the Department of Defense agreed, (1) that the military services be required to justify their decisions to lease or pur-

chase on the basis of criteria provided in the Armed Services Procurement Regulation, (2) that, since two-way radio equipment is common to all services, a single procurement office be designated to consolidate requirements, and (3) that, when funds are not available to purchase all of the equipment needed to fill requirements, the equipment be purchased on an incremental basis.

In a review conducted in cooperation with the Joint Committee on Printing, Congress of the United States, we found that substantial savings could be realized in the cost of printing technical manuals furnished by equipment contractors if the printing were procured from commercial printing sources under contracts awarded by the Government Printing Office. In a report submitted to the Congress in November 1966, we pointed out that the military departments spent between \$25 million and \$30 million in fiscal year 1964 for printing technical manuals procured through equipment contractors and that about \$8 million of the expenditures could have been saved. The Department of Defense concurred with our recommendation that, to the extent consistent with cost economy and operational effectiveness, printing of technical manuals be procured through the Government Printing Office.

We found, also, that savings could be realized in the procurement of spare parts for aircraft by the Navy. The stated policy of the Department of Defense is to purchase parts competitively or directly from parts manufacturers whenever feasible. However, the Navy was purchasing spare parts, for the initial support of certain aircraft weapon systems, from the airframe manufacturer although most of the parts were manufactured by other sources and could have been obtained from them at lower prices. We stated in our report submitted to the Congress in February 1967 that, had the parts been purchased from other sources, about \$2.3 million could have been saved on the RA-5C and A-6A aircraft and about \$1.5 million could still be saved on the A-7A aircraft. We were informed that sufficient time was not available to permit purchase from the other sources. We believed, however, that the problem could be overcome by adequate planning and made certain proposals, with which the Navy agreed, to improve planning.

Administration of military and civilian pay and allowances.—The number, variety, and complexity of entitlements provided by legislation covering military pay and allowances create difficult administrative problem. Although the military departments have taken prompt action with respect to erroneous or illegal payments identified in our reviews and have accepted our suggestions for corrective measures to preclude recurrence, overpayments in significant amounts continue to be made.

In our opinion, the administration of military pay and allowances will not be improved significantly until the present complex laws are simpli-

fied. Public Law 89–132, approved August 21, 1965, provides, among other things, 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.

A Defense Compensation Study Group was created and directed to make the review required under the law. The study group had not completed its work at June 30, 1967. We are hopeful that the report of the study group, and ultimately the report of the President to the Congress, will include recommendations directed toward simplification of the salary system and of other elements of the compensation structure.

We reviewed the circumstances under which retired Reserve officers of the Army and the Air Force were receiving active duty retirement pay based on a grade higher than the highest grade attained on active duty. This benefit was not available to Reserve officers of the Navy and the Marine Corps or to Regular officers of any of the four military services.

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

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

In our selective examinations of civilian payrolls and related records, we continued to find and report to installation officials many instances of misinterpretation and misapplication of laws and regulations which gave rise to erroneous payments and erroneous credits and charges for leave. These findings, which in most cases resulted from weaknesses in local procedures and practices, were reported to agency officials at appropriate levels of management and the corrective actions we recommended were either taken or promised.

Administration of transportation matters.—We submitted to the Congress six reports on the policies and practices followed by the Department

of Defense in arranging transportation for household goods shipments of military personnel and for personnel and dependent children of personnel. These reports present our findings of opportunities to reduce transportation costs and our recommendations for achieving the cost reductions. The Department of Defense agreed with our findings and accepted our recommendations.

Three of the reports dealt with the higher costs incurred, under certain circumstances, when the services of household goods forwarders, rather than Department of Defense transportation officers, are used for handling overseas shipments. We found that costs of such shipments could be reduced if transportation officers, rather than household goods forwarders, arranged for (1) changes in destination of shipments (diversion) which become necessary after bills of lading are issued (report submitted in August 1966) and (2) volume shipments in connection with transfers of military units from one base to another (report submitted in March 1967). We found, also, that costs could be reduced by strengthening administrative controls to preclude payment for incidental services (accessorial charges), such as storage in transit and preparation of certain types of household appliances for shipment, which were either not authorized or not performed (report submitted in June 1967).

Our reports on transportation of passengers covered potential savings available through (1) improvement in use of space available on administrative military aircraft (September 1966), (2) greater use of the Government's interagency motor pool system (March 1967), and (3) purchasing children's air transportation at regular commercial tariffs when less costly than the fares published in the military tariffs (April 1967).

Administration of other programs.—In a report submitted to the Congress in July 1966, we pointed out the potential for savings through greater use of available Government gasoline outlets in lieu of credit-card purchases from commercial service stations. The military departments were spending about \$5 million annually for credit-card purchases at a cost of from 10 cents to 16 cents a gallon more than the cost of gasoline obtainable from Government outlets. The Department of Defense agreed with our findings and our proposals for maximum feasible use of Government gasoline outlets.

We reported to the Secretary of Defense our finding that about 70 million gallons of fuel oil was being retained on ships assigned to the Atlantic and Pacific Reserve Fleets. The fuel oil was being retained for use in the event of reactivation even though fuel oil was readily available from nearby Navy or commercial sources. In response to our report, the Navy revised its policy to provide that fuel oil not required for ballast be removed from ships prior to or at the time the ships are inactivated.

Audit of International Operations and Programs

GENERAL

The accounting, auditing, and investigative functions of the General Accounting Office relating to United States Government programs and activities of an international character conducted in foreign countries and Hawaii are carried out through our International Division.

The Division consists of a Central Office in Washington, D.C.; a European Branch with headquarters in Frankfurt, Germany, with a suboffice in New Delhi, India; and a Far East Branch with headquarters in Honolulu, Hawaii, with suboffices in Saigon, Vietnam, and Manila, Republic of the Philippines.

In August 1966, we established a suboffice in Saigon to intensify our audit efforts in covering the multitude of programs being conducted in Vietnam. We established suboffices in Manila in March 1967, and New Delhi, in May 1967, to strengthen our capability in making more current, on-the-spot audits of the increasing activities of an international nature in the Southeast and South Asian areas. This expansion will enable our organization to maintain better surveillance of international programs being conducted by United States Government agencies in those areas.

Foreign Locations at Which Work Was Performed

During fiscal year 1967, we performed work at locations outside the United States as summarized below, including that performed at United States military installations abroad :

Areas	Locations	Countries
European Branch area.....	104	15
Far East Branch area.. ..	102	9
Latin America and other foreign areas.. ..	20	9
Totals.....	226	33

INTERNATIONAL OPERATIONS

Defense international activities are discussed in this chapter. *Other work* pertaining to military activities is included in Chapter Five relating to the Audit of Defense Operations and Programs.

Reports Issued

As a result of our work in the international area, we submitted 16 reports to the Congress and 14 reports to committees or individual Members of Congress on special investigations made at their request. We also submitted 43 reports to agency officials relating to deficiencies in financial and management procedures. These 73 reports are listed on pages 206 to 210 of Appendix C-2 of this report. The reports submitted to the Congress are described on pages 262 to 268 of Appendix C-3.

Recent Recommendations for the Congress

1. In a report issued to the Congress in August 1966, we stated that title I of Public Law 480 provides that, in negotiations of sales agreements with foreign governments for the purchase of commodities, reasonable precautions should be taken to safeguard usual marketings of the United States. The purpose of this provision is to avoid having sales for foreign currencies under title I displace normal commercial sales of United States agricultural commodities for dollars. We estimated that, over a period of approximately 9 years, commercial dollar purchases in 12 foreign countries totaled \$715 million less than would have been made by certain countries had they maintained the level of their commercial dollar purchases which existed prior to the initiation of title I programs. In view of the manner in which the statutory provision for safeguarding usual marketings under Public Law 480 has been implemented and the doubt which we believe exists as to whether the Department of Agriculture's interpretation thereof is in accordance with legislative intent, we suggested that the Congress might wish to express its views concerning the criteria to be applied in carrying out the law.

2. We reported to the Congress in January 1967 that severance benefit payments are authorized by the Foreign Service Act of 1946, as amended, which provides that Foreign Service officers in certain classes who are retired under selection-out provisions shall receive selection-out benefits. We found that certain former Foreign Service officers who had been selected-out were reemployed by the Federal Government or employed by the municipal government of the District of Columbia and were concurrently receiving severance benefit payments. Since section 634 of the Foreign Service Act has made mandatory the payment of selection-out benefits, we suggested that the Congress might wish to consider the need

for amending section 634 to provide for the adjustment of payable selection-out benefits at such time as a former Foreign Service officer becomes reemployed by the Federal Government or District of Columbia before expiration of selection-out benefit period.

Reviews Relating to United States Activities in Vietnam

The vast expenditures of Government funds in Vietnam have been of continuing concern to the Congress. In consonance with the views of the Congress, we intensified our surveys of the manner in which United States Government agencies engaged in operations in Vietnam are carrying out their internal audit and management functions.

We issued a total of nine reports relating to programs being conducted in Vietnam, consisting of three reports to the Congress, and six reports on information requested from committees or individual Members of the Congress.

In August 1967 we issued a report to the Congress on our survey of the management and operations of the United States commercial import program for Vietnam. At the close of the fiscal year, we had several surveys and reviews in process concerning United States activities being performed in Vietnam.

Emphasis on Financial Management Reviews

We intensified the emphasis being placed on reviews of financial management aspects of operations of the departments and agencies engaged in foreign affairs of the United States by more than doubling the manpower expended on this subject during the fiscal year. Particular attention was addressed to the development by the departments and agencies of basic statements of financial management policy and accounting principles and standards as a foundation for the development of integrated accounting and financial management systems.

At the fiscal year end, tentative agreement had been reached with representatives of the Department of State and the Agency for International Development on statements of their basic policies, principles, and standards. Preliminary discussions were held at the United States Information Agency and the Peace Corps regarding preparation of similar statements for those agencies.

Our cooperative development work relating to accounting systems subject to review by the International Division is discussed in Chapter Three, Assistance on Improvements of Agency Management Practices. Some particulars concerning such systems are described later in this chapter.

AGENCY FOR INTERNATIONAL DEVELOPMENT

The Agency for International Development administers the non-military United States foreign assistance programs to foreign countries and international organizations under the provisions of the Foreign Assistance Act of 1961, as amended, and other related legislation.

During fiscal year 1967, we issued two reports to the Congress on a survey and a review of internal audit and inspection programs in Vietnam. We issued four reports in response to requests from committees and a Member of Congress, three of which relate to United States operations in Vietnam and the other on the import of petroleum products. We also issued 11 reports to agency officials relating to management activities of various economic assistance programs and reviews of the Agency's accounting and financial management systems.

Following are illustrations of the programs, functions, or activities covered in our reviews.

Survey and Follow-up Review of Internal Audits in Vietnam

In July 1966, we reported to the Congress the results of our survey of the internal audit and management inspection functions of the United States economic assistance and military activities being conducted in Vietnam.

We found that the more significant problem areas in terms of magnitude, vulnerability to operational and management deficiencies, and consequent waste, in regard to economic assistance, are the commercial import program and the rural construction (formerly counterinsurgency) program, and for military activities, the management of equipment, spare parts and supplies, and the broad military construction program.

We concluded that there was particular need for increased surveillance of the operations involved in these programs.

From our follow-up review of internal audit and management inspection activities, we reported to the Congress in May 1967 that there had been significant increases in both number and scope of such activities, but that in view of the inherent possibilities for irregularities in administering United States programs in Vietnam, we believe that there will be a continuing need to maintain and increase management surveillance, through audits and inspections, over agency activities there.

Commercial Import Program for Vietnam

We made a survey of the administration of the commercial import program, which has been a dominant element of United States economic

assistance to Vietnam, and submitted a report to the Congress in August 1967.

~~This~~ program is particularly subject to abuse because of its nature and the situation in Vietnam. The Agency for International Development has taken a number of basic steps to tighten management control of the program, particularly through (1) studies of commodity needs and capabilities, (2) better screening of import licenses, (3) stimulating competition, and (4) United States Government procurement of certain bulk commodities. There has been considerable alleviation also of the congestion in the commercial sector of the Port of Siagon, with related improvements in the time taken to discharge commercial cargoes. We believe that the Agency's success in achieving management controls will depend both upon the extent to which such controls can be enforced and upon the cooperation of the Government of Vietnam.

Accounting and Financial Management Systems

During the fiscal year, we issued four reports to Agency officials relating to accounting and financial management systems. Our reports to the Agency included reviews of such subjects as (1) selected payroll and leave records processed by the Agency for International Development in Washington, D.C.; (2) billing and collections of amounts due from employees; and (3) a request for approval of the Agency's Centralized Payroll Procedures Accounting Manual. In these reports we disclosed certain deficiencies in the Agency's accounting and financial management systems and we made recommendations and suggestions for improvements of procedures and practices in these areas.

We approved in June 1967 the accounting system for the investment guaranty program.

Also, throughout the fiscal year we engaged in frequent consultations with representatives from the Agency for International Development and a public accounting firm to assist them in the preparation of a revised loan accounting system for the Agency. The revision of this system was recommended to the Agency in our report to the Congress in March 1966.

DEFENSE INTERNATIONAL ACTIVITIES

Defense international activities generally are under the cognizance of, and are administered by, the Department of Defense. They include the military assistance program and other Defense overseas activities involving cooperative efforts with foreign countries.

Our reviews during the year were directed primarily to programs being conducted in areas of interest to the Congress, including the enormous military assistance activities and construction programs in Vietnam. We also made country reviews and functional reviews of significant military assistance programs being performed in several countries. In addition, we reviewed certain aspects of the United States participation in the North Atlantic Treaty Organization.

As a result of our reviews of Defense international activities, we issued six reports to the Congress, three to committees or individual Members of Congress on special investigations made at their request, and 12 to Department **officials**. A total of **14** of our reports were classified as either confidential or secret.

The following are illustrative of the activities, functions or programs covered in our reviews.

Military Assistance Program

The majority of our reviews under the military assistance program pertained to the areas of (1) procurement practices; (2) redistribution of excess equipment and ammunition; (3) programming, delivery, and utilization of supplies and equipment; and (4) management and control of United States activities under the military assistance programs being conducted in a number of recipient foreign countries.

As a result of these reviews, estimated savings of more than \$19 million have been or will be effected **by** canceling outstanding orders for unneeded supplies and equipment, **as well** as the recovery and redistribution of excess equipment and ammunition.

One of our reviews disclosed that the Department of the **Army** procured locomotives at a cost of about \$1 million under the military assistance program for a recipient country. These locomotives were unable to meet the requirements for mainline use in the country, the purpose for which furnished. **As** a result, replacement locomotives costing over **\$2.3** million had to be procured.

We recommended that the Secretary of Defense require the military departments to establish procedures providing for user activity review and the approval of a purchase description for complex non-standard equipment. The Department of the Army advised that it was exploring potential outlets for the locomotives that were unsuitable for the needs of the country.

Other Defense International Activities

Our reviews of other Defense international activities included (1) United States construction activities in Vietnam; (2) the implementation

by the military audit agencies of their audit plans for Vietnam; and (3) three classified reviews of certain aspects of the United States participation in the North Atlantic Treaty Organization.

United States Construction Activities in Vietnam 1965–1966

At the time our survey was conducted, we found that about three-fourths of the combined United States construction program in Vietnam was being accomplished under a single contract awarded to the joint venture known as RMK–BRJ.

Our survey indicated that neither representatives of the United States nor the contractor were adequately equipped to handle the massive expansion of the construction program in late 1965 and first half of 1966. As a result, the cost of the program increased to a considerable extent, although there was no way to reliably measure the extra cost sustained.

The Department of Defense and the contractor agreed with a number of the opportunities for improvement, as set forth in our report.

INTERAGENCY PROGRAMS

Certain international programs conducted in foreign countries are administered by, and interrelated between, several United States Government departments and agencies. These programs are performed under the provisions of various legislation, including the Foreign Assistance Act of 1961, as amended, and the Agricultural Trade Development and Assistance Act of 1954, as amended (commonly known as Public Law 480 or Food for Peace).

As a result of our reviews involving interagency programs, during the fiscal year we issued five reports to the Congress, involving various aspects of the management and operations of Food for Peace programs and the expanded use of foreign currencies to transport personal effects abroad. In response to requests from congressional committees and individual Members of Congress, we issued four reports relating to Food for Peace and United States-owned foreign currency matters. In addition, we issued five reports to agency officials pertaining to donations and sales of commodities and the utilization of foreign currencies.

Food for Peace

In one of our reviews we found that foreign currency sales of agricultural commodities to certain foreign countries were displacing normal commercial sales for dollars. This condition resulted because United

INTERNATIONAL OPERATIONS

States representatives did not take reasonable precautions in negotiating sales agreements with foreign governments, in accordance with statutory provisions. Decreases in sales for dollars are of added significance in view of the currently unfavorable balance-of-payments position of the United States.

We issued three reports to the Congress relating to United States food donation programs administered by non-profit voluntary relief agencies abroad. In these reports, we disclosed that (1) there had been only limited auditing coverage of these programs because they are so large, so varied and so dispersed; (2) a significant amount of potential savings could be realized by making efforts to obtain contributions from recipient countries for shipping costs of donated commodities; and (3) the United States has had little success in processing claims against voluntary relief agencies arising from alleged loss or misuse of food donated for distribution abroad.

Management and Utilization of United States-owned Foreign Currencies

In a memorandum dated May 21, 1966, from the President of the United States to Heads of Executive Departments and Agencies, the President urged everyone who travels at Government expense to use excess and near-excess foreign currencies wherever possible, for transportation and for local expenses in the country concerned. The President also stated that the use of these currencies would help the United States balance of payments and would lower budget expenditures.

The maximum utilization of United States-owned excess or near-excess currencies has also been of continuing interest to the Congress. Based on a recommendation in one of our prior reports to the Congress, permanent legislation (Public Law 89-677, approved October 15, 1966) was enacted to permit the expanded use of United States-owned foreign currencies which have been or may be reserved or set aside for specified programs or activities.

In a report to the Congress in August 1966, we disclosed that several hundred thousand dollars could be saved annually if United States-owned foreign currencies, rather than dollars, were used to pay surface freight costs to transport personal effects of individuals traveling on United States Government business to and/or from foreign countries where the United States owns substantially more foreign currency than is needed for its normal operating requirements.

We also issued a report at the request of the chairman, House Committee on Government Operations, relating to a study of how the United States can maintain the value of its foreign currency holdings against

losses due to the fluctuation of foreign exchange rates. In addition, we issued a report to the Administrator of the Agency for International Development in which we questioned the need to use dollars rather than foreign currency to finance the local costs of five development projects in Brazil.

DEPARTMENT OF STATE

Our examination of Department of State activities included reviews relating to the financial administration and management of the Department's Washington office, as well as the administrative policies, operational procedures and programs implemented abroad at United States embassies and selected consulates.

We issued a report to the Congress relating to the payment of certain severance benefits to Foreign Service officers that were reemployed by the Federal Government. We also issued three reports to committees or individual Members of Congress and seven reports to agency officials on various international programs conducted by the Department of State.

Payment of Certain Severance Benefits fo Former Foreign Service Officers

In our report to the Congress, we stated that certain Foreign Service officers who had been selected out were reemployed by the Federal Government at salaries at least equal to their salaries at the time of separation, and also were entitled to receive severance benefits, under the provisions of the Foreign Service Act of 1946, as amended.

Severance benefit payments are equivalent to one-twelfth of an employee's annual salary for each year of service and proportionally for a fraction of a year, but not exceeding a total of one year's salary at his then current salary rate.

We suggested that the Congress might wish to consider legislation to provide for the adjustment of severance benefits at such time as a former Foreign Service officer becomes reemployed by the Federal Government or employed by the municipal government of the District of Columbia before expiration of his selection-out benefit period.

Accounting and Financial Management Sysfems

The Department still faces a formidable task in the development of its accounting and financial reporting. We provided assistance during the year in the particular areas described below.

INTERNATIONAL OPERATIONS

We continued our general review of the Department's accounting system for the purpose of identifying and reporting to Department officials on areas requiring correction to conform the system to the principles and standards of the Comptroller General. We completed reviews of the non-automatic data processing procedures and controls relating to domestic payroll activities, and the procedures and controls employed in the budgetary accounting and disbursing system of the Regional Finance and Data Processing Center in Paris, France.

We found that the system for reporting time and attendance of state-side employees of the Department needs to be revised to meet the requirements of our Office, and that improvements are needed in a number of the controls employed in the processing of data at the Center in Paris to conform with generally accepted principles and standards for data processing operations.

We have encouraged Department officials to develop an acceptable accounting system and have forwarded a memorandum to them outlining specific guides for development of a statement of financial management policy and accounting principles and standards. The initial reception to our memorandum was favorable and the Department has indicated that it will revise its existing financial management and accounting policy statement substantially along the lines that we suggested.

We have also been working with the Department to undertake a project to develop a suitable cost accounting system for its Foreign Service Institute. One of the purposes of this project is to demonstrate to other bureaus and offices in the Department the usefulness of meaningful cost data in managing operations.

Reviews of Administrative Activities at United States Embassies and Consulates

We conducted reviews of administrative activities performed by embassies and consulates located in Mexico, the Republic of China, and the United Kingdom. Our findings were reported to Department officials for corrective actions.

These reviews brought to attention weaknesses in internal controls of the management of cash and property and other areas where procedures were not in conformance with departmental instructions. In connection with our recommendations, the embassies and consulates generally have taken action to alleviate the weaknesses on matters within their purview. We plan to continue our efforts for more effective Department-wide control mechanisms, including particularly the need for more effective internal audits,

DEPARTMENT OF TRANSPORTATION

We issued a report to the Federal Aviation Agency on selected aspects of the on-the-job training and familiarization services provided to foreign nationals by the Agency at their installations. Our review showed that the Agency was not recovering the costs incurred in administering these services, from Federal agencies, foreign countries, and international agencies.

On the basis of the lowest charges made by other Federal agencies which incur and recover such costs, we estimated that, for fiscal year 1965, such recoveries would have amounted to about \$180,000. We recommended that the Agency give consideration to established regulations and procedures regarding reimbursable costs for services to foreign nationals.

PEACE CORPS

We actively assisted the Agency in developing procedures and controls to correct deficiencies disclosed in our prior review of the administration and accounting for volunteer readjustment allowance. We submitted proposals to Agency officials for integrating the volunteer readjustment allowance payroll with the general accounting system and for strengthening procedures for controlling terminal payments to volunteers from imprest funds.

On the basis of our proposals the Agency has issued procedural instructions that should result in overseas posts providing more timely and accurate reports on readjustment allowance and in Washington providing more adequate control over cash payments.

We also reviewed the controls over issued but unused transportation tickets and reported to the Agency that there were weaknesses in the system of control and accountability for the tickets. The Peace Corps has informed us that it is establishing procedures to assure proper accountability.

UNITED STATES INFORMATION AGENCY

We reviewed selected operations of the United States Information Agency both at the Washington headquarters and at overseas installations. Our main efforts at the Washington level concerned a review of the Agency's contracting procedures and practices and a review of Information Center Service activities. Overseas, we reviewed the operations of United States Information Service posts in Japan and in the United Arab Republic.

INTERNATIONAL OPERATIONS

We issued a report to the Congress concerning potential savings of upwards of \$2 million through constructing rather than leasing housing at Brewerville, Liberia. In addition, we notified the Agency by means of various reports and letters to Agency officials of opportunities for savings, need for better control over program property, and indications that management planning and supervision could be improved.

In the financial management area we reviewed and approved the domestic payroll segment of the Agency's accounting system.

As a part of our overall financial management review work in the Agency we have maintained close surveillance over their development of a model planning, programming and budgeting system. Our purpose has been to develop parallel improvements in the accounting and financial reporting system to assure its full integration with the planning, programming and budgeting phases of the overall financial management system.

EXPORT-IMPORT BANK OF WASHINGTON

Pursuant to the provisions of the Government Corporation Control Act, we made an audit of the Export-Import Bank of Washington for the fiscal year ended June 30, 1966, and issued a report to the Congress summarizing the details of the sales and refunding of participation certificates. We also issued a report to the Board of Directors relating to our examination of the statement of assets and liabilities of the Bank and the comparative statement of income and expenses as of June 30, 1966.

Audit of Contracts

General

The departments and agencies of the Government are awarding contracts at the current rate of about \$50 billion a year to procure property and services for use in their programs and activities. The Department of Defense alone is awarding contracts for weapon systems and related equipment and supplies at the rate of over \$35 billion annually. On the basis of the best available information, we estimate that as much as 80 to 90 percent of the dollar value of procurement by contract is made by negotiated contracts. Procurement by negotiation is designed for use in situations, specified by applicable law (Armed Services Procurement Act; Federal Property and Administrative Services Act; Atomic Energy Act), in which procurement on the basis of advertised bid and award procedures is either impracticable or inappropriate.

Under these circumstances, there is not the assurance of fair and reasonable pricing normally obtained when procurement is made on the basis of advertised bid and award procedures. Therefore, negotiated prices must be based largely on actual or estimated costs of producing the articles required. Such cost information, therefore, must be sound and realistic to provide for the negotiation of sound prices. An important part of our over-all audit responsibility is the continuing review of policies, procedures, and practices followed by Government departments and agencies in the negotiation and award of contracts and in the administration of contract terms and conditions. We evaluate the effectiveness of the policies, procedures, and practices by examinations of selected major contracts and subcontracts awarded by the departments and agencies and by their prime contractors. Our legal work relating to Government contracts is discussed in Chapter Ten, Legal Services, beginning on page 121.

The primary responsibility for negotiating fair and reasonable subcontract prices rests with the prime contractors. The Government's interest in the pricing of subcontracts stems from the fact that the prices of negotiated prime contracts usually include actual or estimated costs to the prime contractor for subcontracted items.

Under firm fixed-price and price-redeterminable prime contracts, costs for subcontracted items are included in the prime contract price on the basis of subcontract prices known or estimated at the time of negotiation

of the prime contract. Under incentive-type prime contracts the target prices are established on the basis of known or estimated costs, and the final price and reimbursement is an amount representing the target price adjusted upward or downward depending on the degree of the contractor's cost performance. Under cost-plus-a-fee contracts, the contractor receives a specified fee and also is reimbursed by the Government for all costs incurred under the contract, including the costs of subcontracted items. In order to ensure fairness of the costs claimed by contractors for reimbursement, Government departments and agencies should assure themselves that their contractors have adequate and effective policies, procedures, and practices relating to cost accounting, cost control, and cost reporting, including costs incurred under subcontracts.

Our examinations into the financial aspects of contracts continued to be directed primarily to reviews of the negotiation of prices for selected major contracts awarded by the departments and agencies and for selected subcontracts awarded by prime contractors.

We found instances of excessive prices negotiated for both prime contracts and subcontracts. The negotiation of unreasonably high prices may be attributed primarily to inaccurate, incomplete, or noncurrent cost information furnished by contractors or subcontractors in support of price proposals, deficiencies in the control by the departments and agencies over the pricing of prime contracts, and deficiencies in the control by the departments and agencies and by their prime contractors over the pricing of subcontracts. Certain of the excessive costs may be attributed to laxity of the departments and agencies in their administration of negotiated contracts during the period of contract performance.

Digests of the reports issued to the Congress during the fiscal year 1967, which include reports related to contract matters, are presented on pages 212 through 270 in Appendix C-3. These reports do not include other instances of excessive contract prices and other matters related to contracts which we deemed it more appropriate to report to the departments and agencies involved rather than to the Congress.

The findings reported to the departments and agencies were generally those which (1) had been accepted by the contracting parties and a basis for an equitable price adjustment had been reached prior to the issuance of our final report, (2) represented additional examples of matters previously reported to the Congress and raised no new important principles or basic issues relating to negotiation and administration of contracts, or (3) involved relatively minor amounts. Several of the more significant findings reported to the departments and agencies during the fiscal year 1967 are summarized below.

In January 1967 we reported that the target costs, proposed by a contractor for three incentive contracts and accepted by the Army, were

about **\$3.6 million** higher than they should have been on the basis of the cost and pricing data available at the time the contracts were negotiated. The overstated target costs would have resulted in increased costs to the Government of about \$1.5 million in the form of target and incentive profits to the contractor. The contractor and the Army agreed to negotiate a settlement of this matter. Negotiations already completed have resulted in reductions amounting to about \$940,000 in the target costs and about \$400,000 in target and incentive profits on two of the three contracts. Negotiations were continuing at June 30, 1967.

In October 1966 we reported that the cost data submitted by a contractor, and used by the Army as a basis for negotiation and award of a fixed-price contract, was overstated with respect to *six* component parts of the item to be produced. We found that for these *six* parts the contractor had substantially lower vendor quotations on file. The lower quotations were dated from 2 to 5 weeks prior to the contractor's certification that the factual data submitted in the price proposal were accurate, complete, and current. For some of the parts, orders at the lower prices had been placed with vendors in the period of 1 to 2 weeks prior to the certification.

The overstatement of cost, together with the allowance for overhead and for profit based on the overstatement, increased the contract price by about \$388,000. This contract included a defective-pricing-data clause granting the Government a contractual right to recover any significant increase in the price that resulted from cost or pricing data that were other than accurate, complete, and current as certified. In accordance with our recommendation, the Army took action against the contractor to recover the amount of \$388,000 under the defective-pricing-data clause. The contractor filed an appeal with the Armed Services Board of Contract Appeals from this action. The appeal was pending at June 30, 1967.

In another case, reported in July 1966, we found that about **\$3.7 million** could have been saved on the follow-on procurement of circuit board assemblies for missile guidance and control systems had the Air Force permitted the prime contractor to continue furnishing certain components to the subcontractor as had been done under the **initial** procurement. Furnishing the components would have avoided the profit allowed the subcontractor on the purchase cost of the components. The records showed that the Air Force advised the prime contractor to **dis-**continue furnishing the components in order to establish the subcontractor as an independent source of supply for the circuit board assemblies. It did not appear to us, however, that the subcontractor's independence was materially increased since the prime contractor continued to retain control over the design and specifications of the components.

The departments and agencies have not only obtained recoveries as the result of our findings but have also made certain improvements in the negotiation and administration of contracts, with regard to the deficiencies disclosed by our reviews, by strengthening and clarifying their procurement regulations and instructions. The more significant recent actions include changes in regulations and instructions (1) to limit charges to Government contracts for transportation costs incurred by contractors in operating their own, leased, or chartered aircraft, (2) to provide contracting officers the contractual right to examine such contractors' records relating to inventions as are deemed directly pertinent to compliance by the contractor with the requirements of the patent rights clause, and (3) to encourage contractors to improve and formalize their estimating systems for preparing price proposals.

Truth in Negotiations Act

The Truth in Negotiations Act (Public Law 87-653, approved September 10, 1962; effective December 1, 1962) was enacted to strengthen the procedures for establishing prices under negotiated contracts. Although the departments and agencies had been taking action with regard to the deficiencies disclosed by our reviews and were continually improving their procedures for negotiation of prices, our reviews had continued to disclose instances of excessive negotiated prices. It had become apparent that administrative efforts alone, on the part of the departments and agencies, were not sufficient to bring about significant improvement in the negotiation of prices.

The legislation requires, among other things, that with certain exceptions, where price competition is lacking under negotiated contracts and subcontracts, cost or pricing data be submitted in procurements over \$100,000 and be certified by the contractor and subcontractor as accurate, complete, and current. The law provides further that in these procurements the contract contain a clause permitting the Government to recover any significant increase in the price that resulted from the submission of inaccurate, incomplete, or noncurrent cost or pricing data. We assisted the House and Senate Armed Services Committees in developing this legislation prior to its enactment since it was based in part on our findings and recommendations.

The law was enacted as an amendment to the Armed Services Procurement Act and, generally, is not applicable to the civil departments and agencies. The civil departments and agencies, however, have accepted its basic concepts in the negotiation and award of their contracts and the Federal Procurement Regulations have been revised to include similar provisions.

The objectives of the **Truth** in Negotiations Act are clear. The main problem is one of developing procurement regulations which clearly define the means of meeting these objectives and which are feasible to apply and administer. Although the departments and agencies took prompt action to amend their procurement regulations following enactment of the law in 1962, numerous revisions were later found to be necessary to refine regulations in the light of experience. The regulations are under continual study and additional revisions were under consideration at June 30, 1967.

During the fiscal year we submitted to the Congress two reports on the administration by the Department of Defense of the cost or pricing data requirements of the Truth in Negotiations Act.

A report submitted in January 1967 presented our findings in the review of 242 negotiated supply and production contracts and subcontracts. We found that 185 of these contracts were awarded under the requirement of the law for submission of cost or pricing data and certification that the data submitted were accurate, complete, and current. However, in 165 of the 185 awards, there was no authoritative record identifying what was submitted and what was covered by the certificate in support of significant cost estimates. In such cases the Government's rights under the defective-pricing-data clause may be impaired inasmuch as it may be impracticable for the contracting officer to establish that defective data were relied on in the negotiation.

The remaining 57 of the 242 contracts examined had been determined by the contracting officials to be exempt from the requirement for submission of cost or pricing data under the exceptions contained in the law. The procurement records in these cases did not contain sufficient information, in our opinion, to substantiate the correctness of the determinations.

We made certain proposals to the Department of Defense designed (1) to improve identification of the cost or pricing data submitted and certified by contractors, (2) to ensure that contractors are requiring subcontractors to submit and certify cost and pricing data, and (3) to provide documentation of the circumstances leading to, and the basis for, any determinations by contracting officers or contractors that cost or pricing data are not required.

A special group was appointed, under the guidance of the Office of the Deputy Assistant Secretary of Defense (Procurement) to study our proposals. As a result of the study, the Department of Defense prepared, and submitted to us for review and comment, drafts of certain revisions of the Armed Services Procurement Regulation. As of June 30, 1967, we were working closely with the Armed Services Procurement Regulation Committee in reducing these proposed revisions to final form.

We selected 127 of the 242 contracts for further examination. This examination, which was in progress at June 30, 1967, is directed to a review of (1) the practices of officials and organizations of the Department of Defense responsible for negotiating the prices of the contracts, (2) the reasonableness of the prices negotiated in the light of the circumstances existing at the time of contract award, and (3) the need for improvement in current requirements for negotiating contract prices.

In a report submitted in June 1967, we pointed out the need for the construction agencies of the Department of Defense to improve compliance with *the* cost or pricing data requirements of the law. Our review of 237 construction contracts awarded by the agencies showed that, generally, (1) sufficient cost or pricing data supporting the contractors' price proposals were not obtained as required by law, (2) cost analyses of contractors' price proposals to determine that the prices were fair and reasonable were not made as required by the Armed Services Procurement Regulation, and (3) related prescribed procedures for utilizing advisory audits were not followed.

The main reason why the agencies were not complying with the requirements of law and regulation appeared to be their belief that the requirements were not applicable to construction contracts since contractors' price proposals were being evaluated on the basis of comparisons with the agencies' own cost estimates. Primary reliance was placed on such comparisons as a means of evaluating the reasonableness of prices.

In bringing our findings to the attention of the Secretary of Defense we proposed that he emphasize to the construction agencies the need for improvement in their compliance with the requirements of the law in the negotiation of construction contracts and contract modifications. The Department of Defense agreed.

Administration of Contract Terms and Conditions

The negotiation and award of a sound, reasonably priced contract is an important responsibility. An equally important responsibility is to ensure that the contractor complies with the terms and conditions of the contract. During the fiscal year we submitted to the Congress or to agency officials a number of reports on areas where, in our opinion, the administration of contract terms and conditions should be strengthened to protect the interests of the Government. Two of the more significant matters we reported to the Congress dealt with inequitable charges to Government cost-type contracts of certain costs incurred by contractors.

Many contractors are engaged simultaneously in the preparation of bids and proposals and in the conduct of independent research and

development. Limitations on the costs of independent research and development chargeable to Government contracts are generally governed by advance agreements with the contractors. Advance agreements generally are not made, however, to limit bid and proposal costs chargeable to the Government.

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

We found that about half of the \$3.8 million of bidding and related costs claimed by a contractor in 1 year under contracts with the Department of Defense and the National Aeronautics and Space Administration were not, in our opinion, clearly necessary to support the contractor's bids and proposals. In our report submitted to the Congress in March 1967, we stated that the items in question included costs incurred (1) after the Government had indicated it was not interested in a proposal, (2) before the Government had requested a proposal, (3) after a bid or proposal had been submitted, and (4) to develop capability for response to future requests for proposals.

The problem is under study by the Department of Defense. We proposed, but the Department of Defense and the National Aeronautics and Space Administration did not consider our proposal feasible, that interim guidelines be issued with respect to allowability of bid and proposal costs. The Department of Defense study of the problem was continuing at June 30, 1967.

In August 1966 we submitted to the Congress a report on our review of the use of company operated and chartered aircraft by certain contractors of the Department of Defense. We pointed out that the additional cost, as compared with commercial air transportation, outweighed the benefits in most cases. The Department of Defense agreed and made certain disallowances in negotiating overhead costs chargeable to Government contracts.

Also, the Armed Services Procurement Regulation Committee undertook revision of the Regulation to limit allowability of costs incurred for travel by aircraft owned, leased, or chartered by contractors. On December 1, 1966, the Regulation was revised to provide that such costs are allowable, if reasonable, to the extent the contractor can demonstrate

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that use of aircraft owned, leased, or chartered **by** the contractor is necessary for the conduct of **his** business and that the increase in cost, if any, in comparison **with** alternative means of transportation is commensurate **with** the advantage gained.

Transportation

The General Accounting Office is responsible for determining the correctness of charges paid for freight and passenger services furnished for the account of the United States, for the recovery of overcharges, and for the settlement of transportation claims both by and against the Government.

As a further part of our basic audit and investigative functions we review, evaluate, and report on the transportation and traffic management activities of Government agencies and assist the agencies in the performance of their transportation and traffic functions.

As part of our duties relating to the settlement of transportation claims, we furnish technical support and other assistance to the Department of Justice in the prosecution or defense of transportation suits to which the United States is a party.

The scope of our responsibilities for auditing and reviewing transportation in the Federal Government is indicated by the magnitude of the Government expenditures for transportation services. Direct procurement of commercial transportation amounts to about \$3.5 billion annually. Approximately \$1.9 billion of this amount are for services procured on standard forms and are audited centrally by our Office on the basis of paid bills submitted by Government agencies. Other expenditures for direct procurement of commercial transportation consist primarily of contract services and payments by Government corporations that are audited on site.

The Government also spends several billion dollars annually for operation of military transportation fleets, for movement of civilian employees' household goods on a commuted basis, for reimbursement of transportation charges incurred by cost-type contractors, and for other indirect transportation services. These expenditures are covered in our reviews of selected activities and programs of the various agencies.

AUDIT OF TRANSPORTATION PAYMENTS AND SETTLEMENT OF CLAIMS

Transportation Payments

The Transportation Act of 1940 requires the administrative agencies to pay the bills of carriers subject to the Interstate Commerce Act and

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the Federal Aviation Act upon presentation prior to audit by the General Accounting Office. Although payments to carriers not subject to these acts may be audited prior to payment, for administrative efficiency all transportation bills for services procured on standard Government forms are normally paid before audit.

Because certifying and disbursing officers are exempted by law from liability for any overcharges by carriers arising from the application of improper rates or charges on services procured by standard Government transportation forms, paid transportation bills are submitted to our Office for central postaudit, the determination of overcharges, and the recovery of overcharges directly from the carriers. The principal transportation payments that are not sent to our Office for postaudit are those made by Government corporations and those procured under contract, such as Post Office mail contracts and Military Sea Transportation Service shipping contracts. Our audit of transportation charges is normally completed in 6 to 7 months after payment.

We audited 5.6 million bills of lading for freight shipments, for which the Government had paid about \$1.2 billion, and 2.9 million transportation requests for passenger travel, for which the Government had paid about \$724 million. From our audit of transportation payments, we issued 113,010 overcharge notices to commercial carriers requesting refunds totaling \$14 million. Collections from carriers during the year amounted to \$13 million, which were credited to basic appropriations of the procuring agencies or, where this was not possible, deposited in the Treasury as miscellaneous receipts.

The amount of payments audited was about 27 percent greater than the prior year, and the amount of overcharges deducted and reported to carriers was about 31 percent greater. This increased activity was accomplished with about 4 percent less audit hours than were utilized on our transportation audit in fiscal year 1966. The improved productivity resulted from our continuing program to develop more efficient audit procedures, and to internally review all segments of the transportation audit periodically to assure a reasonable balance of accuracy, completeness, and cost effectiveness.

As part of our review of transportation payments, we also identified hundreds of shipments where the transportation services were procured at excess costs to the Government. These traffic management errors resulted from the selection of uneconomical routes, modes of carriage, or types of service and were brought to the attention of responsible transportation officials of the agencies involved for necessary corrective action.

A by-product of our audit is the accumulation of paid vouchers which are subject to disposal variously under 4-year and 10-year retention programs approved by Congress. During this year we disposed of 4,653

cubic feet of record material consisting principally of paid transportation vouchers for the years 1962 and 1963, which were surveyed for disposal under the 4-year retention program. Vouchers identified here as subject to the 10-year retention period are stored at General Services Administration Record Centers and are disposed of by GSA upon our notification that the retention period has expired.

Claims

Section 305 of the Budget and Accounting Act, 1921, provides that all claims and demands whatever by the Government of the United States or against it shall be settled and adjusted in the General Accounting Office. Pursuant to this law transportation claims against the United States, with certain minor exceptions, are submitted to the Office for adjudication. The exceptions relate to claims for loss and damage, accessorial or supplementary transportation services, and amounts due because of errors in extension or footing on prior bills. These latter claims after payment are subject to review here in our audit of paid vouchers.

In fiscal year 1967, we received about 24,000 claims and settled or otherwise disposed of over 26,000 claims for approximately \$87 million. The greatest amount claimed was on assigned original bills of certain Military Airlift Command contractors, which we audit before payment to protect fully the Government's interest. On these assigned bills and other original bills for over \$81 million, we disallowed about \$276,000 as being in excess of the proper contract and/or tariff rates. The balance of the claims were supplemental bills of carriers for changes in their original charges or demands for repayment of overcharges collected by our Office. In disposing of these claims, amounting to about \$5.2 million, we certified payment \$2.4 million and disallowed or terminated \$2.8 million.

TRANSPORTATION MANAGEMENT REVIEWS

We submitted four reports to the Congress on our reviews of transportation services procured by the Department of Defense. We also submitted 14 reports to officials of military departments and four to officials of civil agencies relating to the uneconomical expenditures for transportation or to improvements in traffic and transportation management procedures. These reports are listed in Appendix C-2, on pages 174, 192, and 194 for officials of civil agencies, and on pages 198, 203, and 206 for military officials. The reports submitted to Congress are described on pages 259, 260, and 261 of Appendix C-3.

A major portion of our management review time continues to be devoted to reviews of the shipment of military household goods between

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the United States and overseas areas since ~~these~~ shipments represent annual expenditures of over \$100 million. Our reviews indicate that the Department of Defense could save millions of dollars annually by direct procurement of these services from the servicing and transportation companies involved rather than by contracting for these services through freight forwarders. ~~At~~ the close ~~of~~ the fiscal year a report was being prepared to the Congress covering household goods shipments between continental United States and Germany, in which we estimate that savings of about \$3 million could be realized by the direct procurement method.

Other reviews in progress on the movement of household goods and other personal effects are concerned with: (1) potential significant savings on shipments of unaccompanied baggage of military personnel between the United States and overseas points through utilization of space on Military Airlift Command aircraft; (2) potential savings through negotiation of more favorable rates for domestic volume movements; (3) need for improvement by Department of Defense in selection of carriers for household goods movements to reduce the incidence of loss and damage claims; and (4) potential savings in shipment of household goods by defense and civil agency cost contractors.

Reviews are in progress also on (1) the rates and fares paid for the overseas movement of general military cargo and personnel, (2) improved utilization of Military Airlift Command aircraft for transporting palletized cargo, (3) use by Department of Defense of domestic and international air freight forwarders, (4) a general survey of transportation and traffic management activities in Pacific and Southeast Asia areas, (5) improvements in the organizational structure for the management of military traffic and transportation in Europe, and (6) economies available through the consolidation of small shipments from Government and commercial sources to various destinations in the United States.

We are continuing to increase our Transportation Management Review staff to provide the capability for expanding our activities in other major areas of transportation procurement such as contract freight and passenger airlift by the Military Airlift Command; contract steamship services by the Military Sea Transportation Service; and commercial transportation by Government contractors under cost reimbursable contracts.

ASSISTANCE IN THE LEGAL FIELD

We continued to provide technical assistance to the Department of Justice in the prosecution and defense of transportation suits by or against the United States and in proceedings before ~~the~~ Interstate Commerce

Commission. As part of this assistance transportation specialists participated in three pretrial conferences in the Court of Claims; two trials before U.S. District Courts; and two hearings before the Interstate Commerce Commission.

We reported to the Department of Justice for collection debts against carriers involving 35 items in the total amount of \$75,823. During the fiscal year similarly reported debts covering 1,037 items in the total amount of \$769,596 were settled by the collection of \$97,856 through judgments, compromises, or otherwise. Included in the amount settled was the write-off of \$497,705 as an uncollectible debt against a bankrupt carrier.

We received from the Department of Justice notice of the filing of 75 suits by carriers covering 86,550 shipments. Fifty of the suits filed and about 80,000 of the shipments were on overseas movements of household goods by the Department of Defense. The amount sued for was not stated in the petitions filed on these suits but we estimate the liability of the United States on the 50 suits filed this year and the 50 similar suits filed in prior years covering 200,000 items to be about \$70 million, if the carriers prevail on all of the issues. In the same period we furnished technical advice and other assistance to the Department of Justice in 27 suits for \$402,587 involving 25,121 shipments. Sixty-six suits, the subject of reports in this or prior years, involving 3,794 shipments and \$968,348 were settled by payment of judgments for \$527,305 and by dismissal or withdrawal of the balance.

The most significant transportation cases in which we furnished technical advice and assistance to the Department of Justice were three of the five cases selected for trial as representing all of the issues involved in the 100 household goods suits pending in the Court of Claims. Two litigation reports were made on *Trans Ocean Van Service v. United States*, Ct. Cl. No. 137-66 covering 38 shipments and 21 separate issues of fact or law. One report was prepared in the consolidated cases, *Global Van Lines v. United States*, Ct. Cl. Nos. 259-65 and 355-65. This report covered 39 issues stated against 798 shipments selected as representative of the 16,197 shipments in the consolidated suit. In addition, a transportation specialist and two attorneys from our Office of the General Counsel separately visited various military installations in the United States to assist a Department of Justice attorney in his examination of pertinent records and the interviewing of potential witnesses for possible use in the trials of the subject cases.

ASSISTANCE IN THE TRAFFIC AND TRANSPORTATION FIELD

We assisted various Government agencies in their traffic management and transportation activities. Our activities included—

1. Cooperating with the Department of Defense in the development of forms and procedures for expanding the use of the short form Government bill of lading to cover all domestic military shipments costing less than \$100;
2. Advising the Military Traffic Management and Terminal Service of the Department of Defense of improper billing practices by household goods forwarders;
3. Working with the Military Traffic Management and Terminal Service of the Department of Defense in the revision of basic military tenders covering overseas shipments of household goods to eliminate existing errors, inconsistencies and ambiguities from their terms;
4. Identifying for the Atomic Energy Commission specific areas of their traffic management activities which offered review possibilities;
5. Furnishing passenger fares and other transportation data to the Department of Labor for preparation of the monthly consumer price index;
6. Considering and acting upon several requests from the administrative agencies for permission to deviate from established procedures to provide more economical and efficient transportation management;
7. Providing guest lecturers at the U.S. Army Transportation School, Fort Eustis, Virginia.

We continued our practice of meeting with representatives of individual carriers or members of their trade associations to discuss and resolve mutual problems relating to our audit of carriers' bills. During the year we participated in 12 meetings with various domestic and international carrier associations and had frequent discussions in Washington with individual carrier representatives. To assist the ocean carriers in transportation documentation, we developed revised documentation and billing procedures on Government ocean shipments by civil agencies. Also, we assisted the railroads in the revision of their accounting rules to cover the use of the short form Government bill of lading on small shipments.

Claims

The Claims Division is responsible for the adjudication and settlement of all claims by and against the United States with the exception of claims by and against common carriers for transportation items which are processed by the Transportation Division. Legislative authority for this function is contained in section 305 of the Budget and Accounting Act, 1921, which provides that all claims and demands whatever by the Government of the United States or against it shall be settled and adjusted in the General Accounting Office, and in section 304 of this act which provides that this Office shall superintend the recovery of all debts finally certified by it to be due the United States.

While these provisions appear to be all inclusive, Congress has enacted various laws authorizing certain Government agencies and departments to adjust and settle most of the claims arising in connection with their own programs and operations, while other laws have given the courts exclusive jurisdiction over certain types of claims. On the other hand, specific statutes have been enacted which provide that payment may be made only upon settlement of the General Accounting Office. **For example**, claims for the proceeds of depositary checks which have not been paid prior to the close of the fiscal year next following the fiscal year **in** which the checks were issued must be certified for payment by this Office (31 U.S.C. 132) ; claims for underpayment of wages under the Davis-Bacon Act (40 U.S.C. 276a-2) and the Contract Work Standards Act (40 U.S.C. 330) are for payment by this Office, and, with few exceptions, judgments against the United States are paid pursuant to settlements of our Office.

Claims Against the United States

As a general rule the Government departments and agencies pay most of their obligations in the normal course of business. Claims against the United States that are referred to the General Accounting Office for settlement are usually limited to those required by statute to be paid on settlement of this Office and those involving doubtful questions of law or fact **as** to the validity or amount of the claim or the entitlement of the claimants. They arise from virtually any transaction of the Government and are received from individuals, business entities, and foreign, State or municipal governments. For convenience, the claimants are

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.classified as live civilian employees, deceased civilian employees, live **mili-**tary personnel, deceased military personnel, and live and deceased other public creditors, and the subject matter is categorized as compensation, pay and allowances, travel, per diem, transportation, judgments, acts of Congress, contracts, trust funds, refunds, and miscellaneous. Actions include examination, development when necessary, adjudication, and certification for payment, or disallowance.

Settlement of claims by our Office provides an economical means by which claimants and administrative offices can be assured of fair and impartial consideration and the resolution of doubtful matters or controversial points of issue without resorting to the courts. Settlements of the General Accounting Office are not binding upon the Congress or the courts and therefore they do not destroy or diminish the rights of the claimants.

On July 1, 1966, we had on hand 881 claims against the United States. During the fiscal year we received 9,872 claims and settled 9,705 claims, leaving a caseload on hand of 1,048 claims on June 30, 1967. Incident to the settlement of the 9,705 claims, we certified the amount of \$46,483,-888 for **payment**.

Claims by the United States

Claims by the United States are referred to our Office for adjudication and collection when they involve administrative doubt **as** to the amount or propriety of the debt or the liability of the parties to the transaction. The regulations also require that debts due the United States on which administrative agencies have taken appropriate collection action and which cannot be compromised or on which collection action cannot be suspended or terminated in accordance with the standards established pursuant to the Federal Claim Collection Act of 1966, 80 Stat. 309, be reported to us **as** uncollectible.

The subject matter of these debt claims is as varied as that of claims .against the United States. We examine and adjudicate the claims referred here because of administrative doubt so that action to collect the amounts found due the United States may be taken, if appropriate. In other debt claims we examine and develop the claims and take whatever steps may be necessary to collect. Our collection actions include demands for payment, locator actions, development to ascertain the financial status of the debtors, and the issuance of proofs of claim in bankruptcy and deceased debtor cases. **If** development of a claim discloses that a debtor is presently receiving payments from the Government, we take steps to have amounts withheld, if otherwise proper, for application to his debt. In the event **a** debtor is financially unable to remit the full amount of his

debt in one payment, he is permitted to make installment payments commensurate with the amount of the debt and his ability to pay. Debtors who meet the standards established pursuant to the Federal Claims Collection Act of 1966 are permitted to liquidate their indebtedness by compromise. If collection actions are unsuccessful we may report the debts to the Department of Justice for suit, if warranted, together with our certification of the amount due the United States and such information and documents as may be necessary to support court proceedings.

On July 1, 1966, we had on hand in the Claims Division 36,792 claims by the United States. During the period July 1, 1966, through June 30, 1967, we received 21,774 claims and settled 32,208 leaving a balance of 26,358 claims on hand June 30, 1967. Of the 26,358 claims on hand, 11,041 were under collection representing accounts receivable in the amount of \$6,167,854. Incident to the adjudication and collection activities during the fiscal year, we collected \$3,626,693. During that period we reported 2,001 claims to the Department of Justice for suit and as of June 30, 1967, 6,586 of the claims pending with that Department were under collection, representing accounts receivable in the total amount of \$4,092,418.

The work of the General Accounting Office involving claims of the United States has been affected by the Federal Claims Collection Act of 1966. The law was not effective until 6 months after the date of enactment. The volume of cases received during the last 5 months of the fiscal year decreased substantially from the average received during the first 7 months. However, when the law is fully implemented it is anticipated that this volume will increase somewhat.

The new law requires the head of an agency to attempt collection of claims of the United States for money or property. In addition, an agency head is authorized to compromise any claim (except claims which arise from exceptions made by our Office in the account of an accountable officer) or to terminate or suspend collection action where the principal amount of the claim is not in excess of \$20,000 and it has not been referred to another agency for collection, except where there is an indication of fraud, misrepresentation, the presentation of a false claim, or a claim involving a violation of the anti-trust laws. Collection action may be terminated or suspended only when it appears that no person liable on the claim has the financial ability, present or prospective, to pay any significant amount on the claim, or when the cost of collection is likely to exceed the amount of recovery.

Legal Services

The Office of the General Counsel is responsible for the legal and legislative work of the General Accounting Office. The legal work includes the preparation of formal decisions concerning the legality and propriety of the receipt and expenditure of public funds; the preparation of advisory opinions and reports on proposed and pending legislation to Members of Congress and Congressional committees, and to the Bureau of the Budget; the preparation of reports and the furnishing of legal assistance in connection with litigation by and against the United States; the review of draft reports prepared by the auditing divisions; and the preparation of office memorandums on legal questions arising in the work being performed by the offices, divisions and branches of the General Accounting Office. The legislative work includes the formulation and presentation of legislative recommendations to the Congress and liaison assistance to committees, Officers, and Members of Congress.

The principal assignment responsibility is the preparation of decisions. The decision authority of the Comptroller General is derived from the Treasury Act of 1789,¹ which vested in an officer designated "Comptroller" the responsibility for deciding the lawfulness and justice of public accounts. Since that time there has developed a collection of decisions establishing guidelines for receipt and expenditure of appropriated funds. Today the law authorizes heads of departments and establishments, and disbursing and certifying officers to apply to the Comptroller General for advance decisions on any legal question involved in a proposed expenditure.² Similarly Government contracting and procurement officers, as well as individuals and concerns doing business with the Government, utilize the forum our Office provides when seeking a resolution of legal questions which arise incident to the award and execution of agreements, leases and contracts. Also under the decision jurisdiction, claimants and individuals may have settlement actions and debt actions reviewed. While decisions of the Comptroller General are binding and conclusive upon the executive branch of the Government, private concerns and individuals have further recourse to the courts.

The legal questions submitted for decision during a year are as diverse and varied as the activities of the Government itself, and involve many different fields of law.

¹ 1 Stat. 65.

² 31 U.S.C. 74; id. 82d.

LEGAL SERVICES

The fiscal year 1967 was no exception. For example, the Secretary of State requested our opinion as to whether a foreign purchaser of surplus real estate in Singapore owned by the United States could have a claim for the return of his earnest money deposit considered under the Meritorious Claims Act of April 10, 1928.³ The Secretary of Defense requested advice as to whether recovery of a 6 months death gratuity paid to the father of a member of the Armed Services was required when it was subsequently discovered that the member had contrived his disappearance in a manner to suggest that he had accidentally drowned.⁴ The legal issue in another decision was whether an award of a contract to Communications Satellite Corporation (COMSAT) for communications services in the Pacific Ocean via a combination of satellite and terrestrial facilities was legally proper.⁵ The chairman of the American Battle Monuments Commission requested advice as to whether the Islands of Guam and Okinawa would be considered "outside the United States" for purposes of the act of March 4, 1923,⁶ to permit the Commission to contract for work and services without compliance with certain laws and regulations.⁷ A certifying officer of the Bureau of Public Roads requested an advance decision as to the propriety of payment of premium compensation for Sunday work for employees stationed in Sudan where pursuant to Moslem custom, Sunday is observed on Friday and the employees did not work on that day.⁸

Among the significant decisions rendered during the year, was a decision to the Atomic Energy Commission concerning the payment of an award to a construction contractor pursuant to determination under a disputes clause proceeding.⁹ Since the authority to the Comptroller General to review determinations under contract disputes clause proceedings was germane to the issue of payment, extensive research of the statutory and legal authorities was undertaken. Additionally, because of the impact of a decision affecting determinations of boards of contract appeals and rights of contractors, the entire contract record was given most careful review. All interested parties were afforded an opportunity to present written comments and also to review and comment on the draft of the proposed decision. It was concluded that the administrative determinations authorizing extensions of time and additional payments to the contractor under the contract disputes clause were based on erroneous conclusions of law and were not supported by substantial evidence to

³ 31 U.S.C. 236; B-160256, January 5, 1967.

⁴ E-120683, March 9, 1967.

⁵ 46 Comp. Gen. 89.

⁶ 36 U.S.C. 138b.

⁷ 46 Comp. Gen. 548, B-160307, December 7, 1966.

⁸ B-160635, February 6, 1967.

⁹ 46 Comp. Gen. 441, B-153841, December 5, 1966.

meet the standards of the Wunderlich Act¹⁰ to be accorded finality under the act. Therefore, the inherent authority vested in the Office by the Budget and Accounting Act, 1921, to prevent illegal payment of public funds required the conclusion that the award to the contractor was not proper and payment was not authorized.

It was recognized that this opinion would not only have precedent effect but that the subject matter might be litigated in the courts. Subsequently the contractor filed a petition in the Court of Claims and members of our Office have conferred with the representatives of the Department of Justice concerning possible defense actions.

Coincidentally with the decision in this case we reversed a disputes-clause decision of the Armed Services Board of Contract Appeals which had disallowed a claim of a contractor." The claim was based on additional costs resulting from the contractor's having been required to insulate certain air ducts. The Contractor considered that this work was not covered by the contract specifications and, therefore, had not included the cost of performing the additional work in the contract price. Allowance of the claim was authorized because it was considered that the contract specifications were ambiguous and that, although the contractor had made a reasonable effort to obtain clarification before entering into the contract, it was still left with a misunderstanding.

Also significant among the work performed was the considerable legal work generated as a consequence of newly enacted legislation. The Presidential Election Campaign Fund Act of 1966¹² and the Federal Claims Collection Act of 1966¹³ are two such laws.

The Presidential Election Campaign Act vested in the Comptroller General a new and unique responsibility. Under the act the Comptroller General is required to prescribe rules and regulations concerning payments for presidential election campaign expenses, to appoint an advisory board, and to be generally responsible for the administration and audit of payments under the act. Members of the Office of General Counsel were assigned to prepare exploratory studies and to plan procedures required for the implementation and administration of the act. Although the act has been suspended, our staff has been actively assisting the Senate Finance Committee in the drafting of proposals which are directed toward reinstating the concept of Federal financing of certain political campaign expenses.

In connection with the Federal Claims Collection Act, attorneys not only worked with the Department of Justice in drafting regulations

¹⁰ 41 U.S.C. 321, 322.

¹¹ B-156192, December 8, 1966.

¹² Public Law 89-809, approved November 13, 1966, 80 Stat. 1539, 1587.

¹³ Public Law 89-508, approved July 19, 1966, 80 Stat. 308.

issued jointly by the Comptroller General and the Attorney General to implement the act but also prepared the necessary internal regulations for GAO compliance with the statute.

Another major effort of the Office of the General Counsel concerned a directive of the Senate and House Committees on Science and Astronautics to initiate a Government-wide study of the interpretations and application of the 6 percent fee limitation imposed by various statutes on architect-engineer contracts.¹⁴ Attorneys in the Office of the General Counsel assisted in the study and the preparation of the report to Congress. Details of the study are set forth on page 29 of this report.

In addition to the work on the report and the legislative recommendations, several decisions on architect-engineer fees were rendered during the year. The first decision was rendered to the Administrator of the Veterans Administration and advised that architect and engineer contracts negotiated under 38 U.S.C. 5002, after November 8, 1965,¹⁵ would be subject to the 6 percent fee limitation in 41 U.S.C. 254(b) and that such a fee limitation is not limited to cost-type contracting but is applicable to all types of contracts?¹⁶

Similarly on December 12, 1966, a decision was rendered to the Secretary of Defense reviewing the legislative histories of the various statutes fixing fee limitations for architect-engineer contracts and advising that architect-engineer service contracts should be awarded only after competitive negotiation giving all qualified firms an opportunity to submit proposals.¹⁷

The total caseload for fiscal year 1967 continued at about the same level as in the preceding year. In 1967, 4,633 decisions, memorandum opinions, and legal matters were handled by the Office of the General Counsel. This total includes 1,637 formal decisions and 904 memorandum opinions. To handle a caseload of this size and diversity, the legal staff is assigned to specialized areas of work. These assignment areas are: (1) Appropriations and Miscellaneous, (2) Civil Pay, (3) Contracts, (4) Military Pay and Allowances and (5) Transportation. A breakdown of the caseload according to assignment area appears in Appendix C-6 on page 290.

APPROPRIATIONS AND MISCELLANEOUS

Legal issues relating to appropriations, accountability, and statutory compliance are referred to the attorneys in the Miscellaneous group. For example, the Secretary of Agriculture asked advice as to the action

¹⁴ H. Rept. No. 1748, 89 Cong. 10.

¹⁵ Public Law 89-343.

¹⁶ 46 Comp. Gen. 183.

¹⁷ 46 Comp. Gen. 556, B-152306, December 12, 1966.

required concerning payments under the Special Milk Program for Children made to an institution for 3 years before an internal audit disclosed that the institution was ineligible under the departmental regulations to participate in the program." Another decision requested by the Department of Agriculture concerned the propriety of the further apportionment of funds to a State in the operation of the School Breakfast Program and the Nonfood Assistance Program authorized under the Child Nutrition Act of 1966,¹⁹ when the State could not use additional funds. A study of the legislative histories of the various food programs indicated a Congressional intent that unused funds could be further apportioned provided that the remaining States were given an opportunity to share in the unused funds."

A decision having Federal-State implications was one concerning the propriety of using Federal funds of the Public Health Service to pay State license fees for medical doctors detailed or assigned to work with State and local health agencies. Prior decisions going back to 1913 as well as leading case law were reexamined but in the absence of specific statutory authority, approval for the expenses of State medical licenses was denied. However, it was suggested that the situation could be remedied by requiring States to issue temporary licenses or to provide in the health service agreements that the cost of such licenses for detailed employees be paid by the State agency.²¹

The Department of Health, Education, and Welfare requested advice concerning the propriety of reimbursing a cancer research contractor for costs of alteration to a privately owned building to accomplish the research. The Department was advised that on the basis that the alterations were required for the research program payment was authorized." However, in future similar situations in the absence of statutory authority, the Department was cautioned to follow the criteria established in a decision issued in 1963 to the Department.²³

Another Federal-aid program involving the College Work Study Program was the subject of a decision to the Veterans Administration. The agency requested advice as to the propriety of payments for employer contributory payroll costs for part-time students working in Veterans Administration facilities. The tax contribution was held to be payable and on the basis of a showing that payment on a flat percentage basis

¹⁸ 46 Comp. Gen. 6.

¹⁹ Public Law 89-642, approved October 11, 1966, 80 Stat. 885.

²⁰ B-111810, March 9, 1967.

²¹ B-160806, March 8, 1967.

²² 46 Comp. Gen. 26.

²³ 42 Comp. Gen. 480.

was more feasible than on an actual cost basis such procedure was authorized.²⁴

In a decision to the Small Business Administration it was concluded that an appropriation limitation on funds available for the Southeast Hurricane Disaster Relief could not be circumvented by charging excess amounts to the Administration revolving fund.²⁵

Illustrating a decision resolving an interagency dispute was one to the Internal Revenue Service. The Director of the Internal Revenue Service requested our Office to resolve an issue between the IRS and the Department of the Army which arose as a result of a judgment by the Court of Claims involving a bankrupt Army contractor. The IRS contended that the effect of the judgment awarding the trustee for the bankrupt contractor a stipulated amount less the Government's counter-claims which included the contractor's tax indebtedness under the contract was an augmentation of the Department of the Army appropriation. However, since the net amount of the judgment had been paid by the General Accounting Office from the permanent indefinite appropriation created under 31 U.S.C. 724, the judgment had no effect on the Department of the Army appropriations. The case thus involving a setoff action by the court was distinguished from situations in which an individual is a creditor of one agency and a debtor of another. Accordingly, it was concluded that the tax debt was satisfied upon entry of the net judgment and that the Department of the Army was not required to transfer any amount to the Internal Revenue Service.²⁶

CIVIL RAY

The Civil Pay group is responsible for the determination of all legal questions relating to the Federal civilian personnel service.

A new law that generated more decisions than any other law in recent years was Public Law 89-516, authorizing reimbursement of certain moving expenses incident to the transfer of employees from one official station to another in the United States for the convenience of the Government.²⁷

Attorneys in the Civil Pay group assisted the Bureau of the Budget in drafting and revising regulations to implement the law. At the end of fiscal year 1967, some 37 decisions interpreting different aspects of the law and regulations had been rendered. There was an indication that

²⁴ 46 Comp. Gen. 115.

²⁵ 46 Comu. Gen. 198.

²⁶ B-112088, April 17, 1967.

²⁷ Public Law 89-516, approved July 21, 1966, 80 Stat. 325.

many more questions were yet to be submitted for decision. A considerable number of the decisions rendered involved the question of reimbursement of expenses and fees for the sale or purchase of homes by transferred employees and expenses incident to temporary living quarters and to travel on house hunting trips. Some decisions involved questions related to the transfer of large groups of employees. For example, the General Services Administration submitted questions incident to the transfer of the GSA Regional Office from Dallas to Fort Worth, Texas.²⁸

Three civil pay decisions in 1967 were rendered at the request of the Federal Aviation Administration and resolved questions of entitlement of employees in Alaska and Hawaii to travel, transportation and home leave benefits.²⁹

The Chairman of the Civil Service Commission requested advice as to the status of employees of Howard University for severance pay benefits provided in Public Law 89-301, incident to the transfer of Freedmans Hospital to Howard University.³⁰

Another decision requested by the Civil Service Commission concerned the propriety of acceptance of meals and lodging from industry associations when employees are required by their agencies to attend conventions, seminars, and similar meetings on official business. The Commission was advised that while no direct reimbursement from a private association for travel expenses should be made to the employees, the agency authorizing the employee to attend the meeting could receive the donations—provided it had authority to accept gifts—representing travel expenses without violating the rule against augmentation of the agency's appropriation. However, in cases where the organization furnishes goods or services in kind the employee should not receive per diem or other travel expenses or an appropriate reduction should be made in the travel expenses.³¹ In the absence of gift authority, any augmentation of the agency's appropriation by acceptance of a gift or donation would be unauthorized.

Frequently new laws apparently unrelated to Government activities present problems affecting civilian employees of the Government. Such a case involved the Uniform Time Act of 1966.³² A certifying officer of the Bonneville Power Administration requested a decision as to the propriety of certifying a voucher for additional per diem for an employee in a travel status based on daylight saving rather than standard time.³³

²⁸ B-153515, January 4, 1967.

²⁹ B-160762, February 28, 1967; B-160762, June 9, 1967; B-158273, March 7, 1967.

³⁰ E-147767, May 12, 1967.

³¹ B-128527, March 7, 1967.

³² Public Law 89-387, approved April 13, 1966, 80 Stat. 107.

³³ 46 Comp. Gen. 213.

During the year the question of the payment of parking meter fees by employees using Government-owned vehicles for official business was reexamined. Views of the Department of Justice concerning its policy not to defend Federal employees charged with failure to pay parking meter fines while driving Government vehicles on official business were obtained. In light of the general construction by State courts that parking meter fees are charged incident to traffic regulation rather than as taxes, street parking meter fees paid by employees using Government-owned vehicles on official business were held to be reimbursable from appropriated funds.³⁴

GOVERNMENT CONTRACTS

Contract decisions continued to represent the largest segment of the legal work of our Office. During fiscal year 1967, 1,453 contract cases were considered. A major portion of this total were decisions involving bid protests. As Chairman Andrews of the Subcommittee on Legislative Branch Appropriations, Committee on Appropriations, House of Representatives, observed during the 1968 Appropriation hearings, "the General Accounting Office is the **only** forum"³⁵ that an aggrieved bidder has to get an independent review of a protest incident to the award of a Government contract. Generally, bid protests are made against (1) contracting procedures, (2) determinations of bid responsiveness and (3) determinations of bidder responsibility.

During the fiscal year, considerable time was spent reviewing procedures for the handling and expediting of bid protest cases. At the request of the House Committee on Government Operations, regulations were promulgated covering bid protest procedures of the General Accounting Office for inclusion in the Code of Federal Regulations.³⁶

The significant consequence of our review of bid protests is the pointing up of problem areas which should be corrected. While the status of work already performed under a protested contract does not always permit cancellation of the contract because of the interests of the Government, future procurement actions can be corrected and improved.

For example, a protest to a negotiated procurement for crash helmets urgently needed pointed up the possibility that the method of evaluation of delivery schedules could result in an award to an offeror proposing the best delivery time rather than to the offeror on the basis of the best price.

³⁴ B-147420, January 23, 1967.

³⁵ Hearings before the Subcommittee on Legislative Branch Appropriations, Committee on Appropriations, House of Representatives, on Legislative Branch Appropriations for 1968, Page 679.

³⁶ 32 F.R. 11313.

The procuring agency was advised that a more meaningful and appropriate method of evaluation of competing delivery schedules should be used in future procurements.³⁷

Another bid protest decision showing a need to improve delivery date requirements in invitations was one involving a procurement of steel wardrobe lockers for a Veterans Administration hospital. Although an award to the low bidder was determined to be improper because of the unclear delivery provisions, it was determined cancellation would not be in the interests of the Government. However, since unclear delivery terms result in uneven and unpredictable treatment of bidders, the agency was advised to redraft its invitation for bids.³⁸

Although a protest against cancellation of an invitation for painting of family quarters at an Air Force Base and the readvertisement of the need under revised specifications was denied, consideration of the case reflected the need for procedural changes in cases of awards subject to the Davis-Bacon Act. In the initial procurement in this case bids were not opened until 10 days before expiration of the wage rate determination. It was suggested to the Department of Defense that a regulation should require contracting officers as soon after bid opening as they become aware that award might not be feasible before the wage rates expire to promptly request an extension from the Secretary of Labor.³⁹

As a result of two protests against procurement practices in the award of contracts for propeller systems for new high speed tank landing vessels (LSTs), the contracting agency was advised that if standardization of equipment is required in a two step procurement a statement to that effect in the invitation for bids would have been conducive to stronger competition and lower pricing. Hence in future invitations it was recommended that the requirement be spelled out at the beginning of the procurement.⁴⁰

A protest by the manufacturer of a "brand name" item for failure to be afforded an opportunity to submit a proposal led to the discovery of several other deficiencies in the particular procurement. The contracting agency was advised that even when utilization of the "public exigency" exception to formal advertising was justified, proposals should be solicited from the maximum number of qualified sources. The failure to solicit a proposal from the manufacturer of the brand name was determined to be an improper denial of an opportunity to compete. Further, since in this particular case the contracting officer solicited quotations only from small business, this made the procurement a 100 percent small business set aside

³⁷ 46 Comp. Gen. 22.

³⁸ E-160909, April 19, 1967.

³⁹ B-160910, June 2, 1967.

⁴⁰ E-159469, B-160265, March 22, 1967.

contrary to the agency determination that the award should not be set aside for small business. Steps to prevent a recurrence of the deficiencies were recommended to the agency.⁴¹

Another questionable procurement concerned a protest that a **bidder** for furnishing security guard services under a multiyear contract was not a responsible bidder because of failure to have security clearances for the personnel performing the services. In this case the protesting bidder was low on a 1-year contract basis but was unable to obtain the necessary security clearance in the short time allowed between a preaward survey and award. Since the protestant did not bring the deficiencies to the attention of our Office until several months after award and since the bidder's carelessness in clarifying his bid contributed to the problem, cancellation of the contract was not warranted. However, the contracting agency was advised to discontinue multiyear type contracts for services until a study of the desirability of such contracts was made and appropriate instructions promulgated. The procurement raised questions concerning responsibility for the initiation of necessary security clearance procedures so that in the future prospective contractors are afforded sufficient time to satisfy security requirements.⁴²

The use of a multiyear "total package" procurement for research and development of prototype units and for follow-on production was questioned following a review of a protest under a procurement of electronic communications equipment. The use of the formal advertising exception in 10 U.S.C. 2304(a) (11), to negotiate such type contract was determined to be inconsistent with the applicable Armed Services Procurement Regulation.⁴³

A protest by one of two suppliers listed under a Federal Supply Schedule contract for film inspection machines revealed an illegal use of the FSS contract procedure by a military procurement activity. In this case it was found that the procurement agency split its needs into three orders to circumvent the mandatory maximum amount of \$50,000 in the FSS contract. The procurement was held to be tantamount to a sole-source negotiated procedure without the necessary justification. Since delivery had been accomplished the validity of the orders could not be questioned but the procuring agency was advised that objection would be made to any future procurements where the aggregate cost exceeded the FSS contract limitation.⁴⁴

These examples are detailed to indicate some of the deficiencies in contracting procedures revealed as a result of consideration of bid protests by the General Accounting Office.

⁴¹ E-160332, January 9, 1967.

⁴² B-160576, June 13, 1967.

⁴³ B-160524, March 2, 1967.

⁴⁴ B-159493, March 28, 1967.

Other contract matters referred for consideration in 1967 included the tentative approval of a new regulation relating to procurements involving patented items by the National Aeronautics and Space Administration. The proposed regulation would permit NASA to secure a preprocurement license from a patent holder prior to a proposed procurement. A royalty would be established which would be payable to the patent holder if the item were procured from an unlicensed source. The amount of the royalty or license payment would be added to the bid of an unlicensed supplier in bid evaluation. Under this procedure it is believed that a more realistic method in determining the most advantageous price will be possible.⁴⁵

Another contract decision dealt with the applicability of the Buy American Act⁴⁶ to pump units containing foreign-made electric motors which units were installed in a central air conditioning system for a Veterans Administration facility. It was held that the foreign-made motors mounted and aligned to pumps in a domestic plant did not violate the Buy American Act and that the prime contractor for the air conditioning system who was required to replace the foreign-made motors was entitled to replacement costs.⁴⁷

Another Buy American Act decision was one issued at the request of the Post Office Department. It was held that the leasing of vehicles for city mail delivery service came within the concept of "purchase" as used in the act so that the Buy American Act **was** for application.⁴⁸ Subsequently, the Post Office Department inquired **as** to whether bids offering foreign-made vehicles could be rejected for reasons of "national interest" pursuant to section 3 (a) of Executive Order No. 10582. The Department **was** advised that low bids for foreign-made vehicles could not be rejected under the Executive order authority and that the determinations required under **the** Buy American Act were to be followed.⁴⁹

In our report last year we mentioned the litigation in the *Hewlett-Packard Company* case involving the right of GAO to have access to the records of a Government contractor. Following the District Court decision in favor of the Government, the contractor filed an appeal with the United States Circuit Court of Appeals for the 9th Circuit. Representatives of our Office conferred with Department of Justice attorneys concerning the Government's briefs and assisted in work preparatory to the presentation of oral arguments before the Court of Appeals.

⁴⁵ 46 Comp. Gen. 205.

⁴⁶ 41 U.S.C. 10b.

⁴⁷ B-161061, May 21, 1967.

⁴⁸ 46 Comp. Gen. 47.

⁴⁹ B-156082, May 1, 1967.

MILITARY PAY AND ALLOWANCES

The decisions in each assignment group reflect the changes in emphasis of Government activities. In the case of decisions relating to the military services, there were numerous submissions involving questions arising incident to active duty in fiscal year 1967 as a result of the escalated activity in the armed services. Some of these military active duty questions included submissions from the Secretary of Defense as to whether injuries resulting from para-sail activities, a new training device for pilots and navigators to acquaint them with parachute landing techniques, could be considered a hazardous duty to entitle members to continue to receive flight pay;⁵⁰ whether breaks in service of less than 3 months would preclude payment of a variable reenlistment bonus for enlisted members;⁵¹ and whether quarters allowances and family separation allowances would be payable when a member's dependents evacuated from a danger area are assigned quarters in Government housing at safe haven areas.⁵²

Following enactment of a law providing a more attractive savings program for members of the uniformed services stationed overseas, the Department of Defense asked whether the law would permit the head of a department to deposit to a savings account the unallotted current pay of members who, while assigned overseas, are officially determined to be in a missing status.⁵³

Another new law under which proposed regulations were submitted for decision was Public Law 89-680,⁵⁴ extending time limits for travel of members to their homes of selection upon retirement. The Secretary of the Navy requested advice as to whether the regulations could be made applicable to certain members who had retired prior to the effective date of the law but who had not exercised their travel and transportation rights under prior regulations.⁵⁵

A problem the Department of Defense encountered in implementing the provisions of the Military Medical Benefits Amendments of 1966,⁵⁶ was the subject of a decision as to whether retired members living outside the United States are entitled to medicare or whether they could continue to receive civilian hospital benefits under the Uniformed Services Health Benefits Program. A review of the legislative histories did not support the conclusion that military retirees and their dependents outside the United States were entitled to any greater benefits than other retirees

⁵⁰ B-161323, June 23, 1967.

⁵¹ B-160845, April 12, 1967.

⁵² B-144839, June 21, 1967.

⁵³ 46 Comp. Gen. 340

⁵⁴ Public Law 89-680, approved October 15, 1966, 80 Stat. 957.

⁵⁵ B-126158, April 26, 1967.

⁵⁶ Public Law 89-614, approved September 30, 1966, 80 Stat. 862.

and therefore entitlement to benefits under the new military health program could not be extended to such retirees.”

A military decision in the management procedure area was one to the Secretary of Defense approving a new procedure for the establishment of retired pay accounts for members who are retired for physical disability. The new procedure, which would speed up the processing of retired pay accounts and eliminate considerable paperwork for the Departments, was approved on the basis that the election documentation required under the law was obtained.⁵⁸

TRANSPORTATION

The decisions and litigation reports handled by the attorneys assigned to the transportation area involve many technical matters relating to the interpretation of tariffs and rate tenders, computation of charges for air, motor, rail, and ocean carrier services, and matters relating to loss and damage to property shipped for the account of the Government. The Department of Justice continued to avail itself of our technical-legal assistance in the prosecution and defense of transportation suits by and against the United States in the Federal Courts and before the Interstate Commerce Commission.

A transportation case in which our Office had actively participated and which was concluded in favor of the Government during fiscal year 1967 was the case of *Great Northern Railway Company v. United States*.⁵⁹ The issue involved was the proper classification for transportation purposes of ammunition for 120 mm. M-1 anti-aircraft guns and it was held that item 1835 of the Consolidated Freight Classification for Cartridges Cannon Blank and the commodity rate for ammunition fixed for cannon was proper.⁶⁰

Considerable work was done in connection with a large number of petitions filed in the Court of Claims by various freight forwarders of used household goods to recover transportation charges. The two main cases selected for trial of the issues are *Trans Ocean Van Service v. United States*⁶¹ and *Global Van Lines v. United States*.⁶² These cases represent some 114 suits on approximately 235,000 shipments estimated to represent a potential Government liability of \$80 million if the plaintiffs prevail. Members of the Office participated in pretrial conferences, furnished reports on the issues and defenses, and accompanied representatives of

⁵⁷ B-161150, June 8, 1967.

⁵⁸ B-161164, May 31, 1967.

⁵⁹ Ct. Cl. No. 247-62, decided January 20, 1967.

⁶⁰ B-149542.

⁶¹ Ct. Cl. No. 137-66, B-159092.

⁶² Ct. Cl. No. 259-65, and No. 355-65, E-157840.

the Department of Justice to various military installations to interview potential witnesses and to analyze the necessary evidence.

Another case, a suit brought by the Government, in which our attorneys actively participated during this fiscal year was *United States v. Mitchell Brothers Truck Lines* pending in the United States District Court for the District of Oregon.⁶³ The main issue is whether all or any part of a cargo of structural forms was misdescribed on the bills of lading **and** whether **the** carrier has established by a **preponderance of evidence** that the articles were properly describable as "Racks, NOI" for transportation charge purposes. An attorney from our Office was assigned to assist in the Government's case and in the preparation of necessary briefs.

Among the transportation decisions rendered in 1967 was one to the Department of Defense on behalf of the Military Sea Transportation Service as to whether a claim of an ocean carrier for freight for the transportation of 44 tractors destined for India should be paid. The cargo had been seized by the Pakistani Government during the 1965 hostilities between Pakistan and India. It was held that since the delivery of the tractors was not accomplished payment could not be allowed.⁶⁴

The United States Information Agency requested permission to deposit an amount representing a collection from a motor carrier for damages to a shipment of electrical equipment to its appropriation account. The Agency, relying on a decision rendered on March 17, 1915,⁶⁵ urged that since the equipment was purchased from no-year appropriations, the collection should be returned to the appropriation account. The Agency was advised that since the amount collected from other funds due the carrier could not be regarded as freight on the particular shipment on which the damage occurred, the amount must be credited to miscellaneous receipts. The fact that "no year" funds were involved was held to have no effect and the general rule that recoveries from carriers for loss and damage to Government property are for deposit to miscellaneous receipts governed the situation.⁶⁶

Another loss and damage case required the evaluation of evidence concerning damages to a shipment of B-70 aircraft tires for the Air Force. While the carrier claimed that the tires were not properly wrapped the inspection reports indicated that the damages were caused by the manner in which they were mishandled in the course of shipment. Accordingly, it was held that the carrier, having failed to meet the burden of proof for establishing damages resulting solely from the improper wrapping, was held liable for the claim.⁶⁷

⁶³ Civil Action No. 65-462; B-156345.

⁶⁴ 46 Comp. Gen. 164.

⁶⁵ 21 Comp. Dec. 632.

⁶⁶ 46 Comp. Gen. 31.

⁶⁷ 46 Comp. Gen. 51.

At the request of the Louisville and Nashville Railroad Company in connection with claims for additional transportation on shipments for export for the Department of the Army, the legislative history of the act limiting the time for bringing actions under the Interstate Commerce Act and the Transportation Act of 1940, as amended,⁶⁸ was reviewed. We concluded that the 3-year statute of limitations on the right of the Government to deduct overcharges was intended to run from the date of an initial payment to the carrier or from the date of a supplemental payment.⁶⁹

When a claim being considered by the Office involves jurisdictional questions affecting other Government agencies, the vehicle used to apprise other agencies of the determination is through the issuance of a so-called "open" decision, one that is not directed to any particular agency or officer. One such decision rendered in 1967, concerned a reclaim by a rail carrier (Reading Company) for an amount withheld for a shortage and damage to a Government shipment and involved issues affecting the compromise authority of departments and agencies under the Federal Claims Collection Act of 1966.⁷⁰ It was held that the administrative deduction of the loss and damage claim did not effect the payment of the Government's claim so that it could be compromised under the 1966 act and that the 3-year statute of limitations was not applicable because the withholding was not for recovery of an overcharge but was a withholding under the general right of setoff belonging to every creditor.⁷¹

LEGISLATION

The legislative work accomplished during fiscal year 1967 is included in Chapter Two under the heading Assistance to the Congress. A selected list by subject of substantive reports and letters to Congressional committees and to Members of Congress is included in Appendix C beginning on page 271. Also in the appendix are excerpts from laws enacted during fiscal year 1967 affecting the work, jurisdiction, and responsibility of the General Accounting Office. See Appendix B, page 163.

RESEARCH SERVICES

Departments and agencies are kept informed of significant decisions as they are issued by the general distribution of advance copies, digests,

⁶⁸ Public Law 85-762, 72 Stat. 859, 49 U.S.C. 66.

⁶⁹ 46 Comp. Gen. 223.

⁷⁰ Public Law 89-508, approved July 19, 1966, 80 Stat. 308.

⁷¹ B-161219, May 12, 1967, 46 Comp. Gen. 801.

LEGAL SERVICES

and *the* publication of monthly pamphlets. An annual volume of published decisions is compiled each year.

Information on our unpublished decisions is made available to Government agencies by publication of quarterly digest pamphlets on the following subjects: (1) Appropriations and Miscellaneous, (2) Civilian Personnel, (3) Contracts, (4) Pay and Allowances of the Uniformed Services, and (5) Transportation.

A cumulative citation and subject card index is maintained on all decisions. Research services are furnished upon request.

Recruiting, Staff Development, and Personnel Management Program

RECRUITING, TRAINING, AND STAFF DEVELOPMENT

To discharge the responsibilities placed upon us by the Congress and to maintain the professional stature of our Office, it is essential that we maintain a highly qualified professional staff. We are continuously seeking the better graduates from the colleges and universities which have excellent educational standards. Most of the graduates we employ are in the field of accounting but several newly hired staff members are from other related fields of concentration.

Immediately upon coming with us, the newly hired staff member is assigned to a specially designed training program to orient him in the activities of the Federal Government and to the work of our Office. By this approach, we bridge the gap between the education obtained in the classroom and the actual audit and management review assignments which the new employee will encounter. In addition, professional **training** programs are given at various intervals as the staff member progresses with the Office. These courses are designed to increase the professional talents of the individual member and the professional **skills** of the staff as a whole. Professional training programs are also designed to specifically fit the needs of staff members at the supervisory levels for the purpose of keeping them current in professional and technological advancements in the field of management and accounting and auditing.

We continued to use the services of leading educators from some of our foremost universities to assist us in formulating a program to obtain and develop an outstanding staff of professional accountants and auditors. They have counseled and advised us in establishing an overall long-range program for recruiting, training, and developing the members of our staff. *Also*, they have advised and assisted us in encouraging continuing academic support for a program aimed at maintaining our staff at required levels.

Educator-consultants who were of assistance to us in this manner during the year were:

Prof. Raymond C. Dein, Department of Business Organization and Management,
College of Business Administration, The University of Nebraska.
Dean Charles E. Johnson, College of Liberal Arts, University of Oregon.

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Dean Frank S. Kaulback, Jr., McIntire School of Commerce, University of Virginia.

Dean James R. McCoy, College of Commerce and Administration, The Ohio State University.

Prof. Herbert E. Miller, Department of Accounting and Financial Administration, Graduate School of Business Administration, Michigan State University.

Prof. Gerald K. Nelson, College of Business Administration, The Pennsylvania State University.

Mr. Alfred M. Pelham, Assistant Vice President for Finance, Wayne State University, Detroit, Mich.

Prof. Williard E. Stone, College of Business Administration, University of Florida.

Prof. Herbert E. Taggart, School of Business Administration, University of Michigan.

Recruiting—Professional Staff

By experience we have determined that staff members recruited from colleges and universities develop rapidly to positions of responsibility and maintain the high professional standards required in our work. We, therefore, are of the opinion that the majority of new professional staff members should be recently graduated students of very high quality.

A total of 324 students, 273 men and 51 women, with degrees from 199 different colleges and universities—located in 46 States and the District of Columbia—started their professional careers with us during the last fiscal year. Of this number, 10 were employed from fields other than accounting, including two Management Interns. Also, 63 staff members who had been separated for military service returned from the service. Of the 63, 41 were separated and then returned from the service during the fiscal year 1967 and 22 returned who had departed for military service during prior fiscal years. We also appointed 30 staff members from Government, private industry, and public accounting, and reassigned nine staff members from other classifications during the year. The total separations for the year amounted to 380.

In summary, the total professional staff on hand as of July 1, 1966, 2,379, plus the net additions of 46 brought our total professional staff as of June 30, 1967, to 2,425 staff members. In addition, we had 146 staff members in military service as of the same date. We expect most of these to return to the Office upon completion of their service.

The demand for accountants graduating from the colleges and universities continues to increase. The effect of an increase in demand and an almost constant supply results in vigorous competition between government, private industry, and public accounting which makes our recruiting efforts increasingly difficult in the light of the conditions under which we recruit.

We employed 11 attorneys during the year to replace those separated as a result of transfers and retirements. We will continue to recruit a limited number of attorneys although no overall increase in our legal staff is planned.

We continued our association with college and university faculty members and steps were taken to increase our participation in the activities of professional organizations. We continued our series of programs held for university and college faculty members to acquaint them with the professional quality of our work and to obtain their assistance in our recruiting efforts. One hundred and two faculty members, including deans and placement officers, from colleges and universities throughout the country attended 10 of these sessions during the year.

We inaugurated a new program for selected accounting students similar to the program for university and college faculty members. Eight programs were conducted during the fiscal year to acquaint students with our accounting and auditing operations. A total of 96 accounting students from universities and colleges throughout the country attended these sessions during the year.

Recruiting —Technical Staff

We made considerable progress in recruiting freight transportation specialists to replenish our technical staff. Our principal source of recruitment was from an unassembled Freight Rate Specialist examination for grades GS-7 and GS-9 which was announced on November 15, 1966, and conducted by the Interagency Board of United States Civil Service Examiners. We hired 15 well-qualified rate specialists at the journeyman grade GS-9 and one at GS-7 through this medium. In addition, 10 freight transportation specialists transferred to us from other Government agencies and four were hired from a Civil Service Commission certificate of eligibles.

Training —Professional Staff

During the past few years, as a part of our planned professional development, we have developed a series of coordinated training programs within the General Accounting Office designed to meet the varied needs of our professional staff in developing their capabilities to the fullest. In all of our formal training programs, conceptual understanding of the complex and varied subject matter areas is one of our basic objectives. We accomplish this through programs employing lectures and case situations to develop such understanding along with a knowledge of the policies, procedures, and techniques to do the work of the Office.

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The following tabulations show the various programs given within the General Accounting Office and the courses attended by staff members in other Government agencies or non-Government facilities during the fiscal year 1967.

A. Training Given Through General Accounting Office Facilities

Number of Times Given	Name of Training Program	Length of Program	Total Number Attending Programs
3	GS-7—Regional offices.....	16 days..	100
4	GS-7—Washington.....	16 days..	151
2	Intermediate—Denver.....	10 days..	78
5	Intermediate—Washington.....	10 days..	182
6	Financial management.....	10 days..	180
7	Basic computer systems principles program— instruction course, Washington— Number completing course..	Approximately 2 months. .....	..... 300
12	Basic computer systems principles program— med instruction course, regional offices— Number completing course.....	Approximately 2 months. .....	..... 367
1	Advanced accounting and auditing study, Washington. Advanced accounting and auditing study, regional offices—	18 weeks.....	42
1	Denver.....	18 weeks.....	22
1	Los Angeles.....	18 weeks..	28
1	San Francisco.....	18 weeks..	27
1	Seattle.....	17½ weeks..	21
2	Advanced seminar—Washington.....	2 days..	64
	Total.....	.....	1,562

B. Training Given Through Agency or Non-Government Facilities

Number of Courses	Name of Course	Length of Course	Total Number Attending Courses
CIVIL SERVICE COMMISSION			
12	Planning, Programming, Budgeting Systems—Executive Orientation.	2 days.. .. .	19
8	Planning, Programming, Budgeting System	15 days.. .. .	8
4	Systems Analysis.	3 to 7 days.. ...	5
9	Principles and Practices of Auditing in the ADP Systems Environment.	15 days.. .. .	11
7	Executive Seminar in ADP.	2 days.	13
	Supervisory Training..	Various.	32
42	Miscellaneous courses such as Management, Operations Research, and others.	Various.	29
DEPARTMENT OF DEFENSE			
10	Auditing Data Processing Systems..	15 days.. .. .	18
4	Auditing of ADP Systems..	10 days.	7
24	Miscellaneous courses, including such areas as Operations Research, Contracts, Research and Development, Management, etc.	Various.	30
OTHER GOVERNMENT AGENCIES			
10	Miscellaneous subject areas such as contracting, procurement, country studies.	Various.	15
MACHINE MANUFACTURING COMPANIES			
3	Executive Computer Concepts.	6½ days.. .. .	3
12	Automatic Data Processing Courses.	Various.	12
INSTITUTIONS, SERVICE AND PROFESSIONAL ORGANIZATIONS			
10	Auditing of EDP Installations.	2 days.. .. .	18
10	Miscellaneous courses, such as mathematics management, automatic data processing etc.	Various.	11

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B. Training Given Through Agency or Non-Government Facilities— Con.

Number of Courses	Name of Course	Length of Course	Total Number Attending Courses
COLLEGES AND UNIVERSITIES			
	A. Management Development:		
2	Programs for Management Development.	16 weeks.. ..	2
1	Advanced Management Program.. ..	13 weeks.. .. .	1
1	Executive Development Program.. ..	4 weeks.. .. .	2
1	Executive Development Program.. ..	8 weeks.. .. .	1
1	Executive Development Program.. ..	6 weeks.. .. .	2
1	Executive Development Program.. ..	6 weeks.. .. .	1
1	Executive Development Program.. ..	2 weeks.. .. .	4
3	B. Mid-Career Education Program for Systematic Analysis.	9 months.. .. .	3
	C. Other Courses:		
4	Systems Design.	Semester.	4
20	Automatic Data Processing.	Semester.	22
7	Mathematics and Statistics.	Semester.	7
3	Contracts.	Semester.	3
14	Management	Semester.	14
3	Management Information Systems.. .	Semester.....	3
9	Miscellaneous Courses.	Semester.	9
	Total .....	.....	307

A brief description of the objectives of these programs follows:

A. Training Given Through General Accounting Office Facilities

1. **GS-7-9** Training Program.—The objective of this program, introductory training, is to orient new employees to the organization, functions, **rules**, policies, and procedures of the General Accounting Office and to the fiscal, legal, accounting, and management processes of the Federal Government. This training program, which is given in three phases totaling 16 days, is intended to bridge the gap between education in accounting and related fields obtained in the colleges and the more specific professional needs new employees **will** encounter on actual audit assignments.

2. Intermediate Training Program, *GS-9-II*.—The objective of this program is to present to the professional staff members in grades GS-9-11 more formal training in the application of the accounting and auditing

policies and procedures of the Office. The program, which includes a 2-week course and several seminars, specifically covers the following: Complex audit situations stressing judgment factors and problem-solving techniques, the techniques and phases of carrying out audit work, the review of accounting systems, the audit of automatic data processing systems, and supervisory techniques applying to the work performed.

3. Automatic Data Processing Training Course.—The objective of this course is to provide special training in (1) automatic data processing principles and procedures, and (2) related audit responsibilities and techniques. The basic course in automatic data processing—a programmed instruction course—has been developed by a machine manufacturer.

4. Financial Management *Systems* Training.—With the increased emphasis upon the improvement of financial management in the Federal Government, the Office has designed a 2-week course on financial management systems training for GAO staff members.

The objective of the course is to provide staff members with an understanding of management systems with special emphasis upon financial management systems.

The course covers the subject areas of planning, programming and budgeting systems; review and approval of accounting systems; cooperation with agencies in the design and installation of accounting systems; and the review of financial and management information systems. This course has been given to 180 supervisory accountants during the year.

5. Advanced Accounting and Auditing Study Program.—This program is primarily designed to prepare staff members to do a better job on their day-to-day assignments and to assist those who are interested in taking the CPA examination to attain recognition as a professional accountant by passing the examination.

B. Training Given Through Agencies or Non-Government Facilities

In those cases where it is not feasible to train staff members in highly technical subject areas which increase the professional capabilities of the staff members, it is necessary to provide them with training outside of the General Accounting Office. The need for keeping pace and adapting to constant and rapid changes in the profession generally, and in the Federal Government specifically, presents a continuing challenge to the Office. In GAO's broad responsibilities for evaluating the efficiency, economy and effectiveness of management performance, it is essential that our staff be well-informed in modern management systems for planning, control, and decisionmaking. Therefore, in addition to our in-house training,

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we assign staff members for formal training, both professional and special purpose training in colleges, universities, other agencies, and inter-agency programs conducted by the Civil Service Commission.

The special training of staff members in the related audit responsibilities and techniques in an ADP systems environment is provided through an inter-agency course conducted by the Civil Service Commission. The General Accounting Office assigned a professional staff member full-time to assist in the development of this course on principles and practices of auditing in the ADP systems environment. Two GAO professional staff members are assigned full-time as instructors in the course. GAO staff members on a selective basis are assigned to this training course given in Washington and on the West Coast.

During the year, 13 members of our staff took part in either Advanced Management or Executive Development Programs conducted by Harvard University, Graduate School of Business Administration; University of Michigan, Graduate School of Business Administration; Stanford University, Graduate School of Business; Cornell University, Graduate School of Business and Public Administration; and the University of Pittsburgh, The Graduate School of Business. Eight of the participants occupied top or senior management positions in our regional offices and five occupied similar positions on our Washington staff.

Further, in order to increase our professional capability in the area of planning, programming, and budgeting systems, we sent three upper-level staff members to a mid-career education program for systematic analysis to three different universities for a full school year. These staff members will assist in training others, assist the audit staff, and cooperate with the agencies in their specialized areas.

To take care of our operational needs during the fiscal year ended June 30, 1967, staff members were assigned on a selective basis to various subject areas and programs. We assigned a total of 117 staff members to Civil Service Commission courses as follows: Planning, Programming, and Budgeting Systems, 27; Automatic Data Processing, 29; Supervisory Training, 32; and miscellaneous courses, 29. In addition, a total of 174 staff members attended various subject courses or training programs in other Government agencies, and in colleges, universities, service institutions and the like.

Six of our attorneys attended the Procurement Law Course of the Judge Advocate General's School, Charlottesville, Virginia; one attended the Civil Service Commission Executive Seminar Center at Kings Point, New York; and one attended the Program for Supervisors also sponsored by the Civil Service Commission.

Training — Technical Staff

During the year, one official of the Transportation Division attended the Executive Development Program conducted by the Graduate School of Business Administration, University of Michigan. Two officials participated in the Second Executive Seminar on the Computerization of Freight Rates at the University of Wisconsin. Seven employees of the Division completed one or more courses in computer systems orientation, design, and/or programming, for the purpose of developing staff capability to design and program automated management information systems and computer methods of performing the transportation audit.

Career Development

The progress and capability of each professional staff member is constantly being reviewed. This program is carried out in connection with the general control exercised over assignments of the staff and with staff training programs. In addition, we are continuing to work on establishing standards of staff utilization for each grade level in terms of the audit and management review functions as carried out by the General Accounting Office. We are also working on the design and installation of an information system that will more systematically provide data necessary in the management of our professional staff.

Professional Development and Recognition

Many of our staff are members of professional accounting organizations at both National and State levels and actively participate in their affairs. We encourage our staff to continue their professional development.

Thirty-seven members of our staff passed the CPA examination given by State boards during the fiscal year. During the same period, 42 staff members received their CPA certificates based upon their having successfully passed the examination during the present or prior years and completed their experience requirements, and nine staff members who held a CPA certificate rejoined our staff during the year. Four hundred and twenty-four members of our staff are holders of the CPA certificate and 58 others who have passed the required examination will receive their certificates upon completion of their experience requirement.

Many States recognize the professional nature of our work and accept General Accounting Office experience as meeting their eligibility standards required for the CPA Certificate. Included in our total number of CPAs are 252 members of our professional staff who have obtained their CPA certificate on the basis of General Accounting Office experience or education, or both.

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At present, in 40 jurisdictions, our auditors may obtain the CPA certificate on the basis of their experience in the General Accounting Office or upon fulfillment of educational requirements. However, not all States accept GAO experience as qualifying. Recognition of our experience by the remaining States would eliminate the inconsistency now existing, where members of our own staff in some States are afforded the opportunity to obtain the CPA certificate while equally competent and highly qualified professional members of our staff in other States are denied this opportunity. We are constantly working with State boards of accountancy and committees of professional organizations to keep them informed on the professional quality of the work done by the General Accounting Office so as to encourage them to recognize **our** experience **as** acceptable for the certificate. During the past year, the trend toward recognition of our experience was encouraging.

PERSONNEL MANAGEMENT PROGRAM

In keeping with past practices and in order to keep our personnel administration program attuned to constantly changing programs and conditions, we have, throughout the year, continued to review our personnel policies, practices, and procedures. As a result a number of Comptroller General's orders and delegations of authority were revised. At the end of the fiscal year considerable progress had been made in the revision of a number of personnel manuals: (1) the "Employee Responsibilities and Conduct Manual" (Personnel Manual, Part 9) which establishes our internal regulations concerning ethics, conduct and responsibilities of our officers, employees, and special Government employees; (2) the "Grievance and Appeal Procedure Manual" (Personnel Manual, Part 3) which contains the policies and procedures through which an employee may seek administrative reconsideration of an adverse action decision and obtain prompt and fair settlement of a grievance; and (3) the "Leave Manual" which contains the policies and procedures in administering leave in the General Accounting Office. In adjusting and revising our policies and practices, we have worked closely with line supervisors and other employees and have made it a practice to publish our policies, practices, and procedures with the assurance that each employee is afforded an opportunity to inform himself concerning all policies that concern his employment.

Our regular programs of position classification and pay administration, recruitment and placement, employee performance standards and evaluation, employee development, employee-management relations and employee services, and employee recognition and incentives were

administered vigorously throughout the year. Particular items of interest are set forth in the following paragraphs.

Incentive Awards

This program was revised to give increased recognition to the achievements of employees and to encourage even greater individual and group accomplishments. Two new awards were authorized: (1) The Comptroller General's Award to honor individuals or groups of employees whose exceptional contributions to the operations of the General Accounting Office warrant recognition of high order, and (2) The Career Development Award to honor a limited number of employees who by their personal efforts in developing their careers have contributed significantly to the public service. Our first Honor Awards Ceremony was held in our auditorium on June 14 when 118 individual employees were honored for their superior service and two group awards were presented. Similarly, 31 employees received honorary awards in the field. In addition to the honor awards, 145 employees received cash awards for sustained superior performance.

Approximately 83 suggestions were received during the fiscal year 1967 of which 47 were interdepartmental suggestions. Over 10 percent of the General Accounting Office suggestions disposed of during the year were adopted and approximately 6 percent of the interdepartmental suggestions disposed of during the year were adopted. Cash awards were granted in each case.

High standards of excellence were also recognized by awarding 41 employees quality step increases for high quality performance above that ordinarily found in the positions concerned.

Recruitment and Staffing

The General Accounting Office has continued to hire and promote personnel in accordance with the provisions of the merit system and with the special objective of improving the status of women. This has resulted in our recruiting more professional women accountants and auditors than ever before. During the fiscal year 1967, 51 professional women were hired in the accounting, auditing, and investigative area contrasted to 19 in the fiscal year 1966. As of June 30, 1967, the Office had 1,185 women on our work force with 106 in various professional positions and 124 in a number of transportation specialists positions.

We also participated actively in the summer employment program for typists and stenographers and in the President's Youth Opportunity Program.

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The transfer of our function relating to collection action on debts from our Army Audit Staff in Indianapolis to the Claims Division in Washington, D.C., was completed by the end of the fiscal year. Of the employees assigned to this function in Indianapolis, some were transferred with the function to Washington, others were reassigned within the General Accounting Office in Indianapolis, and still others were transferred to the Department of Army, Army Finance Center, Indianapolis. There was no loss of grade and salary of those transferred and reassigned, and all personnel actions were effective on or before June 30, 1967.

Equal Employment Opportunity

The Office stressed and practiced our policy on equal employment opportunity as stated in Comptroller General's Order No. 1.28. A healthy attitude and high morale is generally reflected by members of the minority groups, and we are pleased to report an increase in occupants of higher grades of persons belonging to minority groups.

In accordance with the request from the Civil Service Commission, our Office cooperated in and implemented the Operation MUST program.

The broad objective of MUST is the maximum utilization of skills and training in order to improve the efficiency of the work force through balanced staffing. The program was explained to heads of divisions and offices, and guidance and assistance were provided to separate from professional and journeyman positions, where possible, lower level duties and those requiring lesser qualifications.

Positive action was taken in the following areas: (1) In an organization staffed largely by attorneys except for support personnel, it was determined that a portion of the line work could be performed by legal assistants, **and** several **such** positions were established; (2) in our Transportation Division which is primarily engaged in the auditing of transportation charges against the Federal Government, lower level, routine, and detailed work was "shredded" from Freight and Passenger Rate Specialists, Traffic Managers, and other technical positions in an effort to accomplish a greater volume of work with fewer technicians; (3) in the wage board category, helper levels were established for the bindery and carpenter work, and a lower grade entrance level was created for offset press operators; and (4) trainee positions were established for clerk-typists and clerk-stenographers. Refresher courses were provided in typing and stenography where it appeared that employees and the agency would benefit.

Employee Health Benefits Program

In the area of health benefits and services, the Office of Personnel administered the Federal Health Benefits Program, assuring that all eligible employees were afforded the opportunity to participate, and counseled employees on individual problems arising under the Program. Through the facilities of the Public Health Service, arrangements were made for immunization and testing programs for employees of the General Accounting Office for visual acuity and glaucoma, diabetes, and cancer screening for females; and a continuing program was established to provide immunization inoculations for influenza, polio, and small pox and tetanus, as well as special inoculations for employees traveling on official business in foreign countries. During fiscal year 1967, 206 employees of the General Accounting Office received physical examinations under our Health Maintenance Program. In cooperation with the American Red Cross, we continued our regular weekly blood donation program, supplemented by visits from the Bloodmobile on two occasions with 150 persons participating. Under the Occupational Health Program, a study was made to determine the availability of health facilities for our employees stationed throughout the country, and efforts were made to provide or improve such facilities where appropriate.

Security Clearance Program

Approximately 400 full-field investigative reports were evaluated and clearances issued to permit those employees access to classified material, and the clearances of approximately 1,200 employees of this Office were reevaluated on a current basis.

APPENDIXES

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APPENDIX A—FUNCTIONS AND ORGANIZATION

APPENDIX A-1
THE UNITED STATES GENERAL ACCOUNTING OFFICE
FUNCTIONS AND ORGANIZATION

The General Accounting Office was created by the Budget and Accounting Act, 1921, and is located in the legislative branch of the Federal Government. Since its establishment, the responsibilities and authorities of the Office have been broadened by various acts of Congress including the Government Corporation Control Act of 1945, and the Accounting and Auditing Act of 1950.

Functions

Under the direction of the Comptroller General of the United States, the General Accounting Office assists the Congress in carrying out its constitutional responsibilities with respect to the expenditure and application of public funds by performing the following functions.

Auditing.—Auditing the activities, financial transactions, and accounts of the Federal Government, except as otherwise exempt by law, and reporting to the Congress and the agencies the results of audit work.

Accounting.—Prescribing principles, standards, and related requirements for accounting; cooperating in the development and improvement of agency accounting and financial management systems; and reviewing and approving agency accounting systems.

Claims settlement.—Settling claims by and against the Federal Government.

Debt collection.—Superintending the recovery of debts owing to the Government and collecting amounts due the Government on adjudicated claims and amounts reported by Government departments and agencies as uncollectible through means available to them.

Legal work.—Rendering decisions at the request of heads of departments and agencies and disbursing and certifying officers on the legality of proposed payments or transactions, which decisions are binding on the executive branch; providing legal analysis and service on pending legislation before the Congress and interpreting existing legislation on matters involving doubt concerning the authority of the heads of Government agencies to undertake certain proposed actions.

Special assistance to the Congress.—Making special audits, surveys, and investigations at the request of congressional committees and Members of Congress; furnishing information in reply to inquiries; assigning personnel to assist congressional committees; and testifying before congressional committees.

Records management and services.—Preserving and servicing disbursing officers' accounts, vouchers, certificates, and related papers until disposed of as provided by law.

Organization

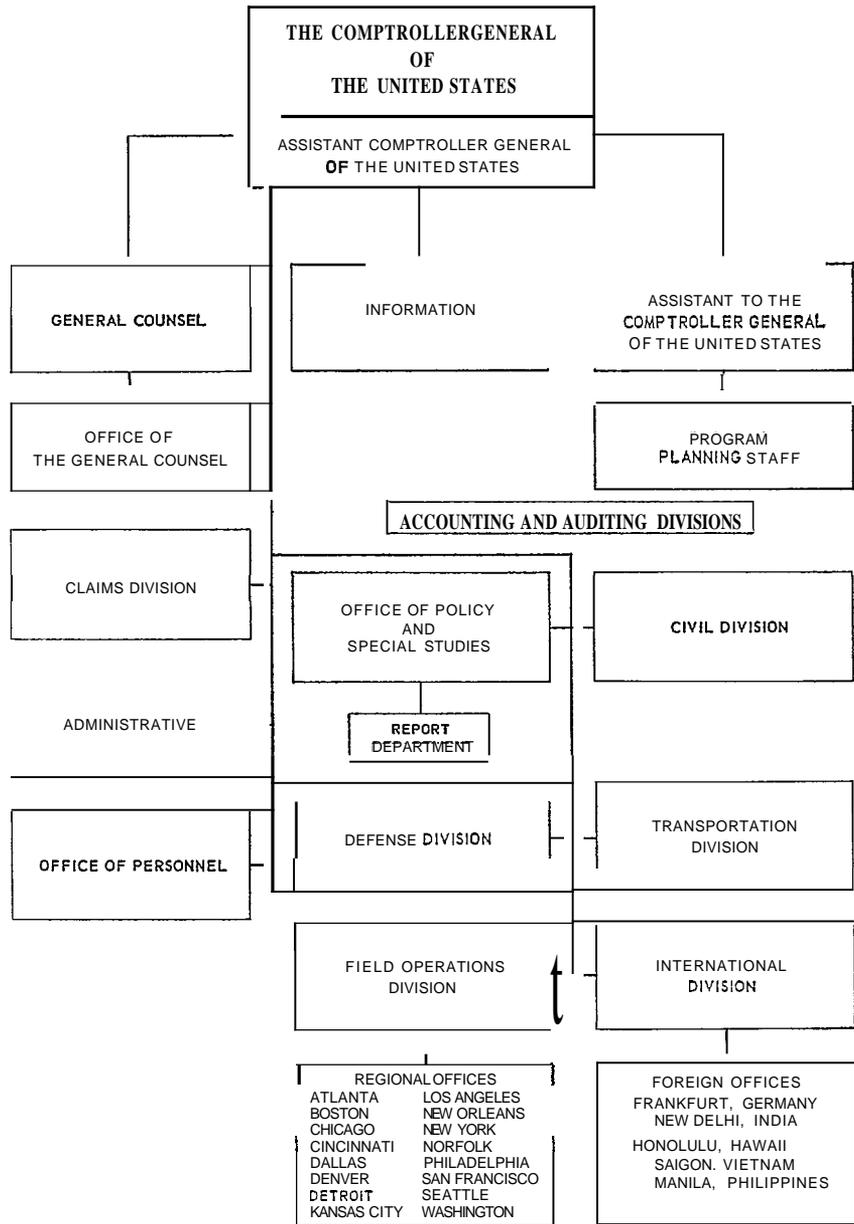
The General Accounting Office is organized into the following divisions and offices. The directors of these organizations are directly responsible to the Comptroller General for carrying out the functions assigned.

Accounting and auditing functions:
Office of Policy and Special Studies
Civil Division
Defense Division
International Division
Field Operations Division
Transportation Division
Legal work:
Office of the General Counsel
Claims adjudication and settlement:
Claims Division
Personnel and administrative functions:
Office of Personnel
Office of Administrative Services

In addition to the headquarters office in Washington, **D.C.**, **44** regional and sub-regional offices of the Field Operations Division are maintained in cities throughout the United States. The International Division has a branch office in Frankfurt, Germany, with a suboffice in New Delhi, India; and a branch office in Honolulu, Hawaii, with suboffices in Saigon, Vietnam, and Manila, Republic of the Philippines.

An organization chart for the General Accounting Office and a map showing the locations of the regional offices and the regional boundaries are shown on the following pages.

UNITED STATES GENERAL ACCOUNTING OFFICE



APPENDIX B—LEGISLATION AFFECTING THE WORK OF THE
GENERAL ACCOUNTING OFFICE ENACTED DURING THE 89TH AND
90TH CONGRESSES, FISCAL YEAR 1967

APPENDIX B

LEGISLATION AFFECTING THE WORK OF THE GENERAL ACCOUNTING OFFICE ENACTED DURING THE 89TH AND 90TH CONGRESSES, FISCAL YEAR 1967

Access to Records and Audit Provisions

(1) Act of November 2, 1966, To authorize the Secretary of the Interior to develop, through the use of experiment and demonstration plants, practicable and economic means for the production by the commercial fishing industry of fish protein concentrate, Public Law 89-701, approved November 2, 1966, 80 Stat. 1089, contains the following access to records provision:

“Sec. 2. (c) All contracts entered into pursuant to subsection (b) of this section shall include a clause to the effect that the *Comptroller General of the United States* or any of his duly authorized representatives shall until the expiration of three years after final payment have access to and the right to examine any directly pertinent books, documents, papers, and records of the contractor or any of his subcontractors engaged in the performance of and involving transactions related to such contracts or subcontracts.” (80 Stat. 1090)

(2) Allied Health Professions Personnel Training Act of 1966, Public Law 89-751, approved November 3, 1966, 80 Stat. 1222, contains the following access to records provision:

“Sec. 796. (b) The Secretary of Health, Education, and Welfare and the *Comptroller General of the United States*, or any of their duly authorized representatives, shall have access for the purpose of audit and examination to any books, documents, papers, and records of the recipient of any grant under this part which are pertinent to any such grant.” (80 Stat. 1230)

(3) Act of November 6, 1966, To grant the consent of Congress for the States of Virginia and Maryland and the District of Columbia to amend the Washington Metropolitan Area Transit Regulation Compact to establish an organization empowered to provide transit facilities in the National Capital Region and for other purposes and to enact said amendment for the District of Columbia, Public Law 89-774, approved November 6, 1966, 80 Stat. 1324, contains the following access to records provision:

“Sec. 6. (d) In carrying out the audits provided for in section 70(b) of the Compact the representatives of the *General Accounting Office* shall have access to all books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the Board and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositories, agents, and custodians.” (80 Stat. 1353)

(4) Veterans Hospitalization and Medical Services Modernization Amendments of 1966, Public Law 89-785, approved November 7, 1966, 80 Stat. 1368, contains the following access to records provision:

“Sec. 203. (38 U.S.C. 5055(f)) The Administrator and the *Comptroller General of the United States*, or any of their duly authorized representatives, shall have access, for the purpose of audit and examination, to any books, documents, papers, and records of the recipient of any grant under this section which are pertinent to any such grant.” (80 Stat. 1375)

(5) Economic Opportunity Amendments of 1966, Public Law 89-794, approved November 8, 1966, 80 Stat. 1451, contains the following access to records provision:

“Sec. 202. Section 202(b) of the Act is amended by adding at the end thereof a new sentence to read as follows: ‘Such criteria shall include requirements to assure (1) that each agency responsible for a community action program is qualified to administer such program and the funds granted to it efficiently, *effectively*, and in a manner fully consistent with the provisions and purposes of this part, having due regard for the size and complexity of such program and the number of persons and size of the area served; (2) that each such agency is subject to evaluation of program progress and regular or periodic audits and that the results or findings of such evaluations and audits are considered by the agency as well as by the Director in connection with proposals or applications for the renewal, expansion, or modification of any such program; (3) that each such agency maintains records and internal controls needed to achieve and document compliance with all legal requirements and that all records bearing exclusively on grants made under this part are available to the *General Accounting Office*; (4) that each such program is carried on in accordance with standards and policies, including rules governing the conduct of officers and employees, to preclude the use of program funds, the provision of services, or the employment or assignment of personnel in a manner supporting, or resulting in an identification of such program with, any partisan political activity or any activity designed to further the election or defeat of any candidate for public office; and (5) that the personnel of each such agency are selected, employed, promoted, and compensated in accordance with standards prescribed by the Director, or personnel plans approved by him, as promoting efficiency and the effective use of funds.’” (80 Stat. 1457)

Access to Foreign Assistance Program Records

(6) Foreign Assistance and Related Agencies Appropriation Act, 1967, Public Law 89-691, approved October 15, 1966, 80 Stat. 1018, provides as follows:

“Sec. 402. None of the funds herein appropriated shall be used for expenses of the Inspector General, Foreign Assistance, after the expiration of the thirty-five day period which begins on the date the *General Accounting Office* or any committee of the Congress, or any duly authorized subcommittee thereof, charged with considering foreign assistance legislation, appropriations, or expenditures, has delivered to the Office of the Inspector General, Foreign Assistance, a written request that it be furnished any document, paper, communication, audit, review, finding, recommendation, report, or other material in the custody or control of the Inspector General, Foreign Assistance, relating to any review, inspection, or audit arranged for, directed, or conducted by him, unless and until there has been furnished to the *General Accounting Office* or to such committee or subcommittee, as the case may be, (A) the document, paper, communication, audit, review, finding, recommendation, report, or other material so requested or (B) a certification by the President, personally, that he has forbidden the furnishing thereof pursuant to such request and his reason for so doing.” (80 Stat. 1025)

Audit Exemption for Foreign Contracts

(7) Act of September 27, 1966, To amend title 10, United States Code, to exempt certain contracts with foreign contractors from the requirement for an examination-of-records clause, Public Law 89-607, approved September 27, 1966, 80 Stat. 850, con-

tains the following provisions with respect to the exemption of negotiated contracts in foreign countries from audit requirements:

“Chapter 137 of title 10, United States Code, is amended as follows:

“(1) Section 2310(b) is amended—

“(A) by striking out the words ‘or section 2307(c)’ and inserting the words ‘section 2307(c), or section 2313(c)’ in place thereof; and

“(B) by striking out the words ‘or (4)’ and inserting the words ‘(4) clearly indicate why the application of section 2313(b) to a contract or subcontract with a foreign contractor or foreign subcontractor would not be in the public interest, or (5)’.

“(2) Section 2313 is amended—

“(A) by striking out the word ‘Each’ in subsection (b) and inserting the words ‘Except as provided in subsection (c), each’ in place thereof; and

“(B) by adding the following new subsection at the end thereof:

“(C) Subsection (b) does not apply to a contract or subcontract with a foreign contractor or foreign subcontractor if the head of the agency determines, with the concurrence of the *Comptroller General* or his designee, that the application of that subsection to the contract or subcontract would not be in the public interest. However, the concurrence of the *Comptroller General* or his designee is not required—

“(1) where the contractor or subcontractor is a foreign government or agency thereof or is precluded by the laws of the country involved from making its books, documents, papers, or records available for examination; and

“(2) where the head of the agency determines, after taking into account the price and availability of the property or services from United States sources, that the public interest would be best served by not applying subsection (b).

If subsection (b) is not applied to a contract or subcontract based on a determination under clause (2), a written report shall be furnished to the Congress.’”

“Sec. 2. Section 304(c) of the Federal Property and Administrative Services Act of 1949, as added by the Act of October 31, 1951, chapter 652 (41 U.S.C. 254(c)), is amended by adding the following new sentences at the end thereof:

‘Under regulations to be prescribed by the Administrator, however, such clause may be omitted from contracts with foreign contractors or foreign subcontractors if the agency head determines, with the concurrence of the *Comptroller General of the United States* or his designee, that the omission will serve the best interest of the United States. However, the concurrence of the *Comptroller General of the United States* or his designee is not required for the omission of such clause—

“(1) where the contractor or subcontractor is a foreign government or agency thereof or is precluded by the laws of the country involved from making its books, documents, papers, or records available for examination; and

“(2) where the agency head determines, after taking into account the price and availability of the property or services from United States sources, that the public interest would be best served by the omission of the clause.

If the clause is omitted based on a determination under clause (2) a written report shall be furnished to the Congress. The power of the agency head to make the determination specified in the preceding sentences shall not be delegable.’

“Sec. 3. Section 3(b) of the Act of August 28, 1958 (50 U.S.C. 1433(b)) is amended by adding the following new sentences at the end thereof: ‘Under regulations to be prescribed by the President, however, such clause may be omitted from contracts with foreign contractors or foreign subcontractors if the agency head determines, with the concurrence of the *Comptroller General of the United States* or his designee, that the omission will serve the best interests of the

United States. However, the concurrence of the *Comptroller General of the United States* or his designee is not required for the omission of such clause—

‘(1) where the contractor or subcontractor is a foreign government or agency thereof or is precluded by the laws of the country involved from making its **books**, documents, papers, or records available for examination; and

‘(2) where the agency head determines, after taking into account the price and availability of the property or services from United States sources, that the public interest would be best served by the **omission** of the clause.

If the clause is omitted based on a determination under clause (2), **a** written report shall be furnished to the Congress.” (80 Stat. 850–851)

Audit Provisions

(8) Demonstration Cities and Metropolitan Development Act of 1966, Public Law 89–754, approved November 3, 1966, 80 Stat. 1255, contains the following audit provision for Federal Home Loan Banks and Federal Home Loan Bank Board:

“Sec. 1016. (c)(6) With respect to its functions under this subsection the board shall (A) annually prepare and submit a budget program as provided in title I of the Government Corporation **Control** Act with regard to wholly owned Government corporations, and for purposes of this sentence, the terms ‘wholly owned Government corporations’ and ‘Government corporations’, wherever used in such title, shall include the board, and (B) maintain an integral set of accounts which shall be audited annually by the *General Accounting Office* in accordance with the principles and procedures applicable to commercial corporate transactions **as** provided in such title, and no other audit, settlement, or adjustment shall be required with respect to transactions under this subsection or with respect to claims, demands, or accounts by or against any person arising thereunder. The first budget program shall be for the first full fiscal year beginning on **or** after the date of the enactment of this subsection, and the first audit shall be for the remainder of the fiscal year in which this subsection is enacted. Except as otherwise provided in this subsection **or** by the board, the provisions of this subsection and the functions thereby or thereunder subsisting shall be applicable and exercisable notwithstanding and without regard to the Act of June 20, 1938 (D.C. Code, secs. 5–413–5–428), except that the **proviso** of section 16 thereof shall apply to any building constructed under this subsection, and section 306 **of** the Act **of** July 30, 1947 (61 Stat. 584), **or** any other provision of law relating to the construction, alteration, repair, **or** furnishing of public or other buildings or structures **or** the obtaining of sites therefor, but any person **or** body in whom any such function is vested may provide for delegation or redelegation **of** the exercise of such function.” (80 Stat. 1294)

(9) Department of the Interior and Related Agencies Appropriation Act, 1968, Public Law 90–28, approved June **24**, 1967, contains the usual provision for audit of the Trust Territory of the Pacific Islands:

“* * * *Provided*, That all financial transactions of the Trust Territory, including such transactions of all agencies or instrumentalities established or utilized by such Trust Territory, shall be audited by the *General Accounting Office* in accordance with the provisions of the Budget and Accounting Act, 1921 (42Stat. 23), as amended, and the Accounting and Auditing Act of 1950 (64 Stat. 834): * * *.” (81 Stat. 63)

Appropriations for GAO

(10) The Independent Offices Appropriation Act, 1967, Public Law 89-555, approved September 6, 1966, 80 Stat. 663, provides as follows:

“For necessary expenses of the *General Accounting Office*, including not to exceed \$2,000 to be expended on the certification of the *Comptroller General of the United States* in connection with special studies of governmental financial practices and procedures and including services as authorized by section 15 of the Act of August 2, 1946 (5 U.S.C. 55a), \$48,500,000.” (80 Stat. 669)

(11) The Second Supplemental Appropriation Act, 1967, Public Law 90-21, approved May 29, 1967, provided \$850,000, for increased pay costs. (81 Stat. 51)

Claims Settlement

(12) Act of September 16, 1966, for the relief of certain civilian employees and former civilian employees of the Department of the Navy at the Norfolk Naval Shipyard, Portsmouth, Virginia, Public Law 89-580, approved September 16, 1966, 80 Stat. 794, contains the following relating to filing of claims in GAO:

“That (a) each civilian employee and former civilian employee of the Department of the Navy at the Norfolk Naval Shipyard, Portsmouth, Virginia, who was determined by the *Comptroller General* to have received any overpayment of compensation for the period from March 1, 1953, to January 29, 1965, inclusive, or any portion or portions of such period, resulting from a longevity step increase or increases granted to him through administrative error at such shipyard (which employees are named and the amount of overpayments made to them are set forth in the list appearing in file E154699 of the *Comptroller General*), is hereby relieved of all liability to refund to the United States the amount of all such overpayments (including overpayments of night differential, holiday, and overtime premium pay) made to him. Each such employee or former employee who has at any time made any repayment to the United States on account of any such overpayments made to him (or, in the event of his death, the person who would be entitled thereto under the first section of the Act of August 3, 1950 (50 U.S.C. 61f), if any such repayment or repayments were unpaid compensation) shall be entitled to have an amount equal to all such repayments made by him refunded if application therefor is made to the Secretary of the Navy within two years after the date of enactment of this Act.” (80 Stat. 794)

Federal Claims Collection Act of 1966

(13) Act of July 19, 1966, To avoid unnecessary litigation by providing for the collection of claims of the United States, and for other purposes, Public Law 89-508, approved July 19, 1966, 80 Stat. 308, provides as follows:

“That this Act may be cited as the ‘Federal Claims Collection Act of 1966’.

“Sec. 2. In this Act—

(a) ‘agency’ means any department, office, commission, board, service, Government corporation, instrumentality, or other establishment or body in either the executive or legislative branch of the Federal Government;

(b) ‘head of an agency’ includes, where applicable, commission, board, or other group of individuals having the decision-making responsibility for the agency.

“Sec. 3. (a) The head of an agency or his designee, pursuant to regulations prescribed by him and in conformity with such standards as may be promulgated

jointly by the Attorney General and the *Comptroller General*, shall attempt collection of all claims of the United States for money or property arising out of the activities of, or referred to, his agency.

“(b) with respect to such claims of the United States that have not been referred to another agency, including the *General Accounting Office*, for further collection action and that do not exceed \$20,000, exclusive of interest, the head of an agency or his designee, pursuant to regulations prescribed by him and in conformity with such standards as may be promulgated jointly by the *Attorney General* and the *Comptroller General*, may (1) compromise any such claim, or (2) cause collection action on any such claim to be terminated or suspended where it appears that no person liable on the claim has the present or prospective financial ability to pay any significant sum thereon or that the cost of collecting the claim is likely to exceed the amount of recovery. The *Comptroller General* or his designee shall have the foregoing authority with respect to claims referred to the *General Accounting Office* by another agency for further collection action. The head of an agency or his designee shall not exercise the foregoing authority with respect to a claim as to which there is an indication of fraud, the presentation of a false claim, or misrepresentation on the part of the debtor or any other party having an interest in the claim, or a claim based in whole or in part on conduct in violation of the antitrust laws; nor shall the head of an agency, other than the *Comptroller General of the United States*, have authority to compromise a claim that arises from an exception made by the *General Accounting Office* in the account of an accountable officer.” (80 Stat. 308,309)

General Laws Made Specially Applicable fo GAO

(14) Act of September 6, 1966, To enact title 5, United States Code, “Government Organization and Employees”, codifying the general and permanent laws relating to the organization of the Government of the United States and to its civilian officers and employees, Public Law 89-554, approved September 6, 1966, 80 Stat. 378, sections applicable to GAO as follows:

Secs. 5108(c); 5511; 5564; 5582; and 37 U.S.C. 554.

Equitable Claim

(15) Act of September 17, 1966, For the relief of Vernon M. Nichols, Private Law 89-309, approved September 17, 1966.

“That the *Comptroller General of the United States* is authorized and directed to settle the claim of Vernon M. Nichols, 8208 Valewood Court, Orangevale, California, for salary covering the period April 13, 1965, to June 12, 1965, inclusive, and for reimbursement of travel expenses from McCook, Nebraska, to Carmichael, California, incident to employment by the Bureau of Reclamation in the Job Corps program, and to allow in full and final settlement of the claim the sum of \$1,752.36. Such amount shall be payable from the appropriation which otherwise would have been chargeable with the salary and travel expenses during the period in question. The *Comptroller General of the United States* is further authorized and directed to relieve Vernon M. Nichols from all liability to refund to the United States the sum of \$65 expended in his behalf for airplane travel on April 12, 1965, from Denver, Colorado, to Sacramento, California.”

Presidential Election Campaign Fund Act

(16) Foreign Investors Tax Act of 1966 and Presidential Election Campaign Fund Act of 1966, Public Law 89–809, approved November 13, 1966, 80 Stat. 1539, provides as follows:

“Sec. 303(3) Limitations.—

“(A) No payment shall be made under paragraph (1) into the treasury of a political party with respect to any presidential campaign unless the treasurer of such party has certified to the *Comptroller General* the total amount spent or incurred (prior to the date of the certification) by such party in carrying on such presidential campaign, and has furnished such records and other information as may be requested by the *Comptroller General*.

“(B) No payment shall be made under paragraph (1) into the treasury of a political party with respect to any presidential campaign in an amount which, when added to previous payments made to such party, exceeds the amount spent or incurred by such party in carrying on such presidential campaign.

“(4) The *Comptroller General* shall certify to the Secretary of the Treasury the amounts payable to any political party under paragraph (1). The *Comptroller General’s* determination as to the popular vote received by any candidate of any political party shall be final and not subject to review. The *Comptroller General* is authorized to prescribe such rules and regulations, and to conduct such examinations and investigations, as he determines necessary to carry out his duties and functions under this subsection.”

“Sec. 304. (a) There is hereby established an advisory board to be known as the Presidential Election Campaign Fund Advisory Board (hereafter in this section referred to as the ‘Board’). It shall be the duty and function of the Board to counsel and assist the *Comptroller General* in the performance of the duties imposed on him under section 303 of this Act.

“(b) The Board shall be composed of two members representing each political party whose candidate for President at the last presidential election received 15,000,000 or more popular votes as the candidate of such political party, which members shall be appointed by the *Comptroller General* from recommendations submitted by each such political party, and of three additional members selected by the members so appointed by the *Comptroller General*. The term of the first members of the Board shall expire on the 60th day after the date of the first presidential election following the date of the enactment of this Act and the term of subsequent members of the Board shall begin on the 61st day after the date of a presidential election and expire on the 60th day following the date of the subsequent presidential election. The Board shall select a Chairman from among its members.” (80 Stat. 1589–1590)

APPENDIX C—AUDIT AND LEGAL ACTIVITIES



APPENDIX C-1

NUMBER OF AUDIT REPORTS ISSUED DURING THE FISCAL YEAR 1967 ¹

	Total	Congress ²	Committees or Members of Congress ³	Agency officials ⁴
Civil departments and agencies: ⁵				
Civil departments	307	68	46	193
Independent agencies	149	31	33	85
Legislative branch	18	2	13	3
	474	101	92	281
Military departments: ⁵				
Department of Defense	109	21	42	46
Department of the Army	89	8	12	69
Department of the Navy	85	4	7	74
Department of the Air Force	107	7	7	93
	390	40	68	282
International activities:	73		14	43
Government-wide		16		19
Organizations outside the Federal Government	22	2	9	0
		2		

NOTES:

¹ A detailed listing of these reports is contained in the following table. Substantially identical reports listed more than once have, for the purposes of this table, been counted as one report.

² Reports submitted to the Congress are addressed to the President of the Senate and the Speaker of the House of Representatives. Copies are sent to the Secretary of the Treasury; the Director, Bureau of the Budget; the Senate and House Committees on Appropriations; the Senate and the House Committees on Government Operations; the appropriate legislative committees in the Senate and the House; Members of the Congress from the districts in which the activities reported are located; others in the Congress as requested; the President of the United States as appropriate; the agencies reported on; and others directly affected. Synopses of these reports will be found in Appendix C-3, beginning on page 212.

³ Includes reports addressed to officers of the Congress.

⁴ Comprises reports addressed to heads of departments or agencies, to other officials at department or agency headquarters, to department or agency officials at regional or other local offices, or to commanding officers at military installations.

⁵ Exclusive of international and Government-wide activities which are listed separately.

APPENDIX C-2
AUDIT REPORTS ISSUED DURING THE FISCAL YEAR 1967

	Referenc	Addressee and date issued		
		Congress	committees or Member of Congress	Agency officials
CIVIL DEPARTMENTS				
Department of Agriculture:				
Agricultural Research Service:				
Need to strengthen controls over use of modified live virus vaccines in the hog cholera eradication program.....	13319	4-18-67	-----	-----
Settlement of accounts of accountable officers, Northern Administrative Division, Minneapolis, Minn.....	-----	-----	-----	5-31-67
Agricultural Stabilization and Conservation Service and Commodity Credit Corporation:				
Opportunity to reduce costs of providing protection from heat and cold on shipments of certain perishable commodities.....	114824	8-10-66	-----	-----
Need to further revise regulations to minimize loss of proceeds to the Government under the wheat marketing allocation program.....	159905	11- 7-66	-----	-----
Comparison of costs of storing grain on the farm with rates paid for such storage by the Commodity Credit Corporation.....	114824	11-28-66	-----	-----
Examination of financial statements of Commodity Credit Corporation for fiscal year 1966.....	114824	3-13-67	-----	-----
Certain losses incurred during 1965 and 1966 by Commodity Credit Corporation in disposing of out-of-condition commodities.....	-----	-----	-----	7-29-66
Review of selected aspects of the financial management system.....	115314	-----	-----	9-20-66
Review of selected automatic data processing activities in the Washington, D.C., area.....	-----	-----	-----	10-28-66
Survey of selected aspects of the automatic data processing system at ASCS Commodity Office, New Orleans, La....	-----	-----	-----	10-31-66
Need for more effective procedures to detect overcharges of transportation expenses.....	-----	-----	-----	12- 8-66
Opportunities to reduce interest costs by expediting deposit of collections.....	-----	-----	-----	3-31-67
Review of livestock feed program in the State of South Dakota.....	-----	-----	-----	4-24-67
Traffic management operations relating to shipments of processed commodities by the Minneapolis Commodity Office.....	133056	-----	-----	5-25-67
Settlement of accounts of accountable officers:				
Colorado State Office, Denver, Colo.....	-----	-----	-----	7- 5-66
Management Field Office, Kansas City, Mo.....	-----	-----	-----	2- 6-67
Consumer and Marketing Service:				
Opportunities for reducing costs of transporting donated commodities to State agencies.....	133056	12-29-66	-----	-----
Distribution of Government-donated food commodities in selected counties in Pennsylvania.....	133056	2-28-67	-----	-----
Analysis of data on certain aspects of milk marketing in the southeastern Florida area (request of chairman, Intergovernmental Relations Subcommittee, House Committee on Government Operations).....	160741	-----	2-10-67	-----

	Reference	Addressee and date issued		
		Congress	Committees or Member of Congress	Agency officials
CIVIL DEPARTMENTS—continued				
Department of Agriculture—Continued				
Consumer and Marketing Service—Continued				
Settlement of accounts of accountable officers, Field Operations Branch, Hyattsville, Md., and Fiscal Control Branch, Washington, D.C.	-----	-----	-----	10-13-66
Farmers Home Administration:				
Review of effort to collect on otherwise settle certain debtors' accounts.	114876	1-11-67	-----	-----
Allegation concerning advance of loan funds (request of Congressman George V. Hansen).....	161606	-----	6-20-67	-----
Review of selected loans made to associations for the purpose of developing recreational facilities.....	-----	-----	-----	9-26-66
Federal Crop Insurance Corporation:				
Examination of financial statements for fiscal year 1966....	114834	1-26-67	-----	-----
Review and approval of appropriated fund accounting system.....	115314	-----	-----	6- 5-67
Federal Extension Service:				
Settlement of accounts of accountable officers, Washington, D.C.....	-----	-----	-----	1-12-67
Forest Service:				
Need for effective controls over timber-cutting practices in Pacific Northwest Region.....	125053	9-19-66	-----	-----
Need to resolve differences in procedures used by Federal timber management agencies in appraising timber offered for sale in the Department of Agriculture and the Department of the Interior.....	125053	12-29-66	-----	-----
Review of allegation that for every dollar given in Federal taxes to the Forest Service, two are wasted (request of Congressman Compton I. White, Jr.).....	125053	-----	8- 3-66	-----
Information concerning the sale of federally owned timber (request of Senator E. L. Bartlett).....	160143	-----	1- 3-66	-----
Comments on certain statements relating to a report of the O&C Advisory Board on question of sealed vs. oral auction bidding for Federal timber (request of chairman, Subcommittee on Natural Resources and Power, House Committee on Government Operations).....	125053	-----	1- 9-67	-----
Inquiry concerning policy of allowing a 6 percent margin for profit and risk in pulpwood logging (request of Congressman John A. Blatnik).....	161316	-----	6-22-67	-----
Methods used to develop timber sale appraisal guidelines in Region 10, Juneau, Alaska.....	-----	-----	-----	10-21-66
Need for improving performance evaluations of bureau scalers who measure national forest timber in the Pacific Northwest Region.....	125053	-----	-----	11-18-66
Rental rates and utility charges for Government-owned quarters and utilities furnished to employees.....	-----	-----	-----	6-19-67
Settlement of accounts of accountable officers, Region 4, Ogden, Utah.....	-----	-----	-----	10-17-66
Rural Electrification Administration:				
Investigation concerning alleged improprieties involving three cooperative borrowers of REA (request of chairman, Subcommittee on Department of Agriculture and Related Agencies, Senate Committee on Appropriations).....	159208	-----	9-21-66	-----

	Reference	Addressee and date issued	
		Congress	Agency officials
CIVIL DEPARTMENTS—continued			
Department of Agriculture—Continued			
Soil Conservation Service:			
Settlement of accounts of accountable officers, State offices:			
Montana.....			12-15-66
New Hampshire.....			11- 6-66
Oklahoma.....			4- 7-67
Utah.....			1- 6-67
Information concerning certain programs of the Agricultural Stabilization and Conservation Service and the Farmers Home Administration (request of chairman, Subcommittee on Department of Agriculture and Related Agencies, House Committee on Appropriations).....	160827	2-28-67	
Accounting systems for Office of Management Services, Agricultural Research Service (Working Capital Fund), and Foreign Agricultural Service returned for revision....	115317		4-28-67
Department of the Army, Corps of Engineers (civil functions):			
Policies and procedures followed in determining the size of the New Second Lock at Sault Ste. Marie, Mich.....	118634	10-19-66	
Need for improving procedures to ensure compliance with law regarding deposition of industrial waste solids into navigable waters.....	118634	12-29-66	
Planned Federal contribution toward the cost of the State-constructed Del Valle Dam and Reservoir, Alameda County, Calif.....	118634	1-31-67	
Procedures for development of Federal lands at reservoir projects for public recreation.....	118634		8-17-66
Inadequacy of charges for meals served to transients on board floating plants.....	118634		11-21-66
Settlement of accounts of accountable officers, District offices:			
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Transportation costs of airlifting refugees from Cuba to Miami and repatriated United States citizens from Cuba to New Orleans via Mexico (request of chairman, Senate Foreign Relations Committee).....	147196	-----	3-31-67
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Review of selected aspects of procedures and practices relating to refunds of authentication fees, Department of State	-----	-----	-----	6-20-67
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Review of the manner in which the Peace Corps processes and accounts for unreturned transportation tickets	156996	-----	-----	4-25-67
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Review of selected newsreel contracts, United States Information Agency	-----	-----	-----	9-15-66
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APPENDIX C-3

DIGESTS OF GENERAL ACCOUNTING OFFICE REPORTS TO THE
CONGRESS DURING FISCAL YEAR 1967

Most of our audit work in the departments and agencies of the Federal Government is performed in furtherance of our policy of directing our available manpower resources to those areas which, in our opinion, will be most productive of significant findings and recommendations for improving Government operations and achieving greater efficiency and economy.

Accordingly, our reports are not intended as overall evaluations of agency performance with respect to the programs or activities with which the reports are concerned. While we are exerting constant effort to present our findings and recommendations in proper perspective, the conclusions stated in the reports should not be taken as extending to broader areas than indicated in the reports.

In the light of these qualifications, a digest of General Accounting Office reports to the Congress during fiscal year 1967 is presented below.

CIVIL DEPARTMENTS AND AGENCIES

DEPARTMENT OF AGRICULTURE

AGRICULTURAL RESEARCH SERVICE

Need to strengthen controls over use of modified live virus vaccines in the hog cholera eradication program, B-133192, Apr. 18, 1967

The use of modified live virus vaccines during calendar years 1964 and 1965 had been cited by ARS as the probable source of hog cholera in about 15 percent of all reported outbreaks of the disease in the Nation, for which probable sources of the disease were identifiable. We found that (1) information available to ARS both prior to and after the start of the eradication program indicated the dangers associated with the use of modified live virus vaccines, (2) among the States, there existed problems and a lack of uniformity in the use of modified live virus vaccines at particular stages of eradication, and (3) research results indicated that controls over the use of modified live virus vaccines were not adequate.

We recommended that our report be made available to the Hog Cholera Biologics Study Group of the Secretary of Agriculture's Advisory Committee on Hog Cholera Eradication which, during March 1967, was appointed specifically to establish basic guidelines for using different hog cholera vaccines. In May 1967, the Department of Agriculture advised us that the study group had been requested to take the report into consideration in making recommendations with regard to the further use of hog cholera vaccines. Subsequently, our proposals for corrective action were generally supported by the study group.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE AND
COMMODITY CREDIT CORPORATION

Opportunity to reduce costs of providing protection from heat and cold on shipments of certain perishable commodities, Commodity Credit Corporation, B-114824, Aug. 10, 1966

Our review disclosed that costs could be reduced by, and savings to the Government would result from, the Corporation's eliminating excessive protection on shipments of butter and cheese, without risking spoilage or deterioration of these commodities. We estimated that during fiscal year 1964 the Corporation could have realized savings of about \$219,000 in transportation costs for butter and cheese if it had required protective services comparable with those of a commercial shipper. The Executive Vice President of the Corporation informed us that he concurred with our suggestion that a comprehensive study

would be desirable and that an evaluation of protective services required for protecting perishable commodities from damage or deterioration in transit would be made. He stated also that the requirements would be revised, where appropriate, and that periodic evaluations would be made to review the adequacy of such requirements.

We recommended that Department officials explore the opportunity for reducing costs by instituting procedures providing for revising protective services instructions when changed weather conditions prior to actual shipment would materially affect the amount of protection previously prescribed. We recommended also that consideration be given to the feasibility of revising the requirement for freezing print butter prior to shipment. In March 1967 the Department informed us that this requirement had been eliminated.

Need to further revise regulations to minimize loss of proceeds to the Government under the wheat marketing allocation program, B-159909, Nov. 7, 1966

Our review of the regulations and procedures of the Department relating to the sale of domestic wheat marketing certificates by the Commodity Credit Corporation showed that departmental regulations permitted certain wheat processors to purchase certificates for less than the number of bushels of wheat actually processed. We estimated that the Corporation's proceeds from the sale of the certificates would have been increased about \$5.4 million for certificates on wheat processed into white flour during the 1964 and 1965 marketing years if processors had been required to purchase certificates equal to the number of bushels of wheat actually processed.

After we brought this matter to the attention of the Department, it amended the regulations, effective July 1, 1966, to establish a standard conversion factor reflecting a lower extraction rate. Although this change can be expected to increase proceeds to the Corporation by about \$650,000 annually, we expressed our belief that the revised standard conversion factor was still not representative of the extraction experience of mills reporting on the conversion factor basis and that the use of the revised standard conversion factor by certain mills would still result in substantial loss of proceeds to the Commodity Credit Corporation. Accordingly, we recommended that the Administration (1) obtain reliable data on the extraction experience of those mills that determine their certificate liability on the basis of the standard conversion factor and (2) establish the standard conversion factor on the basis of the average extraction rate of such mills. We recommended also that the Administrator periodically review the extraction experience of those mills that use the standard conversion factor to ascertain whether that factor is representative of their actual extraction experience. Consistent with our recommendations, the Department revised its regulations further in July 1967.

Comparison of costs of storing grain on the farm with rates paid for such storage by the Commodity Credit Corporation, B-114824, Nov. 28, 1966

We commented that the storage rates paid by the Corporation for grain stored on the farm under resale loan programs were, in our opinion, significantly higher than the estimated cost of storing grain which we computed as a result of our review. Also, we expressed the opinion that the substantial income derived by producers from high storage rates may have discouraged the marketing of grain by producers and may have thereby increased the period of time for which the Government was required to pay storage.

We recommended that the Department make a study of storage costs incurred by producers under the resale program for grain with a view to establishing resale storage rates in line with such costs and setting such rates at a level which will not discourage redemption of grain under price-support loans. In response to our proposal, the Department stated that it was not convinced that a storage-cost figure should be a determining factor in setting the storage rate and that the rate paid for storage of resealed grain was not a determining factor as to whether a producer redeemed his loan.

Examination of financial statements of Commodity Credit Corporation for fiscal year 1966, B-114824, Mar. 13, 1967

The Corporation reported a total realized loss of \$3 billion for fiscal year 1966. This loss, reimbursable through appropriations, was substantially the same as the realized loss for fiscal year 1965. The amount of unreimbursed losses at

June 30, 1966, was \$7.6 billion. The realized loss of \$3 billion for fiscal year 1966 did not include costs totaling \$1.9 billion incurred by the Corporation in carrying out special activities such as those under the Agricultural Trade Development and Assistance Act of 1954, commonly known as Public Law 480. The costs of these special activities are accounted for separately by the Corporation.

In view of the unique character and vast scope of the Corporation's operations, particularly with respect to commodity inventories, it was not practicable for us to perform all the examination and verification steps which we believe would be necessary to reach an independent overall opinion concerning the accuracy and fairness with which the financial statements present the Corporation's financial position at June 30, 1966, and the results of its operations for the year then ended. However, we expressed the opinion that the Corporation's accounting methods provided a generally satisfactory record of its financial transactions and that its system of financial reporting was, in general, adequate for the purpose of supplying the Corporation's management with information for conducting its affairs.

CONSUMER AND MARKETING SERVICE

Opportunities for reducing costs of transporting donated commodities to State agencies, B-133059, Dec. 29, 1966

We found that two commodities—print butter and frozen beef—were being shipped to State agencies in lot sizes having gross weights below the minimum shipping weights upon which the freight rates of certain carriers were based. On the basis of our review, we estimated that savings of about \$138,000 could have been realized in 1 year if the size of the carload lots of print butter had been increased from 30,000 to 35,000 pounds and the size of carload lots of frozen beef had been increased from 22,000 to 30,000 pounds.

Although C&MS took specific action to increase the size of butter and frozen beef shipments, we believed that existing procedures had not been sufficiently strengthened and, therefore, that further steps were necessary to ensure that lot sizes for all commodities were established and maintained at levels that would effect the most economical shipping cost consistent with program requirements. Accordingly, we recommended that the Service establish specific procedures to achieve this objective. In January 1967, C&MS issued further instructions to its commodity contracting officers to provide assurance that below minimum carlot weights are not inadvertently used in C&MS purchases.

We found also that shipments of commodities were often made in accordance with the mode of transportation requested by State agencies, even though this was not in all cases the most economical method of shipment. It was our opinion that substantial savings would have been realized if C&MS had required the State agencies, whenever possible, to refrain from requesting delivery by rail only so that optimum use could be made of the most economical mode of shipping commodities. In May 1966, C&MS advised us that it planned to have State agencies make their requests for shipment so as to permit the maximum use of either truck or rail in order to hold transportation costs to a minimum. We were advised further that an instruction was issued in July 1967 for distribution to State agencies to aid in achieving this objective.

Distribution of Government-donated food commodities in selected counties in Pennsylvania, B-133059, Feb. 28, 1967

We found that, in the State of Pennsylvania, food donated by the Federal Government was distributed to a significant number of families who did not meet the eligibility requirements for participation in the commodity distribution program. A statistical estimation of the results of our sample in each of the three counties selected by us for review indicated that (1) of the 55,160 families participating in the program in the three counties, between 14,400 and 26,800 did not meet eligibility requirements and (2) donated commodities distributed to such ineligible families during a 3-month period cost the Federal Government between \$182,000 and \$602,000.

After we brought our findings to the attention of C&MS officials, a review of the caseload of eight counties in Pennsylvania, including the three counties that we reviewed, was made to determine eligibility of the families. These reviews resulted in about 18,800 families being removed from the rolls of eligible par-

ticipants. We estimated that this action would result in savings of approximately \$665,000. Also, the Administrator, C&MS, advised us in August 1966 of various corrective actions, consistent with our proposals, that would be taken to improve the administration of program activities.

Analysis of data on certain aspects of milk marketing in the southeastern Florida area, B-160741, Feb. 10, 1967

At the request of the chairman, Intergovernmental Relations Subcommittee of the House Committee on Government Operations, we collected and analyzed data on certain aspects of the marketing of milk products in the southeastern Florida area. Our analysis covered primarily the prices that handlers (buyers of fluid milk) paid to producers (dairy farmers) for milk utilized for fluid consumption and the retail prices of milk sold for fluid consumption. We also compiled background information on the nature and use of Federal milk marketing orders.

We noted that the pricing formula used for computing minimum prices paid to producers for class I milk—milk utilized in fluid consumption—in the southeastern Florida area which became effective in December 1966 did not give consideration to either local supply and demand conditions or supply and demand conditions existing outside the marketing area. We commented that it appeared that an appropriate milk pricing formula would be one which gives consideration to local supply and demand conditions as well as to supply and demand conditions existing outside the marketing area. It appeared that giving consideration in the pricing formula to local supply and demand conditions would provide an incentive for the producers to be more responsive to local changes in supply and demand. In addition, we noted that by giving consideration to supply and demand conditions outside the marketing area, local prices could be set at a level which would be high enough to discourage local producers from shipping milk outside the marketing area and low enough to discourage local handlers from purchasing milk from outside the marketing area.

FARMERS HOME ADMINISTRATION

Effort to collect or otherwise settle certain debtors' accounts, B-114873, Jan. 11, 1967

Our review of selected debtors' accounts in six counties in the State of Texas showed that there was a need for FHA to increase its effort to collect or otherwise settle such accounts. The accounts reviewed are known as collection-only accounts which are classified as such when all of a debtor's security property has been liquidated and the debtor still owes a balance on his loan. On the basis of our review of randomly selected collection-only accounts, we estimated that of accounts totaling about \$3.2 million, \$274,000 could have been collected in full and some portion of accounts totaling about \$948,000 could have been collected through other settlement actions. Further, we found that many accounts had no potential for recovery and therefore should have been canceled as soon as applicable regulations had permitted. At the time of our review, about \$18 million of a nationwide total of about \$70 million of collection-only accounts were applicable to the State of Texas.

In response to our recommendations, FHA issued instructions requiring that increased effort be made to collect or otherwise settle collection-only accounts.

FEDERAL CROP INSURANCE CORPORATION

Examination of financial statements for fiscal year 1966, B-114834, Jan. 26, 1967

We expressed the opinion that the financial statements of the Federal Crop Insurance Corporation presented fairly its financial position at June 30, 1966, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with applicable Federal laws and with that of the preceding year—except for a change in the Corporation's policy for capitalizing and depreciating furniture and equipment, with which we do not disagree.

The Corporation reported a net loss of \$6.8 million from insurance operations for fiscal year 1966 (crop year 1965). Operating and administrative expenses of \$12 million, of which \$8.2 million was financed from appropriated funds, increased the net loss from operations for the year to \$18.8 million. The \$6.8

million loss from insurance operations, together with the financing of \$3.8 million of operating and administrative expenses from premium income, resulted in the exhaustion of the Corporation's insurance reserve and in an \$8.9 million impairment of its capital. In view of the impairment of capital, we expressed our belief that the Corporation should consider taking measures such as (1) increasing premium rates, (2) reducing operating and administrative expenses, and (3) requesting increased appropriations to cover a larger share or all of the expenses.

FOREST SERVICE

Need for effective controls over timber-cutting practices in Pacific Northwest Region, B-125053, Sept. 19, 1966

In certain areas within the Pacific Northwest Region, the Forest Service uses private organizations known as scaling bureaus to measure, for payment purposes, the timber cut and removed by purchasers from the national forests. Under measurement procedures used by the scaling bureaus, log lengths are recorded in terms of the next lowest multiple of 2 feet, after deducting a minimum trim allowance. The difference between the actual length of a log and the length recorded by the scaler is the trim. The scaling bureau procedures do not provide for a maximum trim allowance consistent with the Forest Service timber sale contracts which specify certain maximum trim allowances of 12 inches for logs of 40 feet or less and an additional 2 inches for each 10 feet or part thereof by which a log exceeds the 40-foot length. The timber sale contracts provide for the assessment of charges to timber purchasers who cut logs with trim that exceeds these maximum allowances.

Our review showed that the timber sale contract provisions were not being enforced. On the basis of a test sample at eight forests in that region, we estimated that, in calendar year 1964, the Government would have obtained additional timber sale revenue in the form of penalty charges of as much as \$300,000, assuming the results of our sample were representative of the incidence of such cutting practices and appropriate assessments could have been made and collected from timber purchasers. Although the Chief of the Forest Service questioned the basis for our computation of the monetary effect of these practices, he agreed with our recommendation to require bureau scalers to record all instances where the actual length of a log exceeds its recorded length by more than the maximum trim allowed by Forest Service timber sale contract provisions.

In December 1966 and January 1967, the Acting Regional Forester signed revised agreements with the scaling bureaus requiring bureau scalers to note all instances of excessive trim. The region also instructed timber sale officers to utilize this information and enforce the contract trim allowance provisions. As a result, timber purchasers will have to correct their improper cutting practices or pay the required assessment charges.

Need to resolve differences in procedures used by Federal timber management agencies in appraising timber offered for sale, B-125053, Dec. 29, 1966

The three principal timber-selling agencies in the Federal Government—the Forest Service, Department of Agriculture, and the Bureau of Land Management and Indian Affairs, Department of the Interior—each uses the analytical appraisal method to calculate the minimum acceptable selling prices of timber. Under the analytical appraisal method, the value of a given amount of standing timber is considered to be the residual value after deducting the estimated processing costs and an allowance for profit and risk from the estimated selling value of the timber end products. Our review of the procedures used by these agencies in appraising timber in the States of Oregon and Washington disclosed significant differences in regard to determining the estimated selling values of wood products and by-products, estimating the cost of producing wood products, and establishing the allowance for profit and risk. As a result, significant differences in appraised values for like stands of timber could result.

In addition, we found that certain valuation procedures followed by the agencies did not recognize the full value of timber end products. We estimated that, if, in each such instance, the procedures of one agency, which we considered to be the more appropriate, had been used by the other agencies, the appraised value of timber offered for sale in fiscal year 1963 and part of fiscal year 1964 could

have been increased by more than **\$3.1** million. Competitive bids accepted from purchasers for part of this timber were sufficiently above the appraised amounts to offset about **\$1.5** million of the **\$3.1** million understatement of appraised values. These underappraisals resulted from (1) not considering the value of sawlog chips, a wood by-product, (2) using inappropriate lumber pricing data, and (3) using outdated veneer prices in establishing selling values for peeler logs (logs suitable for the production of veneer sheets). Other differences in procedures were identified in our review, but we were unable to determine which agency's procedures were the more appropriate and, consequently, we were unable to estimate the effect on appraised values.

The agencies did not agree with the estimates of underappraisals and revenue losses described in our report but did agree that it would be desirable to attain a higher degree of uniformity. We were informed by the Bureau of the Budget in April 1967, that these agencies had agreed to develop plans by July 1, 1967, for an appraisal system that is uniform to the fullest practical extent and that the agencies intend to implement their uniform appraisal system by July 1, 1968. We have been informed that work by the agencies is progressing to meet the July 1, 1968, deadline.

DEPARTMENT OF THE ARMY, CORPS OF ENGINEERS
(CIVIL FUNCTIONS)

Policies and procedures followed in determining the size of the New Second Lock at Sault Ste. Marie, Mich., **B-118634**, Oct. 19, 1966

On the basis of our review, we estimated that the cost of designing and constructing the New Second Lock at Sault Ste. Marie, Mich., was increased by about **\$651,000** because the Corps of Engineers decided to increase the authorized size of the lock without first adequately establishing the maximum-size ships that could be expected to use it. Shortly after construction started and after the design work was substantially completed, shipping interests expressed concern over the adequacy of a proposed 1,000-by 100-foot lock. As a result, the Corps stopped construction and design work, restudied the proposed lock size, and decided to increase the size of the lock to **1,200** by **110** feet. We expressed our opinion that the data upon which the decision was made to increase the lock size to **1,200** by 110 feet was basically the same as the data available at the time the Corps decided to build the 1,000-foot lock.

We recommended that, in order to minimize the possible occurrence of similar situations, the Chief of Engineers bring our report to the attention of all district engineers to stress the importance of conducting thorough studies before building new locks. We recommended also that the Chief of Engineers bring our report to the attention of the division engineers and officials in the Office of the Chief of Engineers to demonstrate the need for more critical evaluations of representations and proposed actions of the district engineers to ensure that the representations and actions are in line with current and forecast lock-size requirements.

Need for improving procedures to ensure compliance with law regarding deposition of industrial waste solids into navigable waters, **B-118634**, Dec. 29, 1966

We found that numerous industrial plants were discharging waste solids into navigable waters and that many of these plants did not have permits which would authorize them to do so and were not participating in the costs of maintenance dredging. We reported that the possibility existed that some of these deposits resulted in shoaling and that the Corps could realize significant savings in maintenance dredging costs by requiring that industry either stop depositing waste solids into navigable waters or obtain permits which require participation in the cost of dredging shoals resulting from such deposits.

Consistent with our recommendations, the Department of the Army informed us in February 1967 that the Chief of Engineers had issued instructions to all division and district engineers directing them to enforce the applicable provisions of law. District engineers were directed to arrange for progressive notification of the provisions of the law to all industries using navigable waters for industrial waste disposal. The owners are to be notified either to cease the deposition of industrial waste solids immediately or to seek an agreement with the District Engineer for continuance pursuant to law which would prescribe the owners' responsibility for removal.

Planned Federal contribution toward the cost of the State-constructed Del Valle Dam and Reservoir, Alameda County, Calif., B-118634, Jan. 31, 1967

Although it was the policy of the Corps of Engineers to recommend a local contribution toward the costs of flood-control reservoirs that serve essentially as local flood-protection measures or produce some specific local benefit, the Corps did not make a recommendation to the Congress in the case of the Del Valle Dam and Reservoir. We expressed our belief that a more complete evaluation of the factors involved, which, in our opinion, reasonably should have been made in the circumstances, would have indicated that a local contribution of between \$1.1 million and \$2.4 million may have been appropriate in connection with the proposed project costs allocated to flood control. The flood-control storage to be provided by the Del Valle Dam and Reservoir appeared to be essentially a local flood-protection measure for which, under Corps policy, a local contribution could have been recommended.

So that all essential information with respect to local benefits on projects such as the Del Valle Dam and Reservoir is available, we recommended that the Chief of Engineers revise existing procedures which would require a more complete analysis of the benefits expected to result from the construction of future flood-control works and clearly identify the recipients to whom substantial benefits will accrue, and that this information be made a part of each project report submitted to the Congress for approval. In March 1967, the Department advised us that our recommendations would be considered during the course of further studies on this subject.

DEPARTMENT OF COMMERCE

MARITIME ADMINISTRATION

Policy and practices relating to requirements for performance and payment bonds on certain ship construction contracts, Maritime Administration, B-118779, Nov. 29, 1966

We estimated that, on the basis of the levels of ship construction activity during the past 8 years under section 504 of the Merchant Marine Act, 1936, savings of about \$316,000 annually in construction-differential subsidies might be realized if the Maritime Administration would not require shipbuilding contractors to furnish performance and payment bonds under the section 504 ship construction program. The potential savings relate to the fact that, without such bonding requirements, bidders on ship construction contracts would not have to include amounts for bond premium expenses in their bids.

Following our discussions with agency officials, the Maritime Subsidy Board approved a policy which provides for waiver of the requirements for performance and payment bonds with respect to any individual bidder who, prior to bid opening, requests a waiver and is determined to have sufficient financial resources to permit such a waiver. This waiver policy represents, in our opinion, a worthwhile change which may result in savings in those instances where it is applied. Also, the Administration agreed with our recommendations to make a future evaluation of the policy to determine whether modification is warranted on the basis of experience and to provide for systematic comparison of its contract administration activities with those of the Department of the Navy.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

PUBLIC HEALTH SERVICE

Financial administration of selected grants for health services made to State of Illinois. B-114836, Aug. 10, 1966

Our review disclosed a need for more effective financial administration by the Public Health Service (PHS) of Federal grants made to the State of Illinois for certain health services such as heart disease and cancer control and care of the chronically ill and aged. We found that, contrary to Federal regulations, amounts charged to Federal grant and State matching funds included (1) certain expenditures claimed to be solely applicable to specific health

programs even though they were made for multiprogram activities and (2) certain expenditures made for multiprogram activities allocated to specific health programs on bases which had not been substantiated. As a consequence, the State was permitted to retain about \$294,000 of Federal funds advanced for these three programs without clearly meeting its accountability requirements.

The Department advised us of certain actions taken or contemplated by PHS in line with our proposals, to strengthen its capability in conducting reviews and evaluations of State health plans. It also advised us of departmental actions to reorganize and strengthen the conduct of audit activities, including the health grant programs of the PHS. Pursuant to our proposal, the Department has reaudited the State's expenditure of Federal health grant funds for several years and has taken exception to the expenditure of \$2.5 million.

Charges for Government-owned quarters at Mount Edgecumbe, Alaska, B-159311, Aug. 30, 1966

Contrary to instructions prescribed by the Bureau of the Budget, PHS established rental rates and related charges to Federal civilian employees for Government-owned quarters, utilities, and furnishings at Mount Edgecumbe, Alaska, at levels significantly lower than those in effect for comparable private housing in the same area. For the 270 housing units involved, we estimated that the annual loss in revenues to the Government amounted to about \$215,000. The rental rates were low because (1) they were based on rates for private housing in Seattle, Wash., rather than the generally higher rates in the adjacent community of Sitka, and (2) they were adjusted downward to compensate for the asserted disadvantages of isolation, a factor not eligible for consideration under prescribed criteria. Further, we noted that the Quarters Reevaluation Board appointed by the PHS to establish the rental rates and related charges comprised residents of the housing under consideration and consequently did not have the necessary independence.

In line with our proposals, the Department revised its policies and regulations to require that Federal Housing Administration, other Government, or commercial appraisers be utilized in the establishment of rental rates in all cases where it is practical to do so. Also, subsequent to our field review, rentals were increased in the aggregate of \$28,600 annually. Further substantial increases, proposed as a result of a Government-wide housing survey throughout Alaska, were held in abeyance pending an appeal for waiver of Bureau of the Budget requirements because of the possible effect on employee morale.

Need to establish fees for furnishing abstracts of medical records and related services to private parties, B-114836, Aug. 30, 1966

We found that PHS had furnished to private individuals and organizations without charge abstracts of medical records of patients who received care and treatment at PHS medical facilities. Related services, such as furnishing photocopies of medical records, certifying abstracts, and searching medical history files, were also performed without charge. These services appeared to be within the intent of legislation enacted in 1951 (5 U.S.C. 140) which states that an agency should charge a fair and equitable fee for providing services to any person who derives a special benefit therefrom. We estimated that, if at the outset of fiscal year 1965 PHS had established a fee for furnishing medical abstracts comparable to the fee charged for such service by another hospital under the Department's jurisdiction, it would have received about \$105,000 at the 12 PHS general hospitals during the fiscal year.

The Department concurred in general in our finding and initiated a study to develop criteria for making charges and determining costs incurred. The resulting regulations and fee schedule were published in the Federal Register in May 1967 establishing a Service-wide policy on charging fees for medical abstracts and related services effective June 1, 1967.

Financial administration of selected grants for health services made to State of Indiana, B-156635, Sept. 23, 1966

Our review of selected Federal grants for health services made to the State of Indiana disclosed a need for more effective financial administration by PHS of grants for the heart disease and cancer control programs, to reasonably ensure that such Federal funds served the purposes for which they were made available and that the State made its required financial contribution to the grant-aided

programs. We determined that the State was permitted to retain \$94,000 of Federal funds without clearly meeting its accountability requirements.

We expressed our belief that the use by a State of basic research expenditures for the purpose of matching Federal funds received under health grant control programs was not in accord with the purposes of Federal health grant control programs as expressed by the House Committee on Interstate and Foreign Commerce. PHS agreed that it was not proper for the State to use for matching purposes expenditures related to basic research projects which were not included in the approved State plan, but expressed its belief that, in the absence of specific prohibitions to the contrary, expenditures for basic research were legally acceptable and valid for matching purposes. We suggested that the Congress may wish to consider amending the Public Health Service Act to specifically preclude the use of basic research expenditures as allowable State matching funds for control programs.

The Department, in response to our findings and proposals, stated that it would make a detailed review of the Federal grant and matching fund expenditures for the two programs to determine the extent to which accountability for the funds could be established and would initiate action to recover any funds which had not been properly expended. Subsequently, the Department informed the chairman of the House Committee on Government Operations that, according to information made available by the Indiana State Board of Health, the State was now complying fully with the regulations governing both the expenditures of its Federal formula grants and the required matching with State expenditures. Also, the State reportedly will continue to conduct time studies and evaluate its State and local activities in order to properly identify the use of Federal and matching formula grant funds. The Department also stated that the data thus collected as well as procedures and practices would be audited by the Department's Audit Agency during future audits.

Accounting system of Communicable Disease Center, Bureau of State Services, B-146739, Nov. 7, 1966

In our review specific attention was devoted to the effectiveness of the accounting system in producing reliable and useful information, in assisting in the control of resources, and in otherwise achieving the objectives prescribed by the Congress for adequate Federal agency accounting policies and procedures. We found that the system did not provide for the complete and timely use of the accrual basis of accounting, including consideration of all resources, liabilities, and costs of operations. We found also that, although the system provided the basic framework for the accumulation and distribution of expenditures to programs and projects, substantial improvements were needed before the system could be relied upon to produce accurate and meaningful results. We expressed our opinion that the Center's financial reports were inaccurate and misleading because of the Center's use of inadequate accounting procedures for allocation of direct and indirect expenses, with the result that the financial reports were presented in such a manner that the amounts expended by programs and projects seemed to compare most favorably with the amounts programmed and budgeted.

In response to our proposals, the Department informed us that PHS was strengthening its system of inventory control at the Center, had made improvements in the system for recording costs, and expected to make other changes in the system to correct the adverse findings cited in our report.

SOCIAL SECURITY ADMINISTRATION

Certain aspects of social security benefit overpayments, B-114836, Mar. 13, 1967

Our review of certain aspects of benefit overpayments made by the Social Security Administration indicated that the Administration did not have sufficient accounting control over benefit overpayments, that many overpayments could have been prevented through the exercise of greater care by SSA employees in handling benefit claims, and that there was a need for improvement in overpayment recovery activities.

In accordance with our proposals, the Department agreed to establish a system of accounting controls for overpayments and to take action designed to minimize overpayments and improve procedures governing recovery of overpayments.

WELFARE ADMINISTRATION

Recovery procedures relating to excess funds accumulated under an insurance contract for the medical care of old-age assistance recipients in the State of Texas, **B-156454, Jan. 31, 1967**

Our review of an insurance contract providing for the payment for medical services to recipients under the old-age assistance program disclosed that the Department did not obtain full recovery on behalf of the Federal Government of its equity, amounting to about \$4 million, in a refund due and paid to the State of Texas by the contractor. We found that the Department had agreed to an arrangement under which only \$1.7 million was recovered. Hence, a balance of about \$2.3 million was due to the Federal Government from the State of Texas.

We recommended that the Department take action to effect full recovery from the State of the Federal share of the refunded amount. The Department was of the opinion, however, that there was not a sufficient basis for requiring reimbursement by the State retroactively. The Department agreed to follow our recommendation for development of policies that will preclude the occurrence of similar problems related to such adjustments in the future.

Pricing methods used by various States in the purchase of prescribed drugs under federally aided public assistance programs, **B-114836, Apr. 28, 1967**

Our review of drug pricing methods used by various States in the purchase of prescribed drugs under the federally aided public assistance programs, indicated a need for HEW to provide the States with appropriate guidance and criteria relating to the establishment or revision of such pricing methods. We pointed out that a lack of definitive guidelines had resulted in the establishment of inconsistent methods for determining the price of drugs in various States and in the establishment of pricing methods which provided pharmacies in certain States with an incentive to dispense higher cost drug products where suitable lower cost products which meet prescription requirements are available.

We recommended that the Department establish a policy governing methods of pricing welfare prescription drugs under federally aided public assistance programs which would be acceptable for the purpose of Federal financial participation. We recommended also that such policy prohibit not only the use of methods of welfare prescription drug pricing based on cost plus a percentage of cost but also the use of any methods which provide an incentive to dispense higher cost products where suitable lower cost products meeting the prescription requirements are available. We recommended further that the policy urge the use of methods based on the cost of the products dispensed plus a fixed professional fee.

Work registration under Federal-State aid to dependent children of unemployed parents in the State of Ohio, **B-150569, May 29, 1967**

We found that the unemployed parents in about 70 percent of the cases examined had not registered or re-registered for employment with the State employment service as was required, consistent with Federal law, by the Ohio State plan approved by the Department. We estimated that, if the counties included in our review were representative of all Ohio counties, about 4,000 families, representing about 22,500 recipients, may have received assistance payments during the month of our test, although work registration requirements had not been met. After we brought our findings to the attention of cognizant Department and State officials, the State took certain action designed to correct the deficiencies relating to enforcement of work registration requirements. We were advised also of certain actions which were being taken to strengthen the Department's ability to carry out its responsibilities relating to the public assistance programs.

Alleged improper practices in providing nursing home care and controlling payments for prescribed drugs for welfare recipients in the State of California, **B-114836, Aug. 8, 1966**

At the request of the chairman, Subcommittee on Health of the Elderly, Senate Special Committee on Aging, we examined into certain allegations of improper practices in providing nursing home care and dispensing prescribed drugs to welfare recipients in the State of California.

With respect to nursing home care, we found evidence of questionable practices in the areas of certain of the allegations; however, in most of these cases, we could not consider the evidence conclusive for the reasons that in some cases relevant documentation was incomplete and in others adequate evaluation of the significance of the conditions found would require the application of professional medical judgment to all pertinent facts and circumstances. However, of more importance, in our view, was that (1) the California State plan in effect at the time of our review did not clearly provide or fix responsibility for the exercising of controls designed to detect, and to require the correction of, improper practices or deficiencies in the areas of most of the allegations and (2) the representatives of the Welfare Administration had not made the reviews of State and county agency activities necessary for an evaluation of the adequacy of the State plan in this respect.

We found also that the procedures, recommended in the State plan to provide assurance that payments made for prescribed drugs are actually delivered for the use of eligible welfare recipients, had not been adequately implemented at the county level. In this regard, we stated our belief that the State agency had not carried out its responsibilities for the evaluation of county activities and that the Department had not utilized the review processes necessary to ascertain the quality of this aspect of the administration of the programs.

The Department and the State and local agencies expressed general agreement with our findings and conclusions and outlined certain corrective actions which had been taken or were being contemplated.

Alleged improper practices in providing nursing home care, medical services, and prescribed drugs to old-age assistance recipients in the Cleveland, Ohio, area, B-114836, Mar. 31, 1967

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

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

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

Possible savings by discontinuing the purchase of public liability insurance covering acquired property, B-114860, Aug. 15, 1966

Our review indicated that elimination of the requirement that property management brokers under contract to FHA purchase public liability insurance could result in significant savings to the agency. Premium costs for this type of insurance covering bodily injury amounted to about \$340,000 a year, whereas only about \$9,200 in claims for bodily injury were paid over the 8-year period from January 1957 through October 1965.

We expressed our belief that it would be more economical if the agency adopted the Government's long-standing policy of self-insurance by assuming the risks covered by this type of insurance. We also express our belief that savings might be realized by adopting the self-insurance policy for certain other coverages provided for in management contracts if the agency's costs and claim

expenses were found to be similar to those related to liability insurance. The Insurance Commission informed us that the agency was favorably disposed toward the realization of funds and was in our opinion

Examination of financial statements of Federal Housing Administration for fiscal year 1965, B-114860, May 31, 1967

We expressed our opinion that, except for certain items explained in the report, the agency's financial statements presented fairly its financial position at June 30, 1965, and the results of its operations and the source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws. We did not express an opinion as to the adequacy of retained earnings (insurance reserves) which were available to meet losses that might be incurred in the FHA insurance operations because the amount that may be needed is dependent on future economic conditions.

Savings possible by consolidating management of acquired residential properties, Federal Housing Administration and Veterans Administration, B-156010, May 31, 1967

We expressed our belief that it was feasible to consolidate within one agency the management and disposition of all single-family residential properties acquired as a result of default of loans under home financing programs of FHA and the Veterans Administration (VA). The two agencies, whose property management functions are essentially the same, acquire and dispose of thousands of homes each year, and at June 30, 1966, owned about 43,000 and 15,700 homes, respectively.

We stated that we believed that consolidation would provide opportunities for certain benefits, including lower costs through a reduction in the overall size of the two staffs which now perform these functions separately and which have combined annual salary costs, excluding fringe benefits, of about \$9 million. A management consulting firm has been engaged by the Bureau of the Budget to make a study to determine what, if any, organizational and other actions should be taken.

Need for strengthened procedures to reduce the number of extra final inspections on newly constructed houses, B-114860, June 12, 1967

Our review indicated that in many instances builders prematurely requested final inspections by FHA on new homes and that the procedures followed by FHA insuring offices to discourage the practice had not been sufficiently effective. The extra final inspections on houses were performed at the expense of FHA. From 25 to 75 percent of the total homes we examined in four insuring offices required at least one extra final inspection. If only 25 percent of the estimated 158,000 new homes which received final inspections nationwide in fiscal year 1966 required one extra final inspection, overall savings available by eliminating that extra inspection would have amounted to about \$200,000.

The agency agreed that the number of extra final inspections resulting from premature requests should be reduced and instructed insuring offices to review their inspection operations and to take specific steps to control and reduce the number of premature final inspections. To make the agency's actions more effective, we recommended that FHA require payment of penalty fees for reinspections clearly caused by premature requests for final inspection.

Statistics regarding multifamily housing programs administered by the Federal Housing Administration, B-114860, Aug. 23, 1966

At the request of the chairman, Permanent Subcommittee on Investigations, Senate Committee on Government Operations, we prepared a report on statistics regarding multifamily housing programs administered by FHA. Our report contained summary information on each of the principal active multifamily programs, including the number of projects insured, the dollar amounts of the mortgages, the number of projects in financial difficulty, and the financial results of each program.

The report disclosed that as of June 30, 1965, total insurance reserves available to meet future insurance losses and administrative expenses were \$417 million less than the amount estimated by FHA to be sufficient to cover such insurance losses and expenses. This reserve deficiency had increased significantly from the deficiency of \$47.1 million at June 30, 1961.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Examination of financial statements for fiscal year 1965, B-114828, Nov. 30, 1966

We expressed our opinion that, except for certain items relating to the Government Mortgage Liquidation Trust, the financial statements of the Federal National Mortgage Association presented fairly its financial position at June 30, 1965, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

Our comments on the Government Mortgage Liquidation Trust dealt primarily with the presentation of the accounts arising from the sale of participation certificates. Our comments did not relate to the secondary market activities of the Association in which the public has an investment.

HOUSING ASSISTANCE ADMINISTRATION

Maintenance employment classifications and wage rates at selected local housing authorities in Region VI, E-118718, Nov. 28, 1966

Our review disclosed that the procedures followed by HAA personnel in the Department regional office in San Francisco in establishing wage rates for certain maintenance employees of the Housing Authority of the City and County of San Francisco (SFHA) and the Housing Authority of the City of Los Angeles (HACLA) resulted in rates of pay which were significantly higher than the wage levels of workers employed in general maintenance work in these areas. We found that SFHA used construction craftsmen and construction laborers to perform, for the most part, routine maintenance work. Also, our review indicated that the work performed by HACLA construction craft personnel was generally of a maintenance nature. We estimated that the use of construction employees instead of general classes of maintenance employees to meet SFHA's maintenance requirements, and the greater payment for fringe benefits, increased its project operating expenses by approximately \$460,000 a year, of which about \$318,000 was allocable to federally aided low-rent housing projects. We estimated also that the use of construction employees by HACLA increased its operating expenses by about \$65,000 a year, of which about \$59,000 was allocable to federally aided projects.

We recommended that the Secretary of Housing and Urban Development take appropriate action to resolve the uneconomical conditions existing at these two local housing authorities and at any other local housing authorities where similar conditions might exist, so that wage rates of maintenance employees would be established on the basis of skills needed to perform the type of work involved in project maintenance. The HAA generally disagreed that inappropriate wage rates were established for maintenance employees of the two housing authorities, but stated that further action was anticipated by HAA toward the establishment of general maintenance classifications for certain of these employees.

Examination of financial statements of Housing Assistance Administration for fiscal year 1966, B-114863, Jan. 31, 1967

We expressed our opinion that the financial statements presented fairly the financial position of the Housing Assistance Administration's low-rent public housing program fund at June 30, 1966, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

Opportunities for reducing Federal contributions by maximizing investment of excess funds held by local housing authorities, B-118718, Jan. 31, 1967

We found that agency reviews of financial activities at three local housing authorities (LHAs) had not disclosed that the authorities were maintaining significant amounts of cash in excess of estimated current disbursement needs instead of investing such funds to produce additional income. It appeared to us also that additional interest revenue could have been earned if further investments of available cash had been made by six of seven other LHAs. The LHAs covered by our review were 10 of the 14 largest authorities in the

low-rent public housing program. We estimated that, if the investment of funds held by the nine LHAs had been maximized, additional annual revenue of about \$170,000 could have been realized. Any additional revenues earned by LHAs tend to decrease the Federal Government's liability for annual contributions to the LHAs.

We recommended that the Secretary of Housing and Urban Development take appropriate action to maximize the investment earnings of LHAs and provide for more effective reviews of LHA investment program activities. Corrective action was subsequently taken in line with our recommendation.

RENEWAL ASSISTANCE ADMINISTRATION

Certain policies and practices followed in approving claims for noncash grant-in-aid credits, **E-118754**, Oct. 31, 1966

The Renewal Projects Administration (RPA), now Renewal Assistance Administration, approved what we believed to be excessive allocations of costs for a bridge to an urban renewal project in Tacoma, Wash., and for a limited-access street to a project in Norfolk, Va. RPA also approved the inclusion of values for certain publicly owned buildings in the cost of another project in Norfolk, which we believed were excessive because an improper basis was used in the valuations. The amounts of the excess allocations for the bridge and the street and of the excess value of the buildings could not be determined without detailed studies. We expressed our belief, however, that the amounts could be substantial in relation to the \$3 million credits allowed for the facilities. RPA generally did not agree with our findings.

We recommended that the agency (1) revise its regulations to provide that, when it is determined that a facility will provide more than one type of benefit, the relative values of the benefits be determined so that each type of benefit will be appropriately weighted for an equitable allocation of the total benefit to project and nonproject areas, and (2) revise its noncash grant-in-aid credit policy to recognize that the limited-access portions of facilities, such as the street in Norfolk, substantially benefit the entire community and that, therefore, the costs of such facilities should be appropriately allocated between the project and nonproject areas. We recommended also that the Secretary of Housing and Urban Development require that the value of the noncash grant-in-aid for the publicly owned parcels donated by the city of Norfolk be determined on the basis of the value of the improvements for suitable private use, which, in our opinion, would represent fair market value because the buildings had been contemplated for abandonment before the project was started.

DEPARTMENT OF THE INTERIOR

BONNEVILLE POWER ADMINISTRATION

Examination of financial statements of the Columbia River Federal Power System, fiscal year 1966, B-114858, Mar. 1, 1967

The report to the Secretary of the Interior on our examination of the financial statements of the Columbia River Federal Power System for fiscal year 1966 was included in the Bonneville Power Administration's report which is sent to the Congress in accordance with the requirements of the act which authorized the construction of the third powerplant at Grand Coulee (80 Stat. 200).

We expressed our opinion that, subject to the financial effects, not now fully determinable, of adjustments for adoption of firm cost allocations, revisions of accrued depreciation, and the resolution of other matters described in our report, the financial statements present fairly the assets and liabilities of the Columbia River Federal Power System at June 30, 1966, the financial results of its power operations, and the source and application of its funds for the year then ended, in conformity with accounting principles and standards prescribed for executive agencies of the Federal Government by the Comptroller General of the United States, applied on a basis consistent with that of the preceding period.

BUREAU OF LAND MANAGEMENT

Examination into certain proposed land exchanges for the Point Reyes National Seashore in California (request of Senator Wayne Morse and Congressmen Robert B. Duncan and Wendell Wyatt), **B-157902**, Sept. 16, 1966

Pursuant to congressional requests, we compiled a comprehensive account of the negotiations conducted in connection with two land exchange proposals involving property interests at Point Reyes, Calif., which are within the boundaries of the Point Reyes National Seashore. The public lands included in the proposals are in California and Oregon and are under the jurisdiction of the respective Bureau of Land Management (BLM) State Offices located in Sacramento, Calif., and Portland, Oreg. We also examined into matters which pertained to the controversy between the former Director of BLM and the former Director of the BLM Oregon State Office.

GEOLOGICAL SURVEY

Procurement of equipment for implementing automation of water data records, **B-118678**, July 15, 1966

The Geological Survey completed a study in June 1962 and concluded that savings in costs and manpower could be realized by using a digital recorder to automate water data records instead of the strip-chart recorders it had been using. Our review of equipment procurement for implementing automation of water data records disclosed that during fiscal years 1963 through 1965, the Survey purchased and installed digital recorders and, during the same period, continued to purchase new strip-chart recorders of the type being replaced by digital recorders. This situation occurred because the Survey did not develop an overall plan to show the number of digital recorders that would be periodically needed in each district office to effectively implement the automation program and did not provide for coordination in relocating replaced strip-chart recorders so as to avoid the procurement of new ones.

We proposed that an overall plan be developed which would provide for the timely procurement, distribution, coordination, and installation of all water data collection equipment to avoid further procurement of new strip-chart recorders. In December 1965, the Department advised us that it agreed with the intent of our proposals and was therefore asking the Geological Survey to take appropriate actions necessary to carry out our proposals. The Department stated that the Survey would develop a plan for stronger central control and coordination of procurement and distribution of water data collection equipment.

OFFICE OF TERRITORIES

Sale of federally owned electric power and salt water distillation facilities to the Government of the Virgin Islands, Virgin Islands Corporation and General Services Administration, **B-58303**, Feb. 28, 1967

On May 28, 1965, the Virgin Islands Corporation entered into an agreement for the sale of its electric power and salt water distillation facilities to the Government of the Virgin Islands, citing as its authority section 4(f) of the Virgin Islands Corporation Act (48 U.S.C. 1407c(f)), for \$6.5 million which was the amount at which the facilities had been appraised by a private engineering firm employed by the General Services Administration (GSA). This amount was adjusted to \$7.3 million to reflect changes in plant investment and current assets between September 30, 1964, the appraisal cutoff date, and May 31, 1965, the transfer date. The report describes the details, circumstances, and legal background which gave rise to our opinion that section 4(f) did not provide authority for the disposal of the facilities and also presents our view that there was inadequate support regarding certain aspects of the appraisal obtained by GSA.

The Governor of the Virgin Islands and GSA renegotiated the original sales price to make adjustments on the basis of comments by our Office and the chairman, Government Activities Subcommittee of the House Committee on Government Operations, concerning the reasonableness of the appraisal, and on January 26, 1967, GSA agreed to sell the facilities to the Government of the Virgin Islands under provisions of section 203(e) of the Federal

Property and Administrative Services Act of 1949 (40 U.S.C. 484(e)) for \$9.5 million, or about \$2.2 million more than the original transfer price. We recommended that the Administrator of General Services emphasize to GSA's appraisal review staff the need for appraisal reports to contain supporting data which fully describe the factors considered in estimating fair market value and the basis for arriving at the increase or reduction in value attributable to each such factor.

UNITED STATES FISH AND WILDLIFE SERVICE

Unauthorized use of management and investigations of resources funds for new construction, Bureau of Sport Fisheries and Wildlife, B-114841, Sept. 22, 1966

The Bureau of Sport Fisheries and Wildlife improperly used about \$296,000 of management and investigations of resources funds to construct a new National Fish Control Laboratory at Warm Springs, Ga., and a number of smaller buildings and projects in the Bureau's Region 3 which is headquartered in Minneapolis, Minn. This situation occurred because Bureau officials incorrectly interpreted the administrative provisions of the Fish and Wildlife Act of 1956 (16 U.S.C. 742a *et seq.*) and the annual appropriation acts authorizing the use of management and investigations of resources funds for construction purposes. As a result, the Bureau undertook the construction of new and separate buildings and facilities without requesting specific construction appropriations from the Congress as required by 41 U.S.C. 12. The Bureau's actions also violated the provisions of the Anti-Deficiency Act (31 U.S.C. 665(a)) which prohibits an officer or employee from involving the Government in any contract or other obligation for the payment of money in advance of appropriations made for that purpose.

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

We recommended that the Director of the Bureau, in order to provide for more orderly funding of future construction projects, establish clear-cut guidelines regarding the extent to which project funds can be used for incidental construction and to stress the need for obtaining specific construction funds for all construction work which does not clearly fall within the established guidelines.

DEPARTMENT OF JUSTICE

Need to improve contracting procedures for employment of appraisers to value Indian lands, B-159135, Aug. 9, 1966

Our review disclosed a need to improve contracting for employment of appraisers through strengthening of contracting procedures and establishment of guidelines to aid in determining the reasonableness of appraisers' proposed fees. We found that uniform procedures or guidelines had not been prescribed for aiding attorneys who select appraisers; management had not effectively reviewed contracting actions; appraisers had not been required to furnish such basic data as estimated man-days, per diem rates for personal services, travel, outside fees, printing, overhead, or other expenses in support of their bid proposals; and there was usually an absence of negotiations between attorneys and appraisers.

In response to our proposals and recommendations, the Department (1) prepared and issued formal policies and procedures governing the procurement of appraisal services, (2) requires appraisers to furnish financial or other fee information in support of bid proposals, (3) prescribed criteria to guide individual attorneys in determining the reasonableness of appraisers' proposed fees, (4) requires contracting officials to negotiate with appraisers after receipt of initial proposals, and (5) provided for periodic reviews of contracting activities to determine that prescribed policies and procedures are being effectively carried out.

Examination of the financial statements of Federal Prison Industries, Inc., for fiscal year 1966, B-114826, Jan. 20, 1967

Our report expressed the opinion that the Corporation's financial statements presented fairly its financial position at June 30, 1966, and the results of its operations and the sources and application of its funds for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

Policies and procedures for collecting judgments, fines, penalties, and forfeitures, B-153761, June 16, 1967

Since our May 1964 report to a subcommittee of the Congress concerning the collection activities of the Department of Justice and the United States Attorney for the District of Columbia, the Department increased its collections substantially. Our subsequent review of policies, procedures, and practices followed by the Department and by four selected United States attorney offices in collecting debts owed the Government showed, however, a need for more timely and effective collection efforts and the need to improve the accounting for and reporting of outstanding indebtedness.

We recommended that the Department (1) provide for a program of systematic annual reviews, at least of the larger United States attorney offices, (2) centralize collection activities performed by each litigating division, (3) establish financial control over outstanding indebtedness, (4) improve monthly statistical reports on collections, and (5) eliminate duplication in the recording of collection payments.

In commenting on matters discussed in the report, the Department advised us that several of our proposals were being considered or studied and set forth the measures it had taken to improve collection activities.

DEPARTMENT OF LABOR

DEPARTMENT-WIDE

Review of selected financial management practices in the Department of Labor, B-133182, Mar. 23, 1967

Certain aspects of the Department's obligation and expenditure practices relating to the control of appropriations appeared to be in need of substantial improvement. The Department had been implementing a program for improvement in this area, however, and we expressed our belief that the planned corrective action should strengthen management controls and minimize the recurrence of the deficiencies noted.

The deficiencies involved primarily the use of appropriated funds for purposes other than those authorized by the related appropriation acts. We were of the opinion that such use of funds was contrary to the law (31 U.S.C. 628) which provides that appropriations be available only for objects for which they were made.

We concluded that inadequate controls over appropriated funds resulted in violations of the Anti-Deficiency Act in fiscal years 1964 and 1965. These violations took place in the Bureau of Labor Statistics when obligations were incurred—in certain instances in amounts over \$1 million—before appropriate allotments had been made. After we called the attention of the Bureau to this matter, reports of the violations of the Anti-Deficiency Act were made to the President and to the Congress, as required by the act.

OFFICE OF THE SOLICITOR

Determinations of wage rates for construction of Carters Dam, Ga., B-156269, Dec. 14, 1966

The minimum wage rates determined by the Department of Labor for construction of Carters Dam, a federally financed Corps of Engineers' project, increased an average of about 63 percent in less than 2 years. We estimated that, as a result of the wage-rate increases, the contracts for phase II of the main dam—about \$15.4 million—included about \$1.7 million in extra direct labor costs. We expressed our belief that lower minimum wage rates would have been determined had appropriate consideration been given to (1) the wage rates

prevailing on similar heavy and highway construction work in the area, (2) the wage rates paid during the representative peak payroll periods on similar work in the area, and (3) the wage practices of other contractors in the area. The Assistant Secretary for Administration, Department of Labor, informed us that the Department believed that the determined minimum wage rates were proper.

BUREAU OF EMPLOYMENT SECURITY

Need for more effective action to correct conditions disclosed by internal audits, **B-133182**, Jan. 17, 1967

In many instances, the Bureau did not take appropriate action to correct the conditions disclosed by its internal auditors in their audits of State employment security agencies. We expressed the belief that, in the majority of those instances where the State expenditures were allowed to stand, the questions raised by the internal auditors were valid and that the Bureau did not take sufficient action to examine into the underlying causes of the conditions reported nor to obtain appropriate corrective action by the States. Our examination disclosed several expenditures which the internal auditors had questioned on the basis that State law had been violated but the Bureau had not taken appropriate action to resolve their legality. We noted that the Bureau had no prescribed procedures to be followed in processing and resolving audit findings involving expenditures which may be contrary to State law.

We recommended that the Secretary of Labor require the Bureau to strengthen its administrative procedures for following up internal auditors' findings and to provide that the underlying causes of questioned expenditures be appropriately identified and resolved. Subsequently, the audit function was centralized under the supervision of the Assistant Secretary for Administration, and we were informed that the Assistant Secretary would monitor the follow-up actions required.

Potential benefits from quarterly collections of Federal unemployment taxes, Department of Labor and Department of the Treasury, **B-133285**, Jan. 24, 1967

We found that a significant acceleration in the availability of funds for financing the administration of employment security activities could be realized if appropriate legislation were enacted to provide for the quarterly, rather than annual, collection of Federal unemployment taxes. The collection of these taxes after the close of the calendar year has necessitated the borrowing of funds at prevailing Federal interest rates to finance the costs of administering the State employment security offices during the first 7 months of the respective fiscal year. We pointed out that the account which is used to finance the costs of administration incurred \$2.2 million in interest expense from July 1964 until the majority of calendar year 1964 taxes were collected in early 1965. We estimated that, if collections for calendar year 1964 had been made on a quarterly basis, available funds not only would have been adequate to meet the administrative costs of employment security activities but would have earned about \$7.1 million in interest.

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

Need for strengthening procedures to ensure salary comparability for State employment security agencies, State of Georgia Employment Security Agency, **B-133182**, Feb. 14, 1967

We expressed the belief that there was a need for the Bureau of Employment Security to improve the administration of the Federal merit system standards which provide that the salaries of State employment security agency employees shall be at levels comparable to the salaries of other State agencies for positions of similar difficulty and responsibility. We found that these Federal standards were not appropriately observed in 1964 in regard to the approval of salary increases for the Georgia State agency, which, for the most part, were higher

than the increases approved and applied generally to the State government organization. We estimated that employment security employees would receive annually about **\$246,000** more than similarly classified employees would receive in all but one of the other agencies of the State. The Department of Labor agreed with the intent or substance of our proposals for corrective action with certain reservations regarding their implementation and informed us that it would review its requirements and controls with a view to strengthening its procedures.

Because the approved salary levels of the Georgia State agency were higher than those being paid by all but one other agency of the State and were contrary to Federal merit system standards, we recommended that the Secretary of Labor direct the Bureau to request the Georgia State agency to adjust the rates it placed into effect unless they were justified under the standards of comparability adopted. The Department informed us that it did not believe it was feasible to try to reconstruct equitable pay relationships involving adjustments made in **1964**.

BUREAU OF EMPLOYEES' COMPENSATION

Disability compensation payments under amendments to the Federal Employees' Compensation Act, **B-157593, Dec. 14, 1966**

The Bureau's method of computing disability compensation increases under the **1949** amendment to the Federal Employees' Compensation Act resulted in the largest rate of increase for the least disabled and in partially disabled claimants receiving compensation increases ranging as high as 400 percent, whereas totally disabled claimants were limited to increases of **10** or **40** percent. We estimated that nationwide, from October **1949** through March **1965**, approximately **1,700** partially disabled claimants had received payments that exceeded by about **\$2.2** million the amounts we believed were intended by the amendment and that these higher payments were continuing at a rate of about **\$123,000** annually.

The Department did not agree that the Bureau's method of computing compensation increases was incorrect. In view of the difference of opinion between the Secretary of Labor and the General Accounting Office as to the proper amount of increased compensation intended under the **1949** amendment to the Federal Employees' Compensation Act, we suggested that the Congress might wish to express its views in this matter.

Need for prompt adjustment in compensation payments to injured Federal employees from total to partial disability rates, **B-157593, Jan. 12, 1967**

Our review at four of the Bureau's **10** district offices showed that over a 10-year period, **562** claimants had received about **\$656,000** more than they would have received if partial disability rates of compensation payments had been established effective at the time medical evidence showed that their total disability had ceased. The time elapsed from the date of maximum medical improvement to the date of adjustment of compensation ranged up to **247** weeks. We estimated that, nationwide, claimants on partial disability rolls at the date of our report may have been paid additional compensation totaling about **\$1** million as a result of the avoidable delays by the Bureau in adjusting compensation rates.

The Secretary of Labor outlined a number of improvements being made in Bureau administration which substantially included the actions we had proposed, but he did not agree that the adjustment should be made effective as of the date medical evidence indicates total disability has ceased. We plan to reexamine the Bureau's operations at a later date to observe the effects of the corrective action taken.

Potential savings attainable through improved control over computations of disability compensation, **B-157593, June 28, 1967**

We found that the Bureau's practice of adjusting the percentage of wage-earning capacity of partially disabled Federal civilian employees downward in favor of the claimants resulted in the payment of excess compensation. We estimated that, if the practices noted during our review at four district offices were essentially the same at all **10** district offices, the Bureau made overpayments of about **\$370,000** from January **1960** through September **1965** and could achieve

savings of at least \$100,000 a year by eliminating any adjustment of the percentage of wage-earning capacity computed.

In response to our proposals, the Secretary of Labor informed us that the Bureau would issue instructions to discontinue the practice of basing compensation awards to disabled employees on adjusted percentages of their wage-earning capacity and that improved supervision, including internal audits, would be provided. The Bureau informed us also that appropriate adjustments of existing awards would be made where such action would not result in hardship to the beneficiaries.

LABOR-MANAGEMENT SERVICES ADMINISTRATION

Certain activities related to administration and enforcement of the reporting and bonding provisions of the Welfare and Pension Plans Disclosure Act, and the Labor-Management Reporting and Disclosure Act of 1959, B-160557, Mar. 14, 1967

In this report we informed the Congress of the need for improved administration and enforcement by the Department of the reporting and bonding provisions of the Welfare and Pension Plans Disclosure Act and the Labor-Management Reporting and Disclosure Act of 1959 and the need for legislative authority to establish certain reporting and verification requirements regarding compliance with the bonding provisions. A primary objective of the applicable laws is to protect the interests of participants in the plans and of members of labor organizations through the public disclosure of financial and other information. The Secretary of Labor informed us of certain corrective actions being taken or to be taken. He noted, however, that the Department lacked authority to require reporting of bonding coverage under the Labor-Management Reporting and Disclosure Act of 1959 or to make appropriate investigations of coverage under the Welfare and Pension Plans Disclosure Act. Accordingly, we recommended that the Secretary of Labor seek appropriate legislative authority from the Congress. In February 1967, shortly before the issuance of our report, a bill (S. 1024) was introduced to amend the Welfare and Pension Plans Disclosure Act. This bill provides, in part, for the Secretary to make investigations when he believes it is necessary to determine whether any person has violated or is about to violate any provision of the act.

POST OFFICE DEPARTMENT

Program for replacement and procurement of motor vehicles, B-114874, Aug. 31, 1966

At seven vehicle maintenance facilities in three postal regions, savings of about \$110,000 could have been achieved in calendar year 1964 if older vehicles had been replaced on a more timely basis. The Department had continued to operate vehicles beyond their scheduled replacement dates primarily because the ordering of new vehicles had been delayed and because, when vehicle requirements had been established, full consideration was not given to administrative and production lead time. We reported that if the conditions found in the seven facilities were typical of the conditions at other locations, substantial additional costs might be attributable to operating over-age vehicles throughout the postal service.

The Postmaster General informed us in April 1966 that the Department agreed that its program for replacement and procurement of motor vehicles should be strengthened and that the Department would continue studies to reduce the time required to complete delivery of vehicles. He informed us also that reasonable production lead times would be recognized in requesting funds for replacement vehicles.

Savings available if uniform items are furnished to **postal** employees in lieu of allowances, B-124597, Sept. 27, 1966

We reported that substantial savings could be achieved if the Department discontinued the uniform allowances granted to window clerks and entered into procurements contracts for the furnishing of the authorized uniform items. We reported also that further savings could be achieved if the Department entered into procurement contracts for the furnishing of uniform items to carriers and employees in other postal crafts.

We proposed that the Department study the uniform needs of employees stationed in various sections of the country and consider furnishing uniforms in lieu of providing uniform allowances. On the basis of information compiled by the Department in fiscal year 1965 relating to the cost and quantity of uniform items purchased by letter carriers in the various postal regions, it appeared that the cost to the Department for furnishing uniform items to employees would be less in the warmer climates than in the colder climates if this suggested method were adopted.

The Postmaster General informed us that, with certain necessary qualifications, he intended to initiate prompt action on our proposals. He said that he had requested the Department's Uniform Allowance Advisory Board to submit to him a plan for effecting, on an experimental basis, a supply program for window service uniforms. He said also that our proposals concerning the furnishing of uniform items to carriers and employees in other crafts would be given close attention.

Potential savings through changes in legislation affecting compensation of rural carriers and consolidation of rural routes, **B-114874, Dec. 13, 1966**

We reported that the method of determining the compensation of most rural carriers resulted in additional costs to the Department and in certain inequitable variances in the hourly earnings among rural carriers. We found that most rural carriers were compensated under a schedule, established by law, which was based on the length of the routes and years of service, regardless of the hours of work required to serve the routes, and resulted in carriers receiving salaries which have very little relationship to the amount of time required to perform the services.

We estimated that the costs incurred in providing rural delivery service in the Cincinnati postal region, wherein we made certain tests, could be reduced by about \$3.4 million annually if rural carriers' salaries were based on the hours of work required to perform their duties, as are the salaries of most other postal employees. The Department's internal auditors, in a report issued in July 1965, presented a nation-wide projection which showed that such savings would be about \$58 million annually.

We recommended that the Congress consider enacting legislation authorizing the Postmaster General to compensate all rural carriers on the basis of the hours of work required to perform their duties.

We reported also that the Department was prohibited by statute (39 U.S.C. 3339) from consolidating rural routes unless vacancies exist in the rural carrier positions. We expressed the opinion that, if this restrictive statute were repealed, many rural routes could be eliminated through consolidation with other routes and that increased income for the carriers serving the new routes and significant savings to the Government in operating costs could result without impairing service to patrons.

The restrictive statute was enacted in 1934, and the legislative history indicates that the action of the Congress of restricting the consolidation of rural routes was influenced, to a great extent, by the unemployment and depressed economic conditions that existed at that time. In view of the changed conditions since the enactment of the restriction, we recommended that the Congress consider repealing 39 U.S.C. 3339 so that the Department could consolidate rural routes whenever economies are possible without adversely affecting service.

Policies and procedures used in determining the administrative office space to be provided in major postal facilities, **B-153129, Dec. 27, 1966**

The Department's space standards provided for administrative offices which, in the 10 facilities that we reviewed, averaged about 32 percent larger than would have been provided under General Services Administration (GSA) standards. We estimated that, if the 10 major leased facilities covered by our review had been planned on the basis of GSA's standards, the savings in rentals might have amounted to as much as \$88,000 annually, or \$2,580,000 over the lives of the leases.

In commenting on this finding, the Postmaster General said that the Department proposed to adopt new administrative office space standards more in line with current needs and GSA's allowances.

We recommended that the Congress give consideration to enacting legislation which would make GSA responsible for either establishing or approving the

standards to be used in planning space for the Post Office Department's administrative activities in both leased facilities and federally owned buildings. Subsequent to the issuance of our report, the Department accepted an invitation from GSA to participate in a joint effort to issue an occupancy guide or something comparable for the Department's administrative office space. In March 1967, we informed the Subcommittee on Buildings and Grounds, Senate Committee on Public Works, of this action and expressed the opinion that if an occupancy guide were developed for the Department under the standards used by GSA for other agencies, there would be little need for the Congress to enact the legislation proposed in our report.

We estimated that, for eight of the 10 leased postal facilities involved in our review, the Government could realize annual savings in rental costs of about \$147,500 by subleasing the planned excess office space to other Government agencies which lease office space from private lessors. The Postmaster General concurred with our proposal that office space in postal facilities be subleased to the maximum extent practicable and stated that the Department would establish appropriate procedures to implement this policy.

Potential savings available through establishment of gasoline outlets at certain postal installations, B-159072, Feb. 15, 1967

On the basis of our reviews at 103 post offices, branches, and stations in five postal regions, we estimated that savings of about \$80,000 annually would result from the installation and use of gasoline outlets at 41 of these facilities. We reported that, if the conditions found at these postal installations were typical of the conditions at other locations, significant additional savings could be achieved by the establishment of gasoline outlets throughout the postal service.

We proposed that the Department (1) develop criteria for determining the feasibility of establishing gasoline outlets at post offices, branches, and stations which procure gasoline and motor oil from sources other than vehicle maintenance facilities, auxiliary garages, and other Government-operated gasoline outlets, (2) require the appropriate officials of the postal regions to use the developed criteria in determining the existing or planned facilities where use of gasoline outlets would result in savings in operating costs, and (3) take such other actions as may be necessary to arrange for the timely installation and operation of gasoline outlets at such facilities.

In October 1966 the Postmaster General informed us that the Department agreed with our proposals and that he was directing the responsible bureaus of the Department to collaborate in making a comprehensive study to develop criteria for determining the feasibility of establishing gasoline outlets. These criteria have since been issued.

Potential savings available in manpower costs of railway post offices, B-157910, Feb. 23, 1967

We estimated that the Department could achieve annual savings of about \$265,000 in manpower costs in the four postal regions we reviewed if (1) the number of employees assigned to unload railway post offices and/or the time allowed these employees for unloading were reduced to the number of employees and the time necessary for unloading and (2) employees were paid for only actual service time when railway post offices arrived ahead of schedule. We expressed our belief that, to the extent that conditions similar to those observed by us in the four regions existed in the other 11 postal regions, additional savings may be available.

In response to our findings and suggestions, the Department issued instructions to its regional offices in May 1966 which require an evaluation of railway post-office staffing and establish a maximum of six employees as the number of employees that should be assigned to unload a full size railway post-office car. Concerning the early arrival of railway post offices, the Postmaster General informed us that the Department would review the situation.

We recommended that the Postmaster General establish such policies and procedures as are necessary to ensure that railway post-office employees are granted credit only for actual hours of service performed when railway post offices arrived ahead of schedule.

Selected aspects of the staffing and functions of the postal regional offices, B-159768, Feb. 23, 1967

At the request of the chairman, Subcommittee on Departments of Treasury and Post Office and Executive Office, House Committee on Appropriations, we reviewed selected aspects of the staffing and functions of the Post Office Department's regional offices. Our review indicated that about \$3.9 million of the funds appropriated for fiscal year 1966 postal operations had been used to pay the salaries of local post office employees detailed to the postal regional offices, to the postal data centers, to the Department's headquarters office, and to headquarters programs carried out at field installations.

Because the act making appropriations available to the Department to carry out its activities during fiscal year 1966 (79 Stat. 200) contained a \$1 million limitation on the amount by which the appropriation for administration and regional operation could be increased as a result of transfers from other appropriations, we reported that the Department's use of \$3.9 million of the operations appropriation to finance other activities did not appear to be in conformity with the intention of Congress in imposing the \$1 million limitation.

We also reported that our review had indicated some evidence of overlapping and duplication of effort between certain functions of the postal inspectors and of the regional office personnel. Some of the information included in our report was used extensively by the subcommittee during hearings on the Department's appropriations for 1968.

Selected aspects of labor-management program, B-159768, Feb. 23, 1967

At the request of the chairman, Subcommittee on Departments of Treasury and Post Office and Executive Office, House Committee on Appropriations, we reviewed selected aspects of the Post Office Department's labor-management program. We reported that the Department's accounting system did not identify the costs incurred in carrying out the labor-management program and that it was not practicable for us to determine the actual costs being incurred, because the program involved thousands of locations. We concluded, however, that the Department's estimate of \$1,114,000 as the cost of the program at its headquarters office and the 15 regional offices was reasonable, but that the Department's estimate of \$629,000 as the cost of the program at the post office level substantially understated the costs involved.

We further concluded that, at the national level, the Department had negotiated on matters which were identified in Executive Order 10988 as rights which management was required to retain. Also, in our opinion, management had, in some instances, agreed to provisions which could adversely affect the efficiency of the postal operations.

With regard to the negotiation of numerous local agreements, we concluded that the Department's negotiation of agreements with organizations selected by the employees in particular crafts at individual post offices was consistent with the objective of Executive Order 10988, which gave Government employees the right to participate in the formulation and implementation of personnel policies affecting them.

The information in this report was discussed extensively during hearings before the subcommittee on the Department's appropriations for 1968.

DEPARTMENT OF TRANSPORTATION

(Including reports relating to the Federal Aviation Agency; Bureau of Public Roads and Saint Lawrence Seaway Development Corporation, Department of Commerce; The Alaska Railroad, Department of the Interior; and U.S. Coast Guard, Treasury Department, issued prior to their incorporation in the Department of Transportation which was established in April 1967.)

FEDERAL AVIATION ADMINISTRATION

Federal grants for airport improvements at the adjacent communities of Kenai and Soldotna, Alaska, B-154861, Oct. 31, 1966

We reported that the Federal Aviation Agency made separate grants to the adjacent communities of Kenai and Soldotna, Alaska, for improving their

respective airports and that, as a result, the Government would contribute about **\$233,300** for improvements to the Soldotna airport, a significant portion of which was not necessary to meet the then-current or anticipated civil aviation needs of the area. We expressed the belief that separate grants would not have been made if the Alaska Region had followed the Agency's area airport policy of developing only one airport, where possible, to serve the needs of more than one community. We also pointed out that the Washington Headquarters Office had not established adequate procedures and controls to ensure compliance with the area airport policy.

In response to our proposals for corrective action, FAA informed us that Agency directives for implementing the area airport policy would be clarified to require that full consideration be given to the policy in recommending or approving projects and that evidence of such consideration would be required for each project submitted to the Headquarters Office for review and approval. We were informed also that the Agency would improve its coordination with the Civil Aeronautics Board to fully implement the area airport policy.

Coordination between procurement of technical equipment and its ultimate utilization, **B-133127, Nov. 29, 1966**

The Federal Aviation Agency had accumulated sizable overstocks of air navigational and traffic control equipment because it had procured the equipment without first having firm plans for installing it. We noted also that, because of inadequate procedures for determining stock availability, FAA has purchased equipment costing about **\$136,000** from commercial sources when it already had similar equipment, in excess of reasonably current needs, stocked at its Oklahoma City depot.

In agreeing with our proposals for corrective actions, the Agency informed us that it had issued comprehensive system improvements for the management of project material, which would be fully implemented by Dec. **31, 1966**, and would provide for the constant comparison of requirements, and the early identification and prompt disposal of excesses to ensure their availability to other Government agencies. FAA informed us also that (1) an Agency directive would be issued to give formal status to informal instructions which provide for the procurement of construction supplies on a more realistic basis, (2) increased effort would be made to buy equipment nearer to the actual need date, and (3) an Agency internal audit follow-up and future management reviews would determine the effectiveness of the corrective action taken.

Acquisition and use of aeromedical research facilities, **B-158515, Apr. 6, 1967**

We found that, because of inadequate planning, the Federal Aviation Administration rented more space than was necessary for research and support staff requirements in a specially constructed building at Oklahoma City, Okla. We noted also that FAA had plans to construct three technical and administrative buildings costing about **\$15 million** at Atlantic City, N.J., to be used as an experimental center for nonmedical research. We proposed, therefore, that Agency plans for these buildings be based on reasonable estimates of its staff requirements.

The FAA Administrator expressed general agreement with our findings and proposals and informed us that he had been aware of the space-use problem at Oklahoma City and was attempting to find other Government research activities to use the specialized facilities of the building. He indicated that, in the Atlantic City building program, he would make sure that the plans provide adequately for the efficient use of these buildings. We recommended that if the FAA Administrator could not find Government research activities to use the space available in the Oklahoma City facility, he determine the feasibility of locating nonresearch programs in the building.

Selected procurements and costs of dedication ceremonies in the Pacific Region, **B-118670, May 26, 1967**

We reported that our review of selected procurements and of costs of dedication ceremonies of the Federal Aviation Administration in the Pacific Region showed that the Administration had procured goods and services costing about **\$267,000**, which could not be justified or could be justified only partially by the conditions existing at the time of the procurements or by the benefits received by the Government.

In response to our proposals, FAA terminated a lease for an alarm/sound system in the regional headquarters building with resultant savings to the Government of about \$65,000. In addition, the agency expressed general agreement with our proposals for establishment of more effective procurement policies, standards, and controls. We expressed our belief that the actions taken or promised by the agency would correct the situation described in our report.

FEDERAL HIGHWAY ADMINISTRATION

Significant problems in the administration of right-of-way acquisition activities for the Federal-aid highway program in the State of Utah, B-118653, July 15, 1966

We found that, although Bureau of Public Roads' reviews in 1960 had disclosed indications of deficiencies in the appraisal practices of the State of Utah, it was not until 1962 that the Bureau recognized that inadequately supported right-of-way values were a prevalent condition. A retrospective appraisal program, paid for entirely by the Bureau, was thereafter inaugurated as a means of determining the acceptability of claims for right-of-way costs for acquisitions before August 1, 1962. However, because no prior agreement was reached with the State that the results of this program would be a basis for settlement of claims, a common ground for settlement was not established. As of February 1966, State of Utah claims for Federal participation amounting to \$11 million for right-of-way acquired before August 1962 were still unsettled. Our review into appraisals for selected properties acquired by the State during fiscal years 1963 and 1964 showed that, even though the Bureau had intensified its review of State appraisals, deficiencies in appraisal practices remained.

We recommended that the Federal Highway Administrator establish a policy which would limit Federal participation in State costs of preparing appraisals to the amounts that would be required to obtain acceptable appraisals initially and that the findings contained in our report be considered in arriving at decisions on corrective actions that may be required to strengthen the appraisal program.

Justification for a Federal-aid interstate highway frontage road near Billings, Mont., B-118653, Nov. 29, 1966

In 1962 the Bureau of Public Roads approved Federal participation in the cost of constructing a frontage road near Billings, Mont., then estimated at \$720,000, primarily on the basis of justification made by the State about 4 years earlier. The Bureau had not adequately evaluated the effect of changes in local conditions upon the need for the road and had not requested the State to prepare analyses or cost studies, as required by Bureau policy. As a result of inquiries by our Office regarding the need for construction of the road, the Bureau gave further consideration to the project and determined that the frontage road was no longer justified as originally approved. The Bureau made several alternative proposals to the State of Montana for lesser projects under which the estimated Federal participation would not exceed from \$250,000 to \$300,000, including costs of preliminary engineering, rights-of-way, and construction already incurred. As of August 1966, however, the State still desired to construct the frontage road as initially planned, and a final solution had not been reached.

We recommended that the circumstances in this case be brought to the attention of appropriate Bureau officials to emphasize the importance of an effective review of justifications for access control features to ensure approval of Federal financial participation on a basis consistent with applicable Bureau policy. The Bureau subsequently acknowledged some failure on its part to fully analyze and require justification for the frontage road proposal and advised us that further negotiations would be held in hopes of finding a better solution, preferably a minimum design facility as previously proposed to the State. At the close of the 1967 fiscal year, the Federal Highway Administration and the State had not reached agreement on the amount of Federal participation.

Circumstances relating to the collapse of the John Day River Bridge on Interstate Route 80N in the State of Oregon, Bureau of Public Roads, Department of Commerce, and Corps of Engineers (Civil Functions), Department of the Army, B-144887, Dec. 19, 1966

The John Day River Bridge, completed in September 1963 at a cost of about \$2.4 million, collapsed about 15 months later, as a result of scouring of the stream

bed around and below the footings of one of the bridge supports during extreme flooding conditions. The footings for this support had been established on compacted sand and gravel approximately 14 feet above bedrock, contrary to the original contract requirement that the bridge piers be founded upon bedrock. The Bureau of Public Roads, which had the responsibility for reviewing and approving all changes, was not made aware of the change in the pier's elevation and foundation material until about 1½ months after the footings had been poured. Because of a lack of clarity in the memorandum of understanding between the Corps of Engineers, which was involved in the bridge as a part of a navigation and flood control project, and the Bureau regarding each agency's responsibilities, the Bureau relied on what it thought was a thorough review by the Corps and did not attempt to independently evaluate the change when it was first in a position to do so, after the change took place.

In May 1967, we were advised that, in accordance with our proposal, the memorandum of understanding between the Federal Highway Administrator and the Chief of Engineers had been revised to more clearly define the respective responsibilities and limitations therein of each agency. Based on our review of the revised memorandum, we believe that proper implementation by the Corps and the Administration of the provisions set forth in the memorandum should preclude future occurrences similar to the John Day River Bridge incident.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

Examination of **financial** statements, calendar year **1965, B-125007, Aug. 31, 1966**

By agreement between the Saint Lawrence Seaway Authority of Canada and the Saint Lawrence Seaway Development Corporation, the billing and the collection of tolls, subject to such collaboration and cooperation on the part of the Corporation **as** may jointly be determined, are the responsibility of **the** Authority of Canada which accounts to the Corporation for its share of the toll revenue. Because the Auditor General of Canada makes annual calendar-year audits of the Authority and his reports are made available to us, we did not verify the Seaway toll revenue. Also, because the Auditor General of Canada makes fiscal-year audits of the Seaway International Bridge Corporation, Limited—a Canadian Crown (government) corporation—and his reports thereon are made available to us, we did not examine into the financial results of the operations of the bridge corporation. Therefore, our opinion, as far as it related to Seaway toll revenues and bridge corporation revenues and expenses, **was** based upon the aforementioned reports of the Auditor General of Canada.

We expressed our opinion that the financial statements present fairly the financial position of the Saint Lawrence Seaway Development Corporation at December **31**, 1965, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with **the** principles and standards of accounting prescribed for executive agencies **by** the Comptroller General of the United States applied on a basis consistent with that of the preceding year.

UNITED STATES COAST GUARD

Need for improvement in the Coast **Guard** Reserve Training Program, **B-114851, June 28, 1967**

We reported that, to a large extent, the Coast Guard Reserve Training Program, which cost **\$23.5** million in fiscal year 1966, was not meeting its objective of providing the qualified enlisted personnel that would be needed in the event of mobilization. The Acting Commandant of the Coast Guard told **us** that he recognized the inability of the Coast Guard Reserve to meet mobilization requirements and said that our report should assist the Coast Guard in gaining recognition for its Reserve Multi-Year Plan, considered essential **by** the Coast Guard if an effective and efficient trained reserve is to be maintained. He concurred with our conclusion that certain weaknesses existed in the training provided by reserve units.

We recommended that the Commandant of the Coast Guard explore, with appropriate committees of the Congress, the feasibility of increasing the

number of reservists who will receive active duty training for periods longer than 5 months. We recommended also that the Commandant take appropriate action to correct certain weaknesses in the training provided by reserve units.

TREASURY DEPARTMENT

BUREAU OF CUSTOMS

Duty-free sales of certain waste produced from imported conditionally duty-free carpet wool, **B-114898**, June 29, 1967

The Bureau of Customs allowed wool waste, resulting from manufacture of specified articles, principally floor coverings, to be sold to manufacturers of other articles, such as baseballs and clothing, without assessment of duty, even though the wool waste could have been used for the manufacture of articles not subject to duty requirements. We estimated that, in the two Customs districts where we made our review, the Government could have realized additional revenues amounting to as much as \$453,000 on 1.2 million pounds of carpet wool waste for fiscal year 1964. Imports of duty-free carpet wool in these two districts amounted to about one-third of the 145 million pounds of wool imports for fiscal year 1964.

Subsequent to our review, the Commissioner of Customs ruled that waste from carpet wool, with certain exceptions, is dutiable. We have been informed that the Bureau of Customs is now requiring that a determination be made that wool waste material is not usable in the manufacture of floor covering or other enumerated items before allowing it to be exempt from duty. The action taken should result in strengthened administrative controls over the utilization and disposition of wool waste, consistent duty treatment of wool waste, and additional revenues to the Government.

INTERNAL REVENUE SERVICE

Opportunities for increasing revenues by improving controls and procedures relating to interest paid on Federal income tax refunds, **B-137762**, Nov. 30, 1966

We expressed the opinion that Federal income tax revenues should be increased as a result of certain measures taken by the Internal Revenue Service (IRS) to (1) establish internal controls and procedures for determining the extent that taxpayers are not reporting interest received on tax refunds as income and (2) make better use of instructional publications to communicate to taxpayers that interest received on tax refunds is income. Prior to the IRS actions, we had found in our test of Federal tax refunds that a high percentage of taxpayers were not voluntarily reporting, as income, interest received on their tax refunds.

Because of our limited access to records, we could not reasonably estimate the total amount of unreported interest on tax refunds. However, on the basis of our examination of certain records and information made available to us, a test of transactions in four Internal Revenue district offices, and the amount of interest paid by the IRS annually—\$88.5 million in fiscal year 1964—we expressed our belief that considerable taxable income had not been reported.

In accordance with our proposals, IRS informed us that certain corrective measures were being taken which we believe, if effectively implemented, should improve the reporting of interest received on tax refunds as taxable income and thereby increase Federal income tax revenues.

Federal excise tax exemption on beer and tobacco products given to certain consumers, **B-133365**, Apr. 25, 1967

In this report we pointed out that under provisions of chapters 51 and 52 of the Internal Revenue Code of 1954, breweries were permitted to furnish tax-free beer to employees and visitors for consumption on the premises and manufacturers of cigars and cigarettes were permitted to furnish these products tax free to employees for personal consumption. We estimated that, if the beer and tobacco products given away during fiscal year 1965 had been subject to excise taxes, these would have amounted to about \$1.6 million. While we recognized that these general practices had existed for a long time, we expressed our belief that expenses incurred in producing and promoting the sale of products, including excise taxes, were appropriate costs to the

manufacturers and that excise taxes should be imposed on beer and tobacco products even though the producers continue the practice of giving these products to employees and visitors free of charge.

We suggested that the Congress may wish to consider amending the Internal Revenue Code of 1954 to provide for payment of taxes by brewers on beer consumed by employees and visitors and by tobacco products manufacturers on cigars and cigarettes given to employees. The Assistant Secretary of the Treasury for Tax Policy advised us that the Treasury would have no objection to repeal of the exemptions in question.

Opportunities for reducing interest costs on refunds attributable to net operating loss deductions, B-137762, May 26, 1967

Under the Internal Revenue Code of 1954, better treatment is accorded to some taxpayers claiming refunds than others at considerable additional expense to the Government. The Code permits taxpayers to offset net operating business losses of a current tax year against a prior year's taxable income and thereby receive a tax refund. The IRS pays interest on these refunds at the rate of 6 percent, commencing on the first day following the close of the year in which the business loss occurred.

An interest-free period of 45 days following the prescribed income tax return filing date or receipt of a return is allowed to process ordinary refunds, whereas no interest-free period is allowed the IRS in processing refunds attributable to net operating loss deductions. We estimated that interest costs accruing before the claims for refunds based on net operating loss deductions were filed amounted to \$300,000 during fiscal year 1964 at the two IRS district offices included in our review. Interest paid on all refunds attributable to net operating loss deductions during fiscal year 1964 was estimated to total about \$28 million.

We suggested that the Congress may wish to consider amending the Code to provide that interest on refunds resulting from net operating loss deductions begin from the date that applications or claims for such refunds are filed instead of from the date following the close of the taxable year in which the net operating loss occurred, except that the IRS be authorized to establish a reasonable period after applications or claims are filed within which interest-free refunds may be made. The Assistant Secretary of the Treasury for Tax Policy stated that the Treasury was prepared to support such legislation.

OFFICE OF THE TREASURER OF THE UNITED STATES

Examination of financial statements, fiscal years 1964-1965, B-114802, Oct. 31, 1966

We expressed our opinion that except for deposit and withdrawal transactions in transit at June 30, 1964 and 1965, in net deposit amounts of \$80.4 million and \$99.7 million, respectively, which were processed in the accounts in the succeeding fiscal years, the financial statements presented fairly the accountability of the Treasurer of the United States at June 30, 1964 and 1965, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States applied on a consistent basis.

ATOMIC ENERGY COMMISSION

Potential savings to the Government through increased purchasing from General Services Administration supply sources by contractors which operate facilities for the Atomic Energy Commission, B-114878, Sept. 20, 1966

Our review showed that savings to the Government of about \$309,000 might have been achieved during the period extending from fiscal year 1963 through the latter part of fiscal year 1965 if contractors which operate facilities for AEC had procured selected operating supplies and equipment through GSA rather than directly from commercial suppliers.

We proposed that AEC reemphasize to its operations office officials the importance of making thorough reviews of operating contractors' practices and procedures relating to the use of GSA as a procurement source. We proposed also that AEC instruct the operations offices to require the contractors to include in their records written documentation in support of decisions to purchase from sources other than those of GSA, common-use items for which there is a continuing need. AEC has taken action to implement our proposals.

Procurement and utilization of security covers for nuclear weapons, **B-114878**, Sept. 20, 1966

Our review indicated that savings could be achieved by AEC and the Department of Defense through reduced procurement of specially designed security covers for nuclear weapons. As a result of our review, the remaining production of security covers for two of the weapons included in our review was canceled, with an estimated saving of about \$16,000, and procedures were established to evaluate the requirements of the military services in determining future procurement of covers. Action was initiated to authorize the Department of Defense to dispose of certain security covers which were determined to be no longer of use in the weapons program. Security covers for the four weapons which we reviewed were included on the proposed surplus list. We expressed our opinion that, if AEC and the Defense Atomic Support Agency had adequately considered the need for security covers by the military services in their initial evaluation of procurement requirements, a substantial portion of the approximately \$650,000 spent for security covers between January 1961 and March 1965 for the four systems included in our review could have been avoided.

CIVIL SERVICE COMMISSION

Certain procedures relating to the continuing eligibility of Federal employees for disability retirement annuities under the Civil Service Retirement System, **B-121560**, Oct. 31, 1966

In our review of selected case files of disabled annuitants on the retirement roll and of annuitants who had been removed from the retirement roll because of their recovery from disability, we noted that long periods of time had elapsed between reviews of case files and/or medical examinations of annuitants, which may have resulted in some annuitants' remaining on the retirement roll after their recovery from disability. We noted many cases where from 2 to as many as 10 years elapsed between reviews of the case files by medical officers. We recommended that the Commission's procedures be revised to require, to the fullest extent practicable, annual case reviews by medical officers and the scheduling of medical examinations of annuitants in those instances where the case reviews indicated that the annuitants may have recovered from disability. Subsequently, the Commission initiated an internal review aimed at evaluating its medical programs and procedures.

We also noted certain procedural inadequacies which resulted in some annuitants remaining on the retirement roll beyond the scheduled dates on which their annuities should have been discontinued. We estimated that potential savings of more than \$400,000 might result from the removal of these annuitants from the disability retirement roll. New procedures placed into effect by the Commission should, in our opinion, result in the more timely removal from the retirement roll of those not entitled to annuities because of their recovery from disability or because of the restoration of their earning capacity.

Review of internal auditing activities, **B-160759**, Mar. 20, 1967

At the conclusion of our review of the Commission's internal auditing activities, we reached the broad conclusions that a single centralized internal audit organization should be established responsible to the highest organizational level practical; the internal audit function should be independent of those officials responsible for the operations and activities reviewed by the auditors; and the authorized scope of the audit work should be broad enough to cover all operations and activities of the Commission on a systematic basis.

We have been informed that the Commission has established a centralized internal audit organization authorized to cover all operations and activities on a systematic basis and reporting directly to a level which it considered sufficiently high to give the internal auditors the necessary degree of independence from operating officials.

Financing the Civil Service Retirement System administered by United States Civil Service Commission, **E-130150**, Apr. 24, 1967

We expressed our belief that a consistent method of financing the Civil Service Retirement System should be established that would recognize and provide

for all costs of maintaining the System from year to year as the costs are incurred. We outlined an approach which would attain this objective and stabilize the unfunded accrued liability—the accumulated costs of the System for which funds have not been provided—estimated at about \$50 billion at June 30, 1967.

We reported that, while there were many approaches that could be taken to improve the financing of the Civil Service Retirement System, it was our view that, regardless of the approach the Congress might choose to follow, it was important that a definite plan to improve the financing of the System be adopted at an early date.

DISTRICT OF COLUMBIA GOVERNMENT

Change orders and other matters relating to the construction of District of Columbia Stadium, B-146959, Aug. 31, 1966

We found that, even though there was no apparent urgency to have the District of Columbia Stadium ready for use commencing with the 1961 football season, the District of Columbia Armory Board awarded a \$14 million construction contract before regulatory agencies of the District had approved the plans and specifications. As a result 234 change orders costing about \$2.9 million were issued after construction had started. We stated our belief that the performance of so much of the construction under change orders tended to increase the Stadium's cost because of the absence of price competition and because some changes required the removal or modification of "in-place" construction.

Our review identified many change-order prices, which the Board approved largely on the basis of its architect-engineer's recommendations. There were insufficient data and support for the architect-engineer's cost estimates and the contractor's price proposals, however, for us to judge the adequacy of the architect-engineer's cost estimating and price evaluation and the reasonableness of the agreed-upon prices. Also, certain of the architect-engineer's cost estimates were based on incorrect or unsupported data which, in our opinion, did not provide sound bases for recommending prices to the Board for approvals. The Chairman of the Armory Board informed us that the Board felt that the determination made in 1958 and 1959 as to the need for the stadium in 1961 was not only a reasonable one but a necessary one under the circumstances as they appeared in those years. He stated also that reliance had been placed on the architect-engineer for change-order price evaluations and negotiations and that the Board's contracting officer had not performed these functions which are normally performed by a contracting officer.

Review of the administration of the District of Columbia Nonresident Tuition Act, B-125004, Jan. 20, 1967

Our examination showed that, in school year 1964-65, not all nonresident students attending the District public schools and subject to the payment of tuition under the Nonresident Tuition Act were identified. As a result, the Board of Education may have failed to consider tuition requirements for as many as 400 students during the school year. We recommended that the Board of Education consider requiring additional reviews to identify nonresident students.

Because of a lack of compliance with prescribed payment procedures and a lack of control over tuition receivables, over \$100,000 in tuition for nonresident students for school year 1964-65 was uncollected. The amount of tuition uncollected in prior years was not readily determinable because of a lack of adequate records. In addition, tuition receivables for the 1964-65 school year of about \$84,000 remained suspended at the end of the school year because of pending exemption claims. In accordance with our suggestion the Superintendent of Schools is considering development of a comprehensive control system over tuition receivables. The President, Board of Commissioners, stated that to establish the District's future course of action with respect to collection of tuition for nonresident students, a court ruling will be needed on the liability of District residents for tuition for nonresident students in their custody.

The Board of Education had granted exemptions from the payment of tuition for some nonresident students on the basis that their parents were unwilling to

provide care, custody, and support of the students rather than on the statutory basis that they were unable to do so. The Superintendent of Schools stated that in most of these cases the students had been deserted by their parents and that this was the basis for granting exemptions. Although granting of exemptions under the above circumstances might be desirable, we expressed our belief that existing law does not provide for granting exemptions in such cases.

Because of the problems involved in administering the District of Columbia Nonresident Tuition Act, and the consideration being given toward improved compliance, we suggested that the Congress may wish to express its views on the manner in which the act was being implemented.

Guidelines needed for custodial and engineering staffing in the public schools of the District of Columbia, **E-161397**, June 28, 1967

We reported that the need for adopting suitable guidelines for use in determining appropriate custodial and engineering staffing in the various public schools in the District of Columbia was indicated by an apparent overstaffing of custodial and engineering employees in the District's public schools. The cost of the apparent overstaffing could amount to as much as \$1,200,000 annually. Our views were based on a comparison of the number of custodial and engineering employees in the District's schools with the number required as computed under the staffing standards published by the Department of Health, Education, and Welfare and on a comparison of the District's school custodial and engineering costs per pupil with custodial and engineering costs per pupil in various States, urban school districts, and adjacent or nearby communities.

The President, Board of Commissioners, concurred in our proposal to make a study of the District's custodial and engineering needs and stated that the Board of Education would establish standards of performance consistent with standards in cities of comparable size and in conformity with the special requirements of the District of Columbia.

FARM CREDIT ADMINISTRATION

Audit of Farm Credit Administration and certain banks of the Farm Credit System, fiscal year 1966, **E-114806**, Jan. 20, 1967

We expressed the opinion that (1) the financial statement of the FCA presented fairly the available funds and obligations incurred during fiscal year 1966 and the unobligated balance at June 30, 1966, (2) the financial statements of the 12 Federal intermediate credit banks supervised by FCA presented fairly their financial positions at June 30, 1966, and the results of their operations and the sources and application of their funds for the year then ended, and (3) the financial statements of the 11 banks for cooperatives supervised by FCA which were subject to audit by the General Accounting Office, and of the Banks for Cooperatives Investment Fund administered by FCA, presented fairly their financial positions at June 30, 1966, and the results of their operations for the year then ended.

FEDERAL DEPOSIT INSURANCE CORPORATION

Audit of Federal Deposit Insurance Corporation for the year ended June 30, 1965, **E-114831**, Dec. 14, 1966

We were unable to fully discharge our audit responsibilities under the Federal Deposit Insurance Act, because except for closed banks, officials of the Corporation did not give us unrestricted access to examination reports, files, and other records maintained by the Corporation relative to the banks it insures. There has been an increase in the number of problem banks for which the Corporation was carrying deposit insurance. From June 30, 1964, through Mar. 31, 1966, the number of banks classified by the Corporation as problem banks increased from 158 to 220. In our report on audit of the Corporation for the year ended June 30, 1964, we commented on the upward trend in the number of insured banks which had failed, there being 13 of such failures during the period July 1, 1963, to Dec. 31, 1965. From Jan. 1 to Mar. 31, 1966, there were five additional failures of insured banks.

We could not express our opinion on the Corporation's financial statements for the **1965** fiscal year (1) because of the restrictions placed upon our examination, (2) because the Corporation did not disclose in its financial statements the potential effect insured problem banks may have on its financial condition, and (3) because the adequacy of the Corporation's deposit insurance fund to meet future losses is dependent on future economic conditions. However, subject to our comments relating to the adequacy of the deposit insurance fund, we expressed the opinion that the individual amounts shown in the financial statements were fairly stated at June 30, **1965**, and for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Report on examination of financial statements of Federal Deposit Insurance Corporation for the year ended June 30, **1965, B-114831, Dec. 14, 1966**

In this report, submitted to the Corporation for inclusion in its annual report to the Congress, we pointed out that the Corporation did not disclose in its financial statements the potential effect insured problem banks may have on the Corporation's financial condition and that we were unable to make an evaluation of the Corporation's contingent indemnity liability for problem banks because of the restrictions imposed by Corporation officials on our access to examination reports and related data.

For these reasons and because the adequacy of the Corporation's deposit insurance fund to meet future losses is dependent on future economic conditions, we were unable to express an overall opinion on the Corporation's financial statements for the **1965** fiscal year. However, subject to our comments relating to the adequacy of the deposit insurance fund, we expressed the opinion that the individual amounts shown in the financial statements were fairly stated at June 30, **1965**, and for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Report on examination of financial statements of Federal Deposit Insurance Corporation for the year ended June 30, **1966, B-114831, Jan. 9, 1967**

In this report, submitted to the Corporation for inclusion in its annual report to the Congress, we pointed out that the Corporation did not disclose in its financial statements the potential effect insured problem banks may have on the Corporation's financial condition and that we were unable to make an evaluation of the Corporation's contingent indemnity liability for problem banks because of the restrictions imposed by Corporation officials on our access to examination reports and related data.

For these reasons and because the adequacy of the Corporation's deposit insurance fund to meet future losses is dependent on future economic conditions, we were unable to express an overall opinion on the Corporation's financial statements for the **1966** fiscal year. However, subject to our comments relating to the adequacy of the deposit insurance fund, we expressed the opinion that the individual amounts shown in the financial statements were fairly stated at June 30, **1966**, and for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

FEDERAL HOME LOAN BANK BOARD AND CORPORATIONS SUPERVISED

Examination of financial statements of Federal Home Loan Banks supervised by the Federal Home Loan Bank Board for the year ended Dec. 31, **1965, B-114827, Aug. 15, 1966**

We expressed the opinion that the financial statements presented fairly the financial position of the **12** Federal Home Loan Banks at Dec. 31, **1965**, and the results of their operations and the sources and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding 18-month period ended Dec. 31, **1964**, and with applicable Federal laws.

Audit of Federal Home Loan Bank Board for the year ended Dec. 31, 1965, **B-1** 14827, Aug. **18**, 1966

We expressed the opinion that the financial statements presented fairly the financial position of the Federal Home Loan Bank Board at Dec. 31, 1965, and its income and expenses for the year then ended.

Audit of Federal Savings and Loan Insurance Corporation supervised by the Federal Home Loan Bank Board for the period **July 1**, 1963, through Dec. 31, 1965, **E-114893**, May 23, 1967

Because we could not determine the adequacy of the primary and secondary reserve and the allowances for losses, and because the Corporation does not disclose in its financial statements the possible adverse effect that the impaired financial condition of certain insured associations might have on the Corporation's financial position, we could not express an overall opinion on the Corporation's financial statements for the 18-month period ended Dec. 31, 1964, and for the calendar year 1965.

However, subject to our comments on the adequacy of the primary and secondary reserve and the allowances for losses, we expressed the opinion that the individual amounts shown in the financial statements were fairly stated at Dec. 31, 1964, and for the 18 months then ended and at Dec. 31, 1965, and for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the accounting for income and expenses related to specific assets acquired from insured associations, a change in which we concurred.

GENERAL SERVICES ADMINISTRATION

FEDERAL SUPPLY SERVICE

Savings available through expanded use of regional contracts for the repair and maintenance of selected office machines, **E-160419**, Feb. 23, 1967

We estimated that Federal agencies could have saved up to \$1.2 million during fiscal year 1965 for repair and maintenance services on adding machines, calculators, comptometers, and electric typewriters through the greater use of reliable local repair firms instead of through the use of national Federal Supply Schedule contracts with the machine manufacturers. We also pointed out that, although Government and independent studies indicated that the per-call method was the least expensive method of obtaining services for office machines, most of the Federal expenditures had been for the more costly maintenance method at fixed annual fees.

As a result of our proposals, we were advised that GSA (1) would phase out national contracts with machine manufacturers and provide more contracts with local repair firms for mandatory use by all civilian agencies and (2) revise its regulations to provide guidelines and criteria concerning the relative advantages and disadvantages of the per-call and annual maintenance contract methods for servicing office machines.

Savings available to the Government through revision of the method of supplying commercial rental cars, **E-160781**, Apr. **17**, 1967

The Government incurs an estimated \$1.9 million in costs each year for short-term rental of cars under informal arrangements made by Government agencies and their contractors with commercial rental firms. Similar cars are rented by the Government under contracts entered into by GSA to supplement the cars in its motor pools. We found that rental rates under the GSA contracts were substantially lower than the rental rates obtained under informal arrangements. We estimated that a savings of as much as \$350,000 annually could be realized if cars being rented under informal arrangements were rented, by the using agencies and contractors, directly from the commercial firms at GSA contract rates.

GSA concurred with our proposals to (1) re-examine, in consultation with major using agencies, its present role in the rental of commercial cars for Government use, with a view to making a better response to agency needs and (2) expand its present contracting for car rentals to cover all areas where such action would result in savings or benefits to the Government. We were advised

that, although GSA had some reservation with respect to our proposal that rentals be made directly from commercial firms, this matter would be included in a full-scale in-depth study that would be made of ways and means to achieve greater economy and efficiency in supplying rental cars to Government agencies.

Savings available through the use of formal advertising in contracting for automotive tires and tubes, B-160900, Apr. 28, 1967

In this report, we stated that GSA's use of negotiated contracts for purchasing the Government's automotive tire and tube requirements does not result in maximum price competition. We concluded that GSA could use advertised contracts for selected tire and tube items because the essential elements for formal advertising were present—Federal specifications had been established, items meeting such specifications were widely sold on the commercial market, and there were a sufficient number of potential suppliers to permit effective competition for the bulk of the Government's requirements. We estimated that the Government may realize annual savings of about \$1.4 million by purchasing selected tire and tube items through the use of formally advertised contracts, rather than negotiated contracts.

In response to our suggestion that the formal advertising method of contracting be used for purchasing the bulk of the Government's tire and tube requirements, GSA advised us that it plans to purchase for stock 87 high-volume tire and tube items through formal advertising and to give continuing attention to the use of formal advertising where that method is determined to be feasible. GSA advised us also that it plans to re-establish an item simplification study with the objective of reducing the number of tire and tube items carried in the supply system as quickly as possible.

Transfer of handtool and paint stocks from the Department of Defense to GSA, B-161319, May 8, 1967

An important step toward the development of a national supply system was completed in 1966 with the transfer of about \$65 million worth of handtool and paint stocks from the Department of Defense (DOD) to GSA. Our review of the handtool and paint inventories at DOD supply depots, after management responsibility had been assumed by GSA, disclosed that there were significant quantities of GSA-owned stocks on hand which were not recorded on GSA's inventory records. Consequently, these stocks were "lost" to the supply system.

After we brought this situation to the attention of DOD and GSA officials, complete physical inventories were taken at DOD's depots and about \$4 million worth of paint and handtool stocks were found which were not recorded, but which should have been recorded, on GSA's inventory records. During the period when the stocks were "lost," GSA purchased about \$1.1 million worth of identical stocks.

We proposed that the Secretary of Defense and the Administrator of General Services direct that agreements on future transfers of stocks between GSA and DOD require that (1) at the time of the transfers, detailed physical inventories be taken of all stocks to be transferred, the inventory records be reconciled to the physical counts, and the warehouse stock locator records be updated and (2) prior to the transfer of management responsibility, a joint committee be made responsible for providing operating procedures to carry out the transfers, acting as liaison and coordinators, and settling promptly any problems relating to inventory shortages during the transfers. DOD and GSA officials indicated agreement with our proposals.

PUBLIC BUILDINGS SERVICE

Inspection controls over concrete placements in building construction projects, B-161027, May 25, 1967

In our review of GSA's administration of construction contracts for public buildings, we found indications that GSA's inspection practices were not adequate to ensure compliance with contract specifications in regard to the water content of concrete delivered to a construction site in Washington, D.C. The water content of concrete is one of the most critical factors in obtaining quality concrete. We also noted discrepancies in the use of concrete curing

compound and in the performance of concrete testing. Although our review was confined to three projects in Washington, D.C., we presented to GSA certain policy and procedural matters which we believed would have applicability to GSA construction in general.

GSA concurred generally with our proposals and has taken action to improve its management procedures. A project has been started to improve recording standards for on-site construction inspections and greater emphasis is being placed on evaluation of on-site construction inspection by the GSA regional and central office inspection and engineer groups. Also, requirements are being changed to provide that laboratories engaged to test concrete will be responsible directly to the Government rather than to the contractor.

Subsurface exploration for and design and construction of foundations of public buildings, **B-161027**, May 25, 1967

During reviews of the construction of public buildings, we noted that construction difficulties because of foundation design problems and unanticipated soils conditions appeared to occur with some frequency and often involved significant unexpected costs and delays in the completion of projects. We found that GSA did not have in-house engineering capability in the specialized fields of soils mechanics and foundation engineering. Our report demonstrated that foundation problems could have been avoided, or reduced, through the development of specialized in-house engineering capability.

The Administrator of General Services concurred with our proposal that such engineering capability be developed and advised us that steps were being taken to do so.

TRANSPORTATION AND COMMUNICATIONS SERVICE

Potential reductions in cost of automotive travel by Federal employees where use of Government-owned vehicles is feasible, **B-158712**, Aug. 23, 1966

Reimbursement mileage rates established by Government agencies frequently exceed the costs of operating interagency motor pool cars at high-mileage levels. Our review of travel procedures at 14 major Government agencies showed that agencies had not been furnished information on the cost of operating motor pool cars at various mileage levels and therefore were not in a position to adequately consider the alternative of providing motor pool cars to high-mileage drivers. Our more detailed reviews at selected field offices of Internal Revenue Service, the Federal Housing Administration, and the Federal Crop Insurance Corporation showed that the annual cost of reimbursing high-mileage drivers for official travel exceeded the cost of operating motor pool cars by about \$245,000. If the mileage patterns observed were typical, the annual nationwide costs to these agencies of reimbursing high-mileage drivers for official travel exceeded the cost of operating interagency motor pool cars by about \$1.6 million.

As a result of our proposals, the Bureau of the Budget revised the Standardized Government Travel Regulations to provide policy guidelines for determining (1) whether it is feasible and advantageous to the Government for employees to use their own cars for official business and (2) the reimbursement for which employees are entitled if they are authorized to use their cars on official business when such use is for their own convenience.

Potential savings through greater use of available Government gasoline outlets, **B-159072**, Oct. 31, 1966

We found that substantial savings could be achieved if GSA and agencies using GSA vehicles were to use Government gasoline outlets to the maximum extent practicable. The cost of gasoline purchased from retail outlets averaged 9 cents a gallon higher than the cost of gasoline that could have been obtained from Government outlets. We estimated that, if our findings at seven selected motor pools were typical nationwide, the Government could save about \$600,000 annually by using Government outlets to the maximum extent practicable. Government agencies had been encouraged to fuel their vehicles at Government outlets operated by the military services, GSA, Post Office Department, Veterans Administration, and other civil agencies when such facilities were available and more economical. We found, however, that neither GSA nor using agency operating officials had taken action to determine the location and

availability of Government outlets and to issue instructions requiring drivers of Government vehicles to use these outlets when practicable.

As a result of our proposals, GSA urged that (1) agencies operating gasoline pumps make their facilities available for the use of other agencies and for the use of vehicles operated by agency contractors in connection with Government contracts, (2) agencies not having such facilities make arrangements for their employees and contractors to use Government outlets where operationally or geographically practical, and (3) all agencies advise motor vehicle operators of the location of facilities in the areas customarily traveled.

Utilization of motor vehicles in the Cape Kennedy Interagency Motor Pool, **B-159210, Nov. 30, 1966**

Our review showed that the number of Government-owned and leased vehicles on hand in the Cape Kennedy area at the time the motor pool was established substantially exceeded the number needed because (1) the National Aeronautics and Space Administration (NASA) renewed certain long-term vehicle lease contracts with a commercial leasing firm, although substantial economies could have been achieved by obtaining transportation support from GSA, and (2) GSA, about 2 years before the expiration of the leases and without a proper determination as to whether the leases could be terminated without penalty to the Government, established the motor pool at Cape Kennedy, Fla., and purchased additional vehicles to provide transportation support. After the pool was established, the number of vehicles assigned to NASA by the Cape Kennedy Motor Pool continued to substantially exceed the number of vehicles required to efficiently and economically satisfy automotive needs.

Before our review was completed, actions were taken by GSA and NASA to reduce the number of unnecessary vehicles. Further, as a result of our recommendation, GSA revised its nationwide rate structure for sedans and station wagons rented from interagency motor pools by customer agencies. The new rates are designed to discourage agencies from requesting cars on a full-time basis when there will be only a low utilization of such cars.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Selected aspects of scheduling for design, integration, and test of Nimbus spacecraft, **E-133394, Oct. 31, 1966**

We noted that, in the early stages of the Nimbus project, the Nimbus spacecraft integration contractor was required by the Space Administration to work on prototype spacecraft design and test planning when only tentative design information was available about the spacecraft subsystems. The contractor subsequently had to perform substantial reanalysis, redesign, and rework relating to integration and spacecraft testing at an estimated cost of about \$1.1 million. We expressed the belief that this situation occurred because the Space Administration did not give timely recognition to the effects of expected delays in delivery of subsystem hardware on the integration effort at the time these delays became known. The magnitude of the expenditures made for reanalysis, redesign, and rework indicated that substantial costs might have been avoided by a more timely adjustment of the integration schedule.

The Space Administration did not agree with our finding regarding the need for more timely adjustment of schedules under the circumstances that existed. We noted, however, that the Space Administration had recently issued a new agencywide policy directive which provided that future research and development projects similar to Nimbus would normally be conducted in four sequential phases—Advanced Studies, Project Definition, Design, and Development/Operation—with each phase a specifically approved activity to be undertaken only after review and analysis of the preceding effort by agency top management. This policy directive would, if adequately implemented, improve the management of research and development projects.

Potential savings available through use of civil service rather than contractor-furnished employees for certain support services, **B-133394, June 9, 1967**

Our review of the relative costs of using civil service personnel or contractor-furnished personnel to perform engineering and related technical support services at NASA's Goddard and Marshall Space Flight Centers showed that

estimated annual savings of as much as \$5.3 million could be achieved with respect to the contracts we reviewed if these services were to be performed by civil service employees. It was our view that NASA's policies relating to the use of such contracts had not been sufficiently clear as to the consideration to be accorded to relative costs in determining whether contractor-furnished or civil service personnel should be used and that there was a potential for savings from greater consideration of such relative costs.

Because the action to fully correct the situation would require a significant change in NASA's policy relating to the use of support service contracts, and because of the potential effect that a significant change might have on its civil service personnel requirements, we suggested that the Congress may wish to consider the policy aspects of this matter in further detail with agency officials. We suggested also that the Congress may wish to explore with NASA the impact that cost considerations should have in determining whether to use contractor or civil service personnel in those cases where either contractor or civil service personnel could equally carry out the operation.

SMALL BUSINESS ADMINISTRATION

Selected aspects of the small business investment company program, B-149685, Aug. 1, 1956

At the request of the chairman, Permanent Subcommittee on Investigations, Senate Committee on Government Operations, we reviewed selected aspects of the small business investment company program. As a result of our review, we proposed to SBA measures for improving the administration of the SBIC program and for minimizing potential losses of Government funds, including (1) the establishment of lending criteria for use by the SBIC industry, (2) the development of a system for obtaining and effectively evaluating financial data concerning SBICs, and (3) taking more timely and effective action to assist SBICs in overcoming their financial difficulty.

Actions subsequently planned or taken by SEA were consistent with our proposals.

TENNESSEE VALLEY AUTHORITY

Examination of financial statements for fiscal year 1966, B-114850, Feb. 28, 1967

The report includes our opinion that the financial statements present fairly the financial position of the Tennessee Valley Authority at June 30, 1966, and the results of its operations and the source and disposition of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

VETERANS ADMINISTRATION

Savings available by canceling hazard insurance policies on properties acquired upon default of housing loans, B-118660, Aug. 9, 1966

We expressed our belief that savings of about \$1 12,000 could have been realized in fiscal year 1965 at the six Veterans Administration regional offices visited by us, if (1) available refunds on unexpired insurance policies had been obtained and (2) regulations had been revised to enable cancellation of hazard insurance policies in certain States granting mortgagors redemption rights. Accordingly, we recommended that the Administrator of Veterans Affairs require mortgage holders to cancel prepaid hazard insurance policies upon transferring risk of loss to VA or the receivers and that the regulations be revised.

The VA disagreed with our estimate of the amount of savings available and stated that it had made a study at 16 regional offices and, on the basis of the statistics gathered, was not satisfied that any loss of revenue had been shown. The VA informed us, however, that it planned to make a more comprehensive study at all applicable field stations and would reconsider its position at the conclusion of the study and reevaluation of its current policy.

After our report was issued, VA completed its comprehensive study and concluded that the comparatively small recoveries would not offset the additional

administrative costs involved. However, after evaluating the VA study we met with VA officials to point out various deficiencies in the study and to reaffirm our conclusions that the proposals in our report were sound and that their adoption would result in significant savings.

Savings available by using more economical fuels for heating at certain field stations, E-133044, Aug. 15, 1966

We reported that, although the VA has been aware for many years of the economies available from converting the boiler plants at certain of its field stations to enable the plants to use more economical fuels, the procedures, followed by the VA in selecting projects for annual funding had tended to cause boiler plant conversions to be deferred. We expressed our belief that, nationwide, the savings available through conversion of boiler plants at VA field stations might be much greater than the \$133,000 a year estimate indicated by our review at four stations. The costs of converting the plants would be recovered from savings in fuel and other operating costs.

We proposed that the VA identify those field stations where savings might be available by converting the boiler plants to enable the use of more economical fuels and that it establish procedures to provide that adequate consideration be given to self-liquidating projects in selecting improvement projects for inclusion in its annual budget. We proposed further that self-liquidating improvement projects be shown as a separate category in the budget presentation so that they could be evaluated by the Bureau of the Budget and the Congress in light of their costs and benefits.

The VA informed us that our proposal to identify stations in the budget submission where savings would accrue through self-liquidating fuel conversion projects would be adopted. The VA informed us further that full-scale fuel operational studies would have to be made to determine the economic feasibility of converting to a more economical fuel and that several such studies were scheduled for later in the current fiscal year.

Examination of financial statements of Veterans Canteen Service for fiscal year 1966, E-114818, Jan. 17, 1967

We expressed our opinion that the financial statements presented fairly the financial position of the Veterans Canteen Service at June 30, 1966, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

Potential savings by revising procedures relating to the default of guaranteed housing loans in the State of Illinois, B-118660, June 6, 1967

Our review indicated that court costs, legal fees, and property management expenses incurred in connection with guaranteed loan defaults in Illinois could be reduced by about \$300,000 a year if the VA were to revise its procedures whereby the VA would require holders of VA guaranteed loans in Illinois to assign defaulted loans and related mortgages to VA immediately prior to initiating foreclosure suits.

The VA, in commenting on our findings and our proposals for corrective action, stated that our proposals, if adopted, could result in additional costs to the Government. After considering the agency comments, however, we were still of the view that expenses could be significantly reduced if the VA were to revise its procedures. The Department of Justice, in response to our request for comments on our proposals, stated that it would endeavor to discharge its responsibility for handling the resulting foreclosure litigation promptly and effectively, as required by the new procedures if the VA were to adopt our proposals.

Accordingly, in our report to the Congress we recommended that, in the State of Illinois, the VA acquire defaulted guaranteed housing loans and related mortgages immediately prior to initiating foreclosure suits and refer them to the Department of Justice for foreclosure action in United States District Courts and that Justice be requested to petition the courts to appoint VA as the mortgagee-in-possession during the redemption period. We recommended also that the VA consider the applicability of our proposals to loan guaranty activities in other States.

LEGISLATIVE BRANCH

ARCHITECT OF THE CAPITOL

Construction and related costs of the Rayburn House Office Building, **B-145899, Apr. 7, 1967**

Our examination did not disclose any questionable aspects of the solicitation of bids or the award of the contracts for the construction of the Rayburn House Office Building. All construction, exclusive of contract changes, and substantially all procurement of furniture and furnishings were contracted by publicly advertised competitive bidding and represented the bulk of the costs. The significant findings of our examination related to certain elements of contract changes, architect-engineering fees, and conformance with plans and specifications. The Architect of the Capitol claimed justification for most of the actions to which our findings were directed, generally on the ground that these actions were in line with special circumstances which obtain in a construction project for the Congress—those circumstances obtaining in greater degree to the Rayburn Building—and with practices traditionally followed by the Architect's office in similar type of projects.

GOVERNMENT PRINTING OFFICE

Examination of financial statements for fiscal year 1965, **B-114829, Aug. 29, 1966**

We expressed our opinion that the financial statements present fairly the financial position of the Government Printing Office at June 30, 1965, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with principles and standards of accounting prescribed for executive agencies by the Comptroller General of the United States, applied on a basis consistent with that of the preceding year.

On a number of occasions starting in 1954, we have urged the Public Printer to establish an adequate internal audit program. During our 1965 audit we were informed that the establishment of an internal audit program was being deferred, pending a proposed relocation of the GPO. We expressed our belief that internal auditing was a type of management improvement that need not be delayed until new facilities are obtained. We have since been informed that the GPO has established an internal audit program.

We also expressed our opinion that the legal authority for the practice of granting compensatory time off in lieu of overtime compensation to GPO employees was not clear and that the Public Printer should initiate action with a view to obtaining specific legislative authority for the practice. Since our audit was completed, we have been informed that the Public Printer has drafted specific legislative authority regarding the practice.

DEPARTMENT OF DEFENSE

SUPPLY MANAGEMENT, REQUIREMENTS DETERMINATIONS

Potential savings through improvement in the management of materials handling equipment and commercial-design trucks, Marine Corps, Department of the Navy, **B-133324, Sept. 19, 1966**

We found that, on the basis of prescribed criteria for retention of such equipment, each of three Marine Corps installations we reviewed had excess quantities on hand. The excess equipment represented a value of about \$1.6 million. Assuming our findings to be representative, the total excess equipment of this type in the Marine Corps could be as much as \$5 million.

We expressed the belief that there was adequate policy guidance for the proper assignment and use of the equipment but that this area of responsibility was not given the attention it warranted. Management officials at both the installation and headquarters levels either failed to evaluate properly the need for the equipment on hand or failed to act when the rates of utilization, shown in periodic management reports on the equipment, did not justify retention of the quantities on hand.

The Navy concurred, with certain reservations, in our findings and advised us that the Marine *Corps* instructions that existed at the time of our review had been revised.

Management of Nike-Hercules missile launching and handling rails, Department of the Army, **E-156760**, Oct. **31, 1966**

The Army Missile Command was planning to procure **149** rails, at a cost of about \$1.3 million, which were in excess of requirements. At our suggestion, the requirements were reevaluated and the procurement plans were canceled. The situation we found was caused by an inadequate record-keeping system which failed to account for substantial quantities of stock and did not provide sufficient data on which to base requirement computations. Subsequent to the period of our review, the Army developed a central control of assets and requirements for major items of equipment and certain significant spare parts. The improvements that result from this program will depend to a great extent on the performance of the individuals responsible for establishing and reviewing requirements and authorizations.

Procurement of detachable helicopter ground handling wheel assemblies, Department of the Army, **B-159271**, Oct. **31, 1966**

We found that, as of November **1964**, the Army had procured more ground handling wheel assemblies than were needed to support its planned inventory of UH-1 helicopters. This occurred because using units were not required to report on those major items of equipment furnished them which were not being used because they were unnecessary, oversophisticated, or in quantities greater than needed.

As a result of our review, action was taken to establish more realistic requirements for these assemblies. Procurement orders for **117** assemblies (**\$43,700**) were canceled and the possible future procurement of an additional **4,800** assemblies (\$2.1 million) was averted. We were also advised that the Army had revised its criteria which should preclude further overstatements of needs.

Management of hi-valu aeronautical parts by Pacific Air Forces bases, Department of the Air Force, **B-160581**, Mar. **28, 1967**

We found at five Pacific Air Forces bases that about **\$16** million worth of the stock on hand was excess to needs and that about **\$19.9** million worth of unneeded stock was on order from depots in the United States. Much of the unneeded material had been shipped to the bases by air at a time when there was a critical shortage of such transportation to handle high-priority cargo. This occurred because base supply personnel (1) circumvented established controls for precluding ordering of unneeded stock, (2) did not follow prescribed procedures for periodic review of outstanding orders, (3) did not identify interchangeable stock, and (4) did not review the need for special stock levels.

As a result of our review, action was taken to cancel about \$8 million of outstanding orders and to redistribute about \$5 million of the unneeded stock on hand. Also, in accordance with our recommendation that increased surveillance over base activities be exercised by Headquarters, Pacific Air Forces, a new supply improvement program was initiated for the purpose of ensuring that supply problems were brought to the attention of appropriate level of command and that reviews were made of major areas of supply operations.

Management of aircraft repair parts reserved for maintenance activities at depots in the continental United States, Department of the Army, **B-157373**, Apr. **25, 1967**

In our review of supply management at four aircraft maintenance activities of the Army, we found substantial stocks of repair parts in excess of requirements. On the basis of the Army's criteria for establishing stock levels, we estimated that about 50 percent (\$1.5 million) of the repair parts inventories at the four locations was in excess of the prescribed stock levels. We identified procurements totaling about **\$447,000** which could have been avoided or deferred if the excess stocks had been released to meet requirements at other locations.

Officials of the aircraft maintenance activities did not appear to be familiar with the Army regulations governing computation of stock levels and shortages of personnel precluded performing the prescribed periodic recomputations and

reviews of the stock levels. The Army agreed with our findings and **with our** proposals for strengthening supply management of aircraft repair parts and advised us of action taken to establish necessary local controls.

SUPPLY MANAGEMENT, MANAGEMENT OF EXCESS STOCKS

Utilization and disposition of excess beds and related bedding, Department of Defense, **E-159148**, Aug. 9, 1966

In October 1962, the Army made certain changes in its mobilization plans. Re-computations of supply requirements showed that a significant quantity of beds was excess to needs of the Army. In March 1963 the Defense General Supply Center (DGSC), inventory manager of the beds, proposed to the Defense Supply Agency (DSA) that the Army beds, which were of a different type from those used by the Navy and the Air Force, be issued to the other services as substitutes for the beds they preferred. The DSA endorsed the proposal in principle but instructed the DGSC that this not be done without the prior concurrence of the requisitioning services.

The requisitioning services refused to accept the Army beds as substitutes and in May 1963, the DGSC took action to dispose of about 521,000 beds.

Following our inquiries into this matter, 271,000 of the excess beds were withdrawn from disposal and were subsequently requisitioned by the military services. The remainder (250,000 beds) had already been disposed of. Withdrawal of the 271,000 beds from disposal resulted in savings of about \$10.6 million. In our opinion, additional savings of about \$9.4 million could have been realized had the 250,000 beds which had been disposed of been used to fill requirements of the Navy and the Air Force. We concluded that the DSA, in its desire to maintain good relationships with the military services, had not adequately evaluated the reasons of the Navy and the Air Force for refusal to accept the Army beds as substitutes.

We proposed, and the Department of Defense concurred, that refusals by the military services to accept substitute items of a non-military type be supported by written justification in instances where significant savings can be realized and that, in such instances, the Defense Supply Agency document the basis for its decisions or acquiesce to the refusals.

Availability of selected stocks of the United States Army in Europe for requirements of other commands, Department of the Army, **B-160632**, Apr. 10, 1967

Because of weaknesses in the reporting procedures and practices, excess stocks in Europe were not being redistributed to other areas where urgently needed. We found about \$3.2 million worth of excess combat vehicle repair parts and electronic components on hand that were needed in the United States and in the Pacific area. After we called the attention of management officials to this matter, about \$2.1 million worth of the items were redistributed and about \$1.1 million worth were scheduled for redistribution.

In reporting our findings to the Army, we made certain proposals to improve the reporting of excess stocks to United States inventory control points. The Army concurred in our findings and proposals but did not concur that certain excesses, referred to as "permissive overstockage," should be reported. (Permissive overstockage is that portion of stock which exceeds operating and reserve requirements but may nonetheless be retained for contingencies.) We recommended that permissive overstockage be reported also.

SUPPLY MANAGEMENT, MAINTENANCE AND MODIFICATION OF EQUIPMENT

Management of selected time compliance technical orders requiring modifications to engines for F-100 aircraft, Department of the Air Force, **E-158959**, Aug. 22, 1966

We found that two technical orders covering major modifications of the 557 engine were not performed on a timely basis. One of the orders covered replacement of support weldments; the other covered replacement of fuel manifolds. Faulty weldments and manifolds had been found to be the causes of several aircraft crashes.

The Air Force had established special projects in May 1961 and November 1962 to implement the two technical orders. We found that as late as February 1965 the replacements had not yet been made on a significant number of the engines.

However by June 1966 the replacement work had been virtually completed. During the period of delay, one aircraft crashed because of the defective weldments (March 1964) and another crashed because of the defective fuel manifolds (September 1963).

In our report we pointed out the need for (1) greater accuracy in the reports and records relating to technical order actions, (2) clarification of the lines of authority and responsibility for implementation of technical orders, (3) better coordination between logistics and maintenance activities, and (4) improvement in accountability for modification kits and control over modification scheduling. In response to our report, the Air Force advised us of specific corrective measures taken in these areas.

Maintenance of combat vehicles, Department of the Army, B-159407, Sept. 19, 1966

We found that Army determinations to rebuild tanks of the M48 series were based on visual inspections—generally without even starting the engines—rather than on tests of the various components. As a consequence, virtually all major components were completely dismantled, repaired, and reassembled.

We pointed out that substantial savings could be achieved if the tanks were tested with available diagnostic equipment and other techniques to determine what work was actually necessary. We estimated that the cost of unnecessary work performed averaged more than \$1700 per vehicle.

The Army stated that it had revised its applicable technical bulletin to provide, among other things, that test equipment will be used to determine assembly and sub-assembly reliability, quality, and performance.

Readiness of Hawk missile systems in the 32d Artillery Brigade of the Seventh United States Army in Germany, B-160154, Apr. 5, 1967

This report contains information affecting the national defense of the United States and has been classified "Secret."

Need for improvements in supply and maintenance support for F-4 aircraft, Department of the Navy, B-152600, June 5, 1967

On the basis of an earlier review, we estimated that the Navy could have maintained the equivalent of 23 additional F-4 aircraft in serviceable condition in fiscal year 1964 if certain improvements had been made in the supply and maintenance support of the aircraft. We so advised the Navy. We found in a follow-up review that, although the F-4 aircraft availability had increased, many of the earlier problems continued to exist.

The principal problems involved (1) delays in purchase of needed repair parts, in distribution of repair parts to locations where needed, and in repair of unserviceable aircraft components, and (2) loss of control over the inventory of certain repair parts.

In response to our findings and proposals for corrective measures, the Navy advised us that various command structures had been reorganized to aid in the improvement of the aircraft support system and that several programs had been initiated to improve aircraft logistics support.

SUPPLY MANAGEMENT, GENERAL

Need for interservice action when management policies and practices differ for similar supply items, Department of Defense, B-146778, Aug. 18, 1966

We found that there is a need for closer coordination among the services in the exchange and use of information on management problems relating to identical or similar items of equipment.

The Navy and the Air Force each use rocket catapults (for aircraft ejection seats) which are functionally the same and are similar in size and construction. These catapults have a limited service life because of the deterioration of certain of their components. The Air Force followed the practice of restoring its over-age catapults to serviceable condition by replacing the deteriorated components.

The Navy produced new catapults to replace those that became over-age. Adoption by the Navy of the Air Force practice could have resulted in cost saving! of between \$218,000 and \$719,000 in the 3-year period covered by our review.

We recommended that a program be established in the Department of Defense that will ensure the exchange and use of information among the individual

military services concerning the management and policies of practices for the same or similar items of equipment. We recommended further that the program emphasize the need for exchange of information and entire life of the equipment programs.

In reply to our report, the Department advised us that the Navy had completed an ongoing study which showed that over-age aircraft could be remanufactured to an acceptable reliability, at a lower cost than production of new aircraft and at the Navy's expense for development of new catapults. It will be stated accordingly. The Department of Defense advised, in accordance with the recommendations in our report and stated that there were many projects in progress which provide a measure of support for the services on management and technical support of aircraft. The Department expressed the belief that these programs, and other programs and efforts currently underway, would continue to improve the operations.

Follow-up review of the management of aircraft engines used in ground training Department of the Air Force, 1329 Sept. 30, 1966

We conducted a follow-up review of management by the Air Force of aircraft engines used in its training programs in order to evaluate the effectiveness of actions taken to correct deficiencies we reported in our report to the Congress in November 1965. The earlier report had disclosed that the Air Training Center was engaged in ground training programs that were needed by the Air Force for operational training although older series aircraft were available and suitable for training.

In response to a report, the Air Force advised us that it had identified certain deficiencies in its training programs. The Air Training Center and the Air Force program in conjunction with other activities in Air Force management programs, were expected to result in a significant improvement.

We conducted the Air Force had made significant improvements since our last review. However, available aircraft engines are still not being used to the maximum extent in order to release engines to other commands. We identified specific instances which resulted in the release of 31 engines valued at about \$3 million, for use by other commands. The Air Force stated that our follow-up review had given a revitalization of interest in the program and that in addition the Air Force program would include in its program the matter of improved utilization of aircraft engines by the technical training centers.

Feasibility of certain nonperishable foods, Department of Defense, 14 Nov 29 1966

On the basis of our review of certain perishable food items used by the military services for feeding of troops and for sale to commissary stores, we estimated that about \$2 million could have been saved in the year 1964 (1) had maximum use been made of foods packaged in large-size, more economical containers and (2) had foods sold to commissary stores been sold at the lowest cost.

We observed, and the Department of Defense agreed that a program be established for the identification of food items used by the military services to identify and correct uneconomical practices.

Acquisition and installation of computers by the United States Department of the Interior, 160417, Apr. 2 1967

Data processing operations at the Interior Department were replaced by the United States Army in 1965 and with large-scale computer systems before certain problems had been solved and corrective steps were taken. A large percentage of the department's transactions could not be routinely processed by the computers and had to be manually processed as in the past.

In view of the problems that would accompany the transfer of the computers, we did not recommend that course of action. We did point out, however, the need for correcting basic weaknesses in the department's systems if effective use of automatic data processing equipment is to be realized.

PROCUREMENT, NEGOTIATION OF CONTRACT PRICES

Procurement of thrust vector control nozzles for the Minuteman missile program, Department of the Air Force, **B-146876**, Sept. 30, 1966

In our review of selected components procured for the MINUTEMAN missile program, we found that, in establishing a firm price for thrust vector control nozzles purchased by a prime contractor from a subcontractor, the subcontractor (1) had not advised the contractor that it had placed orders for certain components at lower prices, and (2) had used direct labor cost data which, in our opinion, were unrealistic. As a result, the cost estimates on which the subcontract price was established were overstated by about **\$593,000** for the purchased components and by an indeterminable amount for direct labor. Following a meeting of representatives of the Air Force, prime contractor, and subcontractor, an agreement was reached to reduce the prime contract by **\$266,375** in final settlement of the overstated price.

Need for improving administration of the cost or pricing data requirements of Public Law **87-653** in the award of prime contracts and subcontracts, Department of Defense, **B-39995**, Jan. 16, 1967

We found significant instances of need for improving administration of the cost or pricing data requirements of Public Law **87-653** ("Truth in Negotiations" Act).

We made certain proposals to the Department of Defense designed (1) to improve identification of the cost or pricing data submitted and certified by contractors, (2) to ensure that contractors are requiring subcontractors to submit and certify cost and pricing data, and (3) to provide documentation of the circumstances leading to, and the basis for, any determinations by contracting officers or contractors that cost or pricing data are not required.

A special group was appointed, under the guidance of the Office of the Deputy Assistant Secretary of Defense (Procurement) to study our proposals. As a result of the study, the Department of Defense prepared, and submitted to us for review and comment, drafts of certain revisions of the Armed Services Procurement Regulation. As of June 30, 1967, we were working closely with the Armed Services Procurement Regulation Committee in reducing these proposed revisions to final form.

Need for compliance with the "Truth in Negotiations" Act of 1962 in award of construction contracts, Department of Defense, **B-39995**, June 19, 1967

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

A primary reason for the construction agencies' not complying with these requirements of law and regulation appeared to be their belief that the requirements were not applicable to construction contracts since contractors' price proposals were being evaluated on the basis of comparisons with the agencies' own cost estimates. Primary reliance was placed on such comparisons as a means of evaluating the reasonableness of prices.

We proposed to the Secretary of Defense that he emphasize to the construction agencies the need for improvement in their compliance with the requirements of the law in the negotiation of construction contracts and contract modifications. The Department of Defense agreed.

Survey of reviews by the Defense Contract Audit Agency of contractors' price proposals subject to Public Law **87-653**, Department of Defense, **B-39995**, Feb. 15, 1967

We made a survey of the Defense Contract Audit Agency's reviews of contract pricing proposals negotiated without the safeguards of competition. These reviews, which are made prior to negotiation with the Contractor, constitute a substantial portion of the Agency's workload and are accorded the highest priority. Our survey included work at Agency audit sites at 20 plants of private companies generally among the top 100 Defense contractors in the United States.

The Agency was making significant progress. However, we found need for certain improvements. In our report we pointed out that (1) the estimating methods and procedures of contractors should be improved and incorporated into formal systems, (2) the Agency's scope of review should be broadened (significant cost estimates in price proposals had not been reviewed by Agency auditors in some instances), (3) procedures should be provided for feedback from procurement officials to the Agency on the usefulness and effectiveness of the audit reports submitted to them by the Agency and (4) certain access-to-records problems, encountered by Agency auditors in review of contractors' records, should be resolved.

The Department of Defense has advised us of actions taken, and other actions underway, to effect improvements in the areas we cited.

Procurement of critically needed missile fuel under adverse conditions from a sole-source supplier, Department of the Air Force, B-157445, Apr. 24, 1967

We questioned certain aspects of two contracts awarded to a sole-source supplier of anhydrous hydrazine—a missile propellant fuel. The sole supplier was selected, on the basis of its previous experience and greater likelihood of meeting delivery schedules, for negotiation and award of a facility construction contract and a fuel production contract. The construction contract (cost-reimbursable type in the amount of \$15.6 million) became effective June 30, 1960. The production contract (fixed-price in the amount of \$28.1 million) became effective December 30, 1960.

The constructed plant is on Government land completely surrounded by the contractor's property. The Government has certain easement rights for access roads, utilities, and disposal facilities. Although the location resulted in economies in initial construction costs, it also strengthened the contractor's position as the sole-source supplier. Moreover, should the Government decide to sell the plant none of the easement rights, except that covering the access road to a public highway, could be conveyed to the new owner. In the negotiation of the construction contract, the contractor requested a fee of \$720,000 for the production process "know-how" which in effect, was giving to the Air Force in constructing the plant. The Air Force did not allow this fee under the construction contract but did include it in the price of the production contract.

Because of uncertainties in estimating costs of producing in the new plant, the Air Force sought to negotiate either a cost-type or a fixed-price production contract with some form of price redetermination. The contractor rejected the former and stated that it would accept the latter only under certain conditions. The principal condition was an explicit provision for a 20-percent profit on selling price. The Air Force would not accept this condition and a firm fixed-price contract was negotiated. In our opinion there was no sound basis at the time for establishing a fixed price. In the performance of the contract the contractor realized a profit of \$9.2 million or an equivalent of 49 percent on the total costs incurred of \$19 million. The contractor realized an additional profit of \$1.8 million on the raw materials supplied by its own chemical plant.

PROCUREMENT, ADMINISTRATION OF CONTRACT TERMS AND CONDITIONS

Charges to defense contracts for use of company operated and chartered aircraft, Department of Defense, B-146948, Aug. 9, 1966

Our review of nine defense contractors who used company-operated and chartered aircraft extensively indicated that the additional cost, as compared with commercial air transportation, in most cases outweighed the benefits. The military departments, primarily concerned, agreed and made certain disallowances in negotiating overhead costs.

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

Long-term leasing of buildings and land by Government contractors, Department of Defense, **B-156818**, Sept. 20, 1966

We found that a contractor had leased property for a 25-year period at a total rental of \$46 million. The cost of the property was only \$27 million. If the property continues to be used almost exclusively for Government work (as it has been used in the past), the Government will ultimately pay, through reimbursements of rent, about \$19 million more than the cost of the property.

Such a leasing arrangement is advantageous to the contractor. The contractor avoids interest expense, not reimbursable under Government contracts, which otherwise would be incurred to finance ownership of the property. The contractor benefits also from the fact that the higher leasing costs are included in the cost base in establishing fees or profits on Government contracts.

The Department of Defense stated that (1) the Armed Services Procurement Regulation Committee would review the rental cost principle and (2) a profit review study was underway to develop guidelines for establishing fees and profits of contractors. The review and study had not been completed at June 30, 1967.

Price increases under shipbuilding contracts, Department of the Navy, **33-159206**, Dec. 5, 1966

The Navy reimbursed prime shipbuilding contractors for price adjustments paid to their supplier of certain equipment on the basis of increases in catalog prices of the supplier. (The catalog prices were increased within 3 months after award of the related subcontracts and increased the subcontract prices by about \$1.7 million.)

The record showed that for certain of the items, designated as the nearest commercial equivalent on which to base price adjustments, there had been no commercial sales of the commercial equivalent. For the remaining items, the increases were not proportionate to the increases in the catalog prices. Prior to the reimbursement by the Navy, the resident auditor requested the supplier to furnish pertinent data, but the supplier did not furnish the data.

The prime contractors and the supplier took the position that the adjustments were in accord with the contract terms. (The Armed Services Procurement Regulation (ASPR) in effect at that time did not specifically require that it be established that catalog prices were bona fide commercial prices.) However, we were advised by the Navy that certain of the items suggested a possible breach of contract and that these items would be investigated. The Navy was continuing its investigation at June 30, 1967.

These transactions took place prior to enactment of the "Truth in Negotiations" Act of 1962 (Public Law 87-653). The ASPR has since been revised, pursuant to Public Law 87-653, to clearly define "catalog" items.

Costs of bidding and related technical efforts charged to Government contracts, Department of Defense and National Aeronautics and Space Administration, **B-133386**, March 17, 1967

Many contractors are engaged simultaneously in the preparation of bids and proposals and in the conduct of independent research and development. Limitations on the costs of independent research and development chargeable to Government contracts are generally governed by advance agreements with the contractors. Advance agreements generally are not made, however, to limit bid and proposal costs chargeable to the Government.

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

We found that about half of the \$3.8 million of bidding and related costs claimed by a contractor in one year were not, in our opinion, clearly necessary to support the contractor's bids and proposals. The items in question included costs incurred (1) after the Government indicated it was not interested in a proposal, (2) before the Government had requested a proposal, (3) after a bid or pro-

posal had been submitted, and (4) to develop capability for response to future requests for proposals.

The problem is under study by the Department of Defense. We proposed, but the Department of Defense and the National Aeronautics and Space Administration did not consider our proposal feasible, that interim guidelines be issued with respect to allowability of bid and proposal costs. The Department of Defense study of the problem was continuing at June 30, 1967.

PROCUREMENT, GENERAL

Policy of leasing motor vehicles for use by Government contractors, Department of Defense, **B-146876**, Sept. 20, 1966

Various contractors performing work at Vandenberg Air Force Base had been arranging for their own intrabase transportation. In August 1962, the Air Force began the practice of leasing vehicles and furnishing them for use of the contractors. We estimated that had the vehicles been purchased rather than leased, by the Government, savings of about \$800,000 could have been realized over a 3-year period.

The Department of Defense had been under the impression that the United States Code (5 U.S.C. 78) precluded it from purchase of vehicles other than those specifically authorized in annual appropriation acts. We expressed the opinion that the restrictions of 5 U.S.C. 78 pertained only to vehicles to be purchased for use by Government agencies and departments and did not apply to the purchase of vehicles for use of contractors in performing work for the Government.

The Department of Defense accepted our interpretation of the statute and issued a memorandum to this effect to the military departments requesting them to conform their regulations with the revised policy.

Procurement of printing of technical manuals from equipment manufacturers, Department of Defense, **A-90545**, Nov. 28, 1966

This review was conducted in cooperation with the Joint Committee on Printing, Congress of the United States, as a part of its study of the overall Federal Printing Program.

We found that the cost to the Government for printing technical manuals furnished by selected contractors amounted to about \$2.2 million in fiscal year 1964. On the basis of price estimates obtained from the Government Printing Office (GPO), we estimated that about \$770,000 of the \$2.2 million (35 percent) could have been saved if the printing had been procured from commercial sources under contracts awarded by GPO. We estimated that the total expenditures for such printing during fiscal year 1964 was between \$25 million and \$30 million and that about \$8 million of the expenditures could have been saved.

The Department of Defense concurred with our recommendation that, to the extent consistent with cost economy and operational effectiveness, printing of technical manuals be procured through the Government Printing Office.

Savings available by purchasing rather than leasing commercial two-way radio equipment, Department of Defense, **B-160410**, Jan. 10, 1967

As of June 30, 1965, the military services were leasing commercial two-way radio equipment from three manufacturers at an annual cost of about \$9.5 million. It is generally accepted that the useful life of such equipment is 5 to 7 years and that technological obsolescence is not a serious factor. We estimated that the Department of Defense could save about \$12 million over the 5-year minimum useful life of the equipment if it were purchased rather than leased.

The Armed Services Procurement Regulation (ASPR) provides that the decision to lease or purchase be made on a case-by-case basis. However, this provision has not been uniformly applied. Although all of the military services use the same type of equipment and acquire it from the same manufacturers, the Air Force leases its equipment almost exclusively while the Army and the Navy purchase the greater part of their equipment.

We proposed, and the Department of Defense agreed, (1) that the military services be required to justify their decisions to lease or purchase on the basis of the criteria provided in the ASPR, (2) that, since two-way radio equipment is common to all services, a single procurement office be designated to consolidate requirements, and (3) that, when funds are not available to purchase all of the

equipment needed to fill requirements, the equipment be purchased on an incremental basis.

Procurement of foreign produced aircraft ejection-seat system, Department of Defense, **E-146778, Jan. 18, 1967**

We estimated that about \$4.4 million could have been saved in procurement, maintenance, and supply support costs, for fiscal years 1964 through 1969, had a domestic rather than a foreign ejection-seat system been selected for installation in F-4C type of aircraft. Selection of a domestic system would have been advantageous also from the standpoint of (1) providing a domestic source of supply in the event of a national emergency, (2) facilitating negotiation and administration of contracts as compared with dealing with a foreign producer, and (3) contributing to the national economy through additional tax revenues and employment of labor.

The Department of Defense did not agree that selection of the domestic system would have resulted in savings or that the domestic system possessed safety features equal to those of the foreign system. We considered these comments in the light of the information of record and concluded that the circumstances surrounding the continued procurement of the foreign system would be of interest to the Congress.

Potential savings in the procurement of spare aircraft parts for outfitting aircraft carriers, Department of the Navy, **B-133118, Feb. 23, 1967**

The stated policy of the Department of Defense is to purchase parts competitively or directly from parts manufacturers whenever feasible. We found, however, that spare parts for the initial support of certain aircraft weapon systems were being purchased by the Navy from the airframe manufacturer although most of the parts were manufactured by other sources and could have been obtained from them at lower prices. We estimated that, had the parts been purchased from other sources, about \$2.3 million could have been saved on the RA-5C and A-6A aircraft and about \$1.5 million still could be saved on the A-7A aircraft.

We were informed that sufficient time was not available to permit purchase from the other sources. However, we believed that the problem could be overcome by adequate planning and made certain proposals, with which the Navy agreed, to improve planning.

TRANSPORTATION

Charges for the diversion of overseas household goods shipments at points in the continental United States, Department of Defense, **B-159390, Aug. 30, 1966**

In many cases, and for various reasons, the ultimate destination of household goods shipped from overseas to the United States is not known to overseas transportation officers at the time of shipment. In such cases the shipments are consigned to transportation officers at those United States ports considered to be nearest to the most likely destination. When the ultimate destinations become known the port transportation officers may either (1) notify the household goods forwarders to change the destinations designated in the bill of lading or (2) terminate the shipments and issue new bills of lading covering transportation from the ports to the ultimate destinations. A similar situation arises whenever it becomes necessary to change destinations after the time of shipment.

We found that diversion of shipments by the household goods forwarders was more costly than would have been the case had the transportation officers selected alternative methods of transportation and issued new bills of lading. When we brought this matter to the attention of the Department of Defense, it obtained from the forwarders a reduction in diversion rates and discontinued the use of forwarders' services entirely on certain types of shipments. We pointed out that the reduced diversion rates were still higher than the costs which the forwarders could reasonably be expected to incur for the shipments and suggested that attempts be made to obtain further reductions. The Department of Defense agreed.

The corrective actions taken and planned should result in significant savings on future shipments of household goods diverted from destination points designated in the shipping documents to new destinations in the United States.

We estimated that, had the corrective actions been in effect during the 21-month period ended in December 1964, the Department of Defense could have saved over \$1 million.

Potential savings through improved utilization of space available on administrative military aircraft, Department of the Air Force, **B-159187, Sept. 7, 1966**

We found that substantial savings in air travel costs could be realized through more stringent control of travel authorizations so as to make maximum use of available space in military aircraft maintained for mission-support service at Air Force installations.

The Air Force agreed and issued a letter to its major commands outlining the policies to be observed in use of space available as a by-product of operation of such aircraft.

Potential savings obtainable through increased use of the Government's interagency motor pool system, Department of Defense, **B-158712, Mar. 8, 1967**

Although the stated policy of the Department of Defense is that, in lieu of renting vehicles from commercial firms, vehicles from the interagency motor pool system, managed by the General Services Administration (GSA), be used to the extent feasible, the military departments have not specifically required their personnel to follow the policy. We found at six military installations in the Washington, D.C. area that personnel who needed vehicles in connection with temporary duty assignments generally rented them from commercial firms. We estimated that savings of 10 to 50 percent could be realized through use of vehicles from the motor pool.

The Department of Defense and the GSA agreed to coordinate their effort toward greater use of motor pool vehicles in lieu of rented vehicles.

Potential savings on volume movements of household goods from overseas points to the continental United States, Department of Defense, **B-159390, Mar. 28, 1967**

We believe that significant savings can be realized by the Department of Defense on future volume movements of household goods of military personnel in connection with transfers of military units from one base to another. Our study of three such movements from bases overseas to bases in the United States showed that about \$255,000 could have been saved had the cost information, used as a basis for selection of the method of movement, been more accurate.

Generally, two methods are available to the Government for movement of household goods. Under one method, a bill of lading is issued to a household goods forwarder who arranges for all services needed to move the goods from owners' residences at points of origin to their residences at points of destination. Under the other method, the Government makes direct arrangements for each of the needed services from points of origin to points of destination.

Transportation officers at points of origin are required to compare the estimated costs and to select the more economical alternative. We found that the cost estimates used in this procedure were not accurate. Generally, the costs estimated to be incurred under the second method (direct arrangements for services by the Government) were overstated and thus favored the selection of the first method (arrangements for services by household goods forwarders).

In response to our findings and suggestions for corrective measures, the Department of Defense outlined to us certain actions which appeared to us to be responsive to our suggestions.

Air transportation provided dependent children of Department of Defense personnel between the continental United States and overseas areas, Department of Defense, **B-133371, Apr. 21, 1967**

Commercial air carriers furnish to the Department of Defense passenger service between the continental United States and overseas areas on regularly scheduled commercial flights at reduced fares published in special military passenger-fare tariffs. We found that regular commercial fares for children were less costly, in some instances, than the fares published in the military tariffs. In a selective review of overseas travel in the 19-month period ended September 30, 1965, we found that about \$290,000 could have been saved had the Department of Defense availed itself of the less costly commercial fares.

The savings were not realized because of the lack of clear guidance to transportation officers for selection of the lowest cost transportation. Differing free-

baggage allowances under the military and commercial tariffs also contributed to the difficulty in the selection.

In response to our findings and proposals for corrective action, the Department of Defense negotiated amendments to the tariffs to simplify and reduce the charges. The Department also agreed to revise its regulations and to improve administrative procedures.

Charges for **accessorial services on overseas household goods shipments**, Department of Defense, **B-159390, June 19, 1967**

Information developed in our review of selected shipments of household goods of military personnel indicated that savings could be realized through improved controls over the payment of accessorial charges on such shipments. (Charges of household goods forwarders include, in addition to charges for basic transportation services, additional or "accessorial" charges for incidental services such as storage in transit and preparation of certain types of household appliances for movement.)

We estimated that the Department of Defense could have saved about \$165,000 in charges on overseas shipments paid to household goods forwarders in the 12-month period ended February 28, 1965, had adequate controls been established to preclude payment for accessorial services that were either not authorized or were not performed.

In bringing these findings to the attention of the Department of Defense, we proposed certain measures for improving controls over charges for such services. The Department of Defense generally concurred and outlined to us actions that would be taken to implement our proposals.

MILITARY PAY AND ALLOWANCES

Potential savings through improved controls over per diem payments to military personnel, Department of the Air Force, **B-125037, Aug. 9, 1966**

Per diem payments to Air Force military personnel, deployed on an overseas airlift support mission in a noncombat zone, exceeded their estimated lodging and subsistence costs by about 200 percent.

The Department of Defense agreed that payments should be made only as justified and stated that action had been taken by each of the military departments to improve administrative controls over per diem entitlements.

Reporting of taxable income and tax withholdings of military personnel, Department of the Army, **B-125036, Aug. 10, 1966**

We reviewed a representative sample of the reports of taxable income and tax withholdings of military personnel filed by the Army for the calendar year 1963. On the basis of our examination, we estimated that the reports prepared by the Army for calendar year 1963 contained overstatements and understatements of about \$16 million in the amounts of taxable income reported and about \$2.3 million in the amounts of income taxes reported as having been withheld.

The Army concurred in general in our findings and proposals for corrective action and cited specific efforts on its part to carry out our proposals and to improve the reporting of tax information in future years. The Army stated its intention (1) to require a 100 percent examination and verification of tax records in lieu of the existing sampling technique and (2) to incorporate the preparation of Forms W-2 into the Centralized Automated Military Pay System which the Army expected to place into operation during 1968.

Certain active duty retirement benefits for Army and Air Force Reserve officers, Department of Defense, **B-146551, Aug. 10, 1966**

We reviewed the circumstances under which retired Reserve officers of the Army and the Air Force were receiving active duty retirement pay based on a grade higher than the highest grade attained on active duty. This benefit was not available to Reserve officers of the Navy and the Marine Corps or to Regular officers of any of the four military services.

The situation developed as a result of the language of the Army and Air Force Vitalization and Retirement Equalization Act of 1948 (62 Stat. 1081) and the policy of the Army and the Air Force which permitted many Reserve officers on active duty to be promoted to a permanent Reserve grade higher than the temporary grade held by them on active duty.

The act does not specifically require active duty service in the retired grade, whereas the legislative history, although inconclusive, indicates that the Congress expected Army and Air Force Reserve officers to have served satisfactorily in the grade on which active duty retired pay is to be based.

The significance of this matter is demonstrated by the Reserve officers who retired from active duty in fiscal years 1964 and 1965 in a grade higher than that in which they served. These officers will receive, over the years remaining in their life expectancy, about \$100 million more than they would have received if retirement had been based on their highest active duty grade.

The Department of Defense agreed that the retirement grade and pay under active duty retirement laws should be directly linked with active duty service and stated that a provision to bring this about had been included in a legislation proposal submitted to the Congress. The Congress had not taken action on the proposal at June 30, 1967.

SUPPORT SERVICES

Potential savings through greater use of available Government gasoline outlets, Department of Defense, E-159072, July 15, 1966

The military departments spend about \$5 million annually for credit-card purchases of gasoline from commercial service stations. The cost of this gasoline is from 10 to 16 cents a gallon more than the cost of gasoline obtainable from Government outlets. Although we are not able to arrive at a firm estimate of the potential savings through greater use of available Government outlets, we believed the potential savings to be substantial.

The Department of Defense expressed general agreement with our findings and our proposals for maximum feasible use of Government gasoline outlets in lieu of credit-card purchases.

Methods used to provide telephone service to military family housing occupants, Department of Defense, B-158469, Jan. 23, 1967

Congressional policy, as expressed in the United States Code (10 U.S.C. 2481) does not permit the military departments to sell certain utility services if the needed services are available from other local sources. We found, however, that the military departments sold telephone service to a substantial number of occupants of military family housing although commercial service was available.

The Department of Defense agreed with our findings and stated that Government-operated telephone service would be sold only where commercial service was unavailable and when it was determined to be in the interest of national defense or the public interest.

INTERNATIONAL ACTIVITIES

AGENCY FOR INTERNATIONAL DEVELOPMENT

Survey of internal audits and inspections relating to United States activities in Vietnam, B-159451, July 18, 1966

Our work was undertaken in consideration of (1) the importance of internal audit and management inspection functions as an essential but sometimes neglected element of management control, and (2) the continuing concern of the Congress with effective management control of these programs. We endeavored to identify the more significant program areas of economic assistance, as well as certain military activities, and relate them to the surveillance by the 15 principal audit or inspection organizations or units having responsibilities in Vietnam.

The most significant problem areas in terms of magnitude, vulnerability to operational and management deficiencies, and consequent waste in regard to economic assistance are the commercial import program and the rural construction (formerly counterinsurgency) program. The commercial import program consists of the importation by Vietnamese importers of needed commodities, financed by the United States, through commercial channels. The rural construction program is the major economic assistance effort applied directly to the Vietnamese populace.

We concluded that there is particular need for increased surveillance of the operations involved in the receipt, distribution and end use of the huge quantities of commodities being imported into Vietnam under the economic assistance program. In the military assistance program there is the same need for examination into the management of the operations involving equipment, spare parts and supplies and the broader control aspects of the military construction program.

In connection with the military construction program, totaling nearly \$600 million, for military installations of United States and Vietnamese military forces, we found no management reviews or evaluations on the substantive contract performance or of the broader control aspects of the construction program. Following through from the information developed in this survey, the General Accounting Office scheduled further work to be performed in the United States and in Vietnam, relating to the more crucial areas of the commercial import program and the vast construction program.

Review of audit and inspection programs conducted by United States agencies in Vietnam during 1966, B-159451, May 4, 1967

Our review of internal audit and management inspection activities conducted by United States agencies in Vietnam showed that there were significant increases in number and scope since our earlier report to the Congress on this matter in July 1966. In view of the inherent possibilities for irregularities in administering United States programs in Vietnam, we believe that there will be a continuing need to maintain and increase management surveillance, through audits and inspections, over agency activities there.

Principal programs requiring and receiving audit attention are Agency for International Development's commercial import program, supporting assistance for Vietnam's revolutionary development program, and the Department of Defense construction program.

DEPARTMENT OF DEFENSE

MILITARY ASSISTANCE PROGRAM

Review of manpower utilized to administer the military assistance program in a recipient country, B-159341, Aug. 15, 1966

The Department of Defense plans to continue the operations of a Military Assistance Advisory Group in a recipient country with reductions in staff although the military assistance grant-aid program for that country has been virtually completed and available information indicates that other United States organizations in the country can perform the essential residual functions.

Our review indicated that, although substantial reductions have been made in the size of the Advisory Group as the workload decreased with reductions in the military assistance program, further reductions were possible.

The Department of Defense, while continuing operation of the Advisory Group, subsequently initiated further substantial reductions.

Feasibility of using United States-owned excess foreign currencies instead of dollars to pay for ocean shipment of military assistance program materiel, B-146749, Dec. 13, 1966

Our examination disclosed that, in a recent 12-month period, the United States paid ocean carriers almost \$2 million in dollars for transportation of military assistance (MAP) materiel to four countries instead of paying them in United States-owned foreign currencies. There seemed to be no positive action taken to use excess foreign currencies, although the ocean carriers might be willing to accept United States-owned foreign currencies in payment for transporting military assistance cargoes, provided such payments would not exceed their needs for such currency in any particular country.

In compliance with our proposal, the Secretary of Defense issued revised instructions aimed at increased utilization of excess foreign currencies for travel and transportation expense.

Procurement of locomotives for Thailand under the military assistance program, B-157421, Jan. 31, 1967

We found that the Department of the Army had incurred costs of about \$1 million to buy for and deliver to Thailand locomotives which were unable to meet Thailand's specific requirements for mainline use, the purpose for which furnished. We found also that Department of the Army officials had not obtained clarification of contradictory technical requirements but, instead, had prepared a purchase description and initiated procurement of the locomotives before ascertaining whether the locomotives would be able to perform the function for which they were intended. The replacement locomotives costing \$2,305,000 were to be delivered to Thailand in December 1966.

We recommended that the Secretary of Defense require the military departments to establish procedures providing for user activity review and approval of a purchase description for complex non-standard equipment. This review should be made prior to the award of contract for the equipment and should be documented in the contract file covering such procurement. The Department of the Army advised that it was exploring potential outlets for the locomotives which were found unsuitable for Thailand's purposes.

Disposal of excess property in Turkey, B-160530, Feb. 28, 1967

The United States has been disposing of excess military property in Turkey for many years at prices substantially below the market value of the property.

The major factors contributing to this practice are (1) the very restrictive nature of the bilateral agreement between the Governments of the United States and of Turkey for the disposal of excess property, which permits sales within Turkey, to be made only to firms designated by the Government of Turkey, and (2) the reluctance of the United States Embassy in Turkey to authorize the sale of United States excess military property outside of Turkey even though such arrangements are clearly provided for under the bilateral agreement.

Officials of the United States disposal agency in Turkey estimated that, during the period April 1962 through August 1965, the United States experienced a loss in revenue of about \$2 million in Turkish lira by not selling its excess property to open-market buyers outside Turkey or about \$3.2 million by not selling the property to open-market buyers in Turkey. These officials have also estimated that the United States will continue to lose revenues on disposal-sales, in excess of \$1 million annually, unless action is taken to improve on the restrictive manner in which the United States is disposing of excess property in Turkey.

We concluded that the unsatisfactory arrangements, which have existed since 1959, would continue until the United States Government, through continued diplomatic negotiations, could induce the Government of Turkey to enter into a more liberal agreement to allow sales on the Turkish open market or until the United States Government implements the provisions of the existing bilateral agreement which permits satisfactory disposal by export. We noted that since our review, a degree of corrective measures have been taken.

Review of excess ammunition and weapons in a military assistance country, B-125085, Apr. 10, 1967

We found that the Department of Defense, the United States European Command, and the Military Assistance Advisory Group had not effectively implemented an existing system, which in itself was not wholly adequate, for obtaining the return to United States control of about \$31.9 million worth of ammunition and weapons which had become excess to requirements.

We advised the Secretary of Defense that in past reviews, we found that Military Assistance Advisory Groups had in many instances not made a concerted effort to identify excess property or enforce agreements which require the host country to make such property available for redistribution.

The office of the Assistant Secretary of Defense, International Security Affairs, notified the Departments of the Army, Navy, and Air Force and all unified Commands of the existing urgent need to obtain declarations of excess United States-furnished material from countries where it was no longer required.

As a result, military assistance program (MAP) countries declared more than \$30 million worth of MAP-furnished ammunition excess to their needs and thereby made it available for redistribution to satisfy a world wide need of the

United States. Our follow-up of actions taken showed that, as of February 1967, \$14.5 million of the ammunition had been recovered and an additional \$5.7 million was awaiting shipping instructions or ballistic acceptance.

OTHER INTERNATIONAL ACTIVITIES

Report on United States construction activities in the Republic of Vietnam 1965-66, B-159451, May 15, 1967

The combined construction program in Vietnam, which amounted to \$1.3 billion as of October 1, 1966, is being accomplished by the construction units of the military services and by contracts with various civilian firms for the Department of Defense, Department of State and the Agency for International Development. Since about three-fourths of the total work being done at the time of our survey was under a single contract awarded to the joint venture known as RMK-BRJ, our survey concerned in great part the performance of this contract and the administration exercised by the various commands of the Naval Facilities Engineering Command, and the contracting agency.

Our survey indicated that neither the Navy nor the contractor was adequately equipped to handle the massive expansion of the construction program in late 1965 and first half of 1966. As a result, the cost of the program was increased to a considerable extent, although there is no way to reliably measure the extra cost sustained. During the period of the escalated mobilization, normal management controls were virtually abandoned and major problems were experienced.

Illustrations of these conditions are: (1) Construction material and equipment were procured without a sound basis for computing reasonable requirements, without knowing what was already on hand or on order, and without preparing the most economical purchase specifications; (2) Military construction units in Vietnam had procurements of material and equipment unrelated to contract construction made for them by the contractor rather than having the procurements made through the military supply system; and (3) Effective management of procurement and utilization of material became virtually impossible because accountability in Vietnam over the mountainous supplies of construction material was lost.

The Department of Defense and the contractor agreed with a number of the opportunities for improvement set forth in our report. They also stated that the report appeared to be a reasonable evaluation of the program and problems. The Department and the contractor also stressed that, in view of the conditions under which the program had to be carried out, they had attained a remarkable construction performance, in which we concur.

This report summarized major weaknesses in the construction program. We now plan to concentrate our audit work in detailed reviews of these areas to evaluate the progress made and to make specific recommendations as to any further corrective measures which should be taken.

IKTERAGENCY PROGRAMS

FOOD FOR PEACE

Review of precautions taken to protect commercial dollar sales of agricultural commodities to foreign countries purchasing the same type commodities for foreign currencies under Public Law 480, B-146820, Aug. 18, 1966

Title I of Public Law 480 provides that, in negotiations of sales agreements with foreign governments for the purchase of commodities, reasonable precautions should be taken to safeguard usual marketings of the United States. The purpose of this provision is to avoid having sales for foreign currencies under title I displace normal commercial sales of United States agricultural commodities for dollars.

We estimate that, over a period of approximately 9 years, dollar purchases totaled about \$715 million less than those which certain countries would have made had they maintained the level of their purchases prior to the initiation of title I programs. Decreases in sales of agricultural commodities for dollars are of added significance in view of the currently unfavorable international balance-of-payments position of the United States.

We proposed that the Secretary of Agriculture require the Administrator, Foreign Agricultural Service (FAS), to prepare written procedures and specific assignments of responsibility for the guidance of employees charged with functions relating to determinations of compliance by foreign governments with their usual marketing commitments. As a result, the Administrator, FAS, indicated that certain corrective action would be taken.

These matters were reported to inform the Congress of the administrative interpretations and practices used in carrying out the title I program, which, in our opinion, have had an adverse effect on dollar sales of United States agricultural commodities and on the balance-of-payments position of the United States, and to suggest that the Congress may wish to express its views on these matters.

Survey of extent of audits of food donation programs administered by non-profit voluntary relief agencies, **B-159652, Mar. 7, 1967**

In our survey of audits of food donation programs, we reviewed the extent of audit activity by Government agencies in 10 significant recipient countries. In these countries, 10 voluntary relief agencies and one intergovernmental organization were administering 177 food distribution programs. These programs were designed to feed about 39 million recipients through more than 200,000 food distribution points located throughout these countries. About 1.9 billion pounds of food valued at about \$142 million was shipped abroad during the 18-month period July 1, 1964, through December 31, 1965.

We have concluded that there has been only limited auditing coverage of food donation programs because they are so large, so varied and so dispersed.

The various Government agencies and voluntary relief agencies were in general agreement with our conclusions and we were advised by the Agency for International Development that the Government regulations for donation programs are now being restudied.

Potential savings in costs of transporting food donated for distribution abroad, **B-159652, Apr. 28, 1967**

Our review of payments by the United States of costs for shipping donated food abroad in 1965 and 1966 showed that, out of 107 countries receiving donated American food, only four contributed toward the ocean freight cost. The governments of more than four of these countries appeared to be in sound financial condition during this period.

The regulations followed by the Agency for International Development did not require an assessment of recipient countries financial means, or willingness, for defraying ocean shipping charges. We found that the question of whether foreign countries could or should pay ocean freight costs had been considered only in isolated cases.

A significant amount of potential saving could be realized by making efforts to obtain contributions to shipping costs from recipient countries. We made several proposals with which the Agency for International Development expressed agreement. The Agency advised us of positive steps it is taking. If efforts are successful, the United States balance-of-payments position would be benefited.

Problems in processing claims against voluntary relief agencies arising from alleged loss or misuse of food donated for distribution abroad, **B-159652, June 29, 1967**

The United States Government has had very little success in processing claims against and collecting from distributing agencies in cases of reported food loss or misuse that might create a monetary liability on the part of the agencies. Problems in processing claims were created by a lack of information needed to establish the nature and extent of loss and the liability of parties involved. Other difficulties were experienced because claims responsibilities were divided between two agencies. This separation introduced some very difficult administrative problems in obtaining information needed to substantiate or otherwise resolve claims.

The Department of Agriculture, the Agency for International Development, and the principal voluntary relief agencies agreed generally with the matters discussed in our report. We were advised that steps had been taken to revise program regulations and to realign administrative responsibilities.

UTILIZATION OF FOREIGN CURRENCIES

Possible dollar savings through expanded use of foreign currencies to transport personal effects abroad, B-146749, Aug. 18, 1966

We found that several hundred thousand dollars could be saved annually if U.S.-owned foreign currencies, rather than dollars, were used to pay surface freight costs to transport personal effects of individuals traveling on United States Government business to and/or from foreign countries where the United States owns substantially more foreign currency than is needed for its normal operating requirements.

We proposed to the Department of State that, in countries where the United States has substantial amounts of foreign currencies, agreements be sought which in effect would permit officials traveling overseas to use such currencies and which would permit American carriers to convert foreign currencies accepted in payment for the transportation. The Department advised us that the inability to take advantage of opportunities of using foreign currencies for the above purposes is attributable to the fact that foreign countries resist expanded United States uses of foreign currency balance because of their own economic problems. The Department also commented that such an approach would run counter to basic policy reasons for making foreign currency sales of agricultural commodities.

In view of the position taken by the Department of State, which involves foreign economic and political policies, we brought these matters to the attention of the Congress in the event it may wish to consider the basis of the decisions made by the Department of State.

DEPARTMENT OF STATE

Payment of certain severance benefits to former Foreign Service officers, B-160300, Jan. 31, 1967

Severance benefits payments authorized by the Foreign Service Act of 1946, as amended, provides that Foreign Service officers in certain classes who are retired under selection-out provisions shall receive selection-out benefits. The severance benefits are equivalent to one-twelfth of a year's salary of the employee's then current salary for each year of service and proportionately for a fraction of a year, but not exceeding a total of one year's salary at his then current salary rate.

We found that certain former Foreign Service officers who had been selected out were reemployed by the Federal Government immediately or within a month thereafter at salaries at least equal to their salaries at the time of separation and were also being paid severance benefits.

We proposed that the Department of State should seek legislation to provide for the adjustment of selection-out benefits at such time as a Foreign Service officer is reemployed by the Federal Government or employed by the municipal government of the District of Columbia. The Department did not concur with our proposal. However, the Department did revise its regulations to provide that, when an officer who is reached by selection-out, is to be permitted to continue in the Foreign Service in another category, he shall be offered the opportunity of resigning in lieu of being selected out before reappointment in the new category. Thus, the officer would disqualify himself for severance benefits under section 634 of the Foreign Service Act.

Since section 634 of the Foreign Service Act has made mandatory the payment of selection-out benefits, we reported for congressional consideration the need of amending section 634 to provide for the adjustment of payable selection-out benefits at such time as a former Foreign Service officer becomes reemployed by the Federal Government or employed by the municipal government of the District of Columbia before expiration of his selection-out benefit period.

UNITED STATES INFORMATION AGENCY

Potential savings through constructing rather than leasing housing at Brewerville, Liberia, B-118654, Feb. 23, 1967

We believe that savings of upwards of \$2 million would have been obtainable over the period of the 33-year country-to-country agreement, if the United

States Information Agency, at the appropriate time, had sought and obtained from the Congress the necessary funds and had constructed houses required at Brewerville, Liberia, rather than leasing.

The Agency requested funds from the Congress in its fiscal year 1964 budget to construct the African Program Center, but no information was furnished to the Congress as to how the Agency planned to meet its housing needs. The Agency did not request funds for construction of housing in either its fiscal year 1964 or 1965 budget submissions, although the Agency was aware of the desirability of constructing its own housing rather than leasing. The Agency did attempt to request funds for housing construction in its fiscal year 1966 submission, but this request was deleted by the Agency from the budget submission to Congress when the Bureau of the Budget required the Agency to reduce the total budgetary funds being requested. No request for funds for this purpose appeared in the fiscal year 1967 budget submission to Congress.

EXPORT-IMPORT BANK

Audit of Export-Import Bank of Washington, fiscal year 1966, B-114823, Apr. 3, 1967

Our report summarized the details of sales of participation certificates made by the Export-Import Bank during the fiscal year. We concluded that the minimum additional interest costs to the Government resulting from these sales would be about \$4.3 million compared with what the cost would have been had the Treasury Department issued these securities direct.

In our opinion of the financial statements, we stated that we did not concur with the Export-Import Bank's reclassification of certain items from investment of the United States Government to liabilities, capital and reserves. We also stated that we were unable to express an opinion on the adequacy of the amount received to meet future losses, because of the undeterminable factors affecting the status of loans, guarantees, and insurance. Subject to these comments, we stated our opinion that the financial statements presented fairly the financial position of the Export-Import Bank of Washington at June 30, 1966.

GOVERNMENT-WIDE REPORTS

Review of geodetic surveying activities within the Federal Government, B-133188, Jan. 25, 1967

Our review of the geodetic surveying activities of selected agencies of the Federal Government indicated that economies could be realized through improved coordination of these activities. The Environmental Science Services Administration, Department of Commerce, has the responsibility for establishing a nationwide network of geodetic control points, i.e., points at which latitude, longitude, and elevation have been determined, and the Bureau of the Budget has the responsibility for coordinating geodetic surveying activities in the Federal Government. Other Federal agencies—including the Geological Survey, Department of the Interior, in its national mapping program and the Bureau of Public Roads, Department of Commerce (now Department of Transportation), in its highway programs—also establish geodetic control points. These geodetic control points generally are established, however, only to standards required for individual program needs and, for the most part, do not meet the standards of accuracy required to extend the national network. Consequently, the Environmental Science Services Administration plans to resurvey most of the same areas to establish geodetic control points that will meet the standards of the national network.

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

In September 1966, the Bureau of the Budget advised us that the Geological Survey and the Environmental Science Services Administration had entered into an agreement whereby horizontal geodetic control to national network standards would be achieved as a part of the Geological Survey's topographic map program. The agreement provides that, where other requirements are equal, preference in the authorization of mapping will be given to an area which has been basically controlled over an area which does not contain basic control. We stated that we believed that this agreement was an important step in the right direction. In our opinion, however, a more economical arrangement may be possible by requiring Geological Survey to perform all the basic control required for those areas which are presently uncontrolled and which it plans to map under its current mapping program.

In further commenting on our report, the Bureau of the Budget advised the chairman of the House Committee on Government Operations, in March 1967, that it had suggested that the Department of Commerce investigate further the possibility of concluding an agreement with the Department of Transportation to facilitate, to the maximum extent possible, cooperation in the geodetic control surveying activities required for highway programs administered by the Bureau of Public Roads along the lines of the agreement established between the Geological Survey and the Environmental Science Services Administration in connection with the topographic mapping program.

Administration of certain statutory and regulatory requirements relating to architect-engineer fees, **B-152306**, Apr. 20, 1967

We found that (1) the major construction agencies contracted for architect-engineer services at fees in excess of the statutory provisions which limit the fees payable to architect-engineers to 6 percent of the estimated cost of construction, (2) the agencies' practices in requiring the submission and certification of cost or pricing data in accordance with Public Law 87-653 and the Federal Procurement Regulations differed, (3) the agencies subject to the requirements of Public Law 87-653 were not complying with the competitive negotiation provisions of the law, and (4) the method of computing the architect-engineer fees differed among the major construction agencies.

We recommended to the Congress that the various laws imposing the fee limitation be repealed and that the Congress clarify its intent as to whether the competitive negotiation requirements of Public Law 87-653 be applied to the negotiation of architect-engineer contracts. We also proposed that the agencies require the architect-engineers to submit and certify cost or pricing data in accordance with Public Law 87-653 and the Federal Procurement Regulations. The major construction agencies agreed with our recommendation that the fee limitation be repealed and that the cost or pricing data requirements be applied to architect-engineer contracts. They did not agree, however, that the competitive negotiation provisions of Public Law 87-653 be required in the negotiation of architect-engineer contracts.

ORGANIZATIONS OUTSIDE THE FEDERAL GOVERNMENT

Examination of financial statements of Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated, for the fiscal year 1966, **B-114867**, Dec. 30, 1966

In this report, which was addressed to the Board of Directors of the Institute with copies to the Speaker of the House of Representatives and the President of the Senate, we expressed our opinion that the financial statements present fairly the assets and liabilities of the Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated, at June 30, 1966, and the contributions and other income and expenditures for the year then ended, in conformity with accounting practices followed by similar-type nonprofit organizations applied on a basis consistent with that of the preceding year.

Audits of Government Services, Inc., and of its Employee Retirement and Benefit Trust Fund and Supplemental Pension Plan for the year ended Dec. 31, 1966, **B-114820**, Apr. 11, 1967

In our report, addressed to the Board of Trustees, Government Services, Inc., with copies to the Speaker of the House of Representatives and the President

of the Senate, we expressed our opinion that the financial statements included in the report presented fairly the financial positions of Government Services, Inc., the corporation's Employee Retirement and Benefit Trust Fund and the Supplemental Pension Plan at Dec. 31, 1966, and the results of the corporation's operations and the changes in the retirement and pension funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our audit was made at the request of Government Services, Inc.

APPENDIX C-4

REPORTS ON CONGRESSIONAL INQUIRIES

This table is an alphabetical listing of selected reports and letters to committees and Members of the Congress in response to their request for comments on proposed legislation, for legal opinions, and for information on other subjects of interest. It does not include audit reports, which are listed on pages 174 through 211.

[Reports of general interest only are included]

Subject	To	Date	Reference No.
Accounting Systems:			
Approval, compliance, etc. (90th H.R. 9164)...	H. Government Operations... Rep. Jackson E. Betts.....	6-14-67 6-21-67	B-127287 B-127287
Development, priority.....	H. Government Operations...	3-14-67	E-115398
Administrative Procedure Act revision (90th S. 513),	S. Judiciary.....	4-20-67	E-130859
Agriculture:			
Fees for inspection, etc., services (89th S. 2820).	S. Agriculture & Forestry...-	8- 1-66	B-142952
Import and export data (89th H.R. 16920, S. 3522).	H. Ways and Means.....	8- 4-66	E-140093
Loss of crop due to chemical—not equitable claim.	S. Finance.....	8- 4-66	E-140093
	Rep. Alvin E. O'Konski.....	2- 8-67	B-160780
Airplane, supersonic, construction (89th S. 3309).	S. Commerce.....	7- 5-66	B-159141
Airports:			
Authorization (90th S. 1330).....	S. Commerce.....	5- 8-67	B-84613
Washington National & Dulles International (90th H.R. 4493, H.R. 5762).	H. Interstate & Foreign Commerce.	4-17-67	B-120047
Aliens: Employment by Commerce.....	S. Commerce.....	5-22-67	E-132818
Appropriation authorizations:			
Coast Guard (90th S. 1060).....	S. Commerce.....	3-16-67	B-146473
Requirement for annual:			
ESSA (90th S. 374).....	S. Commerce.....	2-16-67	E-169195
Maritime (90th S. 340).....	S. Commerce.....	2-16-67	B-146173
Appropriations:			
Availability: Maintenance funds for military construction in Vietnam.	S. Government Operations...-	3-20-67	B-159451
Foreign Assistance: Transfer prohibition change	H. Appropriations.	9-13-66	B-160032
Architect and engineer contracts: Fee limitations.	Numerous Members of Congress.	.....	B-152306
Armed Services:			
Bond deduction from pay during World War I.	Rep. Paul Findley.....	11-23-66	B-160392
Bonus entitlement: Stale claim.....	Rep. James R. Grover, Jr....	4- 4-67	B-161082
Combat duty pay entitlement.....	Rep. John N. Erlenborn.....	12- 7-66	E-160439
Cost-of-living allowance in Vietnam.....	Sen. Everett McKinley Dirksen.	4- 4-67	B-161120
Death Gratuity:			
Marriage validity.....	Rep. Patsy T. Mink.....	6-20-67	B-155582
Parents death presumption... ..	Rep. Donald W. Riegle, Jr. . .	6-20-67	B-161685
Demolition pay.....	Rep. Charlotte T. Reid.	12- 9-66	B-160471
Dependent wife status—Mexican divorce effect.	Rep. Porter Hardy, Jr.	10-12-66	B-160127
	Sen. Robert F. Kennedy.....	1-32-67	E-157498
Dual compensation:			
Acceptance of temporary civil service position by retired member.	Sen. Joseph D. Tydings.....	3-16-67	B-167665 B-160091
Applicability of restrictions.....	Rep. D. R. Matthews.....	10- 4-66	E446568
Civilian disability compensation and retired pay.	Rep. Ed Reinecke.....	7-26-66	B-159173
	Rep. Robert T. Ashmore.....	8- 8-66	B-159466

Subject	To	Date	Reference No.
Armed Services—Continued			
Dual compensation—Continued			
Claims barred by 10-year statute of limitations (90th H.R. 10500).	H. Judiciary	6-28-67	B-161774
Violation relief (90th H.R. 2263)	H. Judiciary	5- 8-67	B-160828
Economy pay act loss: Barred act waiver (89th H.R. 16345).	H. Judiciary	8-16-66	B-101558
Family allowance deduction refund	Sen. Fred R. Harris	1-19-67	B-160607
Leave: Overpayment relief (90th H.R. 6318)	H. Judiciary	E- 9-67	B-161069
Medical care for dependent (90th H.R. 6666)	H. Judiciary	4-27-67	B-161071
	Rep. Thomas J. Meskill	5-18-67	B-161071
Midshipman service credit (not clear if for retired or active duty purposes) (89th H. R. 18037).	H. Judiciary	10-26-66	B-63549 B-129993
Mustering out pay entitlement	Sen. Philip A. Hart	11-10-66	B-160348
Pay:			
Arrears	Rep. Rogers C. B. Morton	6-19-67	B-161746
AWOL status effect	Rep. Clarence J. Brown, Jr.	9-14-66	B-159962
Confinement by civil authorities	H. Armed Services	11-28-66	B-158834
Entitlement	Rep. Charles E. Bennett	3-10-67	B-160588
Overpayments:			
Administrative error (90th H.R. 4961, H.R. 9018, H.R. 9019).	H. Judiciary	4-18-67	B-161016
	H. Judiciary	6-15-67	B-161418
	E. Judiciary	6-29-67	B-161496
Longevity compensation errors (89th H.R. 15830; 90th H.R. 5830, H.R. 8087).	H. Judiciary	9- 1-66	B-159772
	H. Judiciary	4-18-67	B-161014
	H. Judiciary	6-19-67	B-161417
Statute of limitation waiver under private relief bill (90th S. 1274).	S. Judiciary	3-31-67	B-158965
Underage enlistment	Rep. Thomas L. Ashley	10- 5-66	B-159910
World War I service: Absence while in hospital.	Sen. Frank Carlson	6-10-67	B-161278
Person causing death of decedent: Benefit entitlement.	Sen. John Sparkman	1- 6-67	B-154536
Quarters allowance: Dependents: Travel or leave status effect.	Rep. Charles E. Bennett	5-22-67	B-160588
Quarters and family separation allowances	Rep. Henry B. Gonzalez	6-27-67	B-159383
Rations: Claim for separate	Rep. Richard C. White	2-15-67	B-160585
Readjustment pay loss (89th H.R. 17668)	H. Judiciary	11- 4-66	B-160101
Record correction: Benefit entitlement	Sen. Paul H. Douglas	12-22-66	B-143424
Reenlistment bonus: Overpayment due to administrative error.	H. Judiciary	10-12-66	B-160053
Reserves: Status of general nominated for promotion.	Sen. Margaret Chase Smith	9-14-66	B-159980
Retired members: Conflict of interest: Applicability of <i>Seastrom</i> case.	Rep. Claude Pepper	3- 3-67	B-160875
Retired member selling to Government (90th H.R. 5815).	H. Judiciary	3-27-67	B-160236
Retired pay:			
Administrative error in computation (90th H.R. 6752).	H. Judiciary	4-29-67	B-161108
Assumptions incorrect (90th H.R. 2656)	H. Judiciary	5-17-67	B-101558
Credit for inactive service to put enlisted members on the same basis as officers (90th S. 394).	S. Armed Services	2- 2-67	B-139206
Entitlement	Sen. Sam J. Ervin, Jr.	1- 4-67	B-154498
	Rep. Alphonzo Bell	2-23-67	B-160476
Increase under Pub. L. 89-395	Rep. L. Mendel Rivers	6- 6-67	A-1666

Subject	TO	Date	Reference No.
Armed Services—Continued			
Retired pay—Continued			
Overpayments (90th H.R. 8479).....	H. Judiciary.....	5-18-87	B-161309
	Rep. E. (Kika) de la Garza.....	3-31-67	B-160994
Rate adjustment.....	Rep. Dante B. Fascell.....	4-18-67	B-155982
Savings deposits: Missing in action status.....	Rep. Don H. Clausen.....	2- 3-67	B-160117
Subsistence allowance: Overpayments (90th H.R. 3681).	H. Judiciary.....	3-31-67	B-160820
Transportation and travel expenses:			
Auto and effects (89th H.R. 18824).....	H. Judiciary.....	9-28-68	B-159904
Auto, foreign, shipped by commercial vessel..	Rep. Aiphonzo Bell.....	10- 5-66	B-151022
Dependents travel: Entitlement.....	Sen. John Stennis.....	9- 7-66	B-159794
Dependents travel prior to retirement of member.	H. Armed Services.....	9- 7-66	B-159961
Dependents travel to home of selection.....	Sen. Bourke B. Hickenlooper..	3- 8-67	B-160941
Dependents travel when member unable to complete travel overseas.	Rep. Ken Hechler.....	10-19-66	B-160121
Dependents transportation: Private relief bill (90th H.R. 6228).	H. Judiciary.....	3-23-67	B-159961
Household effects:			
Commercial or Government movement.....	Rep. Teno Roncallo.....	8-24-66	B-159874
Excess costs.....	Rep. Bob Sikes.....	5- 5-67	B-161222
Excess weight (89th H.R. 17551).....	H. Judiciary.....	10-18-66	B-160054
Weight error.....	Rep. T. J. DuSliski.....	6-19-67	B-161672
Per diem.....	Sen. Hugh Scott.....	1-16-67	B-160445
Travel expenses to reserve training.....	Sen. Charles H. Percy.....	3-27-67	B-160943
Automobiles: Electric powered research: GAO access to records (89th S. 3785).	S. Commerce.....	10- 6-66	B-159993
Aviation: Development of air transportation and airports (90th S. 1271).	S. Commerce.....	4-28-67	B-75409
Banks and banking: Banks acting as travel agents.	Sen. Edward M. Kennedy....	4- 7-67	B-103315
Boards, committees, commissions, etc.:			
Establishment:			
Balanced Economic Development Commission (90th S.J. Res. 64).	S. Government Operations..	6- 4-67	B-161247
Budget Reform Commission (90th H.R. 466)..	H. Government Operations..	2-23-67	B-127287
Environmental Quality Council (90th H.R. 7796).	H. Science & Astronautics...	5- 4-67	B-140579
Executive Branch organization (90th H.R. 1460, S. 47, H.R. 9229).	H. Government Operations..	2- 7-67	B-50164
	S. Government Operations....	2-17-67	B-60164
	H. Government Operations...	5-16-67	B-50164
Intergovernmental Affairs Council (90th S. 671).	S. Government Operations....	3-13-67	B-83433 B-95929
Interoceanic Canals Commission (90th H.R. 571, H.R. 2148).	Rep. Daniel J. Flood.....	4-10-67	A-60428
National Commission on Urban Living (90th H.R. 3155).	H. Government Operations..	2-28-67	B-160821
Procurement Commission (90th H.R. 157)....	H. Government Operations...	2-17-67	B-160725
Program evaluation (90th H.R. 10520).....	H. Government Operations..	6-28-67	B-161740
Public Management (89th H.R. 17236, S. 3762; 90th H.R. 20, H.R. 793).	H. Government Operations...	9-30-66	B-160003
	S. Government Operations....	10- 6-66	B-160003
	H. Government Operations...	3-23-67	B-160003
Social programs (90th H.R. 2884).....	H. Government Operations...	4-17-67	B-160824
Technology Assessment Board (90th H.R. 6698).	H. Science & Astronautics...	4-26-67	B-58911
Bonneville Power Administration: Preference to public applicants.	Sen. Len B. Jordan.....	7- 6-66	B-158903

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Budgetary information (90th H.R. 228).....	H. Government Operations-	3- 6-67	B-158708
Bay American Act application.....	Rep. James B. Utt.....	4- 4-67	B-160893
Calendar & fiscal year basis for Government(90th H.R. 1167).	H. Government Operations..	2- 2-67	B-153121
Claims:			
Federal Claims Collection Act, application.....	Rep. Charles E. Bennett.....	9-23-66	B-159708
Refund of judgment payment incident to suit or overcharges of rentals in violation of Housing and Rent Act.	Sen. Walter F. Mondale.....	2-28-67	B-153434
Clearinghouse for commercial standards (90th S. 997).	S. Commerce.....	3- 7-67	B-160007
Coast Guard: Electronic guidance system research (90th S. 952).	S. Commerce.....	2-2C-67	B-108649
Communications Satellite Corporation: Contract award.	H. Government Operations-	10-6-66	B-159632
Congress:			
Committees:			
Clerk hire status of employee and possible law violation.	Rep. Samuel L. Devine.....	3- 1-67	B-157010
Requests for GAO reports (90th S. 355 amendment).	Rep. William L. Dickinson..	3- 1-67	B-157010
	Sen. John J. Sparkman.....	2-24-67	B-129874
Employees:			
Compensation:			
Increase entitlement.....	H. Post Office & Civil Service.	9-23-66	B-180025
Liability for compensation after abandonment of position.	Rep. Charles E. Bennett.....	1-17-67	B-134827
Death gratuity: Beneficiary v. estate.....	H. Administration-.....	3- 2-67	B-160842
Gratuity payment to heir in law.....	H. Administration.....	6-17-67	B-160842
Members:			
Retirement:			
Acceptance of appointment as U.S. Commissioner.	Rep. Andrew Jacobs, Jr.....	3-16-67	B-160999
Annuities:			
Members who died between 2-29-48—3-5-64 (90th S. 339).	S. Post Office & Civil Service.	2-24-67	B-138504
To widows when services were terminated before 1-3-47 (90th S. 797).	S. Post Office & Civil Service.	2-17-67	B-130393
Members and Employees: Retirement annuities increase (90th S. 521).	S. Post Office & Civil Service.	3-17-67	B-160792
Reorganization legislation:			
Budget "scoreboard" (90th S. 355).....	Rep. George H. Mahon.....	3- 8-67	B-129974
Secs. 202 and 203, modification (90th S. 355)...	Joint Comm. on Organization of Congress.	6- 8-67	B-129874
Congressional comptrollership (89th H.R. 1344.5)	H. Government Operations--	7- 6-66	B-158708
Contracts:			
Additional costs: Shipping contract (90th H.R. 5222).	H. Judiciary.....	6-20-67	B-158351
Awards:			
Labor surplus set-aside.....	Rep. James R. Grover, Jr....	3-22-67	B-160787
Postponement of anthracite coal award.....	Rep. George M. Rhodes.....	4- 5-67	B-159868
To other than low bidder.....	Rep. Lionel Van Deerlin....	1-13-67	B-159450
Bids:			
Evaluation propriety.....	Rep. John C. Culver.....	3- 2-67	B-160524
Mistakes.....	Sen. Thomas H. Kuchel.....	11- 9-66	B-159404
	Rep. Cecil R. King.....	11- 9-66	B-159404
Protest cases and disposition.....	S. Small Business.....	2-24-67	B-160650
Rejection for failure to furnish bid bond.....	Sen. Clinton P. Anderson---	2- 1-67	B-160738
Rejection propriety.....	Rep. Thomas G. Morris.....	1- 4-67	B-160390
Small business certification.....	Sen. Philip A. Hart.....	2-23-67	B-159822

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Contracts—Continued			
Commercial v. educational institutions.....	Sen. John G. Tower.....	3- 7-67	B-160640
Contingent fee covenants.....	Sen. Warren G. Magnuson.....	8-24-66	B-159837
Damages liquidated Relief (89th H.R. 18111).....	H. Judiciary.....	10-28-66	B-159546
Increased costs (90th H.R. 10540).....	H. Judiciary.....	6-22-67	B-159903
Labor standards:			
Minimum wage increases.....	Rep. Elford A. Cederberg....	4-10-67	B-160934
Minimum wage rates (90th H.R. 7033).....	H. Judiciary.....	4-26-67	B-159916
Wage rate violations.....	Sen. Carl T. Curtis.....	9-12-66	B-159297
Mechanical specialty work (90th S. 1498, H.R. 9131).	Rep. Albert W. Watson.....	4-26-67	B-160403
	S. Public Works.....	6-13-67	B-103967
	H. Public Works.....	E-13-67	B-103967
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Ocean towage services.....	Sen. E. L. Bartlett.....	9-14-66	B-158885
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Price adjustment: Milk procurements (89th H.R. 17500).	H. Armed Services.....	9-22-66	B-108902
Sales: Bid deposit return.....	Sen. Thomas H. Kuchel.....	2-15-67	B-160247
Subcontracts:			
Bid peddling prohibition (90th H.R. 8213)....	H. Judiciary.....	6-23-67	B-109181
Bonds for protection of subcontractors (90th S. 1663).	S. Public Works.....	5- 8-67	A-54197
Construction subcontractors protection.....	Sen. Thomas H. Kuchel.....	3-29-67	B-161105
Failure to receive payment:			
Army family housing contract.....	Sen. Robert P. Griffin.....	2-21-67	B-152570
Private relief bills (89th H.R. 16317, H.R. 16564, H.R. 16939, H.R. 17131, H.R. 17164, H.R. 17386; 90th H.R. 4805-4882, H.R. 8480).	E. Judiciary.....	7-28-66	B-152570
	H. Judiciary.....	8-15-66	B-152570
	H. Judiciary.....	8-26-66	B-152570
	E. Judiciary.....	9- 2-66	B-152570
	H. Judiciary.....	9- 2-66	B-152570
	H. Judiciary.....	9-14-66	B-152570
	H. Judiciary.....	3- 7-67	B-152570
	H. Judiciary.....	4-26-67	B-162570
	Sen. Clifford P. Case.....	7-28-66	B-152570
	Rep. Edward A. Garmatz.....	7-28-66	B-152570
	Sen. Joseph D. Tydings.....	8-18-66	B-152570
	Sen. Mike Mansfield.....	9-12-66	B-159934
	Rep. James F. Battin.....	9-12-66	B-159934
	Rep. Richard S. Schweiker....	4-24-67	B-160946
	Rep. Joel T. Brody.....	12- 7-66	B-160129
	S. Government Operations.....	1-14-67	B-146824
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Renewal (90th S. 1375)	3. Post Office & Civil Service	E-16-67	B-78175
Postal Service:			
Authority to relieve postmasters, etc., for losses (89th H.R. 15319).	E. Post Office & Civil Service	7-20-66	B-51593 B-76594
Employees:			
Compensation:			
Adjustment entitlement.	Sen. Walter F. Mondale.	3-24-67	B-160034
	Rep. Byron G. Rogers.	6-27-67	B-160034
Adjustment relief (90th H.R. 6314)	E. Judiciary.	3-14-67	B-161070
GAO service.	H. Post Office & Civil Service	9-29-66	B-132135
Minimum wages, bonds, etc., for employees of contractors (90th S. 553).	S. Post Office & Civil Service	2-14-67	B-139657
Overtime, etc. (90th S. 1761).	S. Post Office & Civil Service	6-20-67	B-94942
Leave: Military.	Rep. John O. Marsh, Jr.	11- 8-66	B-160304
Reclassification of positions (90th S. 854, S. 278, S. 1294, 5.1634).	S. Post Office & Civil Service	4-10-67	B-99833
	S. Post Office & Civil Service	4-10-67	B-99833
	S. Post Office & Civil Service	4-28-67	B-99833
	S. Post Office & Civil Service	5- 4-67	B-99833
Retirement credit.	Rep. Frank M. Karsten.	1- 4-67	B-160551
Travel expense debt relief (90th H.R. 1758)	E. Judiciary.	3-21-67	B-155449 B-158077 B-153129
Post Office Department: Lease authority, long' term (90th S. 1039).	S. Public Works.	3-17-67	B-153129
Private firms: Using U.S. symbols.	Rep. E. (Kika) de la &ma-	3- 7-67	B-160950
Private law: Other than named beneficiary entitlement (Private Law 89-443).	Rep. Bob Sikes	3-17-67	B-158262
Procurement: Non-Government sources in lieu of intergovernmental sources (90th H.R. 1489).	H. Government Operations.	3- 1-67	B-18980
Property:			
Private: Damage due to Government activities.	Sen. Frank Church.	4-20-67	B-161173
Public:			
Conveyance:			
To Hawaii (90th S. 406)	S. Government Operations.-	3-27-67	B-156399
To Stockbridge-Munsee Community (90th H.R. 789).	H. Interior & Insular Affairs-	3- 9-67	B-147655
Short-shelf life item disposal (89th S. 3328, H.R. 15210, H.R. 16572; 90th E.R. 645, S. 1717).	S. Government Operations.-	7-13-66	B-133038
	H. Government Operations.-	7-15-66	B-133038
	H. Government Operations..	3- 1-67	B-133038
	S. Government Operations.-	6-26-67	B-133038
Surplus:			
Availability to States, etc., enlargement of donable purposes (89th S. 2610, H.R. 8211; 90th S. 878, H.R. 4901).	S. Government Operations.-	10- 6-66	B-101646
	H. Government Operations.-	5-17-67	B-101646
	S. Government Operations.-	5-12-67	B-101646
	H. Government Operations.-	6-12-67	B-101646
Donation and/or sale to States, Indians, firefighting, etc., organizations (90th H.R. 610, H.R. 1500).	H. Government Operations.-	1-23-67	B-123844
	H. Government Operations..	2-23-67	B-123844

Subject	To	Date	Reference No.
Property—continued			
Public—Continued			
Surplus—Continued			
Donation to children's homes (90th H.R. 6513).	H. Government Operations..	3-13-67	B-130399
Donation to State Institutions of Florida (90th H.R. 3360).	H. Government Operations..	3-13-67	B-160823
Use for highest potential.....	Rep. Hastings Keith.....	3-21-67	B-160866
Public debt retirement (90th H.R. 364, H.R. 3303).	H. Government Operations--	2- 8-67	B-138524
Public Health Service:	H. Government Operations--	2-21-67	B-133524
Adult Health program (90th H.R. 1027).....	H. Interstate & Foreign Commerce.	4-10-67	B-74254
Community service (89th H.R. 15282).....	H. Interstate & Foreign Commerce.	7- 6-66	B-157924
Comprehensive Health Planning (89th S. 3008, H.R. 18231).	H. Interstate & Foreign Commerce.	10-13-66	B-157924
Hospital and medical facilities construction (90th H.R. 991).	H. Interstate & Foreign Commerce.	10-14-66	B-157924
Partnership for Health Amendments of 1967 (90th H.R. 6418).	H. Interstate & Foreign Commerce.	3-27-67	E-143181
Radio and television:	H. Interstate & Foreign Commerce.	4-27-67	B-157924
Candidates free time (90th S. 1548).....	S. Commerce.....	4-27-67	B-103018
Public educational television (90th S. 1160, H.R. 6736).	S. Commerce.....	4-28-67	B-131935
Railroad retirement: Annuity reestablishment---	H. Interstate & Foreign Commerce.	6-21-67	B-131935
Research: Geographical distribution (90th S. Con. Res. 22).	Rep. Q. Elliott Hagan.....	2-21-67	B-160804
Rural electrification:	S. Labor & Public Welfare--	5- 4-67	B-117219
Federal Electric Bank and Telephone Bank (89th S. 3337).	S. Agriculture & Forestry---	7- 8-66	B-159292
Legality of loan to electric cooperative-.....	S. Appropriation.....	8-31-66	B-151295
Small business: Forest timber purchases.....	Sen. Warren Q. Magnuson...	1-18-66	B-155300
Social programs (80th H.R. 10261).....	Rep. Lloyd Meeds	1-18-66	B-159944
States:	E. Government Operations--	6-13-67	B-160932
Compacts: Northeast Rail Authority (90th S. 1806).	S. Commerce.....	6-29-67	B-139052
Taxes:			B-139955
Municipal utility charge.....	Rep. Joe D. Waggonner.....	3-13-67	B-160936
Payments in lieu of taxes (90th H.R. 6375, H.R. 4241, S. 826).	E. Government Operations--	3-10-67	B-115764
Timber sales: Relief of Hood River County, Oregon (90th H.R. 3165).	E. Government Operations--	2-15-67	B-115764
Transportation:	3. Government Operations..-	2-15-67	B-115764
Carrier liability for loss and damage to property in transit.	E. Judiciary.....	4-17-67	B-161032
Department: Elimination of provision for GAO audit (89th S. 3010).	Rep. Lindley Beekworth....	2-20-66	B-159553
Excess freight charge refund, claim by motor carrier.	Rep. Ray Roberts.....	3-27-67	B-159553
High speed ground transportation to Dulles, etc. (90th S. 103).	S. Government Operations...	0- 5-66	B-71756
Mass: Grant availability for buses for charter--.	E. Government Operations--	0- 5-66	B-71756
	Sen. A. S. Mike Monroney --	9- 9-66	B-159855
	S. Commerce.....	1-20-67	B-145276
	Rep. Bob Wilson.....	2- 7-66	B-160204

Subject	To	Date	Reference No.
Transportation—Continued			
Motor carrier claim for storage and household goods delivery.	Rep. Lionel Van Deerlin.....	5- 9-67	B-161157
Motor carriers' entitlement to payment for shipment of household goods.	Rep. Hastings Keith.....	3-14-67	B-158405
Ocean freight procurement (90th H.R. 165).....	H. Merchant Marine & Fisheries.	8-29-67	B-150556
Overcharge recovery from carrier.....	Sen. Thomas H. Kuchel.....	3-27-67	B-159103
Requirements for Yukon River Resupply Program.	Sen. Ernest Gruening.....	6- 9-67	B-154645
User charges: Services under vessel inspection laws (90th S. 1907).	S. Commerce.....	6-22-67	B-135384
User fees: Regulatory agencies (90th H.R. 1491).	H. Interstate & Foreign Commerce.	5-16-67	B-145252
USTA: Appropriation availability for tours of foreign newsmen.	S. Foreign Relations.....	9-23-66	B-159983
Vehicles:			
Electric: Research—access to records (90th S. 453).	S. Commerce.....	2- 6-67	B-159993
Government-owned:			
Air conditioning units (90th H.R. 10085).....	H. Government Operations..	6-28-67	B-131418
Insurance for operation in foreign countries (90th H.R. 9380).	H. Government Operations..	5-17-67	B-140401
Vessels:			
Hydrofoil craft (90th H.R. 8460).....	H. Merchant Marine & Fisheries.	6-22-67	B-142187
Naval: Buy American Act restriction (90th H.R. 4475).	H. Public Works-	3-22-67	B-125190
Seizure by foreign countries, payment (89th S. 3499).	S. Commerce.....	7-19-66	B-108007
Veterans: Home loan default.....	Sen. Peter H. Dominick.....	10- 4-66	B-159869
Virgin Islands: Comptroller's office: Review by GAO on other than annual basis (90th S. 450).	S. Interior & Insular Affairs...	2-17-67	B-58303 B-135087
Voluntary services: Payment (90th H.R. 1884)...	H. Judiciary.....	5- 4-67	B-160800
Water pollution control:			
Coverage of act.....	Rep. William S. Mailliard....	4-14-67	B-160882
Discharge of solid wastes: Dual jurisdiction (90th H.R. 494).	H. Public Works.....	2-23-67	B-135945

APPENDIX C-6

PRIME CONTRACTORS AND SUBCONTRACTORS AT WHICH CONTRACT
AUDIT WORK WAS PERFORMED DURING THE FISCAL YEAR 1967

Examination is made of selected financial **aspects of** the contracts.
Reports are not issued on each audit.

CIVIL DEPARTMENTS AND AGENCIES

Walter Kilde Constructors, **Inc.**, New York,
N.Y.

Department of Commerce

Atomic Energy Commission

Alaska Steamship Co., Seattle, Wash.
American Mail Line, Seattle, Wash.
American President Line, San Francisco,
Calif.
Columbia Steamship Co., Portland, Oreg.
J. J. Tennant Co., Portland, Oreg.
Matson Navigation Co., San Francisco,
Calif.
Pacific Far East Lines, San Francisco,
Calif.
States Steamship Co., San Francisco,
Calif.
Weyerhaeuser Line, San Francisco, Calif.

Allis Chalmers Manufacturing Co., Be-
thesda, Nd.
Allis Chalmers Manufacturing Co., Genoa,
Wis.
Allis Chalmers Manufacturing Co., Green-
dale, Wis.
Allis Chalmers Manufacturing Co., West
Allis, Wis.
Associated Universities, Inc., Brookhaven
National Laboratory, Upton, N.Y.
Bendix Corp., Kansas City Division, Kan-
sas City, Mo.

*Department of the Interior and Corps of
Engineers (Civil Functions)*

Big Chief Drilling Co., Oklahoma City,
Okla.

Collins Radio, Dallas, Tex.

Chicago Bridge and Iron Co. (subcontrac-
tor), Chicago, Ill.

Department of Labor

American Airlines, Inc., Los Angeles,
Calif.
Chicago Transit Authority, Chicago, Ill.
Del Paso Heights Businessmen's Commit-
tee, Inc., Sacramento, Calif.
Douglas Aircraft Co., Inc., Long Beach,
Calif.
Lockheed Shipbuilding and Construction
Co., Seattle, Wash.
Los Angeles Joint Custodial Maintenance
Council, Los Angeles, Calif.
Manhattan and Bronx Surface Transit
Operating Authority, New York, N.Y.
New York City Transit Authority, New
York, N.Y.
Northrop Corp., Hawthorne, Calif.

Cleverdon, Varney & Pike (subcontractor),
Boston, Mass.

Dow Chemical, Inc., Rocky Flats. Colo.

General Dynamics Corp., General Atomic
Division, San Diego, Calif.

General Electric Co., San Jose, Calif.

General Electric Co., Knolls Atomic Power
Laboratory, Schenectady, N.Y.

Mallinckrodt Chemical Co., Weldon Spring,
Mo.

Mason and Hanger-Silas Nason Co., Ama-
rillo, Tex.

Massachusetts Institute of Technology,
Cambridge, Mass.

Maxon Construction Co., Inc. (subcontrac-
tor), Dayton, Ohio.

Nuclear Fuel Services, Inc., Erwin, Tenn.

Nuclear Materials and Equipment Corp.,
Apollo, Pa.

Phillips Petroleum Co., Idaho Falls, Idaho.

Pittsburgh Piping and Equipment Co. (sub-
contractor), Pittsburgh, Pa.

Princeton University, Princeton, N.J.

Reynolds Electrical and Engineering Co.,
Inc., Las Vegas, Nev.

Royal Industries, Inc., Engineered Prod-
ucts Division (subcontractor), Pasa-
dena, Calif.

Sandia Corp., Albuquerque, N. Mex.

Sargent and Lundy, Inc. (subcontractor),
Chicago, Ill.

Sylvania Electric Products, Hicksville, N.Y.

Department of Transportation

Meredith & Grew, Boston, Mass.
Raytheon Company, Component Division,
Lexington, Mass.

Agency for International Development

J. & M. Adriaenssens, Antwerp, Belgium
Raymond • Morrison • Knudsen/Brown •
Root-Jones (RMK-BRJ), San Bruno,
Calif.

Union Carbide Corp., Nuclear Division, Oak Ridge, Tenn.
 University of California, Lawrence Radiation Laboratory, Berkeley, Calif.
 University of California, Lawrence Radiation Laboratory, Livermore, Calif.
 University of Chicago, Argonne National Laboratory, Idaho Falls, Idaho.
 University of Chicago, Argonne National Laboratory, Lemont, Ill.
 Wackenhut Services, Inc., Coral Gables, Fla.
 Westinghouse Electric Corp., Astronuclear Laboratory (subcontractor), Large, Pa.
 Westinghouse Electric Corp., Atomic Power Division (subcontractor), Cheswick, Pa.
 Westinghouse Electric Corp., Bettis Atomic Power Laboratory, Pittsburgh, Pa.

General Services Administration

Altenhof and Bown, Pittsburgh, Pa.
 Elwood Tower Associates, Pittsburgh, Pa.

National Aeronautics and Space Administration

Aerojet-General Corp., Nimbus, Calif.
 Ball Brothers Research Corp., Boulder, Colo.
 Beckman Instruments, Inc., Fullerton, Calif.
 Boeing Aircraft Co., New Orleans, La.
 Brown Engineering Co., Huntsville, Ala.
 Chrysler Corp., New Orleans, La.
 Electronics Associates, Inc., West Long Branch, N.J.
 General Electric Co., Bay St. Louis, Miss.
 Grumman Aircraft Engineering Corp., Manned Spacecraft Center, Bethpage, N.P.
 Hayes International Corp., Birmingham, Ala.
 Kaiser Engineers, Division of Kaiser Industries Corp., Oakland, Calif.
 Ling-Temco-Vought, Inc., Kennedy Space Center, Fla.
 North American Aviation, Inc., Rocketdyne Division, Canoga Park, Calif.
 North American Aviation, Inc., Space Division, Downey, Calif.
 North American Aviation, Inc., Space Division, Seal Beach, Calif.
 Pbilco-Ford Corp., Palo Alto, Calif.
 Sperry Rand Corp., Huntsville, Ala.
 Technicolor Corp., Kennedy Space Center, Fla.
 Trans-World Airlines, Inc., Kennedy Space Center, Fla.

Wackenhut Corp. (subcontractor), Kennedy Space Center, Fla.
 Wyle Laboratories, Huntsville, Ala.

National Science Foundation

Association of Universities for Research in Astronomy, Inc., Tucson, Ariz.
 Brown and Root, Inc., Houston, Tex.
 Honeywell, Inc. (subcontractor), West Covina, Calif.
 University Corporation for Atmospheric Research, Boulder, Colo.
 Woods Hole Oceanographic Institute, Woods Hole, Mass.

Office of Economic Opportunity

Burroughs Corp., Omaha, Nebr.
 Consolidated American Services, Inc., Washington, D.C.
 Litton Systems, Inc., Camp Parks, Pleasanton, Calif.
 Pinellas County Board of Public Instruction, St. Petersburg, Fla.
 Training Corporation of America, Inc., Excelsior Springs, Mo.
 University of Oregon, Tongue Point, Astoria, Oreg.
 Webster College, St. Louis, Mo.
 Wichita State University, Wichita, Kans.

U.S. Civil Service Commission

Associated Hospital Service (subcontractor), New York, N.Y.
 Blue Cross-Blue Shield of Alabama (subcontractor), Birmingham, Ala.
 Group Hospitalization, Inc. (subcontractor), Washington, D.C.
 United Medical Service, Inc. (subcontractor), New York, N.Y.

MILITARY DEPARTMENTS

Adams Associates, Cambridge, Mass.
 Aerodex, Inc., Miami, Fla.
 Aerojet-General Corp., El Monte, Calif.
 Aerojet-General Corp., Nimbus, Calif.
 Aerojet-General Corp., Azusa, Calif.
 Air Viet Nam and Continental Air Service Joint Venture, Saigon, Vietnam
 A. J. Industries, Inc., Sargent-Fletcher Co. Division, El Monte, Calif.
 Aluminum Co. of America, Pittsburgh, Pa.
 American Electric Co., Paramount, Calif.
 American Electronics Laboratory, Colmar, Pa.
 American Machine and Foundry Corp. (subcontractor), Brooklyn, N.Y.

American Machine and Foundry Corp.,
Pork, **Pa.**
American Manufacturing Co., Fort Worth,
Tex.
American Shipbuilding Co., Lorain, Ohio
American Telephone and Telegraph Co.,
New York, **N.T.**
Andrea Radio Corp. (subcontractor), Long
Island City, N.Y.
Applied Technology, Inc., Palo Alto, Calif.
Arde, Inc., Huntsville, Ala.
ARO, Inc., Tullahoma, Tenn.
Arco Corp., Lycoming Division, Stratford,
Conn.
Avco Corp., Ordnance Division, Richmond,
Ind.
Avco Corp., Wilmington, Mass.
Avondale Shipyards Inc., Westwego, La.
Eaifield Industries Inc., Dallas, Tex.
Beech Aircraft Corp., Wichita, Kans.
Bell Helicopter Co., Fort Worth, Tex.
Bell & Hornell Co., Chicago, Ill.
Bell Telephone Laboratories, Whippany,
N.J.
Bendix Corp., The, Teterboro, N.J.
Bendix Corp., The, Field Engineering Divi-
sion, Owings-Mills, Md.
Bendix Corp., The, Radio Division, Tow-
son, Md.
Bermite Powder Co., Saugus, Calif.
Bethlehem Steel Corp., Quincy, Mass.
Birdsboro Armorcast, Inc., Birdsboro, Pa.
Blue Cross Association, Chicago, Ill.
Boeing Co., The, Seattle, Wash.
Boeing Co., The, Yertol Division, Norton,
Pa.
Boeing Co., The, Wichita, Kans.
Boland Machine & Manufacturing Co., Inc.,
New Orleans, La.
Borg-Warner Corp., Ingersoll Products
Division, Chicago, **Ill.**
Bowen-McLaughlin-York, Inc., York, Pa.
Brown Engineering Co., Huntsville, Ala.
Buck Kreihls Co., New Orleans, **La.**
Burroughs Corp., Paoli, **Pa.**
Cadillac Gage Co., Warren, Mich.
California Institute of Technology, Pasa-
dena, Calif.
Cameron Iron Works, Houston, Tex.
Catalytic Construction Co., Philadelphia,
Pa.
CCA Electronics, Gloucester, N.J.
Cessna Aircraft Co., Wichita, Kans.
Chamberlain Corp., Scranton, Pa.
Chamberlain Manufacturing Corp., Water-
loo, Iowa
Cleveland Pneumatic Tool Co., Cleveland,
Ohio
Collins Radio Co., Dallas, Tex.
Colt Industries, Inc., West Hartford, Conn.
Construction Limited, Bordentown, Pa.
Continental Motors Corp., Muskegon, Mich.
Controls for Radiation, Inc., Cambridge,
Mass.
Cornell Aeronautical Laboratory, **Buffalo,**
N.Y.
Cornell and Company, Woodbury, N.J.
Curtiss-Wright Corp., Woodbridge, N.J.
Cutler Hammer, Inc., Airborne Instruments
Laboratory Division, Deer Park, N.Y.
Dalmo Victor Co. (subcontractor), Bel-
mont, Calif.
Dewey, G. C., Corp., New York, N.T.
Dillingham-Zachry-Kaiser (DZK), Bang-
kok, Thailand
Dillingham-Zachry-Kaiser (DZK), San
Bruno, Calif.
DuPont, E. I., Co., Wilmington, Del.
Electronic Communications, Inc., St. Pe-
tersburg, Fla.
Emerson Electric Co., St. Louis, Mo.
Eureka Williams Co., Bloomington, Ill.
Fairchild Camera and Instrument Corp.,
Syosset, Long Island, **N.T.**
Fairchild-Hiller Corp., Republic Aviation
Division (subcontractor), Farmingdale,
Long Island, N.Y.
Federal Cartridge Corp., Minneapolis, Minn.
Fiberite Corp. (subcontractor), Winona,
Minn.
Firestone Tire and Rubber Co., Akron, Ohio
FMC Corp., San Jose, Calif.
FMC Corp., Northern Ordnance Division,
Minneapolis, Minn.
Ford Motor Co., Philco Corp. Division,
Palo Alto, Calif.
Ford Motor Co., Philco Corp. Division,
Philadelphia, Pa.
Foreston Coal Export Corp., New York,
N.T.
Fruehauf Trailer Co., Detroit, Mich.
General Dynamics Corp., Electric Boat Di-
vision, Groton, Conn.
General Dynamics Corp., Fort Worth, Tex.
General Dynamics Corp., General Dynam-
ics/Convair Division, San Diego, Calif.
General Dynamics Corp., General Dynam-
ics/Pomona Division, Pomona, Calif.
General Electric Co., Electronics Division,
Pittsfield, **Mass.**
General Electric Co., Evandale, Ohio
General Electric Co., Johnson City, N.T.
General Electric Co., Flight Propulsion Di-
vision, Lynn, Mass.
General Electric Co., Instrument Depart-
ment, Lynn, Mass.
General Electric Co., Medium Steam Tur-
bine Gear and Generator Department,
Lynn, Mass.
General Electric Co., Schenectady, N.T.
General Electric Co., Syracuse, N.Y.
General Electric Co., Utica, N.Y.

General Electric Co., Missile and Space Division, Valley Forge, Pa.
 General Motors Corp., Allison Division, Cleveland, Ohio
 General Motors Corp., Allison Division, Indianapolis, Ind.
 General Precision Inc., Link Group systems Division, Binghamton, N.Y.
 General Telephone and Electronics Corp., Sylvania Electronics Systems, Needham, Mass.
 General Telephone and Electronics Corp., Sylvania Electronics Systems, Waltham, Mass.
 General Tire and Rubber Co. (subcontractor), Mogadore, Ohio
 Gichner Mobile Systems, Inc., Beltsville, Md.
 Grumman Aircraft Engineering Corp., Bethpage, Long Island, N.Y.
 Harvey Aluminum, Inc., Torrance, Calif.
 Hazeltine Corp. (subcontractor), Greenlawn, Long Island, N.Y.
 Hercules, Inc., Magna, Utah
 Hercules, Inc., DeSoto, Kans.
 Hercules, Inc., Wilmington, Del.
 Holston Defense Corp., Kingsport, Tenn.
 Honeywell, Inc., St. Petersburg, Fla.
 Horne Brothers, Inc., Newport News, Va.
 HRB Singer, Inc., State College, Pa.
 Hudson Institute, The, Harmon-on-Hudson, N.Y.
 Hughes Aircraft Co., Culver City, Calif.
 Hycon Manufacturing Co., Monrovia, Calif.
 Iceland Steamship Company, Reykjavik, Iceland
 Independent Miners, Pottsville, Pa.
 Inalls Shipbuilding Corp., Pascagoula, Miss.
 Instrument Systems Corp., Telephonics Division, Huntington, Long Island, N.Y.
 International Business Machines Corp., Armonk, N.Y.
 International Telephone and Telegraph Corp., Nutley, N.J.
 Kaiser Aluminum and Chemical Corp., Baltimore, Md.
 Kaiser Electronics Corp. (subcontractor), Paln Alto, Calif.
 Kaman Aircraft, Bloomfield, Conn.
 Kelsey-Hayes, Heints Division, Philadelphia, Pa.
 Koch, H., and Sons, Inc., Corte Madera, Calif.
 Kollmorgen Corp., Northampton, Mass.
 Kollsman Instrument Corp., Elmhurst, Long Island, N.Y.
 Ling-Temco-Vought, Inc., Dallas, Tex.
 Ling-Temco-Vought, Inc., Grand Prairie, Tex.
 Ling-Temco-Vought, Inc., Greenville, Tex.
 Little, Arthur D., Inc., Cambridge, Mass.
 Litton Systems, Inc., Westrex Communications Division, New Rochelle, N.Y.
 Litton Systems, Inc. (subcontractor), Woodland Hills, Calif.
 Lockheed Aircraft Corp., Marietta, Ga.
 Lockheed Aircraft Service Inc., Jamaica, N.Y.
 Lockheed-California Co., Burbank, Calif.
 Lockheed Missiles and Space Co., Sunnyvale, Calif.
 LTV Aerospace Corp., Sterling Township, Mich.
 Martin-Marietta Corp., Denver, Colo.
 Martin-Marietta Corp., Orlando, Fla.
 Massachusetts Institute of Technology, Lincoln Laboratories, Lexington, Mass.
 McDonnell Co., St. Louis, Mo.
 Menasco Manufacturing Co., Ft. Worth, Tex.
 Mitre Corp., Bedford, Mass.
 Motorola Inc., Military Electronics Division, Chicago, Ill.
 National Presto Industries, Inc., Eau Claire, Wis.
 Newport News Shipbuilding and Dry Dock Co., Newport News, Va.
 New York Shipbuilding Corp., Camden, N.J.
 Norris Industries, Inc., Vernon, Calif.
 North American Aviation, Inc., Autonetics Division, Anaheim, Calif.
 North American Aviation, Inc., Columbus, Ohio
 North American Aviation, Inc., El Segundo, Calif.
 North American Aviation, Inc., Los Angeles Division, Los Angeles, Calif.
 North American Aviation, Inc., Rocketdyne Division, Canoga Park, Calif.
 North American Aviation, Inc., Rocketdyne Division, McGregor, Tex.
 North American Aviation, Inc., Space Division, Downey, Calif.
 North American Aviation, Inc., Tulsa, Okla.
 Northrop Corp., Nortronics Division, Anaheim, Calif.
 Northrop Corp., Nortronics Division, Norwood, Mass.
 Olin Mathieson Chemical Corp., Childersburg, Ala.
 Olin Mathieson Chemical Corp., Saltville, Va.
 Pacific Architects and Engineers Inc., Saigon, Vietnam
 Pacific Car and Foundry Co., Renton, Wash.
 Pan American World Airways, Cocoa Beach, Fla.
 Perkin-Elmer Corp., Norwalk, Conn.
 Philco Ford Corp., Aeronutronic Division, Newport Beach, Calif.

Phillips Petroleum Co., Bartlesville, Okla.
 Phillips Petroleum Co., Borger, Tex.
 Pioneer Aerodynamics Systems Inc., Pioneer Parachute Co., Inc., Manchester, Conn.
 Pittsburgh Plate Glass Co. (subcontractor), Barberton, Ohio
 Radio Corp. of America, Cocoa Beach, Fla.
 Radio Corp. of America, Defense Electronic Products Division, Burlington, Mass.
 Radio Corp. of America, Defense Electronic Products, Division, Camden, N.J.
 Radio Corp. of America, Electronic Data Processing, Cherry Hill, N.J.
 Radio Corp. of America, Harrison, N.J.
 Raymond Engineering Laboratory, Middletown, Conn.
Raymond-Morrison-Knudsen/Brown-Root-Jones (RMK-BRJ), Manila, Philippines
Raymond-Morrison-Knudsen/Brown-Root-Jones (RNK-BRJ), Poro Point, Philippines
Raymond-Morrison-Knudsen/Brown-Root-Jones (RMK-BRJ), Saigon, Vietnam
Raymond-Morrison-Knudsen/Brown-Root-Jones (RMK-BRJ), San Bruno, Calif.
 Raytheon Co., Missile Systems Division, Andover, Mass.
 Raytheon Co., Missile Systems Division, Bedford, Mass.
 Raytheon Co., Bristol, Tenn.
 Raytheon Co., Lexington, Mass.
 Remington Arms, Inc., Lake City, Mo.
 Rohr Corp., Chula Vista, Calif.
 Rohr Corp., Riverside, Calif.
 Royal Industries, Inc., Santa Ana, Calif.
 Sanders Associates, Inc., Nashua, N.H.
 Scoville Manufacturing Co., Waterbury, Conn.
 Shipping and Coal Company, Mannheim, Germany
 Shipping and Coal Company, Rotterdam, Netherlands
 Simplex Wire and Cable Co., Hydrospace Division, Newington, N.H.
 Skagit, The, Corp., Sedro Woolley, Wash.
 SKF Industries, Inc., Philadelphia, Pa.
 Sloan Construction Co., Greenville, N.C.
 Smith, A. O., Corp., Milwaukee, Wis.
 Sparton Electronics Corp., Jackson, Mich.
 Sperry Farragut Corp., Bristol, Tenn.
 Sperry Rand Corp., Sperry Gyroscope Co. Division, Long Island, N.Y.
 Sperry Rand Corp., Univac Division, St. Paul, Minn.
 Sperry Utah Co., Salt Lake City, Utah
 Studebaker Corp., Onan Division, Minneapolis, Minn.
 Sylvania Electric Products, Inc., Mountain View, Calif.
 Texas Instruments Inc., Science Services Division, Dallas, Tex.
 Thiokol Chemical Corp., Brigham City, Utah
 Thiokol Chemical Corp., Bristol, Pa.
 Thiokol Chemical Corp., Denville, N.J.
 Thiokol Chemical Corp., Huntsville, Ala.
 TRW, Inc., Redondo Beach, Calif.
 TRW, Inc., Cleveland, Ohio
 Tumpene Company, Ankara, Turkey
 United Aircraft Corp., Hamilton Standard Division, Windsor Locks, Conn.
 United Aircraft Corp., Norden Division, Norwalk, Conn.
 United Aircraft Corp., Pratt & Whitney Aircraft Division, Hartford, Conn.
 United Aircraft Corp., Pratt & Whitney Aircraft Division, West Palm Beach, Fla.
 United Aircraft Corp., Sikorsky Aircraft Division, Stratford, Conn.
 United Boatbuilders, Inc., Seattle, Wash.
 U.S. Time Corp., Waterbury, Conn.
 United Technology Corp., Sunnyvale, Calif.
 Utah-Martin-Day (UMD), Bangkok, Thailand
 Utah-Sfartin-Day (UMD), San Bruno, Calif.
 Vitro Laboratories, Silver Spring, Md.
 Volt Technical Corp., New York, N.Y.
 Walter Kidde Company, Tuy Hoa, Vietnam
 Watkins-Johnson Co., Palo Alto, Calif.
 Western Union Telegraph Co., New York, N.T.
 Westinghouse Electric Corp., Bettis Atomic Power Laboratory, Pittsburgh, Pa.
 Westinghouse Electric Corp., Defense and Space Center, Baltimore, Md.
 Westinghouse Electric Corp., Plant Apparatus Division, Pittsburgh, Pa.
 Westinghouse Electric Corp., Sunnyvale, Calif.
 Weston Instrument, Inc., Newark, N.J.
 Willow Hill Industries (subcontractor), Willoughby, Ohio
 Wolf Research Corp., West Concord, Mass.
 World Tool and Engineering Co. (subcontractor), Minneapolis, Minn.
 Wyman Gordon Co., Grafton, Mass.
 Zeller Corp., Defiance, Ohio

APPENDIX C-6

DECISIONS AND OTHER LEGAL MATTERS HANDLED DURING THE FISCAL YEAR 1967

1968

Assignment areas:

Appropriations and miscellaneous.....	782	
Civilian personnel.....	825	
Contrac.....	1,453	
Military pay and allowances.....	620	
Transportation.....	630	
	<hr/>	4,310
Private inquiries, etc.....		323
		<hr/>
Tot.....		4,633

LEGISLATIVE AND LEGAL REPORTS FURNISHED TO THE COMMITTEES OF THE CONGRESS, MEMBERS OF THE CONGRESS, AND THE BUREAU OF THE BUDGET (INCLUDED IN THE ABOVE STATISTICS ON DECISIONS AND OTHER LEGAL MATTERS)

To the Committees of the Congress:		
Legislative reports.....	530	
Legal matters.....	45	
To Members of the Congress:		
Legal matters.....	174	
	<hr/>	749
To the Bureau of the Budget.....		96
		<hr/>
Total.....		845

**APPENDIX D—TRANSPORTATION AND CLAIMS
ADJUDICATION**

**APPENDIX D-1
BILLS OF LADING AND TRANSPORTATION REQUESTS EXAMINED
DURING THE FISCAL YEAR 1967**

	Number	Amount paid		
			Number	Amount
Audit:				
Bills of lading.....	5,623,386	\$1,174,828,550	98,519	\$13,099,863
Transportation requests.....	2,945,657	723,541,634	14,491	943,296
Totals.....	8,574,043	1,898,670,184	113,010	14,043,159

**APPENDIX D-2
TRANSPORTATION CLAIMS RECEIVED AND SETTLED DURING THE
FISCAL YEAR 1967**

Class of claims	On hand July 1, 1966	Received	Settled			On hand June 30, 1967
			Number of claims	Amount claimed	Amount allowed	
Freight.....	13,403	19,684	22,081	85,933,892	\$3,062,302	11,006
Passenger.....	865	4,111	4,052	81,048,820	80,831,133	924
Totals.....	14,268	23,795	26,133	86,982,712	83,893,435	11,930

† Includes allowance of \$80,485,965 for Military Airlift Command movements audited before payment.

APPENDIX D-3

TRANSPORTATION AUDIT AND COLLECTIONS, FISCAL YEARS 1958-67

Fiscal year	Bills of lading and transportation requests audited	Amount paid	Notices of overcharge issued		Total collections [‡]
			Number	Amount	
1958.....			99,388	\$33,890,835	\$40,162,361
1959.....	10,829,724	2,001,198,613	84,515	26,307,785	29,535,058
1960.....	8,942,516	1,826,979,997	88,580	25,814,190	21,544,880
1961.....	6,984,818	1,289,995,041	63,630	21,110,735	24,070,443
1962.....	6,740,370	1,185,694,946	78,003	29,392,962	28,159,888
1963.....	7,114,879	1,320,208,498	77,833	13,146,393	15,959,913
1964.....	7,309,834	1,332,550,920	73,251	11,362,179	10,499,464
1965.....	6,811,821	1,184,661,622	70,199	10,102,405	9,667,360
1966.....	7,555,366	1,474,220,901	86,970	10,694,257	8,494,453
1967.....	8,574,043	1,898,670,184	113,010	14,043,159	12,963,744
Total.....	81,491,804	15,298,065,103	835,379	195,864,9001	201,047,504

‡ Includes amounts collected in our adjudication of claims reported by other Government agencies.

APPENDIX D-4

TRANSPORTATION CLAIMS SETTLED DURING FISCAL YEARS 1958-67

Fiscal year	Number of claims	Amount claimed	Amount allowed
1958.....	29,085	\$12,228,687	\$5,744,506
1959.....	27,102	11,601,630	5,346,383
1960.....	28,539	11,599,018	5,020,537
1961.....	29,859	10,106,150	5,349,093
1962.....	26,635	11,149,021	6,695,863
1963.....	35,237	13,013,942	6,774,930
1964.....	22,673	19,133,508	14,985,277
1965.....	28,959	26,974,966	23,495,481
1966.....	29,413	37,130,274	33,440,430
1967.....	26,133	86,982,712	183,893,435
Total.....	283,635	239,919,908	190,745,936

‡ Includes allowance of \$80,485,965 for Military Airlift Command movements audited before payment

APPENDIX E—GENERAL CLAIMS SETTLED DURING THE FISCAL
YEAR 1967

APPENDIX F—COLLECTIONS BY OR THROUGH THE EFFORTS
OF THE GENERAL ACCOUNTING OFFICE, 1958—67

COLLECTIONS

**APPENDIX F
COLLECTIONS BY OR THROUGH THE EFFORTS OF THE GENERAL
ACCOUNTING OFFICE. 1958-67**

[000 omitted]

Fiscal year	General audit	Transporta- tion audit	Genera! claims	colle ctions '
1958	\$19,305	\$40,162	37,424	\$66,891
1959	18,648	29,535	8,376	56,559
1960	14,661	21,545	7,233	43,439
1961	8,970	24,071	4,878	37,919
1962	13,826	28,160	6,233	48,219
1963	8,679	15,960	4,528	29,167
1964	10,257	10,499	6,410	27,166
1965	11,222	9,657	4,070	24,949
1966	4,568	8,495	4,129	17,192
1967	6,828	12,963	3,627	23,418
Total.....	116,964	201,047	56,908	374,919

GENERAL CLAIMS SETTLED

APPENDIX E

GENERAL CLAIMS SETTLED DURING THE FISCAL YEAR 1967

Class of claims	On hand July 1, 1966	Received	Settled	On hand June 30, 1967
Claims against the United States..	881	9,872	9,705	1,048
Claims by the United States	36,792	21,774	32,208	26,358
Total general claims.....	37,673	31,646	41,913	27,406

APPENDIX G—SUMMARY OF FINANCIAL SAVINGS ATTRIBUT-
ABLE TO THE WORK OF THE GENERAL ACCOUNTING OFFICE
IDENTIFIED DURING THE FISCAL YEAR 1967

APPENDIX G-1

COLLECTIONS AND OTHER MEASURABLE SAVINGS

[WO omitted]

	Collections	Other measurable savings	Total
DEPARTMENTS			
Army	\$1,482	\$10,526	\$12,008
Navy	2,031	11,471	14,502
Air Force	751	20,684	21,435
Defense	1,237	21,559	22,796
Agriculture-	38	2,263	2,301
Army Corps of Engineers (civil functions)		10	10
Commerce	7	638	645
Health, Education, and Welfare	722	1,132	1,854
Housing and Urban Development		411	411
Interior	15	3,370	3,385
Justice	1		1
Labor		563	563
Post Office	1	83	84
State (including AID, Peace Corps, and USIA)	21	3,253	3,274
Transportation	230	36,850	37,080
Treasury-	9	10,019	10,028
AGENCIES			
Atomic Energy Commission	30	42,19	42,224
Civil Service Commission	2	15	17
District of Columbia Government	1	31	32
General Services Administration		212	212
National Aeronautics and Space Administration	10	318	328
National Science Foundation	1	39	40
Panama Canal Company	113	27	140
Railroad Retirement Board	39		39
Veterans Administration	85	36	121
Legislative and other	2	25	27
Total for audit of departments and agencies	6,828	166,729	173,557
Transportation audit	12,963		12,963
General claims work	3,627		3,627
Total.	23,418	166,729	190,147

APPENDIX G-2

DETAILS OF OTHER MEASURABLE SAVINGS

Details of other measurable financial savings including additional revenues attributable to the audit work of the General Accounting Office during the fiscal year 1967, totaling \$166,729,000, are listed below. Approximately \$21 million of the savings or additional revenues are recurring in nature and will continue in future years. The items listed consist of realized or potential savings in Government operations attributable to action taken or planned on findings developed in our examination of agency and contractor operations. In most instances, the potential benefits are based on estimates and for some items the actual amounts to be realized are contingent upon future actions or events.

<i>Supply Management:</i>	<i>Action taken or planned</i>	<i>Estimated savings</i>
	Savings in operating costs (estimated annual savings, \$2,400,000) and reduction in replacement costs (nonrecurring, \$30,000,000) resulting from Coast Guard's reduction of its stated requirements for high-endurance vessels	\$32,400,000
	Cancellation of plans to procure equipment in excess of needs (nonrecurring)	16,403,000
	Excess ammunition recovered from military assistance program countries to satisfy other United States needs (nonrecurring)	14,884,000
	Cancellation of requisitions for unneeded "Hi-Valu" aeronautical parts (nonrecurring)	8,077,000
	Redistribution of unneeded aeronautical material on hand overseas to locations at which needed (nonrecurring)	5,273,000
	Return of excess spare parts and support equipment from the Korean Air Force to United States control for redistribution or disposal (nonrecurring)	3,000,000
	Avoidance of procurement through reinstating excess or obsolete stocks (nonrecurring)	2,196,000
	Avoidance of procurement through reduction of requirements and redistribution of inventories (nonrecurring)	2,100,000
	Avoidance of procurement through inter-service transfer of items urgently required (nonrecurring)	1,900,000
	Avoidance of procurement by furnishing Government-owned items to contractors (nonrecurring)	1,791,000
	Avoidance of procurement through discovery of available items (nonrecurring)	1,623,000
	Adjustment of prices under existing contracts or proposed amendments (nonrecurring)	1,483,000
	Cancellation of plans to procure or repair unneeded electronic equipment (nonrecurring)	984,000
	Procurement of less expensive items than planned (nonrecurring)	728,000
	Return of excess spare parts and supplies from the Greek Air Force to United States control for redistribution (nonrecurring)	579,000
	Savings on recomputation of erroneous profit rate in <i>a</i> contract (nonrecurring)	388,000

<i>Action taken or planned</i>	Estimated savings
<i>Supply Management—Continued</i>	
Savings from use of excess hardware resulting in cancellation of purchase requisitions by Government contractor—National Aeronautics and Space Administration (nonrecurring)	\$318,000
Cancellation of outstanding requisitions for spare parts and support equipment not needed to support the military assistance program for the Korean Air Force (nonrecurring)	314,000
Savings through recovery of items previously planned for disposal (nonrecurring)	254,000
Savings realized from transferring material excess to Federal Aviation Administration requirements to Department of Defense (nonrecurring)	253,000
Cancellation of outstanding requisitions for spare parts which were not needed to support the military assistance program for the Turkish Air Force (nonrecurring)	227,000
Avoidance of procurement through reworking of old items (nonrecurring)	183,000
Savings resulting from returning to active inventory certain items prematurely scheduled for disposal—General Services Administration (nonrecurring)	148,000
Savings through use of Government vehicles instead of the contractors' vehicles (nonrecurring)	114,000
Cancellation of outstanding requisitions for spare parts which were not needed to support the military assistance program for the Greek Air Force (nonrecurring)	88,000
Savings resulting from purchasing aviation gasoline through centralized Government procurement sources—Agriculture (estimated annual savings)	86,000
Savings through competitive procurement of certain small office machines—Post Office Department (estimated annual savings)	83,000
Savings through use of old configuration of an item instead of repairing new configuration (nonrecurring)	64,000
Cancellation of unnecessary procurements of mess trays—General Services Administration (nonrecurring)	42,000
Reduction in procurement of supplies and reduced operating costs due to increased utilization of radio program recording tapes (estimated annual savings)	3,000
Other items—various agencies (estimated annual savings, \$31,000; nonrecurring, \$52,000)	83,000
<i>Payments to Government Employees, Veterans, and Other Individuals:</i>	
Savings resulting from termination of benefit payments to widow beneficiaries who remarried—various agencies (estimated annual savings)	66,000
Reduction in the rate of premium compensation paid to fire protection personnel—Veterans Administration (estimated annual savings)	12,000
Other items—various agencies (estimated annual savings, \$3,000; nonrecurring, \$4,000)	7,000

<i>Action taken or planned</i>	<i>Estimated savings</i>
<i>Loans, Contributions, and Grants:</i>	
Reduction of grants awarded to institutions of higher education as a result of amending grant agreements to conform with the provisions of approved State plans—Health, Education, and Welfare (nonrecurring)	\$412,000
Reduction in noncash grant-in-aid credit for a public school—Housing and Urban Development (nonrecurring)	300,000
Reduction of grants as a result of adjustments for ineligible items included in development cost—Health, Education, and Welfare (nonrecurring)	273,000
Reduction in Federal financial participation in the cost of administering federally assisted public assistance programs—Health, Education, and Welfare (nonrecurring)	215,000
Withdrawal of a claim for noncash grant-in-aid credit for an ineligible fire station—Housing and Urban Development (nonrecurring)	100,000
Utilization of computer services which grantee had paid for but had not planned to use—Health, Education, and Welfare (nonrecurring)	38,000
Reduction in Federal participation in the cost of certain land to be used for a Federal-aid highway and a State park—Transportation (nonrecurring)	37,000
Other items—various agencies (nonrecurring)	24,000
<i>Interest Cost:</i>	
Changes in the Internal Revenue Code requiring self-employed individuals to pay estimated self-employment taxes on a quarterly basis rather than on an annual basis thereby making funds available to the Government at an earlier date and with resultant savings in interest cost on Government borrowings—Treasury (estimated annual savings, \$5 million to \$31 million)	5,000,000
Savings in interest costs resulting from changes in the Internal Revenue Code establishing an interest-free processing period for making refunds to taxpayers who delay filing their return under granted extensions of time—Treasury (estimated annual savings)	5,000,000
Reduction in interest cost to the Government by deferring United States Treasury borrowings until funds are needed for disbursement—Agriculture (estimated annual savings)	548,000
Savings in interest costs resulting from revised procedures for advancing Government funds to Maritime Administration general agents (estimated annual savings)	239,000
Imputed interest savings to the Government as a result of preventing a 1-year delay in starting the repayment of an interest-free Federal loan—Interior (nonrecurring)	202,000
Interest savings to the Government because of establishment of criteria resulting in disapproval of a small reclamation loan—Interior (estimated annual savings)	121,000
Savings in interest charges realized by liquidating debt—District of Columbia Stadium (nonrecurring)	31,000

<i>Action taken or planned</i>	<i>Estimated savings</i>
Leasing and Rental Costs:	
Savings through purchasing rather than leasing certain office copiers—Atomic Energy Commission (estimated annual savings)	\$81,000
Savings through utilization of a reduced-rate leasing plan for office copying machines—Commerce (estimated annual savings)	72,000
Savings resulting from terminating contract for unnecessary equipment—Transportation (nonrecurring)	65,000
Savings resulting from other Government agencies terminating more costly leases and utilizing space excess to Federal Aviation Administration needs (estimated annual savings)	36,000
Other items—various agencies (estimated annual savings)	14,000
Rental Income and Fees:	
Establishment of fees for furnishing abstracts of medical records and related services to private individuals and organizations—Health, Education, and Welfare (estimated annual savings)	100,000
Additional revenue due to changes in rental rates and utility charges for Government-owned quarters—various agencies (estimated annual savings)	99,000
Increased revenues to the Government resulting from charging airplane landing and parking fees at a Federal Aviation Administration-operated airport in Alaska (estimated annual savings)	31,000
Other items—various agencies (estimated annual savings)	19,000
Construction, Repair, and Improvement Costs:	
Savings in vessel construction costs by using Coast Guard personnel rather than commercial contractor (nonrecurring)	130,000
Savings in construction costs by using less costly material in certain Coast Guard vessels (nonrecurring)	55,000
Manpower Utilization:	
Reduction of manpower required to administer military assistance program activities in a Far East country (nonrecurring) -----	700,000
Utilization of U.S.-owned Foreign Currency:	
Dollars rather than U.S.-owned foreign currencies were being used unnecessarily to pay United States administrative expenses in Korea. [The Agency for International Development reached agreement with the Government of Korea to make increased amounts of foreign currency available for this purpose beginning in January 1967. AID officials estimate that a savings of \$3,150,000 will be realized in calendar year 1967 and that continuing savings will be realized in future years, depending on the level of United States assistance and country-to-country negotiations.]-----	3,150,000
Dollars rather than U.S.-owned foreign currencies were being used for annual rental payments to Poland for space at the Poznan International Fair (estimated annual savings)-----	100,000

<i>Action taken or planned</i>	<i>Estimated savings</i>
<i>Transportation:</i>	
Savings through use of airlift service instead of airmail for overseas military mail (estimated annual savings)-----	\$1,128,000
Elimination of overseas transportation by cancellation of orders for unneeded material (nonrecurring)-----	204,000
<i>Other Items:</i>	
Additional costs to be recovered by the Federal Government from charges that included certain additional depreciation and return on investment for uranium enrichment services (review made at request of chairman, Joint Committee on Atomic Energy) (nonrecurring)-----	42,000,000
Savings resulting from the termination of a long-term medical research project on aging of aviation personnel—Transportation (nonrecurring)-----	3,800,000
Increase in price at which electric power and salt water distillation facilities owned by the Virgin Islands Corporation were sold to the Virgin Islands Government (nonrecurring)-----	2,391,000
Savings by averting the distribution of commodities to ineligible families removed from the rolls in the commodity distribution program—Agriculture (nonrecurring)-----	665,000
Additional proceeds resulting from revision of regulations under the wheat marketing allocation program—Agriculture (estimated annual savings)-----	650,000
Reduction of labor costs resulting from more realistic wage rate determinations under contracts for construction of certain federally assisted housing projects—Labor (nonrecurring)-----	563,000
Reduction in costs through improved coordination in geodetic surveying activities within the Federal Government—Interior (estimated annual savings)-----	420,000
Reduction in construction-differential subsidies resulting from policy change by the Maritime Administration allowing waiver of previously required performance and payment bonds on certain ship construction contracts (estimated annual savings)---	316,000
Reduction in operating costs by transfer of general purpose motor vehicle fleet into General Services Administration Interagency Motor Pool System—Interior (estimated annual savings)-----	233,000
Personnel savings through consolidation of supply activities in Japan (estimated annual savings)	107,000
Savings resulting from the reduction in the number of fire department employees and the consolidation of the fire and guard management staffs—Atomic Energy Commission (estimated annual savings)	106,000
Savings through cancellation of plans to convert to another type of computer (nonrecurring)	91,000
Additional revenue resulting from the inclusion of by-product values in the appraisal of timber offered for sale by the Forest Service (estimated annual savings)	90,000

<i>Other</i> Items—Continued	<i>Action taken or planned</i>	<i>Estimated savings</i>
Savings in transportation costs by increasing the lot-size of shipments of Government-donated print butter and frozen beef to State agencies—Agriculture (nonrecurring)		\$85,000
Savings through revision of method of computing travel time of reserve officers (estimated annual savings)		71,000
Savings through elimination of unneeded copies of certain preinduction medical reports (estimated annual savings)		64,000
Additional billings for materials furnished under the cooperative logistics programs (nonrecurring)		52,000
Additional revenue from revised log scaling procedures which will more accurately determine and record the volume of national forest timber sold—Agriculture (estimated annual savings)		45,000
Savings attainable by use of Federal Telecommunications System rather than commercial telephone service—National Science Foundation (estimated annual savings)		39,000
Miscellaneous items—various agencies (estimated annual savings, \$156,000; nonrecurring, \$107,000)		263,000
		<hr/>
Total other measurable savings		166,729,000

APPENDIX G-3

ADDITIONAL FINANCIAL SAVINGS NOT FULLY OR
READILY MEASURABLE

Many significant financial benefits, either one-time savings or recurring savings, that are attributable to the work of the General Accounting Office are not fully or readily measurable in financial terms. These benefits result from actions that are taken or that are to be taken by the departments and agencies to eliminate unnecessary expenditures or otherwise correct deficiencies brought to light in our audit reports. A few examples of these actions identified during the fiscal year 1967 are described below.

Changes in Agency Policies, Procedures, and Practices

*Utilization of Available Stocks of the United States Army in Europe
for Requirements of Other Commands*

Our report to the Congress in April 1967 disclosed that repair parts and electronic components which exceeded requirements in Europe were not redistributed to meet urgent needs in other areas because of weaknesses in the Army's inventory reporting procedures and practices. Our limited review identified combat vehicle repair parts and electronic components valued at about \$3.2 million, that could have been used to satisfy urgent requirements in the United States and in the Pacific area. The availability of these items, however, had not been reported to the appropriate inventory control points in the United States and, in the absence of such information, procurements and repair programs were initiated and redistribution of the available stocks was not made to meet known requirements. After these items were called to the attention of management officials, the repair parts and components valued at \$3.2 million were either transferred to other commands or scheduled for redistribution subsequent to our review. Also, some repair programs were canceled and procurements deferred. The action taken resulted in significant, though not readily measurable, savings.

We recommended that the Secretary of Defense require that the Army's existing stock status reporting system be revised to include a requirement for periodic reporting to national inventory control points of all inventory stocks of items considered to be in short supply by such inventory control points, which exceed current overseas operating and reserve requirements.

By letter dated June 16, 1967, from the Assistant Secretary of Defense (Installations and Logistics) we were informed that the Department of Defense concurred in our recommendation. In addition, we were informed that the Department is invoking a system wherein overseas depot assets will be incorporated in their entirety on the records of the inventory manager. Managers at inventory control points will then have current and complete information on all levels of stocks and would be in a position to make an appropriate choice between available alternatives such as procurement, rebuild, or redistribution of stocks to fill requirements expeditiously. Thus, substantial savings can be achieved through the utilization of available stocks instead of having to procure or rebuild items to fill requirements.

*Savings by Consolidation of Field Organizations and Facilities
for Recruiting Military Personnel*

We reported to the Congress in June 1966 that the four military services were maintaining separate recruiting organizations and facilities substantially in excess of

their combined needs. In this connection, we expressed the belief that if these separate organizations and facilities were consolidated millions of dollars could be saved annually and the effectiveness of the recruiting mission would be improved.

In a draft of our report which we submitted to the Department of Defense for comments on December 16, 1965, we proposed that the Secretary of Defense direct that a field test of consolidation of military recruiting organizations be conducted. By letter dated February 28, 1966, the Assistant Secretary of Defense (Manpower) advised that a Defense-wide study had been initiated of recruitment facilities in all locations in which the military services have recruiting offices in separate locations. The study was to aid the Department in developing a plan for relocating recruiting offices in the same building and, where practicable, in the same area within the building.

During fiscal year 1967, the Department of Defense, with the Chief of Engineers acting as executive agent, issued procedures and implementing instructions to co-locate recruiting offices and main stations in 14 large metropolitan areas. In this connection, it is planned that the number of locations will be reduced from 524 to 198 and the number of offices from 722 to 699. This action should result in significant savings although the amount of the savings is not readily determinable.

Savings in the Procurement of Periodicals by the Military Departments

In our review of the policies, procedures, and practices relating to procurement of periodicals by the military departments, we found that periodicals were generally being procured by each department on an annual rather than a multiple-year basis and the departments were not taking full advantage of cost savings in multiple-year procurement of periodicals. In most cases, periodicals were subscribed to for 1-year periods, principally because the departments did not make sufficient funds available to obtain multiple-year subscriptions.

The Army and the Navy used local purchase procedures in procuring periodicals, whereas the Air Force used a centralized procurement method, filling most of its periodical needs through contracts with subscription agencies. It was not feasible to estimate the effect of procuring periodicals annually, Defense-wide, because of the procurement methods used by the Army and the Navy. However, we estimated that the Air Force could have saved \$127,000 over a 3-year period for periodicals subscribed to in calendar year 1964 had it obtained subscriptions to those periodicals for multiple-year periods rather than for 1-year periods.

We recommended to the Secretary of Defense in our report of November 9, 1966, (1) that budgets be submitted and funds be allocated for multiple-year subscriptions; and (2) that Defense-wide instructions be issued, emphasizing the need for the departments to procure periodicals under multiple-year subscriptions in those instances where it is advantageous to the Government.

We were informed by letter dated January 13, 1967, from the Office of the Assistant Secretary of Defense that the military departments and the Defense Supply Agency were being requested to emphasize to their personnel engaged in requesting, budgeting, and procuring periodicals, the desirability of funding and purchasing multiple-year subscriptions where there is a continuing need and it is otherwise advantageous. Letter instructions dated January 24, 1967, were also issued by Headquarters, Air Force Logistics Command, to various Air Force organizations and activities directing that multiple-year subscriptions for periodicals be procured where possible and practicable, and that additional fund requirements be included in the fiscal year 1968 financial plan to cover multiple-year subscription costs. The actions should result in substantial future savings.

Increase in Internal Audit and Inspections Relating to United States Activities in Vietnam

Our survey of the internal audit and management inspection efforts by United States agencies in Vietnam through March 1966 showed a need for greater audit and review effort by agencies because of the magnitude and vulnerability to operational and management deficiencies of United States programs in Vietnam.

In May 1967 we reported to the Congress that there had been significant increases in the number and scope of internal audits and management inspections in Vietnam subsequent to March 1966. Improved programs of audit have been initiated and put into effect and the DOD has revised their prior prohibition against their own auditors going into Vietnam.

These actions result in major preventive benefits and dollar savings, although the latter are not measurable in specific dollar terms. The agencies' audit efforts increase the potential for significant continued improvement in the management controls which are so important at this stage of the activities in Vietnam.

We believe that the momentum of the agencies' audit and inspection efforts, described above, represent major improvement action and was achieved in part because of our work resulting in reports to the Congress in July 1966 and May 1967.

Elimination of Certain Severance Benefits to Former Foreign Service Officers

In a report to the Congress in January 1967, we presented our finding that Foreign Service officers who were involuntarily separated from service and accordingly received certain severance benefits were immediately thereafter reemployed by the Federal Government at salaries equal to their salary at the time of separation. The severance benefits are equivalent to 1 month's salary for each year of service, not to exceed 1 year's salary. In our opinion, the payment of severance benefits under such circumstances was unreasonable.

As a result of our review, the Department of State revised its regulations in such manner as to preclude former Foreign Service officers reemployed with the Department from receiving concurrent payment of severance benefits and salaries.

Increased Tax and Duty Revenues

In a report to the Congress in November 1966, we pointed out that, on the basis of our test of Federal tax refunds, a high percentage of taxpayers were not voluntarily reporting, as taxable income, interest received on their tax refunds. The extent of such nonreporting could not be reasonably estimated by us because of our limited access to records. Considering the amount of interest paid by the Internal Revenue Service annually—\$88.5 million in fiscal year 1964—we expressed our belief that considerable taxable income had not been reported. In accordance with our proposals, IRS informed us that certain corrective measures were being taken which we believe, if effectively implemented, should improve the reporting of interest received on tax refunds as taxable income.

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

In a report to the Congress in June 1967, we stated that the Bureau of Customs, Treasury Department, allowed wool waste, resulting from manufacture of specified articles, principally floor covering, to be sold to manufacturers of other articles, such as baseballs and clothing, without assessment of duty, even though the wool waste could have been used for the manufacture of articles not subject to duty requirements.

We estimated that, in the two Customs districts where we made our review, the Government could have realized additional revenues amounting to as much as \$453,000 on 1.2 million pounds of carpet wool waste for fiscal year 1964. Imports of conditionally duty-free carpet wool in these two districts amounted to about one third of the 145 million pounds of wool imports for fiscal year 1964.

Subsequent to our review, the Commissioner of Customs ruled that waste from carpet wool, with certain exceptions, is dutiable. We have been informed that the Bureau of Customs is now requiring that a determination be made that wool waste is not usable in the manufacture of floor coverings or other enumerated articles before allowing it to be exempt from duty. The action taken should result in strengthened controls over the utilization and disposition of wool waste, consistent duty treatment, and additional revenues to the Government.

Improved Effort To Collect or Otherwise Settle Certain Debtors' Accounts

We reported to the Congress in January 1967 that our review of selected debtors' accounts in six counties in the State of Texas showed that there was a need for the Farmers Home Administration (FHA) to increase its effort to collect or otherwise settle such accounts. The accounts reviewed are known as collection-only accounts which are classified as such when all of a debtor's security property has been liquidated and the debtor still owes a balance on his loan. We estimated that of accounts totaling about \$3.2 million, \$274,000 could have been collected in full and some portion of accounts totaling about \$948,000 could have been collected through other settlement actions. Further, we found that many accounts had no potential for recovery and therefore should have been canceled as soon as applicable regulations had permitted and thus eliminate the administrative costs of maintaining them. At the time of our review, about \$18 million of a nationwide total of about \$70 million of collection-only accounts were applicable to the State of Texas.

After we brought these matters to the attention of agency officials, FHA issued instructions requiring that increased effort be made to collect or otherwise settle collection-only accounts. The new instructions should, if properly implemented, result in significant benefits to the Government.

Reduction in Dependency Allowances Payable to Recipients

At the time of our review, the National Science Foundation's (NSF) dependency allowance entitlement criteria provided that a fellowship recipient could request dependency allowances for spouse and for children who would "in fact" be dependent upon him for support during the tenure of his fellowship. It was left to the fellowship recipient to determine whether the spouse or children were "in fact" dependent, except that NSF officials generally did not intend to award a dependency allowance for a spouse with an income equaling or exceeding the fellowship stipend. Our review of 55 selected fellowship awards in a given year showed that, in close to one-half of the cases, however, NSF had approved the dependency allowance claimed for the spouse notwithstanding evidence disclosed in our review indicating that the spouse's income exceeded NSF criteria.

Subsequent to our discussions with NSF officials, NSF informed us in March 1967 that it had established a maximum annual amount of \$2,000, or a prorata amount for shorter or longer periods, that a spouse may earn before becoming ineligible as a dependent. Provided that the results of our test review were indicative of all dependency allowances awarded in fiscal year 1964, about \$600,000 or 40 percent of the total dependency allowances of about \$1.5 million may not have been warranted on the basis of the revised criteria.

Adoption of Policy of Government Ownership Instead of Leasing Major Postal Facilities

In a report to the Congress in November 1962 and in various subsequent reports to the Congress and to the Postmaster General, we recommended that, in view of the significant savings available to the Government by ownership rather than leasing of postal facilities, the Department consider a policy of ownership except in specific cases where the cost of leasing was clearly justified by other identified factors. On several occasions in 1964, 1966, and 1967, in comments to the Senate Committee on Public Works and/or the House Committee on Post Office and Civil Service, on bills to extend the Department's 30-year leasing authority, we recommended that the Department be required to submit written justifications to the appropriate committees of the Congress before entering into any lease agreement for a major facility.

The Post Office Department had disagreed, generally, with our conclusions regarding the advantages of Government ownership over leasing. It subsequently reconsidered its position, however, and, in testimony before the Subcommittee on Buildings and Grounds, Senate Committee on Public Works, in May 1966, Department officials presented data supporting the Department's conclusion that construction of large postal facilities for Government ownership, generally, would be more economical than obtaining the use of such facilities under lease-construction contracts. At June 30, 1967, the Senate and House Public Works committees had approved the construction of 14 facilities for Government ownership, and the Congress has appropriated \$50 million for starting this program during fiscal year 1968.

The General Services Administration's prospectuses for the 14 postal facilities showed that the facilities are to contain a total of about 4 million square feet of interior space and that, over the 50-year estimated lives of the facilities, substantial savings would be realized as a result of constructing 13 of the facilities for Government ownership instead of leasing them. Savings were not shown for one small facility.

Because the Post Office Department generally leases major facilities for 30-year basic terms, we computed the savings that would be achieved during a 30-year period as a result of constructing the 14 facilities for Government ownership instead of leasing them. Our computations, which were based largely on GSA's estimates of rental and construction costs, indicated that such savings would amount to about \$22.3 million.

The Postmaster General recently proposed a \$5 billion program for modernizing the postal plant and equipment over the next 5 years. Under this program, about 94 million square feet of new interior space would be acquired at a cost of about \$3.7 billion. Officials of the Department have informed various Senate and House committees that in the future most major postal facilities will be proposed for construction under Government ownership. Thus, the future savings from the Department's change in policy could be quite substantial.

Criteria To Be Established for Use of Protective Equipment

In a report to the Postmaster General in June 1967 we pointed out that there were considerable differences in the types, quantities, and costs of the safes, vaults, and other protective equipment being used by different post offices having essentially similar protection requirements. We found that safes frequently were being used inside vaults, although other less expensive types of equipment probably would provide adequate protection. We pointed out also that the Department did not have adequate criteria regarding the quantities and types of protective equipment authorized for use in post offices of different sizes and protection requirements. We expressed the opinion that, in view of a recent decision by the Department to discontinue purchasing the types of protection equipment previously considered as standard

equipment and to commence a long-range program of gradual replacement of existing equipment with new, more costly types, considerable savings could be achieved throughout the postal service by determining the quantities and types of equipment needed for providing adequate protection and by utilizing the equipment found to be excess to reduce future procurements of protective equipment.

The Department concurred with **our** conclusions and recommendations and informed **us** that action had been initiated to develop, issue, and enforce specific criteria regarding the types of protective equipment to be used in post offices of different sizes, taking into consideration the costs of the equipment in relation to the risks involved and the use of existing vaults for safeguarding the Department's assets.

Changes in Regulations of Government-Wide Significance

Armed Services Procurement Regulation

*Costs of contractor operated and chartered aircraft charged to Government contracts.—*In a report submitted to the Congress in August 1966, we pointed out that the use by Government contractors of their own or chartered aircraft, in lieu of commercial air transportation, resulted in additional costs which in most cases outweighed the benefits. In response to **our** report, the Department of Defense on December 1, 1966, revised the Armed Services Procurement Regulation. The revision (sec. 15-205.46) provides that such costs are allowable, if reasonable, to the extent the contractor can demonstrate that use of aircraft owned, leased, or chartered by the contractor is necessary for the conduct of his business and that the increase in cost, if any, in comparison with alternative means of transportation, is commensurate with the advantage gained. (Charges to Defense Contracts for Use of Company Operated and Chartered Aircraft, Department of Defense, B-146948, August 9, 1966.)

*Right to examine contractors' records relating to inventions.—*We had reported to the Congress in a prior year that a basic chemical milling invention developed by a Government contractor had been classified by the contractor as not being subject to the patent rights provisions of the contract. Royalties were charged to the Government for its use. The terms of the contract were subject to varied interpretations but, in **our** opinion, a reasonable interpretation would have granted the Government a royalty-free license to use the invention. In response to our proposal that the matter be settled **on** equitable grounds, an agreement was reached which provided the Government a rebate of one-half of the royalties paid and a grant of royalty-free licenses on certain of the contractor's inventions.

We had proposed, **also**, that the Armed Services Procurement Regulation be revised to provide a right of access to records necessary to determine compliance by a contractor **with** the requirements of the patent rights clause. On October 1, 1966, the Armed Services Procurement Regulation was revised (sec. 9-107.5(a)) in response to **our** proposal. The revision requires inclusion, in the patent rights clause, of a statement that the contracting officer or his authorized representative shall, until the expiration of 3 years after final payment under the contract, have the right to examine **any** books, records, documents, and other supporting data of the contractor which the contracting officer or his authorized representative shall reasonably deem directly pertinent to the discovery or identification of subject inventions or to compliance by the contractor with the requirements of the patent rights clause. (Royalties Charged to the United States Government for Use by Government Contractors of Chemical Milling Inventions, Department of the Air Force, B-133386, April 12, 1966.)

Federal Properly Management Regdaliions

Guidance *in* acquiring *office* copying equipment.—We reported that excessive costs were being incurred by the Government because Federal agencies were leasing rather than purchasing office copying equipment under Federal Supply Schedule contracts negotiated by the General Services Administration. We estimated that savings of about \$6.5 million would be attainable by the Government over a 5-year period after their purchase if certain office copiers in use at the time of **our** review were purchased rather than leased and that further substantial savings would be attainable because the productive life of the copiers might be expected to extend beyond the 5-year period. We proposed certain corrective action. In June 1967, GSA announced the publication of a new GSA handbook, FPMR 101-6, Copying Equipment. The handbook provides guidance to Government agencies on the selection and use of document copiers to meet agency rapid-copy requirements and is intended to aid Government officials having responsibility for selecting, operating, and controlling document copiers. The handbook includes excerpts from FPMR 101-25.5, issued in February 1966 to provide detailed guidelines and criteria to be used by Federal agencies in determining whether office copying equipment should be acquired by lease or purchase. The provisions of the new handbook are in general agreement with our proposed corrective actions. (Potential Savings Available Through Purchasing Rather Than Leasing Certain Office Copying Machines, Federal Supply Service, General Services Administration, E-146930, Oct. 19, 1964.)

Utilization of motor vehicles.—**Our** review showed that the General Services Administration motor vehicle low rental rates encouraged agencies to request the assignment of interagency motor pool vehicles for low-mileage requirements. The rates were designed to recover the average costs of the entire interagency motor pool fleet and did not recover the full cost of individual vehicles that were operated at annual mileages below the average. We concluded that the establishment of a more realistic rental rate structure that required low-mileage users of assigned vehicles to make payments comparable to the actual cost of owning and operating the vehicles would (1) provide using agencies more incentive to use dispatch vehicles or other more economical sources of transportation for low-mileage requirements and (2) improve vehicle utilization and thus reduce the average cost per mile in interagency motor pools throughout the country.

In January 1967, GSA issued Bulletin FPMR No. G-26 which implements our recommendation that it revise motor vehicle rental rates to provide for a flat rate to cover the fixed costs that are incurred by the passage of time plus a mileage rate to cover the variable costs that are related to the miles driven. (Utilization of Motor Vehicles in the Cape Kennedy Interagency Motor Pool, General Services Administration and National Aeronautics and Space Administration, B-159210, Nov. 30, 1966.)

Servicing of office machines.—We estimated that Federal agencies could have saved up to \$1.2 million during fiscal year 1965 for repair and maintenance services on adding machines, calculators, comptometers, and electric typewriters through the greater use of reliable local repair firms instead of through use of national Federal Supply Schedule contracts with the machine manufacturers. We also pointed out that, although Government and independent studies indicated that the per-call basis was the least expensive method for obtaining services, most of the Federal expenditures had been for the more costly maintenance method at fixed annual fees. As a result of our proposals, we were informed that GSA would revise its regulations to provide guidelines and criteria concerning the relative advantages and disadvantages of the per-call and the annual maintenance contract methods for servicing office

machines. In October 1966, GSA issued FPMR 101-25.106, effective Nov. 4, 1966, to require Federal agencies to determine and consider all relative factors (such as costs, number of machines needing service, degree of reliability needed, and standard of performance required), prior to determining whether to use annual maintenance contracts or per-call arrangements for the servicing of office machines. (Savings Available Through Expanded Use of Regional Contracts for the Repair and Maintenance of Selected Office Machines, General Services Administration, B-160419, Feb. 23, 1967.)

Generic *versus* brand name drugs.—We found that prices for selected brand-name drugs and other medical items purchased by Federal agencies under negotiated contracts based on contractors' catalogs or price lists were substantially higher than prices for like items purchased by generic name through contracts awarded on an advertised low-bid basis and through other Government contracts where price competition had been obtained under definite quantities. Of the \$36.6 million of drugs and other items purchased annually by Federal agencies under the Federal Supply Schedule, about \$36 million are purchased by brand name and the remaining \$600,000 are purchased by generic name. After we brought this matter to the attention of the General Services Administration, the agency revised FPMR 101-26.409 in August 1966 to require that Federal agencies obtain their drugs on a generic name basis unless bona fide technical or professional reasons can justify the procurement of the more expensive brand name items. (Report to GSA on Examination Into Contracting for Drugs and Pharmaceutical Products, June 29, 1967.)

Standardized Government Travel Regulations

Reimbursement of Federal employees for use of privately owned cars on official business.—We found that mileage rates established by Government agencies to reimburse employees for using their privately owned cars on official business frequently exceeded the costs for operating General Services Administration interagency motor pool cars at high-mileage levels. Our review showed that Federal agencies had not been furnished information on the cost of operating motor pool cars at the various mileage levels and therefore were not in a position to adequately consider the alternative of providing motor pool cars to high-mileage drivers. If the mileage patterns we observed at selected field offices of three agencies were typical, the annual nationwide costs to these agencies of reimbursing high-mileage drivers for official travel exceeded the cost of operating interagency motor pool cars by about \$1.6 million. As a result of our proposals, the Bureau of the Budget revised the Standardized Government Travel Regulations, effective April 10, 1967, to provide policy guidelines for determining (1) whether it is feasible and advantageous to the Government for employees to use their own cars for official travel and (2) the reimbursement for which employees are entitled if they are authorized to use their cars on official business for their own convenience. (Potential Reductions in Cost of Automotive Travel by Federal Employees Where Use of Government-owned Vehicles Is Feasible, B-158712, Aug. 23, 1966.)

APPENDIX H—PERSONNEL STATISTICS

APPENDIX H-1

NUMBER OF EMPLOYEES BY DIVISION AND OFFICE. JUNE 30. 1967

Office of the Comptroller General	10
Office of the General Counsel	188
Office of Administrative Services	146
Office of Personnel	36
Office of Policy and Special Studies	44
Civil Division	605
Claims Division	142
Defense Division	256
Field Operations Division	1 719
International Division	119
European Branch	57
Far East Branch	55
Report Department	71
Transportation Division	768
Total	4 216

APPENDIX H-2

LOCATION OF EMPLOYEES BY DUTY STATION. JUNE 30. 1967

Atlanta, Ga.	101	New Orleans, La.	52
Cape Kennedy, Fla.	8	New York, N.Y.	96
Huntsville, Ala.	3	Garden City, L.I.	2
Warner Robins, Ga.	5	Syracuse, N.Y.	3
Boston, Mass.	96	Norfolk, Va.	44
Hartford, Conn.	5	Richmond, Va.	3
Chicago, Ill.	81	Philadelphia, Pa.	112
Rock Island, Ill.	3	Harrisburg, Pa.	7
St. Paul, Minn.	23	Pittsburgh, Pa.	4
Cincinnati, Ohio	47	San Francisco, Calif.	98
Dayton, Ohio	13	Sacramento, Calif.	10
Indianapolis, Ind.	53	Seattle, Wash.	58
Dallas, Tex.	101	Anchorage, Alaska	5
Albuquerque, N. Mex.	5	Bremerton, Wash.	3
Houston, Tex.	5	Portland, Oreg.	32
San Antonio, Tex.	6	Richland, Wash.	2
Denver, Colo.	122	Frankfurt, Germany	53
Billings, Mont.	3	New Delhi, India	4
Ogden, Utah	11	Honolulu, Hawaii	41
Detroit, Mich.	75	Manila, Philippines	8
Cleveland, Ohio	68	Saigon, Vietnam	6
Falls Church, Va.	127		
Kansas City, Mo.	69	Total Field Staff	1, 825
Oklahoma City, Okla.	13	Washington, D.C.	2 391
St. Louis, Mo.	38		
Los Angeles, Calif.	101	Grand Total	4 216

APPENDIX H-3

NUMBER OF EMPLOYEES BY GRADE

	June 30, 1962	June 30, 1963	June 30, 1964	June 30, 1965	June 30, 1966	June 30, 1967
Statutory.....	3	3	3	3	3	3
General Schedule:						
18.....	4	4	4	4	4	5
17.....	5	5	6	7	7	9
16.....	16	23	22	24	25	44
15.....	63	60	70	68	74	93
14.....	206	227	233	259	282	302
13.....	297	286	315	340	387	439
12.....	449	499	523	569	569	542
11.....	692	671	664	613	583	581
10.....	54	55	43	31	33	23
9.....	647	655	594	580	564	526
8.....	290	267	207	174	154	135
7.....	563	592	534	539	465	468
6.....	68	83	87	91	105	109
5.....	255	243	201	207	196	231
4.....	382	352	332	305	291	255
3.....	531	452	380	336	289	305
2.....	161	105	72	69	64	82
1.....	33	30	22	24	20	20
All other.....	44	47	38	35	33	44
Total.....	4,763	4,659	4,350	4,278	4,148	4,216

APPENDIX H-4

COMPARISON OF FEDERAL CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH AND GAO—1961 TO 1967

As of June 30	EXECUTIVE BRANCH		GAO	
	Total personnel (000 omitted)	Percent of change ¹	Total personnel	Percent of change ¹
1961.....	2,407	-----	4,990	-----
1962.....	2,485	+3.24	4,763	-4.55
1963.....	2,490	+3.45	4,659	-6. E3
1964.....	2,710	+12.59	4,350	-12.83
1965.....	2,496	+3.70	4,278	-14.27
1966.....	2,664	+10.68	4,148	-16.87
1967.....	2,809	+16.70	4,216	-15.51

¹ Since 1961.

APPENDIX H-5

GENERAL ACCOUNTING OFFICE PERSONNEL TURNOVER RATE

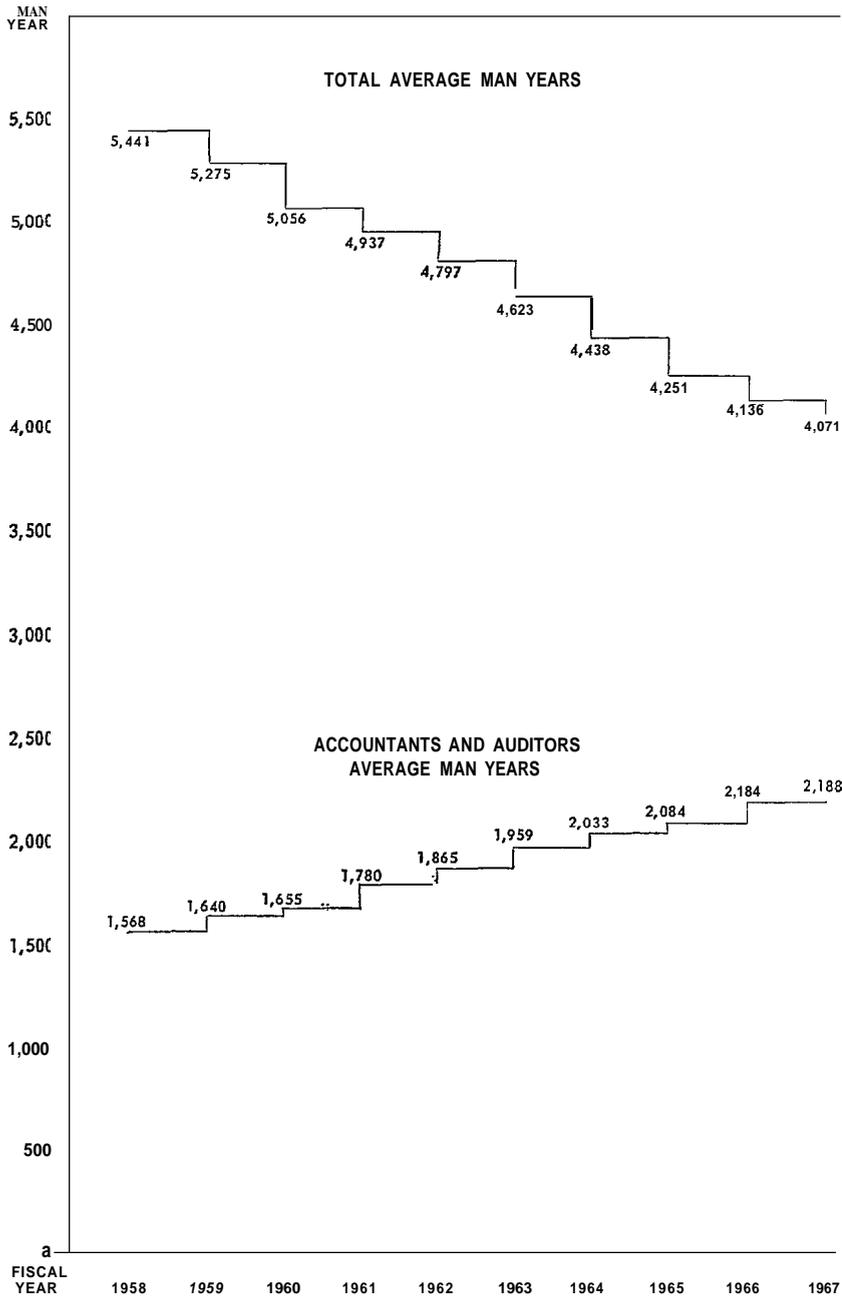
Fiscal year	Enrolled end of fiscal year	Separations for fiscal year ¹	Turnover (per 100 employees)
1967.....	4,216	683	16.3
1966 ²	4,148	709	16.8
1965.....	4,278	617	14.3
1964.....	4,350	754	16.7
1963.....	4,659	698	14.8
1962.....	4,763	714	14.6
1961.....	4,990	620	12.3
1960.....	5,074	617	12.0

¹ Excludes RIF's: 1965, 2; 1964, 20; 1963, 1; 1962, 1; 1961, 3; 1960, 6.

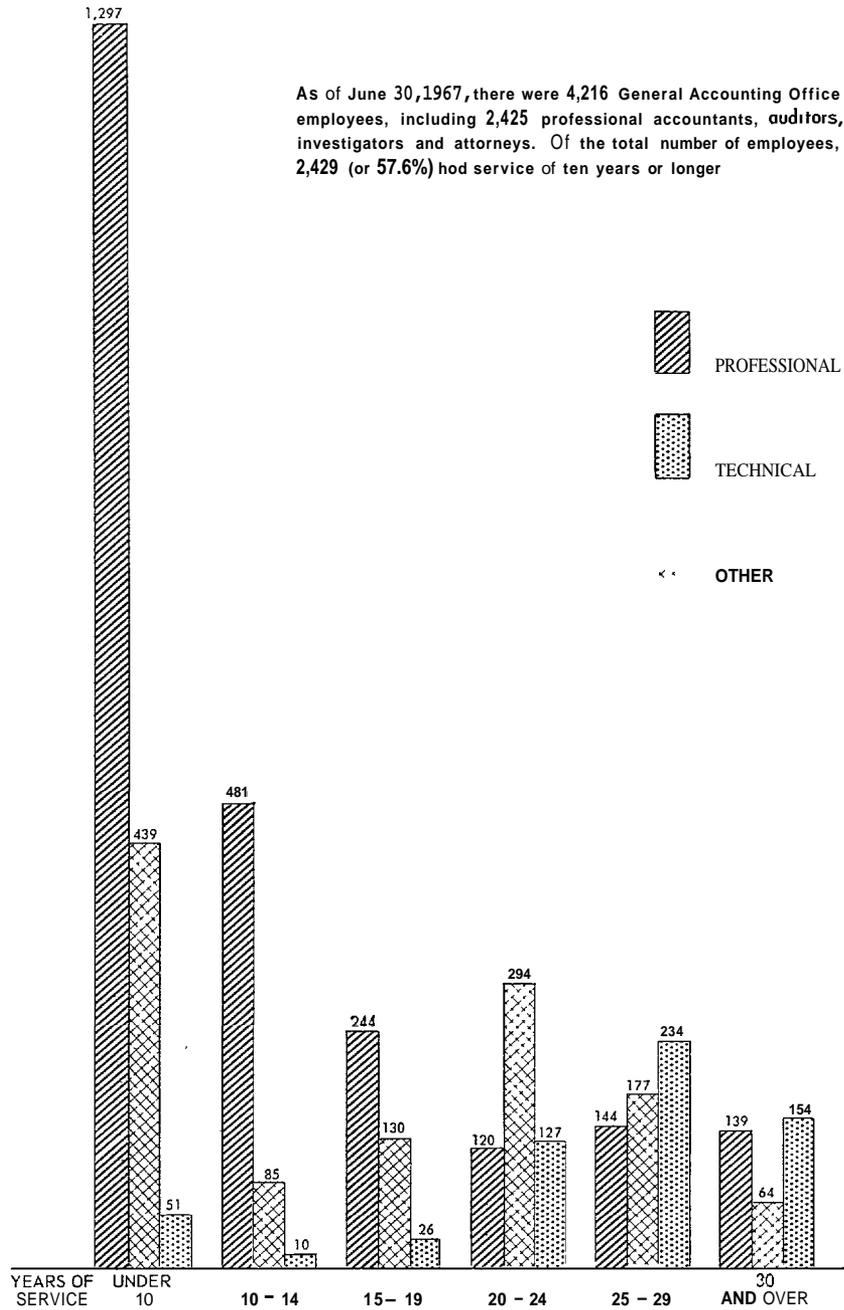
² The Daniels Bill resulted in 130 retirements, 25 of which were professional.

$$\text{Turnover (per 100 empl.)} = \frac{\text{Separations (except RIF)} \times 100}{\frac{1}{2} (\text{enrollment at beginning} + \text{enrollment at end})}$$

U. S. GENERAL ACCOUNTING OFFICE
PROFESSIONAL ACCOUNTING AND AUDITING STAFF
IN RELATION TO TOTAL EMPLOYMENT



U. S. GENERAL ACCOUNTING OFFICE
LENGTH OF SERVICE - GAO PERSONNEL
 AS OF JUNE 30, 1967



APPENDIX H-8

SUMMARY OF ASSIGNMENTS OF PERSONNEL TO CONGRESSIONAL COMMITTEES—FISCAL YEAR 1967

Committee	Staff assigned			Salaries	Travel expenses	Total cost	Reim-bursed by committee	Net ex-penditures by GAO
	Professiona staff	Other	Total					
UNITED STATES SENATE								
Committee on Appropriations:								
Subcommittee on Department of Agriculture and Related Agencies.....	1		1	\$496.20		\$495.20		\$496.20
Subcommittee on Departments of State, Justice, Commerce, The Judiciary, and Related Agencies.....	2		2	9,645.28		9,645.28	\$9,645.28	
Committee on Commerce.....	6	3	9	3,703.36		3,703.36	2,635.44	1,067.92
Committee on Government Operations:								
Permanent Subcommittee on Investigations.....	20		20	119,464.54	\$10,452.16	129,916.70		129,916.70
Subcommittee on Foreign Aid Expenditures.....	2		2	3,170.24	688.17	3,858.41		3,858.41
Committee on the Judiciary: Subcommittee on Administrative Practice and Procedure.....	1		1	2,126.40		2,126.40		2,126.40
Select Committee on Standards and Conduct.....	4		4	18,348.62	14.30	18,362.92	17,917.60	445.22
U.S. HOUSE OF REPRESENTATIVES								
Committee on Appropriations.....	13	3	16	119,675.14	19,269.48	138,944.62	19,269.48	119,675.14
Committee on Armed Services.....	3		3	2,597.14	198.60	2,796.64		
Committee on Banking and Currency.....	2		2	36,804.72		36,804.72		36,804.72
Committee on Government Operations:								
Subcommittee on Executive and Legislative Reorganization.....	2		2	1,469.04		1,469.04		1,469.04
Subcommittee on Government Activities.....	3		3	6,480.48		6,480.48		6,480.48
Subcommittee on Intergovernmental Relations.....	1		1	603.68		603.68		603.68
Subcommittee on Foreign Operations and Government Information.....	2		2	27,221.76		27,221.76		27,221.76
Subcommittee on Research and Technical Programs.....	1		1	1,134.08		1,134.08		1,134.08
Committee on House Administration.....	5	1	6	14,772.36		14,772.36		14,772.36

Committee on Interstate and Foreign Commerce: Special Subcommittee on Investigations.....	2	2	33,121.12	33,121.12	33,121.12	33,121.12	33,121.12
Committee on Post Office and Civil Service.....	2	2	31,499.28	31,499.28	31,499.28	31,499.28	31,499.28
Select Committee Pursuant to House Resolution 1-90th Congress.....	15	2	4,410.63	4,410.63	4,410.63	4,410.63	4,410.63
Select Committee on Small Business: Subcommittee on Small Business and Government Procurement.....	3	3	7,088.48	7,088.48	7,088.48	7,088.48	7,088.48
House Office Building Commission.....	4	4	11,427.28	11,427.28	11,427.28	11,427.28	6,169.36
JOINT							
Joint Committee on Atomic Energy.....	2	2	8,328.24	8,328.24	8,328.24	8,328.24	8,328.24
Joint Economic Committee.....	1	1	1,225.60	1,225.60	1,225.60	1,225.60	1,225.60
Totals.....	96	106	464,762.57	495,385.18	54,735.72	440,649.46	

**APPENDIX I—FINANCIAL STATEMENTS OF THE GENERAL
ACCOUNTING OFFICE**

APPENDIX 1-1

U.S. GENERAL ACCOUNTING OFFICE

STATEMENT OF ASSETS AND LIABILITIES, JUNE 30, 1967

Assets:	
Funds in U.S. Treasury:	
Appropriated funds.. .. .	\$2,329,980
Deposit funds.. .. .	2, 197,281
Trust funds.. .. .	16,508
	<hr/>
	\$4,543,769
Accounts receivable:	
Other Federal agencies.. .. .	7,386
Employee's travel advances.. .. .	259,994
	<hr/>
	267,380
Inventories of supplies.. .. .	68,749
Furniture, fixtures, and equipment.. .. .	2,077,440
Less accumulated depreciation.. .. .	<u>—1,422,292</u>
	655,148
	<hr/>
Total assets.. .. .	<u>5,535,046</u>
Liabilities:	
Accounts payable.. .. .	477,659
Accrued liabilities	1,955,846
Disbursements in transit.	54,086
Funds held for others, principally employees' tax and other payroll deductions	2,213,789
Liability for accrued annual leave of employees.	3,431,225
	<hr/>
Total liabilities.. .. .	8, 132,606
Investment of U.S. Government (Appendix 1-2).	<u>—2,597,559</u>
	<hr/>
Total liabilities and investment.	<u>5,535,046</u>

Note: Details in the tables **of** Appendix I may not add to the totals because of rounding.

APPENDIX 1-2

U.S. GENERAL ACCOUNTING OFFICE

SUMMARY OF CHANGES IN INVESTMENT OF UNITED STATES GOVERNMENT, FISCAL YEAR ENDED JUNE 30, 1967

Balance, July 1, 1966		—\$2, 487, 681
Appropriation for salaries and expenses, 1967..	\$49,339,930	
Reimbursements	55,312	
	<hr/>	49,395,242
Total		<hr/> 46,907,562
Less :		
Operating expenses, 1967 (Appendix 1-3)	49,191,608	
Unobligated balance of 1967 appropriation lapsed..	299,660	
Adjustment of prior year obligations.....	13,853	
	<hr/>	—49,505,121
Balance, June 30, 1967..		<hr/> —2,597,559

Composition of balances:

Investment in—	July 1, 1966	June 30, 1967
Inventories of supplies	\$70,857	\$68,749
Furniture, fixtures, and equipment,	584, 160	655,148
Unexpended appropriation (unpaid undelivered orders)	118,305	109,768
Deferred liability for accrued annual leave	—3,261,003	—3,431,225
	<hr/>	<hr/>
Totals ..	—2,487,681	—2,597,559

APPENDIX I-3

U.S. GENERAL ACCOUNTING OFFICE
SUMMARY OF OPERATING EXPENSES FOR THE FISCAL YEAR ENDED
JUNE 30, 1967

	Total	Salaries	Employee benefits	Travel	Other
Office of the Comptroller General.....	\$179,473	\$144,846	\$10,161	\$4,572	\$20,095
Office of the General Counsel.....	2,380,992	2,083,476	156,357	7,633	133,526
Office of Policy and Special Studies.....	549,168	425,264	32,068	38,729	53,097
Office of Administrative Services.....	1,197,235	923,292	146,757	2,283	124,904
Office of Personnel.....	358,606	297,233	23,041	674	37,657
Civil Division.....	7,329,784	6,524,786	493,381	163,243	148,374
Claims Division.....	1,359,824	1,198,006	95,247	3,773	62,798
Defense Division.....	3,519,888	3,010,881	234,090	141,529	133,388
Field Operations Division.....	21,326,330	17,368,562	1,328,742	2,197,307	431,718
International Division:					
Washington, D.C.....	1,785,202	1,305,441	98,654	326,325	64,783
European Branch.....	916,392	612,726	57,822	181,696	164,247
Far East Branch.....	1,041,049	556,592	49,462	253,768	181,227
Transportation Division.....	6,665,659	6,061,471	454,336	12,407	137,446
Report Department.....	582,017	443,553	36,727	2	101,734
Total.....	49,191,608	40,865,927	3,216,846	3,933,841	1,784,994

Reconciliation of accrued expenditures for year with total expenses:

Accrued expenditures.. .. .	\$49,090,266
Add—	
Increase in accrued annual leave liability.. .. .	170,222
Depreciation of furniture, fixtures, and equipment.	63,635
Decrease in inventory of supplies.	2,108
	49,326,232
Deduct—	
Purchases of furniture, fixtures, and equipment.. .. .	— 134,623
Operating expenses.	49,191,608

SOURCES AND APPLICATION OF FUNDS

APPENDIX 14

U.S. GENERAL ACCOUNTING OFFICE

SUMMARY OF SOURCES AND APPLICATION OF FUNDS, FISCAL YEAR
ENDED JUNE 30, 1967

Sources of funds:	
Appropriation for salaries and expenses, 1967.....	\$49,339,930
Reimbursements.....	55,312
Unpaid undelivered orders at beginning of year.....	118,305
Receipts from Federal corporations for audit services.....	916,698
Other receipts.....	7,017
Total.,.....	<u>50,437,263</u>
Application of funds:	
Accrued expenditures.....	49,090,266
Unpaid undelivered orders at end of year.....	109,768
Unobligated balance of 1967 appropriation lapsed..	299,660
Receipts deposited in U.S. Treasury..	923,716
Adjustment of prior year obligations.....	13,853
Total..	<u>50,437,263</u>

APPENDIX J—DIRECTORY OF THE U.S. GENERAL ACCOUNTING
OFFICE

APPENDIX J

DIRECTORY OF THE UNITED STATES GENERAL ACCOUNTING OFFICE

MAIN OFFICE

Telephone number

U.S. General Accounting Office Building 441 G Street NW. Washington, D.C. 20548	202-386 + ext. (FTS Information Operator, ext. 6095)
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INTERNATIONAL OPERATIONS DIVISION

EUROPEAN BRANCH

c/o U.S. Consulate General Platenstrasse 7 Frankfurt/Main, Germany	770-731, ext. 326
--	-------------------

Suboffice

Darbhangha House
New Delhi, India

FAR EAST BRANCH

Room 619 1833 Kalakaua Avenue Honolulu, Hawaii 96815	588-330
--	---------

Suboffice (Manila)

Sarmiento Bldg.
6782 Ayala Avenue
Makati, Philippines

Suboffice

124-B Truong-Minh Giang Saigon, Republic of Vietnam.	Tiger 4226
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FIELD OPERATIONS DIVISION

REGIONAL OFFICES

Atlanta

Room 204, 161 Peachtree Street NE. Atlanta, Ga. 30303	404-526-4455
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Boston

Room 1903, John F. Kennedy Federal Bldg. Government Center Boston, Mass. 02203	617-223-6536
--	--------------

Chicago

Room 803, U.S. Custom House 610 South Canal Street Chicago, Ill. 60607	312-353-6174
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St. Paul Suboffice

Room 1407 U.S. Post Office & Custom House St. Paul, Minn. 55101	612-228-7844
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FIELD OPERATIONS DIVISION—Continued

REGIONAL OFFICES—Continued

<i>Cincinnati</i>	<i>Telephone number</i>
8112 Federal Office Building 5th and Main Streets Cincinnati, Ohio 45202	513-684-2107
Dayton <i>Suboffice</i> MCLAGA, Building 11, Room 238, Area B Wright-Patterson Air Force Base, Ohio 45433	513-461-4830, ext. 2554505
Army <i>Audit Staff</i> Fort Benjamin Harrison Indianapolis, Ind. 46249	546-9211, ext. 2870
Dallas Room 600, Rio Grande National Building 251 North Field Street Dallas, Tex. 75202	214-749-3437
Denver 7014 Federal Building 1961 Stout Street Denver, Colo. 80202	303-297-4621
Air Force <i>Audit Staff</i> 3800 York Street Denver, Colo. 80205	303-825-4411
Detroit Room 2006, Washington Boulevard Building 234 State Street Detroit, Mich. 48226	313-226-6044
Cleveland <i>Suboffice</i> Room 2933 New Federal Office Building 1240 East 9th Street Cleveland, Ohio 44199	216-522-4892
Navy <i>Audit Staff</i> Room 2933 New Federal Office Building 1240 East 9th Street Cleveland, Ohio 44199	216-522-4892
Kansas City 1800 Federal Office Building 911 Walnut Street Kansas City, Mo. 64106	816-374-5056
St. Louis <i>Suboffice</i> Room 1740, 1520 Market Street St. Louis, Mo. 63103	314-622-4121
Los Angeles Room 7054, Federal Building 300 North Los Angeles Street Los Angeles, Calif. 90012	213-688-3813

FIELD OPERATIONS DIVISION—Continued

REGIONAL OFFICES—Continued

	<i>Telephone number</i>
<i>New Orleans</i>	
Room T-8040, Federal Office Building	504-527-6115
701 Loyola Avenue	
New Orleans, La. 70113	
<i>New York</i>	
341 Ninth Avenue	212-971-7531
New York, N.Y. 10001	
<i>Norfolk</i>	
423 Federal Building	703-627-7267
600 Granby Street	
Norfolk, Va. 23510	
<i>Philadelphia</i>	
502 U.S. Custom House	215-597-4333
Second and Chestnut Streets	
Philadelphia, Pa. 19106	
<i>San Francisco</i>	
143 Federal Office Building	415-556-6200
50 Fulton Street	
San Francisco, Calif. 94102	
<i>Seattle</i>	
330 Federal Office Building	206-583-5356
909 First Avenue	
Seattle, Wash. 98104	
<i>Portland Suboffice</i>	
Parker Building, 2nd Floor	503-226-1474
527 E. Burnside	
Portland, Oreg. 97214	
<i>Washington</i>	
Penn Park Building	703-557-8920
803 West Broad	
Falls Church, Va. 22046	

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