



the
comptroller general
of the
united states



ANNUAL REPORT

APPENDIX
1972



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COMPILATION OF FINDINGS AND RECOMMENDATIONS FOR IMPROVING GOVERNMENT OPERATIONS

This section of the Appendix contains a compilation of General Accounting Office findings and recommendations for improving Government operations relating for the most part to fiscal year 1972.

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

The purpose of the compilation is to provide a convenient summary showing, by functional areas, the opportunities for improved operations which have been identified by the General Accounting Office in carrying out its audit responsibilities. These responsibilities are derived from the Budget and Accounting Act, 1921, and other laws which require independent examina-

tions of the manner in which the Government agencies are discharging their financial responsibilities.

The compilation summarizes the corrective actions taken by the agencies on the recommendations. Certain of these actions involve changes made in policies and procedures through the issuance of revised directives and instructions. The effectiveness of these actions is dependent on the manner in which the directives and instructions are implemented and on the adequacy of the supervision and internal reviews of the operations. For this reason, to the extent deemed appropriate, it is the policy of the General Accounting Office to review and evaluate the effectiveness of corrective actions taken by the agencies.

The back of Section I, beginning on page 153, contains indexes of (1) agencies to which the findings and recommendations relate and (2) the applicable Federal budget function classifications.

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DOMESTIC CIVIL PROGRAMS

Agricultural Commodity Programs

1. Costs of Donating Commodities.—To reduce the cost of donating certain commodities, the Food and Nutrition Service (FNS), Department of Agriculture, needed to (1) enforce its requirement that commodities be requisitioned in the most economical size packages practicable and (2) require State distributing agencies to submit requisitions promptly to avoid special purchases which are more costly.

In the seven States where we reviewed program operations, the State distributing agencies, rather than requisitioning flour, vegetable shortening, and nonfat dry milk in large-size packages, when practicable, for schools and institutions, requisitioned small-size packages meant for small users, such as families. FNS did not question, or require the agencies to justify, such requests.

Some schools and institutions used only small amounts of these commodities, and the use of small packages may have been warranted. Many schools and institutions, however, used large quantities. For fiscal year 1970 we estimated that, nationwide, the additional cost of providing these commodities to schools and institutions in small, rather than large, containers was about \$1.6 million. A substantial part of this cost could have been saved if FNS had enforced its requirements.

The Department agreed generally with our conclusions and outlined certain long-range actions it would take. After we expressed our concern over the need to take more timely action, FNS instructed its regional offices to reemphasize to the States the need to provide foods in larger containers, when practicable. To provide assurance that full implementation of our proposals was effective and timely, we recommended that FNS vigorously enforce the requirement that State agencies requisition commodities in the most economical size packages practicable and have State agencies justify, when necessary, requisitioning commodities in small-size packages for schools and institutions. Subsequently, FNS directed its regional offices to implement our recommendations.

Controls over special purchases of processed grain commodities—such as flour, cornmeal, and rolled wheat—also needed to be strengthened. State distributing agencies frequently were so late in submitting monthly requisitions for such commodities that special purchases were required. In many instances, justifications indicating the need for such purchases were not provided. About \$1 million worth of special purchases of 17 million pounds of processed grain commodities were made nationwide during fiscal year 1970. Average prices paid for special purchases were from 3 to 8 percent higher than prices paid for regular monthly purchases.

After we brought this matter to its attention, the Department took or proposed certain actions, which, if properly implemented, should result in the elimination of unjustified special purchases. (Report to the Congress, B-133059, Feb. 4, 1972)

2. Payment Limitation Under the 1971 Cotton, Wheat, and Feed Grain Programs.—Title I of the Agricultural Act of 1970 limited the annual amount of direct Federal payments a person could receive under the 1971–73 upland cotton, wheat, and feed grain programs to \$55,000. The limitation had caused no significant reduction in the total amount of 1971 program expenditures, however, because the authorizing legislation and subsequent regulations issued by the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, did not prohibit producers from changing their farming operations and organizations to reduce the financial impact of the limitation. Also the regulations allowed each individual in a partnership to be considered as a single person for payment purposes, whereas prior payments sometimes were made to the partnership as an entity.

Our review of the operations of 98 producers in six States showed that, largely because of the organizational or operational changes made by the producers, only about \$356,000 of a potential \$17.1 million in savings was realized for these producers. A Department study showed nationwide savings of only \$2.2 million.

The actions most frequently taken by producers to reduce the financial impact of the limitation included (1) leasing acreage allotments to spread the payments to more persons, (2) having payments made to individual partners in an existing partnership instead of to the partnership as an entity, and (3) forming new partnerships to qualify more persons for payments. Some of the actions permitted persons to hold interests concurrently in several entities receiving program payments. By these means the producers, in effect, received more than \$55,000. Other changes allowed some producers to receive additional payments indirectly.

To improve administration of the limitation and to insure that payments subject to the limitation were valid, accurate, and in compliance with applicable laws and regulations, ASCS needed to (1) develop a system adequate for obtaining information on all farming interests of each farm program participant so that the payment limitation regulations could be applied fully and fairly, (2) provide for periodic reviews at a higher organizational level of the propriety and consistency of the determinations made by county and State committees, and (3) improve the system for controlling payments to persons with more than one producer-identification number.

In line with our recommendations, the Department described actions that had been taken or were being initiated to improve the administration of the payment limitation. The Department also stated that it would examine more thoroughly the cases described in our report. These actions—if effectively implemented—should significantly strengthen the administration of the payment limitation. (Report to the Congress, B-142011, Apr. 12, 1972)

Airport Management

3. Balancing Use of Washington Area Airports.—Washington National and Dulles International Airports are owned by the Federal Government and are managed and operated by the Federal Aviation Administration (FAA), Department of Transportation. National was opened for commercial air service in 1941 to low-speed propeller aircraft. In 1962 Dulles, a commercial jet airport, was opened to share with Friendship Airport, near Baltimore, Md., the long-haul service provided by air carriers for the Washington area.

During its early years, Dulles' growth as a jetport

appeared promising, although below expectations. However, in 1966 FAA lifted an existing ban on the use of commercial jet aircraft at National and air carriers steadily increased jet service at National, making it the principal jetport in the Washington area, while Dulles has continued to be substantially underutilized.

In 1966 FAA implemented jet-use restrictions directed at making National principally a short-haul airport and at enhancing the further development of Dulles. Nonstop service at National was limited principally to cities within 650 miles of the airport, and aircraft larger than the standard Boeing 727 were not to be admitted. However, the first restriction did not effectively preclude long-haul service from National and FAA relaxed the second in 1970.

In April 1969 FAA began a study to determine alternatives for increasing utilization of Dulles. The study, which was completed in September 1969, indicated that FAA could take action to create a better balance in the use of the area's airports. We found no indication, however, that such action had been planned. (Report to Senator William B. Spong, Jr., B-159719, Aug. 18, 1971)

Business Economics and Statistics

4. Mid-Decade Census.—We evaluated the merits of conducting a census of the population once every 5 years as contrasted to alternative methods of collecting data to meet intercensal needs. The principal needs of Federal and State Governments could be best met by a mid-decade census covering population, income, housing, and employment and occupation information but with less detail than the decennial census.

The costs of collecting meaningful statistical data run high—especially for small areas. Because of such costs some people have suggested that, in preference to more frequent censuses, intercensal data needs should be met by sample surveys specially directed toward certain areas or characteristics or by the utilization of data gathered as part of our everyday business activity.

Unfortunately the benefits which might accrue from a mid-decade census, for the most part, are not susceptible to quantification. The merits of any one of the four mid-decade census proposals over another in terms of satisfying intercensal data needs are relative to the specific needs of the users—more specifically, the desired subject detail, the desired geographic detail, and the margin of statistical error which can be tolerated.

Therefore, although we believe that the major needs of the Federal and State Governments could be met best by a mid-decade census, we were unable to conclude that any one of the four mid-decade census proposals would represent a more effective use of Federal funds.

Our surveys showed considerable need for small area data, most notably by the States. The advent of revenue-sharing proposals enhances this need, since under such proposals States would be given an even greater responsibility for redistributing funds to the local levels of government largely on the bases of census statistics.

Specially directed sample surveys and estimating programs serve a very useful and important purpose in the Federal statistical system. They alert the Nation to changing conditions and give cause for reexamination of our public priorities, policies, and programs. They serve as input for the decisionmaking processes of both the public and private sector.

In some instances, the results of these programs are used directly as a basis for allocating funds and for other purposes. However, such programs, for the most part, are not substitutes for census information. Although the statistics produced by these programs for the Nation as a whole, for some of the larger States, and for other areas are reasonably accurate, the small area data are subject to relatively large errors. Furthermore, sample surveys and estimating programs are not as comprehensive as the decennial census. Sample surveys, however, may cover one or more subjects in greater depth than the census, as is the case in the Current Population Survey which focuses primarily on labor-force statistics.

Although the statistical program favored most by census data users is a mid-decade census, very few offer comments as to what a mid-decade census should entail.

The cost of a mid-decade census could vary substantially, depending on the desired geographic and subject detail. We considered four proposals which, briefly stated, included:

The level I proposal for collecting basic population data on a 100-percent basis, at an estimated cost of \$154 million.

The level II proposal for collecting both basic population and basic housing data on a 100-percent basis, at an estimated cost of \$169 million.

The level IV proposal for collecting information similar to that collected in the decennial census, at an estimated cost of \$228 million.

The level III proposal for collecting the same type of data as the level IV proposal but for only 25 percent of the households, at an estimated cost of \$170 million.

The level I proposal would satisfy the most important of the data requirements (population characteristics) but would fall considerably short of meeting all the major data needs of the Federal and State Governments. The level II proposal would have the same limitation as the level I proposal, except that it would provide information on basic housing characteristics. Income data requirements, however, were mentioned by the States almost as frequently as, and by the Federal program officials more frequently than, housing data requirements.

The subject content of a mid-decade census could be substantially less than that of the 1970 decennial census and still meet the major data needs of the Federal and State Governments. Therefore the level III and IV proposals appear to overrespond to the need for data.

Also the reliability of some of the data provided by the level III proposal would be less than that associated with the decennial census which provides population and certain housing data for the total population. A Bureau of the Census official informed us that the decrease in sampling error was not of such magnitude that it would justify obtaining 100-percent population and housing data solely for improving the quality of the sample data.

None of the various proposals, therefore, would exactly meet the needs of the Federal and State Governments. Their major data needs could best be met by a mid-decade census covering population, income, housing, and employment information; however, this census would contain less detail than the decennial census.

The report did not specifically recommend that the Federal Government undertake a mid-decade census because we believed this determination lay properly with the Congress. (Report to the Chairman, Subcommittee on Census and Statistics, House Committee on Post Office and Civil Service, B-78395, Jan. 31, 1972)

Community Planning, Management, and Development

5. Administration of the Neighborhood Facilities Grant Program.—The Department of Housing

SECTION I

and Urban Development (HUD) awards grants to local public bodies or agencies to assist in the construction of neighborhood facilities (centers). HUD requires the centers to provide multiservice programs, which include a wide range of services, such as health, welfare, recreation, and cultural services for the residents of the community.

We noted that a need existed for more effective reviews of grantee applications and for increased efforts to insure that grantees established and operated multiservice programs.

HUD recognized that there were weaknesses in the administration of the Neighborhood Facilities Grant Program and took the following corrective actions.

Preliminary meetings were held between the Department of Health, Education, and Welfare (HEW) and HUD to explore ways in which HEW's social service programs could be included in the centers.

HUD initiated a review of the program to determine the type of services provided at centers and established, as of September 13, 1971, a 30-day moratorium on the approval of neighborhood center projects to make certain changes affecting the administration of the program.

(Report to the Secretary, HUD, B-174377, Jan. 20, 1972)

6. Administration of the Open-Space Land Program.—Under the Department of Housing and Urban Development's (HUD) Open-Space Land Program, Federal financial assistance is provided to States and local public bodies to acquire and/or develop land to help curb urban sprawl; to assist in preventing the spread of urban blight; to encourage economic urban development; to provide parks and recreational areas; and to preserve conservation, scenic, and historic land areas.

Effective July 1, 1971, the Open-Space Land Program, the Urban Beautification and Improvement Program, and the Historic Preservation Program were consolidated into a new open-space land program.

We determined that for certain projects the land had not been developed and was not being used by grantees in accordance with the conditions set forth in the HUD grant contracts.

HUD continued to reserve funds for open-space land projects for long periods after the contract performance periods had expired or the proposed projects had been canceled or completed and, at the same time,

told States and local public bodies that funds for their requested projects were not available.

HUD has taken measures to improve the administration of the program. For example, it stated that grantees would be required to report regularly on whether open-space land was being used in accordance with the provisions of the grant contracts and that grantees not submitting this information would be subject to site visits and appropriate action by HUD.

HUD also stated that a new open-space project selection system and the establishment of a number of HUD area offices would make it possible for HUD to be more familiar with local situations. (Report to the Secretary, HUD, B-168174, Mar. 8, 1972)

7. Enforcement of Housing Codes.—Recognizing that the Nation's goal of a decent home and a suitable living environment for all Americans had not been achieved, the Congress directed that communities, to be eligible for Federal housing programs, adopt and enforce codes to stabilize neighborhoods, prevent housing deterioration, and arrest blight. Communities have not, however, enforced these codes effectively, and consequently housing deterioration and decay have not been arrested. The Department of Housing and Urban Development (HUD) has contributed to the problem by continuing to provide funds for other Federal housing programs even though the law provides for withholding these funds until communities adopt effective local code enforcement programs.

To help communities in combating housing deterioration and arresting blight, the Congress established the Code Enforcement Grant Program, administered by HUD, to financially assist communities in enforcing housing codes. We reported that the program could have been more successful if HUD had (1) approved projects only in areas where housing was basically sound and could have been restored by enforcing codes, (2) insured that projects were adequately staffed based on adequate plans, (3) monitored projects adequately, and (4) limited public improvement spending to minimal amounts as intended by the Congress.

We recommended that HUD:

Emphasize the need for effective local code enforcement, promote the positive aspects and benefits to individual homeowners of effective code enforcement, and set minimum standards of accomplishment as prerequisites to HUD approval of community plans to eliminate and prevent the spread of blight.

Detroit, Mich.



Paved alleys do not contribute significantly toward arresting blight.

Reemphasize the slum prevention objective of code enforcement and use the program only in appropriate areas.

Apply nationwide a procedure initiated by the HUD Detroit area office that requires a home to be inspected and brought into compliance with housing codes as a condition for granting Federal Housing Administration mortgage insurance.

Establish procedures providing for more critical reviews of requests for public improvements.

Establish work standards so that staffing needs of communities may be realistically appraised.

Require close monitoring and review of code enforcement projects by all HUD area offices.

HUD stated that, although our report and recommendations provided a useful analysis of the code enforcement program and identified several important areas needing improvement in program management, it tended to obscure the basic accomplishments of the program. HUD stated also that there were basic national problems and difficulties in achieving local code enforcement at the community level. HUD stated that, to further improve the program, management improvements and administrative changes were planned and also that it was reviewing its present policy and expected to provide clearer guidelines as part of its overall review of the program. (Report to the Congress, B-118754, June 26, 1972)

8. Federal Agency Coordination and Participation in the Model Cities Program.—The Model Cities Program was established in 1966 to demonstrate that the living environment and general welfare of people living in slum and blighted neighborhoods could be improved substantially through concentration of Federal, State, and local efforts.

Although nine Federal agencies administer programs which involve Model Cities activities, the Department of Housing and Urban Development (HUD) has overall administrative responsibility.

HUD and other Federal agencies often have not agreed on the appropriate levels of Federal funding and staffing commitments necessary to accomplish the goals of the Model Cities Program. HUD and other Federal agencies have also not agreed on the roles of their respective agencies relative to the responsibilities for reviewing, approving, and administering Model Cities plans and programs.

The Assistant Secretary for Community Development, HUD, although deferring to the Office of Management and Budget (OMB) our recommendation that OMB should monitor and periodically evaluate the Federal agencies' responses to the Model Cities Program, told us that HUD welcomed assistance which might help to accomplish its mandate under the Model Cities Act.

We recommended that the Director, OMB, make such suggestions and recommendations to the participating Federal agencies as appear appropriate under the circumstances, to help insure that the agencies respond to the Model Cities concept at a level that is consistent with the administration's expressed support of the program.

Officials of OMB stated that the interagency problems under the Model Cities Program were being considered under the administration's recent proposals on the reorganization of the executive branch and on revenue sharing.

The administration's proposal on the reorganization of the executive branch, as initially sent to the Congress, would replace seven of the present executive departments and other agencies with four new departments. Implementation of these proposals would reduce the present fragmentation of responsibility and authority. Since there would be four Federal departments, however, a need still would remain for interdepartmental cooperation and coordination to accomplish the basic objectives of the Model Cities Program. (Report to the Director, OMB, B-171500, Jan. 14, 1972)

9. Progress and Problems of Urban and Transportation Planning.—Urban and transportation planning is being carried on with Federal support in every major metropolitan area. During fiscal year 1970 about \$50 million was appropriated to the Department of Housing and Urban Development (HUD) for comprehensive areawide urban planning and about \$60 million was appropriated to the Department of Transportation (DOT) for comprehensive transportation planning.

We reviewed urban and transportation planning for the Detroit, Mich., metropolitan area because of its size and advanced planning process and because the area could be expected to have complex problems common to other metropolitan areas.

Detroit has a continuing planning process which has made, and should continue to make, some contribution to urban growth by developing plans for land use and for transportation systems. However, because of the difficulty in getting numerous units of government in the six-county Detroit metropolitan area to agree on a master plan, it appeared that the planning process would not have a major impact in directing future area development toward the most desirable growth patterns.

Detroit's urban planning problems may be indicative of those confronting many other major urban areas with similar complex government structures. Our limited review in 15 other metropolitan areas showed that regional planners were confronted with many units of government sharing responsibility and authority for transportation and land use. From this type of structure arises the problem of getting the units to agree on a master plan, which, although it might benefit the entire region, might be detrimental to the individual units.

In December 1970 the Congress amended the Housing Act of 1954 to require that the Secretary of Housing and Urban Development encourage the formulation of plans and programs for effectively guiding and controlling major decisions as to where urban growth should take place. At the same time the Congress amended the Federal-Aid Highway Act of 1962 by requiring that local views on transportation projects in urban areas be considered. The act, as amended, states that no highway project may be constructed in any urban area with a population of 50,000 or more unless the views of the public officials of these areas have been considered with respect to the corridor, the location, and the design of the project.

We proposed that HUD and DOT revise their guidelines, to set forth more clearly the urban planning objectives required by the 1970 legislation and to assist planning agencies in devising methods to overcome local opposition to areawide plans.

HUD agreed that improvements in the planning process and in the implementation of urban development plans were desirable. Several HUD policy changes were contained in pending legislation. In commenting on our proposals, DOT stated that the Federal Highway Administration was revising its Policy and Procedures Memorandum to include the planning objectives set forth in the Federal-Aid Highway Act of 1970. (Report to the Congress, B-174182, Nov. 19, 1971)

Consumer Protection, Marketing, and Regulatory Programs

10. Enforcement of Federal Sanitation Standards at Poultry Plants.—Following our prior reviews, the Consumer and Marketing Service (C&MS), Department of Agriculture, took some action to improve the enforcement of sanitation standards at federally inspected poultry plants. In a followup review to see if such action had improved enforcement, we accompanied C&MS supervisory inspectors to 68 federally inspected plants, 17 of which were covered in our prior review. The other 51 plants were selected at random.

The inspectors' evaluations showed that one or more sanitation deficiencies existed at each plant. The types and the extent of the deficiencies, classified as either minor deficiencies or unacceptable conditions, varied. Unacceptable conditions continued to exist at most of the 17 plants covered in our prior review and in many cases the conditions were similar. Unacceptable conditions were also found at most of the 51 plants selected at random. The conditions at many of these plants appeared to be longstanding and were similar to those noted at most of the 17 plants.

We recommended that, to demonstrate convincingly that the Department was emphasizing consumer protection, the Secretary of Agriculture reevaluate a recommendation made by departmental consultants that a separate agency be established within the Department for consumer protection programs. Because implementation of the recommendation would take time and many of the same employees would continue to be responsible for enforcing sanitation standards, we recommended also that the Secretary explore other ave-

nues to improve and emphasize the enforcement of sanitation standards. Such avenues might include an intensification of efforts already underway to strengthen supervision and to improve the training of inspection employees as well as increase use of disciplinary action when inspection employees do not meet their responsibilities.

The Department said:

It had initially decided not to adopt the consultants' recommendation because they had stated that the meat and poultry inspection program could function within the existing agency. One advantage of keeping it there would be to avoid developing separate administrative support functions.

The agency was attempting to respond in specific ways to deficiencies in its supervisory structure which had been totally inadequate and was taking or planning other actions to improve the enforcement of sanitation standards.

The merits of establishing a separate agency should be considered but that, in its judgment, it would be a grave error to consider the creation of a new agency until the actions already underway, and others being planned, had been given a reasonable time test.

On April 2, 1972, the Department's meat and poultry inspection activities were transferred to its Animal and Plant Health Inspection Service. Department officials stated that the new alignment, when combined with the closely related and highly important consumer protection functions of the meat and poultry inspection program, would result in better use of similar professional disciplines in the regulatory areas of animal and plant health. They said also that the reorganization would combine all marketing service and regulatory functions in one agency. (Report to the Congress, B-163450, Nov. 16, 1971)

11. Inspection Activities and Administration of Foreign Meat Import Program.—The Consumer and Marketing Service (C&MS), Department of Agriculture, is responsible for (1) determining that foreign countries' inspection systems and plants comply with U.S. requirements and (2) inspecting meat and meat food products presented at U.S. ports of entry for American consumption.

Although foreign countries' inspection officials had been required to withdraw certifications to export to the United States from many plants that did not meet U.S. requirements (delisting), C&MS records showed that some plants which had not complied with U.S.

requirements had been permitted to remain eligible to export to the United States. We accompanied C&MS foreign programs officers—veterinarians experienced in U.S. meat inspections—on their reviews of 80 plants in four major meat-exporting countries. Of the 80 plants, 14 had been delisted but some of the remaining plants had not been recommended for delistment even though they had not fully complied with U.S. requirements.

C&MS delistment procedures were such that considerable time—an average of about 45 days in calendar year 1970—generally elapsed between the time C&MS officers found deficiencies and the time that the plants were actually delisted. Meat products processed in the interim were eligible for export to the United States unless C&MS determined that a plant constituted a health hazard. Of 327 plants delisted in 1970, two were classified as health hazards.

C&MS permitted meat products from delisted plants (1) to be presented for entry for U.S. consumption if certified by foreign country inspection officials as having been produced prior to the dates that delistment took effect and (2) to be imported into the United States if they passed inspection at the port of entry. About 13 million pounds of meat products had been imported from 11 of the plants delisted after our visit.

C&MS had not reviewed foreign plants as often as it considered desirable due to an insufficient number of foreign programs officers and the fact that the officers were stationed in the United States and spent only about 30 weeks a year in foreign countries. To lessen this problem, the agency began stationing some officers in foreign countries in May 1971.

We recommended that:

Foreign programs officers be authorized to provisionally delist plants that do not meet basic U.S. requirements at the time of inspection and, at the same time, to direct foreign inspection officials to suspend the exporting of meat products to the United States, subject to formal C&MS determinations as to whether the deficiencies are serious enough to sustain delistments.

The importation of all meat products produced prior to the date of a plant's delistment be prohibited when, in the judgment of the foreign programs officer, the conditions causing delistment are such that the products may have been rendered injurious to health or unfit as human food.

Additional foreign programs officers be stationed

in those countries where necessary to meet plant-review frequency objectives.

For inspections at ports of entry or other destination points, C&MS needed to (1) improve its program for inspecting processed canned and packaged meat products, (2) insure greater uniformity in the application of inspection procedures, and (3) develop an effective program for training import inspectors.

The Department concurred in nearly all our recommendations and described actions that had been or would be taken to implement them. With respect to prohibiting meat products produced at a plant prior to the date of its delistment from entering the United States, the Department said that the practice was followed for plants that were classified as health hazards but that such a policy should not be instituted for delistment irrespective of cause. We said that, because a review of C&MS records showed apparently serious deficiencies at some delisted plants which did not result in their being classified as health hazards, the Department might need to broaden its criteria for determining when products produced prior to delistment should be prohibited from entering the United States. (Report to the Congress, B-163450, Feb. 18, 1972)

12. Charging Fees for Processing Applications for New Drugs.—The Federal Food, Drug, and Cosmetic Act requires that manufacturers of new drugs file applications with the Food and Drug Administration (FDA), Department of Health, Education, and Welfare (HEW), and obtain its approval before the products may be sold to the public. The act contains no specific requirement that FDA charge fees for processing applications for new drugs.

In view of the benefits acquired by drug manufacturers through the right to market approved drug products for profit and the Government's general policy that Federal agencies charge fees for services they provide when such services result in special benefits beyond those which accrue to the public at large, we recommended that HEW establish fees for the services rendered by FDA in processing applications for new drugs.

HEW said it believed the benefits received by the general public from the services involved were primary and that benefits received by drug manufacturers were secondary. It agreed, however, to analyze all the possible ramifications that might arise if such fees were charged, and the Office of Management and Budget indicated that it would review the HEW study when

completed. Subsequently, HEW advised us that it had completed its study and concluded that FDA's policy of not charging fees for processing applications for new drugs should not be changed. (Report to the Congress, B-164031(2), Nov. 4, 1971)

13. Insanitary Conditions in the Food Manufacturing Industry.—The Food and Drug Administration (FDA), Department of Health, Education, and Welfare (HEW), is responsible for providing assurance that food products shipped across State borders are processed under sanitary conditions and are safe, pure, and wholesome to eat. To determine whether FDA was able to provide this assurance, we requested FDA to inspect 97 food manufacturing and processing plants selected at random from about 4,550 such plants in six FDA districts covering 21 States.

On the basis of the sample, 1,800—or about 40 percent—of the 4,550 plants were estimated to be operating under insanitary conditions including 1,000—or about 24 percent—operating under serious insanitary conditions. FDA officials advised us that conditions at plants located in the 21 States would be representative of conditions at plants nationwide.

Although responsibility for sanitation rests with the food manufacturers, factors contributing to the poor sanitation conditions in the industry include (1) FDA's limitation in resources to make inspections and (2) lack of timely and aggressive enforcement actions by FDA when poor sanitation conditions are found.

Also, FDA's inventory of food manufacturers, used for planning inspections and measuring the scope of its plant inspection responsibility was not complete or accurate.

In the light of the insanitary conditions shown to exist in the food manufacturing industry, we recommended that the Congress consider the adequacy of FDA's inspection of food plants with the resources available under its current appropriations. In the Second Supplemental Appropriation Act, 1972, the Congress approved the reprogramming of \$8 million for FDA to hire additional inspectors, especially in the critical food inspection area. FDA advised us in October 1972 that it had hired about 600 inspectors with the supplemental monies. The Congress should also be aware that FDA relies almost entirely on State and local governments for inspection of some 500,000 restaurants and retail food stores that receive or ship products interstate.

To attain additional flexibility in enforcing the Federal Food, Drug, and Cosmetic Act, the Congress should consider amending the law to provide for civil penalties when sanitation standards are violated.

We made a number of recommendations to HEW for strengthening its management of activities pertaining to sanitation inspections of food establishments, including the following:

Periodically select and inspect a representative number of food plants to assess industrywide conditions and report these assessments to the Congress.

Periodically evaluate the accuracy of the inventory so that FDA will know the scope of its responsibilities and resource requirements for sanitation inspections.

Take a stronger enforcement posture against those plants that show continuing flagrant disregard of the Federal Food, Drug, and Cosmetic Act.

Issue written notices in all cases of plants not complying with the act and request written responses on actions taken or planned to correct the violations and to insure continued compliance.

HEW concurred in all of our recommendations and advised that a number of corrective actions had been or would be taken. (Report to the Congress, B-164031(2), Apr. 18, 1972)

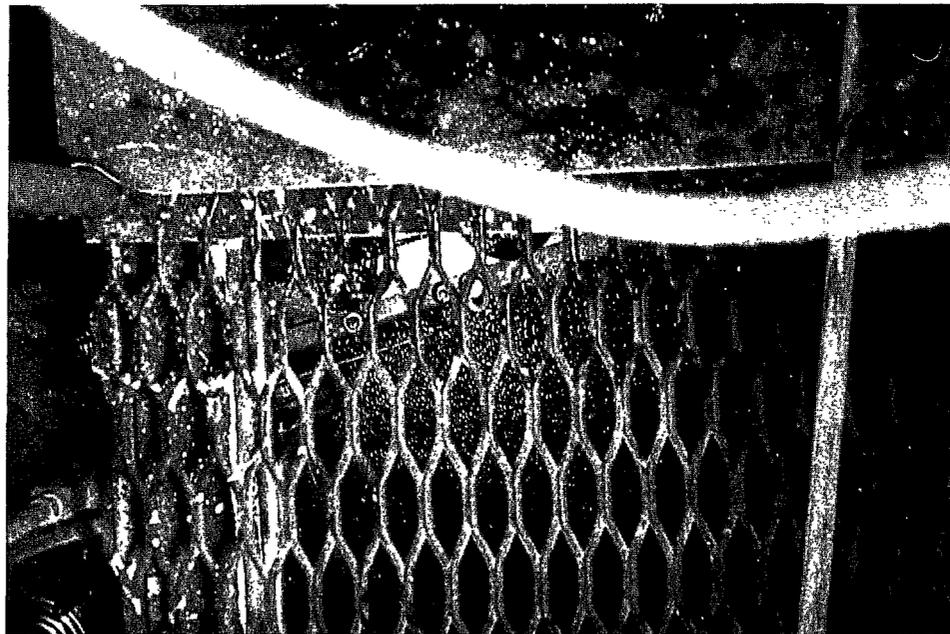
14. Investigational Use of Isoniazid—A Tuberculosis Control Drug.—We responded to questions concerning the adherence to investigational new drug regulations by the Food and Drug Administration (FDA), Department of Health, Education, and Welfare, in monitoring the use by the Center for Disease Control (CDC) of a 300-milligram isoniazid tablet in the prophylactic treatment of tuberculosis.

We reported that (1) FDA's monitoring of the investigational use of isoniazid was not in accord with its established regulations and (2) CDC had not submitted information required by FDA regulations and needed by FDA to monitor and evaluate the use of the drug. (Report to the Subcommittee on Executive Reorganization and Government Research, Senate Committee on Government Operations, B-164031(2), Oct. 7, 1971)

15. Problems Involving the Effectiveness of Vaccines.—The Public Health Service Act requires that all biological products (vaccines, serums, etc.) and their manufacturers be licensed by the Secretary of the Department of Health, Education, and Welfare (HEW) before the products can be transported interstate. Be-



Beans spilled on a catwalk subject to foot traffic at a cannery. The beans are scooped from the floor with a shovel and are put back in line for canning.



A walkway directly above the bean-canning line at the same firm. Although it is partially covered with sheet metal, most of the walkway is open allowing foreign matter to drop into the cans as people walk on it.

fore being licensed, the products must meet standards designed to insure their continued safety, purity, and potency. The responsibility for licensing is in the Division of Biologics Standards (DBS).

The Office of the General Counsel of HEW concluded on several occasions that legislative authority had existed since 1962, under the Federal Food, Drug, and Cosmetic Act, that could prevent ineffective biological products from being introduced into interstate commerce. DBS disagreed with the Office of the General Counsel and did not require biological products to be effective as a condition of licensing and had not removed ineffective products from interstate commerce. On February 25, 1972, the Secretary took action to require the National Institutes of Health (NIH) to apply the efficacy provisions of the Federal Food, Drug, and Cosmetic Act. Although we found no evidence of any ineffective biological products licensed after 1962, ineffective biological products licensed prior to 1962 were being marketed.

Subpotent influenza vaccines were released by DBS during 1966, 1967, and 1968 because agency employees responsible for performing potency tests and for reviewing the results of tests performed by either the manufacturers or DBS had not adhered to the standards. DBS said that its tests were not to be used as a basis for releasing or rejecting lots but for determining whether the manufacturers could perform tests and whether the results of their tests could be relied upon.

Conclusions of scientific studies disagree significantly as to the specific degree of effectiveness of influenza vaccines. In addition, in periods of epidemic, there may be a problem with the vaccines unavailability to persons of high-risk groups for whom the vaccines are needed, because persons receive the vaccines who do not need them. Several Federal agencies notified their employees of the availability of the vaccines but did not make known the recommendations of the Public Health Service Advisory Committee on Immunization Practices regarding the types of persons that should be inoculated.

We reported that HEW should (1) require NIH to establish milestones to implement the efficacy provisions of the Federal Food, Drug, and Cosmetic Act, (2) monitor NIH's progress in stopping the marketing of ineffective biological products, (3) require DBS to provide sufficient controls to preclude the release of vaccines shown to be subpotent in tests by either the manufacturer or DBS, and (4) fully inform Federal employees of the limitations and merits of receiving influenza vaccines and of the annual recommendations

of the Public Health Service Advisory Committee on Immunization Practices. (Report to the Subcommittee on Executive Reorganization and Government Research, Senate Committee on Government Operations, B-164031(2), Mar. 28, 1972)

Drug Program

16. Activities of Blackman's Development Center.—At the request of a Member of Congress, we reviewed the activities of the Blackman's Development Center.

From June 1970 through October 1971, the Center received \$219,556—\$179,987 from the District of Columbia Government and \$39,569 from the Office of Education, Department of Health, Education, and Welfare (HEW), primarily for the treatment and rehabilitation of drug addicts. In addition, the Department of Labor paid training stipends totaling \$51,899 to assist persons enrolled in the Center's training programs.

Our review showed that:

The District awarded a fixed-price contract to the Center, although it had no meaningful basis for estimating the contract amount.

The contract did not place any specific restrictions on how the funds could be used.

The Center did not comply with the District contract which required a 300-patient caseload.

HEW did not follow prescribed guidelines in selecting and approving training courses and instructors for the Center's training programs even though HEW was aware of the high risk of the training program as well as the Center's possible financial insolvency.

The Department of Labor continued paying training stipends to Center enrollees after HEW suspended its training grant.

In lieu of auditing the financial transactions and records of the Center, we relied on the audits performed by representatives from the District and HEW. These audits showed deficiencies in accounting procedures with the HEW audit also questioning the propriety of the expenditures made from HEW grant funds.

We believed that it was not possible to establish, with any certainty, the purposes for which all Federal funds were used. (Report to Congressman Robert N. Giaimo, B-164031(2), Apr. 28, 1972)

Economic Development Assistance

17. Accounting for Federal Grant Funds.—A multiplicity of Federal agencies funded a floriculture project in Dublin, Ga., without providing the necessary degree of coordination or proper administration of the project. Accounting records did not adequately document expenditures of funds.

The Economic Development Administration (EDA), Department of Commerce, had committed \$73,600 of funds which were undisbursed at the time of our review. We recommended that EDA emphasize to the project the necessity of establishing and administering adequate accounting records to insure that Federal grant funds were spent properly. (Report to Congressman Fletcher Thompson, B-172934, May 24, 1972)

18. Benefits to Unemployed and Underemployed Residents of EDA Designated Areas.—The Economic Development Administration (EDA), Department of Commerce, makes grants and loans to benefit the unemployed and underemployed residents of redevelopment areas. The benefits obtained from about 14 percent of 150 projects reviewed appeared questionable because (1) the potential economic impact of some of these projects on the unemployed and underemployed residents seemed nonexistent or very low, (2) there was inadequate assurance that the project would be completed within a reasonable time, and (3) there was inadequate assurance that construction would start within a reasonable time.

We recommended that EDA improve procedures for evaluating (1) the projected economic benefits to the unemployed and underemployed, (2) the economic benefits in relation to project costs, and (3) the timeliness of the economic impact. EDA stated that its current procedures were reasonable and eliminated projects with little economic impact. (Report to the Congress, B-153449, Mar. 21, 1972)

19. Coordination of Federal Programs for Economic Development in a Specific Locality.—Improved planning and coordination of Federal programs is needed to assign priorities and design plans aimed at achieving economic independence in a specific locality. No Federal organization has this overall responsibility. The effect of Federal assistance totaling \$28.2 million on the economic development of Johnson County, Ky., was limited due, in part, to inadequate coordination between Federal and State agen-

cies concerned with implementation of the Federal programs. The funds were used primarily for economic development, agriculture, education, and public assistance.

We recommended that the Appalachian Regional Commission, a joint Federal-State group established by the Congress in 1965, take a more active part in the planning and coordination of Federal programs aimed at the economic development of local areas by cooperating with Federal, State, and local agencies and working through local development district organizations. The Commission stated that there were statutory and other obstacles which would make it difficult for them to assert full primary responsibility for such coordination. We believed that the Commission could take a more active approach within the limits of its legislative authority. (Report to the Congress, B-130515, Feb. 7, 1972)

20. Coordination With Other Available Federal Assistance Programs.—The Economic Development Administration (EDA), Department of Commerce, makes grants and loans to nonprofit entities of high unemployment and underemployment areas for public works and development facility projects.

EDA was established pursuant to the Public Works and Economic Development Act of 1965. The act, which became law on August 26, 1965, was an outgrowth of prior economic development legislation, such as the Public Works Acceleration Act and the Area Redevelopment Act, which sought to develop solutions to unemployment and underemployment in the less developed areas of the Nation. The act provided that EDA's assistance be in addition to, and not substituted for, Federal assistance available under other existing programs.

EDA's manner of awarding assistance did not provide adequate assurance that EDA was not supplanting assistance from other Federal agencies. EDA provided financial assistance to many projects without determining whether they could have been funded under other programs. Some of EDA's grants and loans replaced others previously awarded or tentatively committed, for the same projects under other Federal programs.

We recommended that the Secretary of Commerce require EDA to coordinate its public works programs with those of other Federal agencies and to urge adoption of changes to provide greater assurance that such agencies provide available funds before EDA provided any financial assistance. EDA did not agree with our

recommendation. (Report to the Congress, B-153449, Mar. 21, 1972)

21. Designation of Economic Development Centers.—The Economic Development Administration (EDA), Department of Commerce, makes grants and loans to public and private nonprofit entities located in EDA designated centers within economic development districts. EDA requires these centers to be geographically and economically situated so that the economic growth of the centers may reasonably be expected to contribute significantly to alleviation of distress in the surrounding district.

Of 17 centers we reviewed, three, which received EDA assistance totaling \$6.4 million, did not meet this requirement.

We recommended that EDA improve its criteria for determining whether an economic development center would contribute to the alleviation of distress within the redevelopment areas of the district and make periodic evaluations of such designations to determine whether it should be continued or terminated. EDA stated that there was an in-house evaluation study underway to measure the EDA impact on growth centers. (Report to the Congress, B-153449, Mar. 21, 1972)

22. Effects of Federal Expenditures on Economic Development.—The Federal Government has established a number of programs aimed at alleviating chronic poverty, unemployment, and underemployment. We evaluated the assistance provided under these programs to Johnson County, Ky., to determine their effect on the economy of a specific area.

Johnson County, in the heart of Appalachia, was selected as the area for the study because it had the typical characteristics of economically distressed areas: high unemployment, low family income, and high out-migration. Although the study covered only one county, we believed that other rural counties in Kentucky and elsewhere in the Appalachian region had experienced similar difficulties.

Johnson County received \$28.2 million in Federal assistance from fiscal years 1965 through 1969, primarily for economic development, agriculture, education, and public assistance. A large proportion of the assistance was directed toward economic development; however, its impact on broadening the economic base and creating new jobs was very limited. We believed that the county's heavy dependence on Fed-

eral assistance would continue unless new industry could be encouraged to locate in the area.

About half of the economic development funds were used to construct 23 miles of highway through Johnson County. This section of highway is a link in the network of highways which are designed to open up isolated areas having development potential and to link such areas with the Interstate Highway System. Such highway development is recognized as an essential element in the successful economic development of the region. Substantial benefits may be realized by Johnson County residents when construction of the Appalachian highway system is completed.

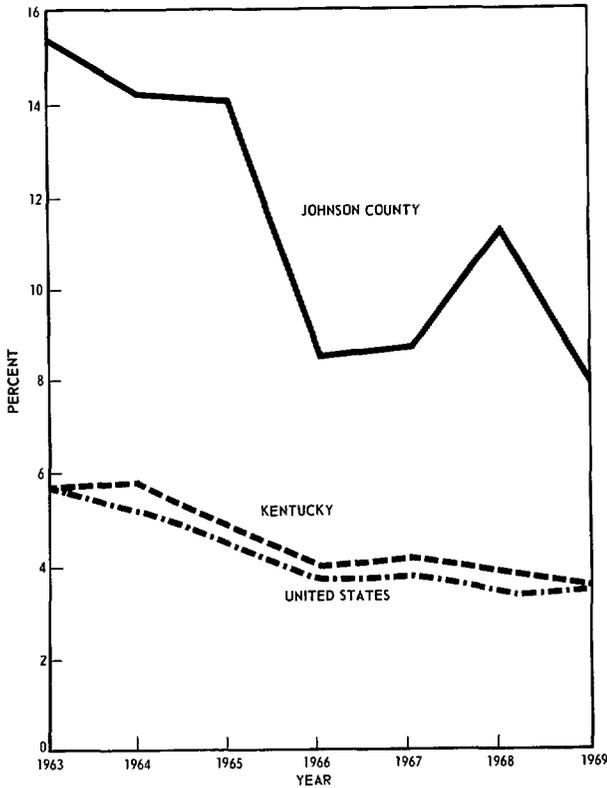
The obstacles to attracting industry to Johnson County are many. The mountainous terrain, the limited accessibility to supply sources and markets, and the relatively unattractive living conditions make it difficult to induce industry to locate in the area. The makeup of the local work force—to a large extent lacking the education and technical skills needed for industrial employment and composed of older persons—may also limit the attraction of industry.

Some efforts have been made to attract industry, but they were only partially successful. Plans for a timber products plant to be financed jointly by a Federal loan and private capital had to be abandoned principally because of the sponsor's inability to raise the needed private capital.

Several manpower training programs have been sponsored by Federal agencies. Programs of upgrading or retraining the work force have been conducted with little prospect that jobs would be available at the end of the training period. The programs, in effect, have served largely two purposes: (1) to provide usable skills to those willing to migrate to other areas where such skills are needed and (2) to preserve some measure of dignity among the remaining unemployed by providing them with additional skills and income supplements as ends in themselves rather than means to obtaining jobs.

We recommended that the Economic Development Administration (EDA), Department of Commerce, conduct a comprehensive study to identify additional incentives that may encourage industry to expand in rural areas and thereby maximize the benefits from Federal economic development programs. EDA stated that some steps along these lines had already been taken, some of which were still underway. (Report to the Congress, B-130515, Feb. 7, 1972)

UNEMPLOYMENT RATES



23. Impact of Federal Programs on Economic Development, Employment, and Housing in New Bedford, Mass.—We found that, although efforts have been made to expand the economic base of New Bedford, Mass., the city's economy had continued to lag significantly behind that of the State and the Nation. There was little evidence that current efforts would significantly improve the situation.

The city utilized various Federal programs to aid in economic planning, attract new industries, expand or maintain existing industries, and train manpower. The programs of an economic development nature had little effect on the city's economic condition. The dimensions of the city's other problems, such as housing, were directly related to the city's economic situation.

We suggested the following possibilities for increasing the city's economic activities and recommended that the New England Regional Council, the Small Business Administration, and the Economic Development Administration, Department of Commerce, help the State and local governments pursue the various possibilities:

Explore the possibility of obtaining further Federal assistance to renew areas, construct public facilities, and finance businesses.

Place Federal contracts with area firms to stimulate additional employment.

Create jobs by locating federally supported facilities of Federal offices in the area.

Finance additional jobs under the Emergency Employment Act.

Offer State- or city-supported low-rent facilities to attract industry.

Provide tax incentives to attract additional business activity.

Intensify efforts to coordinate the activities of the various development organizations in the city and continue to involve the Community Action Agency, to more effectively focus on and pursue the city's overall economic objectives.

We also identified a number of considerations believed to be prerequisites to the development of the city's housing renewal program:

Identify and periodically reassess the types of housing needed at each income level, taking into account data on family sizes and patterns, age groups, immigration trends, etc.

Delineate the appropriate Federal and State subsidy housing programs needed and available for low- and moderate-income families.

Identify and resolve institutional barriers to economic housing construction, such as zoning restrictions for multifamily housing or obstacles to new low-cost construction techniques.

Study the local property tax structure to see whether some form of incentive is feasible.

Obtain or organize sponsors for housing projects.

Coordinate planning and action among the various local agencies involved in housing, renewal, and conservation activities to provide a unified effort in meeting the city's housing problems.

We recommended that the Department of Housing and Urban Development help the city formulate and implement its housing renewal program to insure that adequate attention be given to the above considerations. (Report to Senator Edward W. Brooke, B-159835, Jan. 11, 1972)

24. Use of Federal Grant Funds for Competitive Enterprise.—The Economic Development Administration (EDA), Department of Commerce, awarded

a \$216,000 technical assistance grant to the Heart of Georgia Planning and Development Commission. The purpose of the grant was to train low-income persons in floriculture, to establish a producer owned or leased production facility under a cooperative structure, and to demonstrate a new technique of marketing floriculture products by preprogramming production to meet seasonal demands.

The grant was awarded under title III of the Public Works and Economic Development Act of 1965. Under title III EDA provides grant funds for technical assistance, planning, research and information, and demonstration-type projects. In implementing its regulations EDA categorized all grant funds provided under title III as other assistance as opposed to financial assistance which EDA provides under the other titles of the act. Financial assistance provided by EDA under the other titles of the act is subject to the provisions of section 702 of the act (42 U.S.C. 3212) which deals with unfair competition.

Section 702 prohibits EDA from providing financial assistance to any project that would result in an increase in the production of goods when there is not sufficient demand to employ the efficient capacity of existing competitive commercial or industrial enterprises. EDA awarded the funds in spite of a study which indicated that the project would create an oversupply of potted mums, one of three floral products to be produced.

EDA stated that the technical assistance grant was awarded on the basis that (1) having one of the three products in a potential overproduction of capacity was not sufficient reason to deny awarding the grant, (2) the EDA study was hurriedly made and was incomplete, and (3) the EDA General Counsel had ruled that the legislative requirement did not apply to technical assistance grants.

We believed that the section 702 provisions did apply to the technical assistance grant and that EDA should not have awarded the grant because of the anticipated overproduction. (Report to Congressman Fletcher Thompson, B-172934, May 24, 1972)

Economic Opportunity Programs

25. Administration of a Neighborhood Health Services Program (Rochester, N.Y.).—We reported that improvements were needed in the operations of the Neighborhood Health Services Program, a project

operating in Rochester, N.Y., and funded by the Office of Economic Opportunity (OEO) under the Comprehensive Health Services Program. The project seeks to demonstrate how the resources and capabilities of a major medical school—the University of Rochester—and a large county health department—Monroe County—can be combined to deliver comprehensive, high-quality, family-oriented health services to a target population of approximately 12,000 poor persons.

We observed that, during its first 3 program years, the project generally succeeded in involving target-area residents in its planning and operation. The project enrolled about three-quarters of its intended target population and provided medical services that generally satisfied these enrollees. However, although the project was serving a substantial number of people, it had a number of problems which precluded it from meeting its goals and the objectives of the Comprehensive Health Services Program.

The relatively low average number of patients seen by project physicians and dentists during the period November 1967 through March 1970 indicated that the project was not making maximum use of available professional health manpower. Our analysis of the project's reported statistics for a 3-month period ended December 31, 1969, showed that, on the average, a project physician treated an equivalent of 12.4 patients a day and a project dentist treated an equivalent of 4.6 patients a day. OEO guidelines suggested that, with adequate space, a physician could be expected to treat four patients an hour, or 28 in a 7-hour day, and a dentist could be expected to treat two patients an hour, or 14 in a day. OEO anticipated that the project's professional staff productivity would increase when the project's permanent facility was occupied in November 1972.

Improvements were needed in preventive health care and medical recordkeeping if the project was to make comprehensive health services available to its target population in the manner called for by OEO guidelines and approved project proposals.

Public Health Service medical specialists assisted us by reviewing patient medical records and dental records and concluded that:

The health care rendered was primarily episodic. In general, documentation did not indicate that care was preventive oriented.

There were no treatment plans for a full assessment of either the individual or the family care needs.

SECTION I

The history and physical findings recorded related primarily to the episodic visit. In only a small percentage of records was a meaningful, complete workup (complete physical examination) available.

Except on occasion, the dental documentation did not show evidence of routine semiannual examinations. Visits to the center seemed to be in response to specific dental needs, such as filling and extraction.

Documentation of the diagnostic results was fragmented.

OEO guidelines provided that, whenever a project proposed to serve individuals with incomes above the standard for free care, the application should include a schedule of the amounts to be charged for services to such individuals. The schedule should also indicate at what income levels the full costs of services were to be billed and how these costs were to be determined. As of September 1971, the project had not provided OEO with an acceptable fee schedule.

OEO had not audited the tentative indirect cost rate of 20 percent of project direct costs (excluding renovations) charged by the University of Rochester during the project's first 3 program years ended July 31, 1970. OEO officials informed us in September 1970, that OEO was planning to review the University's indirect cost rate; however, no such audit had been made as of March 1972.

In commenting on our recommendations in March 1972, the Deputy Director of OEO indicated that the following actions were being taken:

As of December 31, 1971, 30 percent of the medical care provided by the project was for preventive purposes and 24 percent was related to restorative purposes. Since preventive care was in part related to patient education, the project had augmented its health education activities through utilization of the Community Health Section of the Department of Preventive Medicine at the University of Rochester.

Treatment plans had been established for internal medicine and for pediatric, obstetrical, and dental care. These plans included minimum requirements related to patient education, baseline screening procedures and tests, individual and family health histories, and followup standards.

The medical record had been redesigned to facilitate a determination of the patient's health and treatment status including a determination of the completeness of physical examinations. Computerized reports were available which provided information on the status of treatment plans including

completeness of physical examinations. Also, an internal medical audit system had been established.

A model fee schedule had been transmitted to the project and it was anticipated that the required fee schedule would be submitted and approved expeditiously.

An audit of the University of Rochester's direct costs had not been made because the Department of Defense had been designated as the Federal audit agency for that institution.

(Report to the Deputy Director, OEO, Oct. 29, 1971)

26. Administration of a Neighborhood Health Services Program (King City, Calif.)

—We reported that improvements were needed in the administration of the Southern Monterey County Rural Health project financed by the Office of Economic Opportunity (OEO). The project met certain of its short-range objectives by (1) enabling low-income persons to receive needed medical care similar to that provided to higher income residents, (2) providing employment and training to area residents, (3) making use of several existing area health care agencies and resources to provide needed services, and (4) employing new types of supporting health workers to serve its enrollees.

The individuals and families enrolled in the project generally were satisfied with the services provided to them. However, the project's value could have been enhanced through (1) a more comprehensive range of services, (2) a greater opportunity for enrollees to participate in the project's development and operation, (3) the support of area residents not enrolled in the project, and (4) more effort devoted to developing a means for measuring its long-range impact on the health and economic status of its enrollees. Additional opportunities for improvement existed in several other aspects of the project:

The project's organizational structure did not provide controls necessary to insure that its activities would be conducted effectively, efficiently, and free of potential personal and financial conflicts of interest. Changes made in the project's organizational structure, including the establishment of a new administering agency in October 1970, provided the means of better controls and reduced the possibility of conflicts of interest.

The project needed to give more emphasis to providing and encouraging its enrollees to seek preventive medical care; maintaining more adequate measures for such care; and undertaking efforts to

improve the environmental conditions which contributed to the enrollees' health problems.

In order for outreach services to become more effective, the project needed to overcome the medical group physicians' reluctance to involve nonprofessional home health aides in the program and to attract a sufficient number of public health nurses to staff the program. The project installed a referral and followup system which should improve the outreach program, if made to work effectively.

In order to better manage the project and to better assess its progress, project officials needed to have necessary operational data and adequate evaluations of the quality of medical care provided and the effectiveness of other aspects of the project.

To insure that project funds were used to the optimum benefit of the persons eligible to participate in the project and that existing agencies and resources were utilized to the maximum extent feasible, the project needed to (1) strengthen its policies and procedures for determining eligibility; (2) utilize all available county health services, particularly the county hospital; and (3) seek out and claim all reimbursements available from established health programs and from other funding sources such as the county and insurance companies.

Through February 1970, the medical society authorized and the project made payments to the medical group without OEO authorization and on other than the OEO-approved fee-for-service basis.

In commenting on our recommendations, the Assistant Secretary of Health, Education, and Welfare (HEW) stated that the recommendations for changes were well taken and that HEW would continue efforts to correct the deficiencies and provide assistance to strengthen all aspects of the projects. The Deputy Director of OEO indicated agreement with all but one of the recommendations—using the county hospital whenever appropriate. OEO stated that the use of available hospitals must be considered in the light of individual cases and prevailing conditions. The project instituted revised eligibility procedures in January 1970, as part of a concerted effort to improve the project's administrative procedures. (Report to the Congress, B-130515, July 6, 1971)

27. Development of Minority Businesses and Employment in the Hough Area of Cleveland, Ohio.—The Special Impact program financed by the Office of Economic Opportunity (OEO) was designed

to offer the poor an opportunity to become independent and self-supporting through the use of the free-enterprise system. Our review of the program conducted by the Hough Area Development Corporation, Cleveland, Ohio, showed that after 2½ years of Federal funding, the program had brought few visible benefits to Hough. Considering the deep-seated problems of unemployment, poor housing, and high crime rate in that area, however, it would be unrealistic to expect a major social and economic impact in a short time. Also, the Corporation's leaders had shown a willingness to recognize their errors and had attempted to correct them. We reported on the various projects carried out by the Corporation.

One of the Corporation's major efforts was a combination shopping center and housing development, Martin Luther King, Jr., Plaza. Although construction originally was scheduled to begin in August 1968, only site-grading work had begun as of May 1971. The original date was overly optimistic, reflecting a lack of understanding of the complex problems involved—securing tenants, acquiring land, and obtaining financing.

The Corporation also assisted black contractors and businessmen in obtaining needed funds through the Contractor Loan Guarantee program, which had been unsuccessful in achieving certain key objectives, and the Small Business Loan program, which had not had the intended impact. Six black contractors who had obtained loans from a bank under the loan guarantee program defaulted on their loans and, as a result, were not able to obtain bank loans without guarantees. The intent of the Small Business Loan program was to provide seed money to enable firms to obtain larger bank loans without guarantees; however, most of the loans were made to meet borrowers' needs.

Other projects carried out by the Corporation had generally operated at a loss. Community Projects, Inc., a rubber parts manufacturing company, and Handyman's Maintenance Service, Inc., a custodial and maintenance service, had operated at a loss since they began, but, as a result of recent changes, their financial conditions have improved. One of two restaurant franchises owned by the Corporation was making a profit while the other was showing a slight cumulative loss.

We reported also that additional opportunities for improvement existed in several aspects of the program.

To succeed, the Special Impact program in Hough needed to maintain the support of the Hough community. The Corporation needed also to demonstrate that it could produce successful projects which would provide tangible benefits to the community.

The Corporation planned to turn over ownership of the businesses started under the Special Impact program to Hough residents once the businesses became profitable. If the various projects reached their full potential, it was conceivable that, until ownership of the businesses was converted, the Corporation could become a holding company worth millions of dollars.

On three projects, the Corporation used impact funds of about \$114,000 in excess of amounts authorized by OEO, although OEO subsequently approved the funds' use for two of the projects. OEO advised us that the entire system of releasing funds for the program had been revised to minimize unapproved expenditures.

The Deputy Director of OEO indicated general agreement with our recommendations and stated that the following measures would be taken.

The Corporation's Board of Directors had a Committee on Community Benefits which was addressing the issue of showing how ownership of existing businesses would be distributed to Hough residents. For each project there had been a tentative plan and/or discussion on the divestiture scheme. These plans were being submitted to OEO for approval. In addition, funds derived from the divestitures would be used to further the economic objectives of the program. For future projects the Corporation would be required to submit divestiture plans as a condition of approval.

A financial monitoring system, developed by a national public accounting firm for the Special Impact program, had been fully implemented and this system would give the program office, on a quarterly basis, information necessary to ascertain the impact of changes initiated by company management as well as the possible need for further changes.

Also, the Corporation had implemented monthly monitoring reports for all of its subsidiaries which measured actual performance against projected performance. The Corporation could use the reports to focus on the problem areas for each company and assist it through recommendations and corrective measures.

(Report to the Congress, B-130515, Aug. 17, 1971)

28. Projects To Develop Business Opportunities for the Poor.—Our review of research and pilot projects funded by the Office of Economic Opportunity (OEO) identified weaknesses in the management of these projects. The research and pilot projects were designed to test new approaches to overcome special poverty problems or to further urban and rural community action programs. We evaluated project accomplishments, solutions to problems encountered, efficiency of OEO's administration, and control exercised by the grantee over grant funds for six economic development pilot projects located in Alabama, California, Ohio, Oregon, and Texas. In order to evaluate OEO's general management of pilot projects, we also reviewed, at OEO headquarters, 23 pilot projects randomly selected from a total of 136 projects funded in fiscal year 1969.

We reported that:

The six pilot projects had limited success in achieving their objectives and in demonstrating that these were workable approaches to solving the problems involved.

The projects' lack of managerial competence was one of the most critical problems in establishing minority-owned businesses or other business ventures to be operated by the poor.

Other problems involving one or more of the projects included inadequate evaluations of the practicability of projects prior to funding; unrealistic goals established in view of the amount of funds and the period of time available under the grant; projects not organized sufficiently well to be effective; OEO's and the projects' disagreements on program objectives; and work plans not fully implemented by projects.

The general downturn in the economy during fiscal year 1970 also may have hampered some projects from achieving their stated objectives.

The resources of private enterprise were not sufficiently involved in carrying out the six pilot projects nor were the resources of other Federal agencies sought to the fullest extent available.

Expenditures for four of the six projects totaling about \$200,000 were questionable. Improvements were needed in the accounting procedures and internal controls for five of the six projects to provide greater assurance that grant funds were expended in compliance with OEO requirements.

There were various weaknesses in OEO's general management of pilot projects. Adequate instruc-

tions, guidelines, and procedures had not been issued; most project managers did not have business backgrounds; projects were not always reporting on their operations; project operations were not being adequately monitored and evaluated; and project results were not being determined and disseminated.

The Deputy Director, OEO, concurred with our recommendations and acknowledged that the following actions were being taken or were planned to implement them.

A review system designed to assess the feasibility of project goals and the organizational and managerial capacities of the grantees had been established. This review system would also serve as a means for obtaining, in advance, a clear understanding by the grantee of the project plans and OEO's expectations of them and that, at least once a quarter, field visits would be made by OEO project managers to help guide grantees toward approved project plans.

Grantees were being required to include in their applications, milestones of achievement and, during field visits, project managers would determine whether these milestones were realistic and would identify problems and solutions.

OEO had subscribed to the concept of using the resources of private industry in the projects; however, the success of these projects did not come easily as it was a new experience for the poor and business and commercial leaders to work together in economic development.

OEO took steps to insure adherence by the grantees to OEO requirements by attempting to clarify what these requirements were. Also, a proposed training program for project managers would include training on effective monitoring of financial administration.

(Report to the Congress, B-130515, July 20, 1971)

Federal Aid to Education

29. Administration of Federal Aid to Educationally Deprived Children.—Title I of the Elementary and Secondary Education Act of 1965 authorizes funds for programs designed to meet the special educational needs of children deprived of normal educational development who live in areas having high concentrations of children from low-income families. This program is administered nationally by the Office of Education, Department of Health, Education, and Welfare.

In our report on the program in Illinois, we stated that it provided new or additional services to the children but there were several areas where the program could be strengthened. Among these areas were:

The three local educational agencies reviewed had neither established measurable objectives by type and degree of change expected in the child's performance, nor adopted specific procedures to evaluate the success of their major title I activities.

Although the local educational agencies did identify certain general educational needs of the educationally deprived children, they did not identify and assess the variety, incidence, or severity of the needs nor document the evidence used in determining the needs that had been identified.

Two of the local educational agencies did not concentrate their program on a limited number of school attendance areas and one of them did not concentrate its program in those areas having the highest concentration of children from low-income families.

Two of the local educational agencies did not establish definitive criteria or procedures for selecting children to participate in the project activities.

State agency reviews of local educational agencies' project applications and operations were not adequate.

The Department concurred with our recommendations and described actions taken or planned to implement them. (Report to the Congress, B-164031(1), June 22, 1972)

30. Administration of Study and Evaluation Contracts.—The Office of Education (OE), Department of Health, Education, and Welfare, has entered into contracts with public and private organizations for studies and evaluations of Federal educational programs to determine whether these programs are meeting their objectives.

We selected 24 contracts for review—14 had been completed and 10 were still in process. OE officials considered the information produced by five of the completed studies to be of limited use. The cost of the five studies (\$935,000) represented 41.6 percent of the total cost of the 14 completed contracts. Information available at OE indicated that two of the 10 ongoing studies might also fall short of meeting their objectives. The two studies were estimated to cost \$7.6 million, or about 84 percent of the total estimated cost of the ongoing contracts.

Weaknesses in the administration of the contracts contributed to the failure of the studies to produce the desired results. For example, (1) in a number of instances, the contractors' descriptions of work to be performed were not specific enough to insure that the work performed would provide OE with useful information and (2) contracts were not monitored closely enough to keep responsible officials informed on a contractor's progress.

At the close of our review, the Department was preparing a guide for its project monitors, which was to deal with many of the problem areas discussed in our report.

We made several recommendations pertaining to the preparation of the guide for project monitors. We recommended also that the Department provide for the establishment of an orientation course to acquaint agency program personnel involved in the administration of study and evaluation contracts with the requirements of Federal Procurement Regulations and agency instructions.

The Department concurred with our recommendations and described actions taken or planned to implement the specific recommendations or to otherwise improve contract management in OE. (Report to the Congress, B-164031(1), Aug. 16, 1971)

31. Assessment of the Teacher Corps Program for Rural-Migrant Children in Southern California.—The Teacher Corps program at the University of Southern California and participating schools in Tulare County strengthened educational opportunities available to children of rural-migrant families in schools where corps members were assigned and broadened the university's teacher preparation program. As a result of the program, new teaching methods were introduced in the schools, new subjects were taught, educational community activities were undertaken, and many changes were made in the university's teacher preparation program. These changes included new courses and programs that the university developed for training teachers to meet the special educational needs of Spanish-speaking children living in rural and migrant communities. More than half of the interns who completed the program accepted teaching positions serving children of rural-migrant or other low-income families.

Corps members filled the two full-time regular teaching positions at a small school that served about 35 children because regular teachers could not be obtained for the beginning of the 1969-70 school year.

The school district made no attempt to obtain regular teachers during the 2 years that the corps members taught and Teacher Corps funds were used to supplant State and local funds that otherwise would have been used for regular teacher salaries. This arrangement was not authorized under the enabling legislation which provides that no corps member be used to replace any teacher who is, or would otherwise be, employed by a local educational agency.

Interns assigned to two high schools did not get along well with the faculties. Some interns were reassigned, one was dismissed, and others resigned.

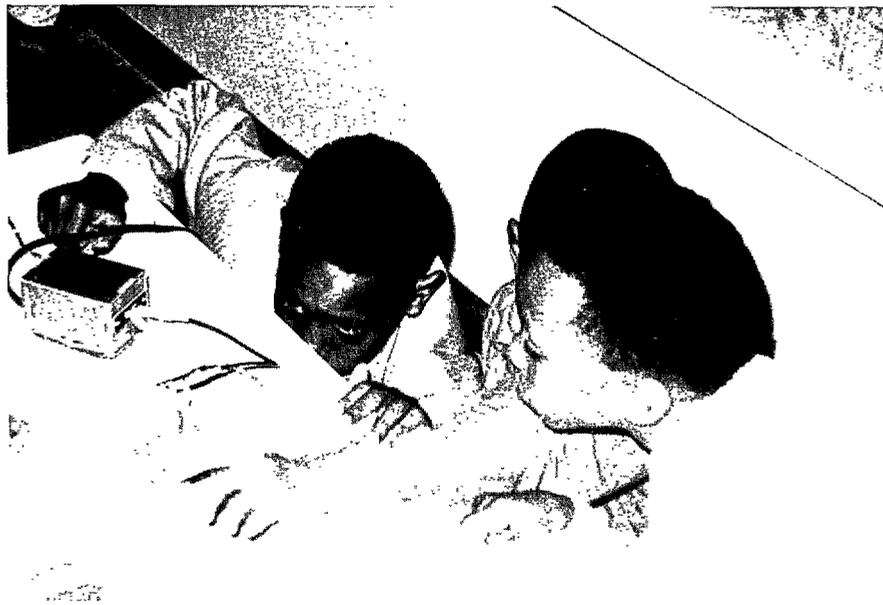
We recommended that the Department of Health, Education, and Welfare (HEW) clarify the intent of the enabling legislation concerning the use of corps members and have the Office of Education (OE) assure itself that corps members were used in accordance with such intent. There was also a need for OE to assist universities in developing approaches that would help corps members effectively participate in training assignments in high schools. HEW concurred with the recommendations and said that they would be implemented. (Report to the Congress, B-164031(1), Aug. 25, 1971)

32. Assessment of the Teacher Corps Program for Urban Children in Southern California.—The Teacher Corps program at the University of Southern California and participating schools in Los Angeles and Riverside Counties strengthened the educational opportunities available to urban Mexican-American and black children in the schools where corps members were assigned. Corps members worked with many children who had language difficulties or disciplinary problems or who were slow learners. Corps members introduced new teaching methods in their assigned schools; helped to develop and operate learning centers for children interested in mathematics, science, and social studies; and organized or participated in educational community activities that benefited children and adults. Of the 88 interns who completed the program, 72 either were teaching or had contracts to teach, and most of these teaching positions were in areas serving low-income families.

The program had some success in broadening the university's teacher preparation program. The university developed a new curriculum to prepare Teacher Corps interns to teach children from low-income families. However, most of the courses which were adapted for the interns were not offered as a part of the regular teacher-training program. The university planned to



Intern displaying African mask to children in ethnic studies center.



Intern displaying African mask to children in ethnic studies center.

identify aspects of its Teacher Corps program that could be made available to other students.

The Assistant Secretary, Comptroller, Department of Health, Education, and Welfare, concurred with our recommendations that the Office of Education (1) stay abreast of the university's progress in evaluating program features and assure itself that successful

features are incorporated into the university's regular teacher preparation courses, and (2) discuss with the California Department of Education the most appropriate means of disseminating information on successful innovations and teaching methods used in the program to other educational institutions in the State. (Report to the Congress, B-164031(1), July 9, 1971)

33. School Districts' Implementation of the Emergency School Assistance Program.—The Department of Health, Education, and Welfare, under the Emergency School Assistance Program, provides grants to school districts to defray the cost of meeting special problems arising from school desegregation. In reviewing the activities of 28 school districts, we identified several weaknesses in the districts' implementation of the program. These weaknesses were attributable, to a high degree, to the emergency nature of the program and the need for its expeditious planning, funding, and implementation, and to the lack of an effective Department monitoring system. The weaknesses identified were:

In many cases the districts were not complying with the Department's regulations and the assurances given in their applications.

In some districts project activities may not be implemented or will be only partially implemented during the grant periods, leaving unresolved the problems of desegregation.

Some activities appeared to be directed more toward aiding education in general rather than toward resolving problems arising from desegregation.

In addition we questioned the eligibility of one district to participate in the program because it appeared that it was not in the final phase of desegregation at the beginning of the 1970-71 school year, contrary to the regulations. The Department subsequently reevaluated the district's eligibility, determined that it was ineligible, and took action to void the grant.

We recommended that, in the event additional funding is authorized, the Department (1) allow school districts a reasonable time to identify problems in achieving and maintaining a desegregated school system and to effectively plan to meet such problems prior to applying for Federal assistance, (2) emphasize to school districts that grant funds are to be used only for program purposes and that changes in approved project activities are not to be made without prior written approval by the Department, and (3) provide for an effective monitoring system to help insure that grants to the school districts are used for the purposes specified in their applications and that the districts are complying with the Department's regulations. The Department concurred with our recommendations. (Report to the Chairman, Senate Select Committee on Equal Educational Opportunity, B-164031(1), Sept. 29, 1971)

34. Student Loan Insurance Fund.—The financial statements of the Student Loan Insurance Fund for fiscal year 1970 did not present fairly the financial position of the Fund because the accounts receivable included unpaid premiums due from lenders on many loans made after the fiscal year ended; the premiums on many loans made after the fiscal year ended were included in the amounts shown for income from insurance premiums earned; it was not practicable to confirm yearend balances with lenders or to confirm the validity of the amounts owed on defaulted loans; and the reasonableness of the data used to compute loss rates was not readily determinable.

To produce financial statements which will more fairly present the financial condition of the Fund, the Office of Education, Department of Health, Education, and Welfare (HEW) needs to (1) strengthen accounting procedures to insure that the amounts shown on the financial statements for accounts receivable and insurance premium income are applicable to loans made during the period covered by the statements and (2) classify lenders' default claims resulting from ordinary bankruptcy as expenses rather than as loans receivable. Internal controls over cash receipts for the Fund should be improved to insure that such receipts are promptly recorded and deposited in the Treasury. HEW took or planned to take appropriate action to implement these recommendations. (Report to the Congress, B-164031(1), Jan. 12, 1972)

35. Problems Caused by the Proliferation of Federal Grant-In-Aid Programs in Support of Child Care Activities.—The increasing concern of the Congress with the proliferating Federal grant-in-aid programs prompted us to undertake a study of the programs in the District of Columbia. Because the Congress was considering legislation involving child-care programs, the first phase of our study was directed to this area.

In the District of Columbia, funds were provided under 11 Federal programs for child-care activities administered by three District agencies and several private organizations. In fiscal year 1971, these agencies and organizations contracted with 62 private and public child-care-center operators to provide services for about 4,450 children in 120 centers at a Federal contribution of about \$5.9 million.

Our study showed that the numerous Federal programs and lack of coordination at the local level contributed to the following problems:

An apparent imbalance in the location of child-care centers.

Children of working parents were in half-day programs, and children of nonworking parents were in full-day programs.

Varying methods of using professional staff in half-day programs resulted in wide cost variances.

The most economical food service arrangements were not used in all cases.

Existing public services and facilities were not used by private operators.

The extent to which the Federal Government should participate in child development programs was given much consideration during the 92d Congress and likely would be the subject of further consideration. We believed that our study of child care in the District indicated a need for consolidating and/or coordinating the Federal child-care programs and that the study was useful to the Congress in its deliberations. (Report to the Chairman, House Committee on Education and Labor, B-174895, Jan. 24, 1972)

36. Opportunity To Improve Indian Education.—

The major goal of the education program established by the Bureau of Indian Affairs (BIA), Department of the Interior, is to close the education gap between Indians and other Americans by raising the academic achievement level of Indian students up to the national average by 1976. The Bureau had made relatively little progress toward attaining this goal and, in fact, its education programs were not so designed. Moreover, BIA apparently had not adequately informed area offices and schools of the goal and had not developed a specific plan for identifying and overcoming obstacles or for measuring progress.

Certain factors which adversely affected students' ability to achieve at the national average were not fully dealt with in the established school programs. These factors included the need for training students in English language communication skills; for special education programs for physical, sensory, mental, or emotional handicaps; for professional counseling services; and for providing substitute teachers.

BIA also did not have an effective management information system which would provide program officials with data for identifying educational needs of Indian children, designing programs and activities, allocating resources to these programs, and evaluating the cost and benefits in relation to the educational goals.

We recommended that BIA be required to:

Clearly apprise all operating levels of the goal of academic achievement for Indian students and of the date by which it was to be accomplished.

Identify and assign priorities for dealing with all critical factors known to impede accomplishment of that goal.

Develop a comprehensive educational program designed specifically to overcome the factors which impede progress in meeting the goal and flexible enough to meet the needs of students in all BIA schools.

Establish milestones, such as the amount of improvement in the academic-achievement level necessary at the end of each successive year to accomplish the established goal.

Periodically evaluate program results on the basis of these predetermined milestones to allow timely redirections of effort as may be necessary.

Develop a management information system.

The Department stated that it was in general accord with our findings and that our conclusions and recommendations would constructively support its efforts to improve the Indian education program. The Department outlined a number of steps to be implemented for identifying and assigning priorities to deal with all critical factors known to impede accomplishment of the program goal.

Concerning our recommendations for establishing milestones and for making periodic evaluations of program results, the Department stated that these exercises were impractical since the goal must be tempered by the reality of Indian self-determination, the special nature of the students served, and the availability of funds.

We believe that, in an education program, effective management requires the development of an appropriate strategy for meeting established goals and the periodic evaluation of progress toward meeting these goals. (Report to the Congress, B-161468, Apr. 27, 1972)

Food Stamp Program

37. Effectiveness and Administration of the Food Stamp Program.—We concluded that there was limited participation by eligible households in the food stamp program administered by the Food and Nutrition Service (FNS), Department of Agri-

culture. We attributed this to (1) a lack of counseling of individuals concerning program benefits and requirements, (2) an attitude of indifference toward getting individuals enrolled and keeping them in the program, and (3) an insufficient amount of time devoted by FNS field office employees to program promotion. Also very little work had been done to define that portion of the population eligible to participate in the program and to determine those in greatest need.

We brought these matters to the attention of FNS with respect to the administration of Public Law 91-671, which amended the Food Stamp Act of 1964 and which requires, among other things, increased promotion of the program.

We reported also that some authorization cards for the purchase of food stamps could not be accounted for by local project officials. Some of these cards were subsequently accounted for as having been used to obtain stamps, although they had never been officially issued. This matter was brought to the attention of responsible administrative and investigative agencies. (Report to the Administrator, FNS, May 16, 1972)

Grants for Construction of Health Facilities

38. Management of Health Research and Teaching Facilities Construction Programs.—Federal grants assist in financing the construction of facilities under a health research program and a health teaching program administered by the National Institutes of Health (NIH), Department of Health, Education, and Welfare (HEW).

NIH has approved health research facilities grant applications primarily on the basis of the scientific merit of the programs proposed for each facility. Because of the limited funds available, many approved applications had not been funded. We recommended that HEW determine systematically health research needs and establish program objectives and priorities so that these needs can be met within the constraints of available funding limitations.

Our review of seven research facilities which had been completed for more than 2 years showed that none had attained the research personnel levels projected in the grant applications. At five of these facilities, an average of 15 percent of the research space was being used for health research in areas other than

the ones to which the grantees had committed themselves as a condition of the grant awards. Similar problems were noted in the use of space at a completed teaching facility. The law provides for recovery of the Federal participation when facilities are not used for the purposes for which constructed. We recommended that HEW (1) require applicants for teaching facility grants to submit detailed information on the proposed use of space and (2) establish appropriate followup procedures for both programs to insure that the facilities are used for the purposes for which constructed, and either concur in such uses or seek appropriate recoveries.

We noted opportunities for NIH to improve its procedures for awarding and administering grants and recommended that a number of improvements be made.

HEW concurred with our recommendations and reported that a number of corrective actions had been or would be taken. (Report to the Secretary, HEW, B-164031(2), June 16, 1972)

Grants to States for Hospital Construction

39. Administration of the Hospital and Medical Facilities Construction Grant Program.—In a review of certain aspects of the hospital and medical facilities construction grant (Hill-Burton) program, we noted that some grantees, after receiving Federal assistance for the construction of specific types of medical facilities, had redesignated and used a part of the facilities for other purposes without obtaining necessary approval. We noted also that, despite the lack of conclusive data showing the relative costs and benefits of private versus mixed hospital rooms, the Department of Health, Education, and Welfare (HEW) followed a policy of informally encouraging recipients of Hill-Burton program funds to emphasize the private-unit concept in constructing hospital facilities.

HEW agreed with our proposal that a grantee should obtain approval from the State agency for a proposed change in the use of a facility financed with Hill-Burton program funds and planned to require that applicants for such funds include statements in their applications that they would not convert any parts of their proposed facilities from one use to another until they received the necessary approval.

We also recommended that HEW (1) require the State Hill-Burton agencies to establish adequate pro-

cedures for monitoring and approving changes in the use of facilities constructed or renovated with Hill-Burton program funds and (2) make a cost-benefit study of the various types of hospital rooms or nursing units, to serve as the basis for the establishment of a formal HEW policy for the guidance of State Hill-Burton agencies. (Report to the Secretary, HEW, B-164031(2), Mar. 23, 1972)

Grants to States for Public Assistance

40. Collection of Child Support Under the Program of Aid to Families With Dependent Children.—

The program of aid to families with dependent children (AFDC) is jointly financed by the States and the Federal Government. The States administer the program, and guidance is provided by the Department of Health, Education, and Welfare (HEW). HEW regulations required States to have a program for establishing paternity for children born out of wedlock and for securing financial support for these and all other children being aided under the AFDC program who have one or both of their parents (or other legally liable persons) absent from the homes. Each State was required to establish a separate unit for carrying out these support enforcement activities.

Our review in the States of Arkansas, Iowa, Pennsylvania, and Washington showed that opportunities existed to increase substantially the amount of child support collected from absent parents.

Of the four States in our review, Washington's support enforcement program was achieving the greatest results.

We reported that the Secretary of HEW should:

Review each State's child support enforcement program to determine its efficiency, identify problems encountered, and assist the States in solving them.

Adopt procedures for monitoring the States' support enforcement programs.

Require States to periodically report to HEW statistical information on support enforcement.

Disseminate to all States information on particular accomplishments on organizational or operational features of either State or HEW regional offices that might assist other States in improving their programs.

Encourage States to consider the features of the State of Washington's program that had contributed to its success and, when practicable, to adopt those features which would strengthen their support enforcement programs.

(Report to the Chairman, House Committee on Ways and Means, B-164031(3), Mar. 13, 1972)

41. Comparison of the Simplified and Traditional Methods of Determining Eligibility for Aid to Families With Dependent Children.—

In January 1969, the Department of Health, Education, and Welfare (HEW) permitted States to accept persons for public assistance on the basis of information furnished by the applicants without verifying their statements—a simplified method of determining their eligibility. Under the traditional method, decisions are made as to applicants' eligibility only after information furnished by them is independently verified by welfare agency workers.

Under the program for aid to families with dependent children (AFDC), States were permitted to use either method. At the request of the Chairman of the Senate Committee on Finance, we compared AFDC caseload data from welfare centers using the simplified method with data from centers still using the traditional method. We found advantages and disadvantages in the use of both kinds of methods.

Any method for determining eligibility should produce proper and timely decisions. The traditional method did not provide for timely decisions because of the time needed to make home visits and collateral checks to verify factors bearing on an applicant's eligibility. The simplified method—as prescribed by HEW—was not wholly acceptable to those who were responsible for implementing it at local levels because it resulted in what was believed to be too few rejections. The use of a modified simplified method using features of both the simplified and traditional methods did produce timely and more acceptable results and, for the most part, caused little inconvenience to the applicant.

Under HEW's proposed welfare reform program, an additional 25 million persons would be eligible for AFDC assistance. We believe that under a program of that size, the eligibility method used should provide for (1) determining the eligibility of applicants on the basis of information obtained through face-to-face interviews with applicants and verification of certain key eligibility factors, (2) using experienced personnel and

having newly hired personnel trained in program policies, procedures, and interviewing and investigative techniques before assigning them to do eligibility work, and (3) prescribing a quality control system designed to alert management when instances of ineligibility and incorrect entitlement rates reached a point at which special corrective action was called for. (Report to the Chairman, Senate Committee on Finance, B-164031 (3), July 14, 1971)

42. Establishing Rates of Payment for Nursing Home Care Under the Medicaid Program.—The Social and Rehabilitation Service (SRS) of the Department of Health, Education, and Welfare (HEW) administers the Medicaid program under which the Federal Government pays part of the States' cost of nursing home care provided to persons unable to pay for such care. We examined in detail the methods followed by Colorado, Michigan, New York, and Oklahoma in establishing rates of payment for nursing home care. We also evaluated information obtained from 44 other States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands regarding the use of their methods.

Our examination showed that HEW had not:

Formulated and issued appropriate criteria and requirements to guide the States in establishing rates of payment.

Enforced the requirement of the Social Security Act that State plans include a description of the methods and procedures used in establishing payment rates.

Instituted effective policies and procedures for reviewing and evaluating methods and procedures being used by States in establishing payment rates.

In the absence of HEW criteria, the States had adopted methods of establishing rates of payment which resulted in differing payment policies and rates. These differences could have had an adverse effect on both the cost of the Medicaid program and the level and quality of care given Medicaid nursing home patients.

In response to our recommendations, HEW stated that:

Formal guidelines for the States would be issued.

Proposals were being prepared for studies on nursing home costs and that the results of these studies would have significant bearing on future departmental policy governing reimbursements.

SRS had established long-term care activities as its number one priority in program monitoring and HEW intended to make program reviews in each State on a continuing basis with emphasis on reimbursement methods.

As an ongoing policy, States would be required to furnish detailed descriptions periodically of the methods followed in establishing payment rates to HEW's regional offices for review.

(Report to the Congress, B-164031 (3), Apr. 19, 1972)

43. Ineffective Medicaid Program Controls for Coverage of Medically Needy Persons.—Under Medicaid, the Department of Health, Education, and Welfare (HEW) shares with the States the costs of providing medical care to persons unable to pay. Two types of persons qualify under Medicaid—those receiving public assistance payments under the Social Security Act (categorically needy persons) and those who do not qualify for public assistance, but whose financial resources are not sufficient to meet the costs of necessary medical care (medically needy persons).

It is the option of the States whether medically needy persons receive benefits under Medicaid. Of the 52 States and jurisdictions which have Medicaid programs, 27 have elected to provide coverage to the medically needy as well as the categorically needy persons. Medically needy persons, as distinguished from categorically needy persons, usually must pay a share of the costs of medical care provided to them.

We reviewed this aspect of the administration of the Medicaid program in California, Illinois, and Massachusetts which provided services to about 413,000 medically needy persons. Each State had encountered difficulties in administering the program, and Medicaid had paid for medical services that should have been paid for by recipients.

The quality control system prescribed by HEW provided for a systematic and continuous control by State agencies over the correctness of decisions reached by local welfare agencies including those pertaining to eligibility. In California and Massachusetts, the quality control system had been ineffective. In Illinois, the effectiveness of the system was reduced because the State had reviewed less than the minimum number of cases specified by HEW.

In response to our recommendations, HEW stated that it had:

Requested all regional offices to review and report on the procedures used in those States that

cover the medically needy to insure that the recipient's income is properly taken into account in paying medical bills and claiming Federal financial participation.

Asked the regions to review the controls used to insure that other medical payments properly made under the State plan, but not subject to Federal financial participation, are excluded from the Federal claim.

Authorized and employed additional staff to monitor and review quality control systems.

Completed a review of States identified by us as having State limits on the extent of the share of the costs of assistance to the medically needy which were higher than the Federal limitation and had taken remedial action where HEW had paid claims based on such higher limits.

We believe that administrative actions taken or promised by HEW should, if properly implemented, help to improve the effectiveness of controls over program requirements relating to medically needy persons covered under the Medicaid program. (Report to the Congress, B-164013(3), July 28, 1971)

44. Problems in Attaining Integrity in Welfare Programs.—A quality control system was adopted by the Department of Health, Education, and Welfare (HEW) in 1964 for use by the States in evaluating eligibility under the welfare programs. It was an adaptation of a technique widely used in industry for evaluating the quality of products and services.

In October 1970 HEW required the States to implement a revised quality control system for their welfare programs. The new system was based on experience under the prior system and on the States' increasing use of a simplified method of determining applicants' eligibility. Under the revised system, cases are selected on a statistical sampling basis and are investigated to see whether the eligibility of recipients and the amounts of payments are within established levels of accuracy. If they are not, the States must identify the inaccuracies and take necessary corrective actions.

We examined the effectiveness of the quality control system in California, Colorado, Louisiana, Maryland, Michigan, New York, Ohio, and Texas. These eight States together spent about 50 percent of all Federal welfare funds in fiscal year 1971.

At the time we completed our field work, the Federal quality control systems had not been implemented fully in the eight States. Two of the States—Cal-

ifornia and New York—had not implemented the Federal system statewide as of July 1971 but had attempted to use other methods to control public assistance expenditures. The remaining six States—which had implemented the system statewide—encountered problems in acquiring sufficient staff, completing the required number of investigations for reliable statistical projections, and verifying and documenting eligibility and payment decisions by independent sources. Consequently, quality control had not accomplished its purpose of maintaining integrity over the public assistance programs.

The problems encountered in implementing and operating the quality control system are complex, and we made several recommendations to strengthen the present system and to provide for an effective future system. Under proposed welfare reform legislation, HEW would take over administration of all federally assisted welfare programs and would have sole responsibility for quality control. We believe that HEW's plans for carrying out this proposed change could restore public confidence in the integrity of the welfare program.

In response to our recommendations, HEW stated that:

Its regional commissioners were taking vigorous action to insure that States which did not have fully operational quality control systems complied with Federal regulations.

Training seminars were being conducted for its regional staff so that they could provide assistance to States for realizing fuller use of quality control as a management tool.

As of March 1972 all but one of the 55 authorized quality control staff members had been hired, and a request had been submitted to the Congress for additional staff members.

It was developing additional guidelines for issuance to State agencies so that quality control investigations could provide conclusive findings.

We believe that the actions taken or planned by HEW should strengthen the quality control system and should make it more effective. (Report to the Congress, B-164031(3), Mar. 16, 1972)

45. Reviewing the Use of Medical Services in the Medicaid Program.—The Missouri and Florida Medicaid programs began in October 1967 and January 1970, respectively. In the fall of 1971, the Department of Health, Education, and Welfare (HEW)

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provided these States with a model system from which to develop detailed utilization review systems. Utilization reviews are performed by the States to safeguard against unnecessary medical care and services and to determine that payments financed by Medicaid are reasonable and are consistent with efficiency, economy, and the care provided.

At the request of the Chairman, House Committee on Ways and Means, we reviewed the Missouri and Florida utilization review systems to determine what results have been achieved and the extent of HEW's assistance to the States in the development of the systems.

Missouri's system contained most of the key elements of the HEW model system and had resulted in reductions in payments to hospitals and physicians. Although Florida's system had resulted in reductions in payments to hospitals, nursing homes, and physicians, some of the provisions of the system had not been fully implemented because of a lack of staff. Florida requested 37 additional positions for fiscal year 1973 which, if funded and properly used, could improve review activities considerably. As of December 1971, Florida officials had never reviewed or evaluated HEW's model system. Florida officials agreed, however, to take actions to improve their utilization review system.

Neither system provided for the accumulation of data showing (1) the reductions in Medicaid costs or other benefits resulting from reviews or (2) a comparison of review costs with the benefits provided.

We reported that the Secretary of HEW should assist these States and monitor their actions to:

Provide for the systematic accumulation of data enabling a comparison of the costs of utilization review with the benefits derived.

Study the HEW model system for the purpose of adopting design features offering opportunity for improvement.

We reported also that the Secretary of HEW should assist Missouri and monitor its actions to:

Periodically evaluate the effectiveness of utilization review controls.

Expand the utilization review of hospital care.

(Reports to the Chairman, House Committee on Ways and Means, B-164031(3), Mar. 27 and June 9, 1972)

46. State Claims for Administrative Expenses of Public Assistance Programs.—The Federal

Government shares with the States the expense of administering the public assistance programs for the needy.

Payments by the Department of Health, Education, and Welfare (HEW) to California and Pennsylvania for administrative expenses exceeded authorized amounts. These excess payments could have been avoided if HEW had promptly reviewed the claims and disapproved those which were in excess. Likewise, excess claims paid to the State of Pennsylvania could have been avoided if HEW had promptly (1) resolved questions concerning payment rates and conditions to be met in making claims and (2) determined whether the amounts claimed were proper.

We concluded that, to avoid excess payments for administrative expenses, Federal, State, and local officials must promptly identify and resolve policy questions. When questions arise concerning claim procedures, HEW should direct States to claim payment on the basis of the lowest authorized rates. Such action would eliminate the necessity for HEW to recover funds when a lower rate is determined to be appropriate and when prior claims have been made at higher rates. Moreover, HEW could readily make additional payments if a higher rate were determined to be appropriate.

Problems concerning payment of administrative expense under California's public assistance programs were pointed out in GAO reports in 1967 and 1969. In an October 1969 report to the Secretary of HEW, we said that settlements had not been made with California for administrative expenses during various periods from fiscal years 1962 through 1965.

With respect to our conclusions and recommendations concerning our current review and the earlier reports on California, the Secretary of HEW stated that his Department:

Had established procedures to insure prompt resolution of policy questions and issuance of policy.

Had issued cost allocation guidelines to clarify the allocation of administrative and service costs.

Was initiating the practice of requiring that States claim payments at the lowest authorized rates when there was any question concerning the correct matching rate.

Was developing a program that would require the submission by States of an annual program and financial plan for social services with well-defined criteria for measuring State adherence to Federal

funding and program requirements including conditions and rates of payment.

Had requested additional positions to monitor State activity, insure compliance with prescribed conditions and rates of payment, and insure that necessary actions were taken to recover excess payments.

Was in the process of determining whether to take action to recover excess payments made to California and had been advised by California that subsequent claims would adhere to regulations.

Had extended its reviews, by the HEW Audit Agency, of administrative costs to include all ongoing reviews scheduled or in process for the balance of fiscal year 1972 and would accord continued priority in this area during fiscal year 1973. An alternative method of computing the Federal share of social services cost in the program for aid to families with dependent children had enabled the Department to satisfactorily resolve questions previously raised by the HEW Audit Agency.

(Report to the Congress, B-164031(3), Feb. 7, 1972)

47. Use of Ineffective and Possibly Effective Drugs in the Medicaid Program.—On December 11, 1970, the Surgeon General directed agencies in the Department of Health, Education, and Welfare (HEW) to establish the necessary procedures within 45 days to implement departmental policy prohibiting the use of Federal funds for the purchase of drug products classified as ineffective and possibly effective by the Food and Drug Administration. As of May 1, 1972, the Social and Rehabilitation Service (SRS) of HEW had not established such procedures for the Medicaid program.

Our review of 1970 Medicaid expenditures in the States of Ohio, Illinois, and New Jersey disclosed that significant amounts were expended for the purchase of drugs which were classified ineffective. Officials who administered the Medicaid programs in these States informed us that they would continue to pay for such drugs until HEW notified them that the drugs were no longer eligible under Medicaid.

We recommended to the Administrator of SRS that his agency issue, without further delay, regulations to preclude the purchase under Medicaid of ineffective and possibly effective drugs. (Report to the Administrator, SRS, May 9, 1972)

48. Eligibility Under the Supplemental Food Program.—The Department of Agriculture criteria for determining eligibility under the Supplemental

Food Program consisted of a financial component and a medical component.

Our review of the administration of the Supplemental Food Program by the District of Columbia's Community Health Services Administration was directed toward determining whether the program was being administered in a manner consistent with the Administration's Plan of Operation as approved by the Department of Agriculture.

The review showed that the Plan of Operation did not provide an appropriate basis for making income determinations to establish program eligibility and that, contrary to the Department of Agriculture criteria, persons who could not be classified as low-income persons were participating. Also, contrary to the Plan of Operation, the Administration did not attempt to determine whether an applicant met the medical-need criterion and that there was no assurance that the program was being made available only to medically needy persons.

During the review the Director, Community Health Service Administration, indicated that he would consider taking corrective action relative to our finding on the income-eligibility criterion and stated that corrective action had been taken relative to our finding on the medical-need criterion. (Report to the Commissioner of the District of Columbia, B-118638, Feb. 1, 1972)

Highway Programs

49. Construction Problems Encountered in Meeting Highway Opening Date.—At the request of two Members of Congress, we reviewed the construction of two parts of Interstate Route 71 in Cleveland, Ohio, to determine why certain construction problems had been encountered. The report was a followup to an earlier one requested by the same Members (B-118653, May 21, 1970).

Construction problems resulted because the State of Ohio and the Federal Highway Administration (FHWA), Department of Transportation, were trying to meet the contract date for opening the highway. The State and FHWA did not thoroughly review construction plans, require compliance with plans, or change the specified opening date when difficulties which obviously would delay completing the highway were encountered. In expediting construction the State and FHWA authorized or permitted the use of



Separation of roadway and bridge abutment.

other-than-normal construction methods and procedures. Construction problems increased contract costs by \$6.4 million, bringing the cost of the two segments, totaling 2.8 miles, to \$29.3 million.

Several significant construction problems requiring costly, time-consuming corrective measures were encountered, for example:

Several piers that supported a bridge adjacent to two large embankments cracked and/or moved during construction. The embankments had not been built according to normal procedures. FHWA shared in the \$1.4 million repair cost.

The State instructed the contractor to build an embankment and part of the roadway over landfill. After the highway was completed, the embankment began to sink, damaging the roadway and causing it to separate from the surface of a bridge. Despite corrective measures, the roadway continued to sink, requiring continuing maintenance. FHWA did not participate in the maintenance costs.

To speed up construction by working through the winter, the State, with the approval of FHWA,

authorized the contractor to buy special material to use in building embankments. The special material, costing \$786,000, would not have been needed if the State had not decided to expedite construction and if it had used available embankment material. FHWA agreed to share in the cost of the material.

We reported that it was not our intention to imply that all of the adverse conditions could be attributed to an inadequate plan review and a lack of field review by FHWA. We believe, however, that many of the problems encountered might have been avoided or minimized had there been a more thorough review. FHWA agreed to bring our report to the attention of its division offices. (Report to Congressmen William H. Harsha and Charles A. Vanik, B-118653, Mar. 16, 1972)

50. Effects of Federal Requirements and State Actions on the Highway Planning Process.—

At the request of the Senate Committee on Public Works, we reviewed highway planning to determine the cause of the increase in planning time. Several highway construction projects in each of five States—Arizona, Kansas, Michigan, North Carolina, and Pennsylvania—were included in our review.

Planning for a highway is time consuming. For the 10 projects we reviewed, the planning time ranged from 2.5 to 14 years—an average of 8.7 years.

Although the lengthy planning time is, to a large extent, attributable to Federal requirements, these requirements are designed to protect the public interest by promoting the construction of safe and sound highways, by minimizing hardships on persons and businesses along the routes, and by considering environmental factors.

The time taken to meet Federal requirements and to process a project to the construction stage is, to a great extent, controllable by the States. Such factors as the priority assigned to a project or the workload or number of projects in process are determined by the States. Some projects were inactive during the planning process for up to 4 years because of low priorities assigned by the States. In addition, we noted that planning time for some projects had been extended because (1) States could not reach timely agreements with local government units, (2) during 1967, 1968, and 1969, Federal funding was delayed or withheld to curb inflationary pressures, and (3) the Federal Highway Administration (FHWA) had required the States to incorporate new Federal requirements into projects in process.

Federal review and approval of State actions at the various planning stages did not present a major obstacle to the completion of projects reviewed, except for those involving the construction of highways through park and recreation land. Approval and eventual construction of highways through such land has become increasingly difficult because of the public's concern with environmental matters.

We suggested that the Committee discuss with FHWA the possibility of obtaining earlier public participation on the environmental impact of highways and on the use of parkland for highways. (Report to the Chairman, Senate Committee on Public Works, B-164497(3), Mar. 10, 1972)

51. Problems in Implementing the Highway Safety Improvement Program.—Because of the large number of traffic deaths—54,800 in 1970—we reviewed the highway safety improvement program established to identify and correct hazards on Federal-aid highways. The purpose of our review, which was conducted in six States, was to gauge the results of attempts by the Federal Highway Administration (FHWA), Department of Transportation, to develop a voluntary national program to alleviate the highway hazard problem.

The program started in 1964 when the President expressed concern over the large number of highway fatalities and designated FHWA as the focal point for an accelerated attack on traffic accidents and fatalities.

Eight years after its inception, the highway safety improvement program had yet to become a fully implemented major national program. Our review showed that varying degrees of State compliance with FHWA's program guidance had produced a fragmented approach to reducing highway accidents and fatalities. We believe that this happened because FHWA guidance to States had been largely advisory, rather than mandatory, and because quantified goals had not been established. We noted that an opportunity existed to materially improve the Nation's traffic safety record if the Government would provide stronger program leadership.

We suggested that an effective program for systematically eliminating hazardous highway locations required routine reservation and use of funds to identify hazardous locations on the basis of actual accident experience and to correct hazards in accordance with priorities based on potential for accident reduction in relation to the cost of the correction. FHWA had not reserved Federal-aid highway funds for highway safety

programs, nor had the six States routinely set aside and used a part of their Federal-aid highway funds to correct hazardous highway locations under the program. Of the total Federal-aid funds available to the six States during the 7 years ended December 31, 1970, only 3 percent was spent for that purpose.

The Department agreed generally with our analysis of the progress and status of the highway safety improvement program. It said it planned to obtain legal clarification concerning the Secretary of Transportation's authority to administratively reserve funds for the highway safety program.

We recommended that the Subcommittee consider the need for legislative action to establish a viable Federal highway safety improvement program. Determination by the States and the Department of Transportation as to the magnitude of the overall highway hazard problem in the States could provide the Subcommittee with a basis for determining an appropriate level of funding for the program. (Report to the Chairman, Subcommittee on Investigations and Oversight, House Committee on Public Works, B-164497(3), May 26, 1972)

Housing

52. Lead Poisoning Hazard in Residential Dwellings.—Studies on the lead poisoning problem in the District of Columbia included estimates that 28,000 housing units in the District were in such a state of dilapidation and deterioration that 20,000 young children were constantly being exposed to lead hazards. The studies showed also that 120 children would appear at District hospitals each year with acute symptoms of lead poisoning and that 30 of these would suffer brain damage.

We believed that strong code enforcement was needed to help eliminate the risk of lead-based paint poisoning and therefore recommended that:

The Housing Division be required (1) to enforce the housing code relative to lead-based paint by having its inspectors take positive measures on all dwelling inspections to ascertain whether a lead hazard existed, (2) to take timely action to insure that existing lead hazards were eliminated so that poisoning would not occur at the dwellings, and (3) to enforce, on a timely basis, its orders for correction of lead-based paint hazards.

The City Council's agreement be obtained to amend the Housing Code to provide that paint

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containing lead in a quantity sufficient to be a health hazard be removed from exposed surfaces of dwellings and that the surfaces be repainted with lead-free paint.

Procedures be established whereby a child who had been poisoned would not be returned to a leaded environment.

In June 1972 the Commissioner of the District of Columbia informed us of the steps taken to strengthen enforcement of the housing regulations relative to lead-based paint. He also informed us that a general review of the Lead Poisoning Regulation was being made and that District officials expected to recommend some amendments to the City Council in the near future. (Report to the Commissioner of the District of Columbia, B-118638, Mar. 20, 1972)

Indian Housing Program

53. Slow Progress in Eliminating Substandard Indian Housing.—The goal of the Indian housing program was to eliminate substandard housing on reservations in the 1970s. We reported that the program's progress had been slow and that, unless it was substantially accelerated, thousands of Indian families would continue to live under severe hardship conditions.

The Departments of the Interior and of Housing and Urban Development informed us that the program's slow progress was due, in part, to the reluctance of some tribes to obtain Federal housing assistance. Other problems were inadequate identification of Indian housing needs, defective design, incomplete construction, and inadequate maintenance of houses.

We reported that housing needs had not been adequately identified because the Bureau of Indian Affairs (BIA), Department of the Interior:

- Had not established guidelines for determining whether existing housing units were standard or substandard and, if substandard, whether they needed to be renovated or replaced.

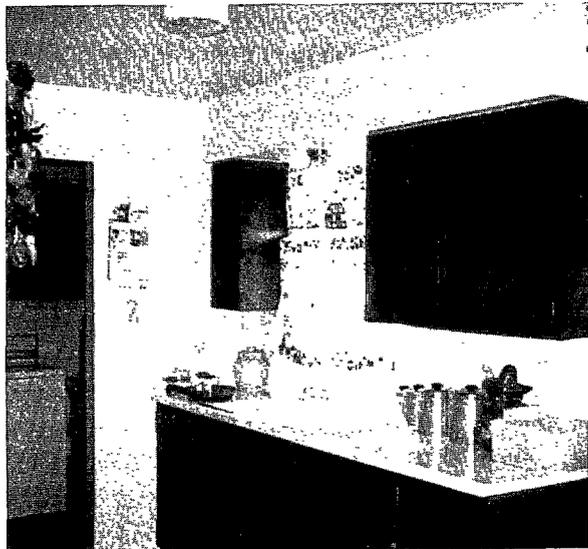
- Had classified newly constructed or renovated houses as standard although they lacked basic necessities.

- Had not insured that inventories of housing conditions and needs were taken periodically.

- Had not considered family migration, adjacent off-reservation Indian population, housing deteriora-



Interior of unimproved home on the Navajo Reservation.



Interior of new home on the Navajo Reservation.

tion, and family size and income in determining and planning to meet long-term needs.

As a result of our suggestions, BIA issued new guidelines providing standards for general construction, heating, plumbing, wiring, and living space for use in inventorying housing needs.

Some new houses were incomplete or lacked water and sanitation facilities, and some new houses were located in projects which lacked roads and streets. Incomplete housing projects resulted from (1) inadequate planning by and coordination among the agen-

cies responsible for insuring that all facets of the housing projects were completed within the same timeframe and (2) a lack of followthrough to insure that projects were completed.

The Departments generally agreed with our conclusions and recommendations and advised us of various actions that have been taken to improve the program. (Report to the Congress, B-114868, Oct. 12, 1971)

Information Gathering and Dissemination Activities

54. Dissemination of Data on Existing Criminal Justice Information Systems To Preclude Duplication.—The Law Enforcement Assistance Administration (LEAA), Department of Justice, was established to carry out the provisions of the Omnibus Crime Control and Safe Streets Act of 1968. As of the close of fiscal year 1971, LEAA had committed about \$54 million in Federal funds for the development of criminal justice information systems. Substantial future funding was anticipated.

A formal method had not been established by LEAA to collect and disseminate information on existing systems. Also, applications for grants to develop a system often did not contain sufficient data. For these reasons, personnel reviewing applications for grants were often unable to determine whether the proposed systems were similar in design to others already operational or under development.

We concluded that there was a national need for controls to prevent duplicative design and development of criminal justice information systems.

In response to our report, the Administrator, LEAA, stated that a clearinghouse on existing automated criminal justice information systems would be available in fiscal year 1973. He stated also that computer systems analysts had been hired for each LEAA regional office to provide direct technical assistance and to analyze information system applications and the potentials for adapting existing systems. (Report to the Administrator, LEAA, B-171019, Mar. 14, 1972)

Land Management and Natural Resources

55. Administration of Federal Coal-Leasing Program.—The reclamation work had not been fully

satisfactory at some of the strip mines we visited in our review of the Department of the Interior's program for leasing Federal lands for coal mining. The Department's January 1969 regulation, which was intended to improve reclamation of Federal lands damaged by coal-mining operations, did not apply to leases issued before that date. Therefore we recommended that the Geological Survey furnish guidelines to its regional staff on the manner in which the requirements in the leases issued or adjusted prior to 1969 should be enforced. The Geological Survey issued this guidance.

There had been little competition for leasing Federal coal lands. Department officials attributed this to the lack of a suitable market for western coal. However, recent studies showed an upsurge of interest in leasing Federal lands where much low-sulphur coal existed.

Only limited coal mining had been conducted on leased Federal lands, and most lessees apparently had no immediate plans to begin mining operations. The Department permitted this condition by issuing leases for indeterminate periods with no requirement that coal be mined if the lessees made minimum royalty payments 1 year in advance. We recommended that the Department consider discontinuing the issuance of such leases in the absence of special justification.

The Government had not received equitable royalties for coal mined on Federal lands because of the method used in computing the royalties. Although an improved method was adopted in February 1971, it did not apply to leases existing at that time but would be applicable when their terms were adjusted at the expiration of the 20-year lease periods.

Since the terms of existing leases may be too restrictive for an effective management of the leasing program, we recommended that the Department study the desirability of changing the law to permit the adjustment of royalty rates and other lease terms more promptly. The Department advised us that it would consider our recommendations. (Report to Senator Lee Metcalf, B-169124, Mar. 29, 1972)

56. Determination of Royalties on Oil From Leased Federal Lands.—The Geological Survey, Department of the Interior, is responsible for supervising oil production on leased Federal lands, maintaining oil production accounts, and collecting royalties on the oil which lessees sell or remove from Federal land. At the option of the Government, royalties may be paid in oil or in cash. If paid in cash, the amount of the royalty is based on the value of the oil sold.

The Survey's regional officials had not adequately evaluated the reasonableness of many royalties because of the lack of definitive criteria for determining the value of oil sold or removed and its transportation costs to the nearest market. In several cases information available to the Survey's regional personnel indicated that the oil might have had a value greater than that used to compute the royalties due the Government.

In response to our recommendations that the Survey establish more definitive policies and procedures, the Department stated that the Survey would review and revise its operating manual to insure proper computation of royalties due the Government. The Survey also was investigating the specific cases which we brought to its attention and was determining the corrective actions required. (Report to the Congress, B-118678, Feb. 17, 1972)

57. Development of Public Recreational Facilities at Lake Berryessa, Calif.—The Bureau of Reclamation, Department of the Interior, entered into a management agreement with Napa County in July 1958 for the administration and development of recreational facilities at Lake Berryessa, Calif. This agreement, rewritten in 1962, provided that the county, and all parties acting under its authority, would develop the Lake Berryessa area in accordance with a Public Use Plan prepared by the National Park Service in 1959. The Public Use Plan stipulated the areas that should be developed and the number of boat launching, picnicking, and other recreational facilities that should be provided in each area.

We reported that the Bureau had not adequately controlled development of public recreational facilities at Lake Berryessa and that the general public had been severely restricted in its access to and use of the lake because of (1) extensive development by concessionaires of mobile-home parks which occupied some of the most desirable areas along the shoreline and (2) failure to provide recreational facilities in accordance with the Public Use Plan.

We made several recommendations to improve administration of the facilities. In response, the Bureau indicated that it was aware of the problems at the lake and was considering various corrective actions, including taking over the management of the lake. (Report to the Secretary of the Interior, B-174172, Feb. 22, 1972)

Loan Programs

58. Benefits of Recreation Projects.—The Farmers Home Administration (FHA), Department of Agriculture, made loans to organizations under three programs—association recreation, resource conservation and development, and rural renewal—for recreational projects, such as golfing projects, that were to provide benefits to rural residents.

Our review of loans made to 24 organizations in five States showed that, in many instances, the loans had not contributed effectively to the program objective of providing rural residents with outdoor-oriented recreational projects because the projects (1) served only a small percentage of the residents of rural areas, (2) served primarily urban rather than rural residents, (3) had restrictions which limited the use of recreational facilities to organization members only, and/or (4) had fees that were beyond the ability of many rural residents to pay.

Also FHA had made loans:

For some projects which, contrary to its instructions, competed with existing or planned facilities; included land excess to project needs; included clubhouses not modest in design, size, or cost; or had memberships inadequate to support the projects.

To some organizations without adequately verifying whether the organizations' projected revenues would be sufficient to meet operating expenses and loan repayments.

We noted, and the FHA Administrator confirmed, that the scope of the recreational loan programs had changed substantially in recent years. For example, loan volume under the association recreation loan program decreased from about \$23.9 million in fiscal year 1968 to an estimated \$2 million in fiscal year 1971; in its fiscal year 1972 budget request to the Congress, FHA did not request any funds for this program. This decrease, in our opinion, resulted from an increasing realization by FHA that the programs, as constituted, were not meeting their objectives.

In view of the limited extent to which the recreational loan programs had served rural residents, we recommended that the Congress consider the matters discussed in our report with a view to determining whether the recreational loan programs should be continued and, if so, what form the programs should take. (Report to the Congress, B-114873, Aug. 23, 1971)

59. Interest Rates Established for Interest Credit Borrowers.—The Farmers Home Administration

(FHA), Department of Agriculture, provides an annual interest credit or subsidy for eligible borrowers as authorized under section 521 of title V of the Housing Act of 1949, as amended. FHA's accounting instructions provide that the amount of the subsidy be used to establish the effective interest rate to be charged the borrower and that the effective interest rate be rounded down to the nearest one-eighth of 1 percent. This procedure resulted in establishing effective interest rates of up to one-eighth of 1 percent less than the interest rates needed to achieve the desired subsidy.

FHA revised its instructions to provide for rounding the effective interest rates up or down, as appropriate, to the nearest one-eighth of 1 percent. (Report to the Administrator, FHA, Apr. 28, 1972)

60: Losses Incurred in Two Insured Loan Funds.—The Farmers Home Administration (FHA), Department of Agriculture, had incurred substantial losses (\$104 million) in recent years in operating the Agricultural Credit Insurance Fund (ACIF) and the Rural Housing Insurance Fund primarily because, under money-market conditions, FHA interest rates on loans to borrowers had been substantially less than the rates at which FHA sold the borrowers' loan notes to investors.

Although the sale of borrowers' loan notes to investors is required by the legislation establishing the funds, our review showed that future operating losses of the two funds could be minimized if the legislation were changed to permit FHA to finance new loans through borrowings from the Treasury. Also, ACIF operating losses could be further reduced if FHA were authorized to charge interest on loans at rates more closely related to the Government's cost of financing the loans and to the borrowers' abilities to pay. The act authorizing ACIF established a 5-percent interest ceiling, but the legislative history of the act did not indicate the intent of the Congress in doing so.

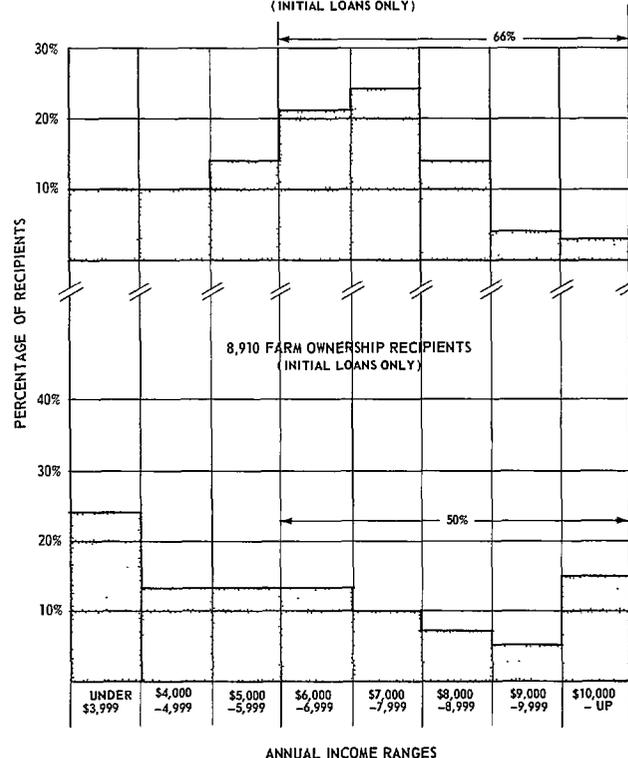
We recommended that, to reduce losses of the two funds, the Congress consider amending the legislation pertaining to the funds to require that:

Loans be financed through borrowings from the Treasury within such amounts as may be specified annually in appropriation acts.

Interest rates on loans made from ACIF be based on the market yields on outstanding Government obligations of comparable maturities and be adjusted in accordance with the borrowers' abilities to pay.

NET INCOME FOR RURAL HOUSING AND FARM OWNERSHIP RECIPIENTS

JULY 1969 - JUNE 1970

65,034 RURAL HOUSING RECIPIENTS
(INITIAL LOANS ONLY)

We further recommended that FHA improve its disclosure of the costs incurred in operating the two funds by:

Including in its financial statements all costs related to the loan programs.

Disclosing in its annual budget justifications the commitments of Government resources which the loan sales program had created and the current yields which FHA would be required to guarantee investors who purchased such loans.

FHA, the Treasury Department, and the Office of Management and Budget agreed or did not disagree with our recommendations for changes in legislation. All three agencies agreed with our recommendations for improved cost disclosure. As of June 30, 1972, no bills had been introduced into the Congress that would amend the legislation as we had recommended. (Report to the Congress, B-114873, July 20, 1971)

61. Timing of Loan Fund Advances.—The Rural Electrification Administration (REA), Department of Agriculture, makes loans to public and nonpublic orga-

nizations to finance the construction, improvement, and operation of central station electric and telephone systems which serve primarily rural residents.

Contrary to the Government's policy that cash advances be timed in accord with a borrower's actual cash requirements, REA's practice was to advance funds without sufficient consideration of such requirements. Also REA's instructions did not provide for the use of letters of credit for borrowers who received advances totaling \$250,000 or more annually. The practice of making Government funds available prior to actual needs resulted in acceleration of Government borrowings and a related increase in interest costs.

In response to our recommendations, REA stated that it planned to study its method of advancing funds to borrowers to determine whether improvements could be made which would insure that advances were timed with the borrowers' actual needs. (Report to the Administrator, REA, Mar. 31, 1972)

62. Administration of Small Business Investment Company Program.—The Small Business Administration (SBA) licenses, regulates, and provides Federal funds to small business investment companies (SBICs) for making long-term loans to small business concerns to stimulate and supplement the flow of private equity capital.

We examined into the effectiveness of actions taken by SBA to correct weaknesses in the SBIC program identified in 1966 and 1967 congressional reviews and in our reviews.

Although improvements had been made in the SBIC program since the prior reviews, we found that certain problems existed in the regulation of SBICs.

Actions to resolve findings considered to be violations of the act or regulations often were unduly delayed, inconsistent, and ineffective.

Poor communication and coordination among various SBA organizational units contributed to (1) delays in investigating SBICs to obtain evidence needed to substantiate or resolve suspected violations and (2) the failure to satisfactorily resolve questionable activities.

A deterioration of independence and objectivity of the examinations of SBICs might result from assigning the examination function to the organizational unit primarily responsible for the administration and promotion of the SBIC program.

The Administrator, SBA, generally agreed with our findings. An SBA organizational unit was established

and assigned the responsibility for a control and follow-up procedure to insure that (1) SBICs were notified of all substantiated violations, (2) a reasonable time limitation was established for correction of a violation, and (3) appropriate action was taken if the violation was not corrected.

Also new procedures were established for defining the scope of investigations and determining the type of evidence required and the examination function was transferred from the organizational unit primarily responsible for the administration and promotion of the program to another unit.

We further suggested that the Congress might wish to consider the feasibility of providing SBA with legislative authority to impose fines against SBICs which failed to correct violations when directed to do so by SBA. Nonfiling and late filing of required reports had ceased to be a problem after SBA received authority to impose fines against SBICs for nonfiling or late filing. (Report to the Congress, B-149685, July 21, 1971)

Low and Moderate Income Housing Aids

63. Reuse of Designs for Public Housing Projects.—We reported that the reuse of designs for the construction of public housing would result in (1) a more timely availability of housing to meet the needs of low-income families, (2) reduced design and construction costs to local housing authorities, and (3) reduced costs to the Federal Government.

Our review showed that (1) the construction of housing projects could be started at least 5 months earlier, thus reducing construction costs through the avoidance of labor and material price escalation if the project were based on existing designs and (2) design costs generally were reduced by about 50 percent when designs were reused. We estimated that, had 50 percent of the 700 housing projects placed under construction in fiscal year 1970 been based on the reuse of existing designs, the costs of the projects would have been reduced by about \$31 million.

The Department of Housing and Urban Development (HUD) agreed that there was a potential for economies in time and total development cost by reusing public housing plans and specifications modified to fit different sites but stated that there were constraints which limited the degree to which reuse of designs was feasible to produce savings. HUD believed, however, that it would be desirable and feasible to en-

courage greater reuse of superior designs by local housing authorities (LHAs).

We disagreed with HUD's proposal to encourage the reuse of only superior designs since it would limit the number of project designs for selection by LHAs and would not afford LHAs the opportunity to reuse project designs which go unrecognized but which are attractive, well designed, and suitable to the needs of certain communities. (Report to the Congress, B-114863, Dec. 2, 1971)

Manpower Training

64. Administration of Manpower Training Activities of Work Incentive Program Enrollees.—The State Bureau of Employment Service in Pennsylvania subcontracted for training services for enrollees participating in the Department of Labor's Work Incentive Program (WIN). We made several observations to the Department's Philadelphia Regional Manpower Administration which we believed would improve the WIN program and avoid unnecessary expenditures of Government funds.

We observed that:

Responses were not required by the State on the various problem areas disclosed in monitoring reports.

Numerous separate contracts were awarded to the same subcontractor.

Preward reviews of prospective subcontractors' performances were generally limited to personal opinions and word-of-mouth evaluations.

The contract files did not contain a comprehensive record or preaward and postaward actions, justification for the sole-source procurements, or data to determine that the prices paid were fair and reasonable.

Only 400 of the authorized 1,275 WIN enrollees were sent for training.

Subcontractors were furnishing tools and office supplies, although cost reductions of up to 55 percent could be obtained if the material were purchased from General Services Administration sources.

The primary cause of these conditions was related to a lack of training and experience in contracting methods on the part of State personnel. We suggested that WIN personnel be trained in (1) procurement practices and procedures, including the need for competition in awarding contracts, (2) preaward surveys

of contract proposals, (3) postaward monitoring of contractor performance, and (4) establishing controls designed to prevent overpayments.

We believed that a contributing factor to the situation was the lack of adequate review by the Department of Labor of the State's WIN program and suggested that the Department review the State agency's procurement system and monitor it through a program of continual surveillance.

The Department had not responded to our report at the close of the fiscal year. (Report to the Philadelphia Regional Manpower Administration, Department of Labor, Mar. 28, 1972)

65. Administration of Training Activities at a Manpower Training Skills Center.—The Departments of Labor and Health, Education, and Welfare (HEW) had established manpower-training skills centers in several States. The centers provided work orientation, basic and remedial education, institutional skill training in several occupations, and counseling and related services for trainees.

We reported the following weaknesses in the operation and administration of the institutional or classroom-type training programs for unemployed or underemployed persons at the skills center in Boston, Mass.

Most trainees need both prevocational and occupational training to qualify for jobs. Prevocational training, however, was not always sufficient to qualify persons for enrollment in the occupational training programs. Also there were not enough occupational training openings to accommodate many of the persons who had completed prevocational training.

The goal for the institutional training program was that at least 65 percent of the enrollees in each State be from among the disadvantaged. The employment service offices had not adequately determined whether applicants were disadvantaged, and tests showed that only 37 percent of the enrollees were in that category. There was not sufficient information to show whether another 23 percent were disadvantaged.

Trainees did not receive adequate counseling before they started their programs or during their training and often counseling records were not maintained. Subsequent to our review a revised counseling procedure was introduced. Under this procedure, vocational education and employment

service personnel cooperated in developing an employability plan for each trainee.

Many of the weaknesses could have been identified if the Federal and State agencies in charge of the training programs had monitored the center's operation on a more appropriate and timely basis. Improved monitoring procedures instituted in fiscal year 1971 should provide the needed in-depth assessment of the center's operations.

The center needed an improved management information system for assessing adequately the results of its programs and for determining areas needing improvement. Better information was needed on the employment status of former trainees, their earnings in jobs after training, and the comparative costs for each trainee of the various courses offered at the center. A consultant firm, which had made an evaluation of 19 other skills centers, had noted similar shortcomings.

The Departments of Labor and HEW agreed with our recommendations and advised us of various steps which had been taken or were being taken to improve the administration and operation of the center. (Report to the Congress, B-146879, Mar. 21, 1972)

66. Effectiveness and Management of the Neighborhood Youth Corps Summer Program.—

The Neighborhood Youth Corps (NYC) summer program provided work-training experience and other services during the summer school recess to youths from low-income families. Its purpose was to encourage youths to return to school in the fall. For fiscal years 1970 and 1971, the Department of Labor allocated \$471.3 million to enroll 1,034,700 youths in the summer programs.

Our review of the summer program in the Washington, D.C., area indicated that the impact of the program on school dropout tendencies had not changed since our earlier reviews of NYC programs in 1968. These reviews had indicated that program participation had no significant effect on whether a youth from a low-income family continued in or dropped out of high school.

We reported that:

Although the goal of the summer program was to encourage low-income potential dropouts to return to school in the fall, consideration had not been given to a youth's dropout potential in determining his eligibility for enrollment in the summer program.

Many enrollees did not meet NYC income eligibility requirements or their eligibility could not be determined because program records did not contain enough information.

At most of the work stations we visited, enrollees appeared to have been provided with useful work experience and adequate supervision. At some work stations, however, enrollees did not have meaningful jobs and were inadequately supervised.

Although the Department intended remedial education to be an important part of the summer program, it was not sufficiently emphasized by the sponsor of the NYC program in the Washington area.

We recommended various actions to be taken to improve the NYC summer program. The Department, however, had not responded to these recommendations as of the close of the fiscal year. (Report to the Secretary of Labor, B-130515, May 31, 1972)

67. Federal Manpower Training Programs—Conclusions and Observations.—

Our report which was made at the request of the Chairman, Senate Committee on Appropriations, contained background information on the principal manpower programs administered by the Department of Labor and a summary of the findings, conclusions, recommendations, and overall observations resulting from our reviews of manpower programs during the 3-year period, from 1969 through 1971.

The summarized findings concerned:

- Program design
- Eligibility and screening
- Counseling
- Occupational and academic training
- Job development and placement
- Monitoring
- Followup
- Program planning
- Supportive services
- Management information systems
- Fiscal and financial matters

The report also contained a number of observations on how to measure the success of programs, the proliferation of manpower training programs, the impact of the economy on such programs, and the limited impact of the programs in rural areas. (Report to the Chairman, Senate Committee on Appropriations, B-146879, Feb. 17, 1972)

68. Job Placement Activities of Manpower Programs in Newark, N.J.—Substantial financial and manpower resources had been directed toward improving the employability of and providing employment opportunities for disadvantaged Newark residents. The records of 18 manpower programs in Newark showed that about 8,200 job placements were made during calendar year 1969. Sixteen of these programs, which had accounted for 6,400 placements, received Federal funds at \$15 million annually.

Very little information had been provided to program planners and administrators to enable them to assess how well program resources had served to aid disadvantaged residents or to suggest ways in which these resources could be better applied. We observed that (1) there was no central source that maintained placement data for all programs, (2) many persons, who were reported as placed, had never gone to work, (3) the majority of persons placed did not remain longer than 3 months, and (4) accurate information on the number of disadvantaged persons placed in jobs was not being provided.

We concluded also that the impact of program activities on the unemployment situation in Newark had not been as substantial as the placement data would indicate.

The Department of Labor generally agreed to take action on our recommendations that:

Placement information be obtained by one designated entity for all Department programs serving disadvantaged Newark residents and that this information be made part of the management information system.

The Assistant Secretary for Manpower encourage all other Federal and non-Federal entities sponsoring manpower training programs in Newark to furnish the designated entity with information on individuals placed by their programs.

Program sponsors be required to implement procedures for verifying reported placements.

The New Jersey State Employment Service in Newark emphasize to employers that a placement should not be reported until the individual had started working.

Disadvantaged persons placed in low-paying jobs be provided needed supportive services while working at these jobs and be further considered for training opportunities which would eventually lead to increasing their earning power.

(Report to the Assistant Secretary for Administration and Management, Department of Labor, Dec. 16, 1971)

69. Operation of the Concentrated Employment Program in Rural Mississippi.—The Concentrated Employment Program (CEP) was designed to draw together, under a sponsor, work and training resources of the Federal Government in urban and rural areas where there are large numbers of persons either unemployed or existing on low incomes. The ultimate goal of CEP was to place enrollees into permanent jobs.

The Federal Government spent about \$14 million on CEP in rural Mississippi from June 1967 through December 1971 but the effectiveness of the program was hampered by administrative problems and a poor economic situation.

During the period December 1968 through February 1970, less than half of those enrolled in CEP were placed in jobs. About half of those who were employed did not receive any orientation, training, or work experience, and many were limited to the same types of low-skill jobs they held before joining CEP. Moreover, many placements were only temporary and only slightly more than one-half of the persons placed were employed 6 months later. In many cases placement was not related to the type of training an enrollee had received. For example, a person trained as a welder might be employed as a janitor and an offset printer as a mail clerk.

The economic situation which hindered effective implementation of the program included insufficient labor demand and the lack of a comprehensive economic development program to attract new industry or to otherwise create new job opportunities. Also increased mechanization had displaced many black farmworkers who did not have the necessary educational and vocational skills to obtain other jobs.

The Department of Labor agreed with us that CEP in rural Mississippi would be more effective if it were part of a comprehensive economic program and stated that it planned to continue its current efforts toward improvement.

Concerning the consideration given by the Congress to various proposals for assisting depressed rural areas in overcoming longstanding poverty, unemployment, underemployment, and outmigration to cities, we believed that manpower programs should be accompanied by strong Federal, State, private, and local action to create new job opportunities. Without such

SECTION I

action, CEP accomplishments would continue to be severely limited in such rural areas as the Mississippi Delta. (Report to the Congress, B-130515, Mar. 15, 1972)

70. Opportunities for Improving the Institutional Manpower Training Program in South Carolina.—

Classroom-type manpower training under the Manpower Development and Training Act of 1962 is one of the most important of the Federal Government's manpower programs. The Departments of Labor and Health, Education, and Welfare (HEW) spend about \$250 million a year on this activity. In South Carolina, we reviewed the results of the program which is administered by the State Employment Security Commission and the State Committee for Technical Education. From 1966 through 1971, Federal funds obligated for training in South Carolina totaled \$16.1 million.

We had to develop much of the data on program results during fiscal years 1966 through 1970 because summary data had not been compiled by the State agencies.

Program results showed that the State agencies did not:

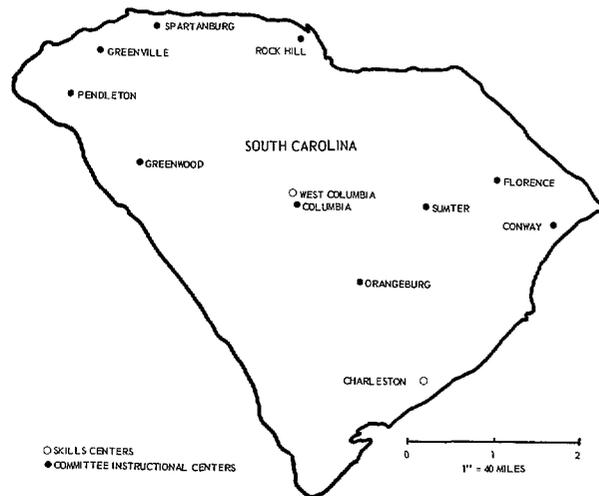
Make extensive and timely surveys to provide information for correlating training courses with the best available job opportunities. Skill training had to be planned on the basis of limited economic and employment data.

Provide intensive job development and placement services to help graduates obtain suitable jobs. Department of Labor evaluations of training operations in South Carolina repeatedly brought out the need for increased efforts to provide these services.

Furnish graduates and dropouts with followup services, such as counseling, additional training, job referral, or placement. Followup questionnaires were sent to graduates at 3- and 6-month intervals to ascertain their current employment status, but these were used mainly for statistical purposes and not for identifying those who needed further assistance in obtaining and retaining jobs. Followup questionnaires were not sent to dropouts.

Maintain adequate accountability and controls over training equipment purchased with Federal funds. Numerous items of equipment listed in the property records could not be located at the central warehouse or at three instructional centers.

SKILLS CENTERS AND INSTRUCTIONAL CENTERS IN SOUTH CAROLINA



The Departments of Labor and HEW had not established appropriate procedures to follow up on the adequacy of the State's actions to correct weaknesses in program operations. Such weaknesses had been reported in departmental evaluation studies.

The two Departments generally agreed with our recommendations and outlined corrective actions taken or to be taken to correct the problems cited. (Report to the Congress, B-146789, Apr. 11, 1972)

71. Operations and Management of Opportunities Industrialization Centers.—

The Opportunities Industrialization Center (OIC) program, patterned after a model developed in Philadelphia, Pa., in 1964 without Federal support, emphasized minority group leadership and sought to attract unemployed and underemployed persons who ordinarily had not been attracted to public agency-sponsored manpower programs. We reviewed the activities of five OICs which were jointly funded by the Departments of Labor and Health, Education, and Welfare (HEW) and the Office of Economic Opportunity (OEO) and which received Federal funds of about \$5.5 million during the period of the review. The five OICs reviewed had made some measurable progress in enrolling persons in the program, providing training and supportive services, developing jobs, and making job placements. In addition, community acceptance of OICs was evi-

denced by the large number of persons who sought their services. However, the operations and management of the five OICs needed to be improved if available resources were to be used more effectively and efficiently.

Specific eligibility criteria were needed to insure that available resources were used to reach and serve those most in need of program services.

The counseling programs could be improved by developing uniform techniques for determining the interests, aptitudes, and capabilities of each prospective or new enrollee; by providing regularly scheduled counseling; by maintaining more adequate records of counseling sessions; and by making greater efforts to determine the specific causes of early terminations and absenteeism to ascertain what steps might be taken to alleviate these problems.

The OICs needed to establish, for both the prevocational and vocational training components, standards against which an enrollee's needs, progress, readiness for advancement, and training completion could be objectively measured and standards which could be used by program management as a basis for determining the effectiveness of the components.

The OICs needed to periodically evaluate each skill area offered to determine whether its continuation was appropriate, in terms of enrollee interest and job-placement potentials.

There was a need for job-placement information to be more accurately and consistently classified and recorded to enable better assessment of program effectiveness and to insure more reliable and informative reporting of program accomplishments.

There was a need for followup contacts to be made with enrollees referred to, or placed in jobs, or with their employers (1) to insure that the enrollees were provided with all assistance necessary for obtaining and retaining stable employment and (2) to obtain information necessary to evaluate program effectiveness.

The monitoring and evaluation efforts would be more effective if they were made on a more systematic basis and responsibility for them were defined more clearly, if assessment of program effectiveness and compliance with contractual requirements were included, and if prompt actions were taken to implement needed improvements.

We suggested that the Congress consider, in its deliberation of manpower legislation, the information contained in our report on the problems in the operation

and management of the OIC program and, in particular, the need to centralize at the Federal-agency level the responsibility for the administration of the OIC program.

Labor, HEW, and OEO generally concurred in our recommendations and stated that the following specific actions were being taken to strengthen program operations.

Clearly defined and realistic criteria had been established for enrollment of the unemployed and underemployed.

Procedures were being formulated for measuring and evaluating enrollee progress toward completion of prevocational training. OEO agreed to assist Labor in improving the prevocational training component.

Procedures were being formulated for measuring and evaluating enrollee progress toward completion of vocational training, and the appropriateness of continuing certain vocational training courses was being evaluated.

A central records system had been implemented in all local OIC programs, and assistance would be provided to the OICs with respect to maintaining adequate records covering all aspects of enrollee activities from the initial recruitment through post-placement followup.

The OICs were being evaluated and monitored through a plan developed by the OIC National Institute in conjunction with Labor. An overall evaluation of OICs in 1972 was planned to assess the degree to which the OIC program achieved its stated objectives.

(Report to the Congress, B-146879, Apr. 20, 1972)

72. Opportunities for improving Manpower Programs.—We examined the combined impact of the nine federally assisted manpower training programs in the Atlanta, Ga., area. The programs provided direct manpower services to the disadvantaged and other poor, including training for about 10,300 persons and job placement for 5,600 persons, at a cost of about \$8 million to the Federal Government in fiscal year 1970.

We reported the following opportunities for improving the manpower services provided by the programs.

The Model Cities Program had not attained its enrollment goals in providing training opportunities for inner-city residents. Since the Concentrated

Employment Program (CEP) served the same inner-city target area and had one ongoing training program, the Model Cities Program could utilize, on a reimbursable basis, CEP as an agent for providing training. We questioned the continuation of the Model Cities Program training component as a separate effort.

There were significant differences among the programs in the methods used, in the length of time spent in assessing enrollees' needs, and in the training choices available to enrollees. Screening activities could be improved by consolidating responsibility for these activities, so that the entire range of vocational assessment services could be made available to meet the individual needs and desires of the program participants.

The Departments of Labor; Health, Education, and Welfare; and Housing and Urban Development (HUD) agreed with our recommendation for consolidating screening and manpower services; however, Labor favored continuation of the approach to screening that had been followed. HUD and Labor agreed to coordinate the manpower efforts between the Model Cities and the Concentrated Employment Programs.

We reported also that training allowances, which were determined in accordance with enabling program legislation, varied significantly among the several programs—differences in monthly payments could have been as much as \$145 for trainees with three dependents who were not welfare recipients. We suggested that the Congress consider legislation which would standardize training allowances under the federally assisted manpower programs. (Report to the Congress, B-146879, Jan. 7, 1972)

73. Problems in Accomplishing Objectives of the Work Incentive Program.—The Work Incentive Program (WIN) was designed to provide recipients of welfare under the Aid to Families with Dependent Children (AFDC) program with training and services necessary to move them from welfare dependency to employment at a living wage. We reported on a number of weaknesses in WIN's management information system, on their effects on determining the complete results of WIN, and on problems in program design which could be remedied only by legislative action.

WIN had achieved some success in training and placing AFDC recipients in jobs, which resulted in savings in welfare payments in some cases. The complete results of the program could not be determined readily, however, because of significant shortcomings

in WIN's management information system. Complete, accurate, and meaningful information was not generally available on program costs, benefits, or operations.

Because of its limited size in relation to soaring AFDC roles, WIN did not appear to have had any significant impact on reducing welfare payments. The success of WIN was determined largely by the state of the economy and the availability of jobs for its enrollees. WIN was not basically a job-creation program and, during periods of high unemployment, encountered great difficulty in finding permanent employment for the enrollees.

Fathers frequently lost money by going to work because their AFDC payments were discontinued when they obtained full-time employment, regardless of their wages. Mothers, on the other hand, continued to receive AFDC payments. The immediate cutoff of welfare payments to AFDC families with working fathers was unrealistic and tended to discourage fathers from seeking employment. We believed that family income should be the primary criterion for establishing AFDC eligibility, irrespective of whether the family head was male or female.

AFDC payments to mothers were not reduced fairly after they became employed. In Los Angeles a mother with three children might continue to receive payments, plus food stamps, and free medical and dental care for herself and her children, until her earnings exceeded \$12,888 a year. (Medical and dental care might continue even beyond this point if the family was medically needy.) In Denver a similar family might continue to receive benefits until the mother's income reached \$9,000 a year.

The effectiveness of sanctions applied against persons who refused to participate in WIN or to accept employment, without good cause, appeared questionable. Local officials had been hesitant to apply the sanctions because such application was administratively time consuming and penalized the entire family, not just the uncooperative individual.

Funding restrictions had severely limited implementation of the special work projects. The projects were provided by the law to subsidize employment for AFDC recipients who were considered not suitable for training or who could not be placed in competitive employment.

The Departments of Labor and Health, Education, and Welfare both agreed with our conclusions and recommendations and cited actions taken or being considered for improving management. Both Departments

also stated that the welfare reform provisions of proposed legislation, if enacted, should correct many of the problem areas we cited.

Because we believed that the designs of WIN and the AFDC programs could not be dealt with effectively by administrative action alone, we suggested that the Congress, during its deliberations on welfare reform, consider:

Making family income and family needs the principal criteria upon which AFDC eligibility determinations are based, irrespective of whether the family head is male or female or whether employment accepted by heads of families is full-time or part-time.

Adjusting the welfare cutoff provisions for both dollar payments and related supplemental benefits.

Examining the present penalty provisions of WIN and enacting legislation which would strengthen work incentive and work requirements.

Amending the Social Security Act to permit the use of regular WIN funds to subsidize the wages of enrollees in special work projects.

(Report to the Congress, B-164031 (3), Sept. 24, 1971)

74. Use of Consultants on Manpower Training Programs.—We made a survey of the manpower program study and evaluation reports prepared by private consultants and the impact the reports have had on the operations of the Manpower Administration, Department of Labor. During the initial stages of our survey, we became aware that over the past year the Manpower Administration had taken a number of actions designed to strengthen the contract administration and usefulness of the study and evaluation, research, and experimental and demonstration reports.

We noted the following matters which we believed warranted the attention of the Manpower Administration.

The Administration had been preparing position papers on its analysis of study and evaluation reports and making recommendations to appropriate management levels. However, a feedback procedure was not provided to show whether the position papers were useful at the decisionmaking levels. A feedback system could have positive benefits and would make the position papers a more effective and meaningful management tool.

The Administration had developed an internal procedure for following up on actions taken on its recommendations. Followups, however, were done by

an office that had no direct authority over program operations. The Administration should consider placing the responsibility for following up on specific policy changes at a more appropriate management level.

Federal procurement regulations provide that contracts should be awarded on a competitive basis to the maximum practicable extent. We observed, as did the Department's internal auditors, that research and experimental and demonstration contracts were being awarded almost entirely on a sole-source basis.

Several of the final reports we reviewed were not submitted on a timely basis by the contractors. Several reports were received more than a year after the date originally planned and were considered to be of no use to the Administration. Several were not even distributed internally. The establishment of the contract administration group by the Manpower Administration should, in our opinion, enable project officers to more effectively monitor contractor efforts and insure that reports are received on a more timely basis.

Several of the contracts reviewed provided for individual salaries in excess of the Department's limitations—the current maximum was \$22,000 per year. There could be exceptions to the limitation if the contracting officer prepared documentation fully and substantiated factually the reasonableness of higher rates. The contract files we reviewed, however, did not contain proper justification.

The Department of Labor had not responded to our report at the close of the fiscal year. (Report to the Assistant Secretary for Administration and Management, Department of Labor, Mar. 24, 1972)

75. Efforts To Employ Disadvantaged Persons in the Federal Government.—It is the policy of the Federal Government to hire the economically and educationally disadvantaged. Federal efforts to carry out this general policy fall into five categories: Government-wide employment efforts, individual agency programs, youth programs, federally assisted manpower training programs, and the Public Service Careers Program. We found there was a need for the Chairman of the Civil Service Commission to establish an improved system of reporting on Federal participation as host in manpower training programs and to require periodic reporting on the number of enrollees hired by Federal agencies after completion of the enrollees' training and work experience. We also found that there

was no assurance that persons enrolled in Federal employment programs for the disadvantaged were, in fact, disadvantaged.

In commenting on our findings, the Commission informed us that it was reviewing the feasibility of obtaining statistical data on enrollees' turnover under Federal manpower training programs and their subsequent appointment to permanent positions upon completion of their training. Regarding enrollees' eligibility, the Commission said that requiring an applicant for Federal employment to disclose information on family size and income to ascertain his status as disadvantaged would be an unwarranted invasion of privacy. Also, the Commission took the position that it could not legally limit entry into the competitive service on such nonmerit factors as those contained in the Department of Labor's definition of a disadvantaged person. We stated that specific legislation would be required if the Congress wanted the Civil Service Commission to have authority (1) to obtain and consider data needed to identify applicants as disadvantaged persons and (2) to afford preference to disadvantaged persons seeking employment. (Report to the Congress, B-163922, Apr. 17, 1972)

Medicare Program

76. Controls Over Extent of Care Provided by Hospitals and Other Facilities.—Under the Medicare program, eligible persons aged 65 or over are provided with protection against most of the costs of care provided (1) by hospitals during acute stages of illness and (2) by extended-care facilities (ECF's) when skilled nursing care is required on a continuous basis for a condition previously treated more intensively in a hospital.

The Social Security Administration (SSA) has primary responsibility for administering the Medicare program for the Department of Health, Education, and Welfare (HEW), which has contracted with (1) private organizations, called fiscal intermediaries, to assist SSA in reviewing and paying benefit claims and (2) the States to determine the eligibility of facilities to participate in the program.

To help control the cost of care provided to Medicare patients, legislation requires that each participating hospital and ECF establish a utilization review committee, consisting of at least two physicians, to review the medical necessity of patients' admissions to the

institutions, the care provided, and the duration of the patients' stays.

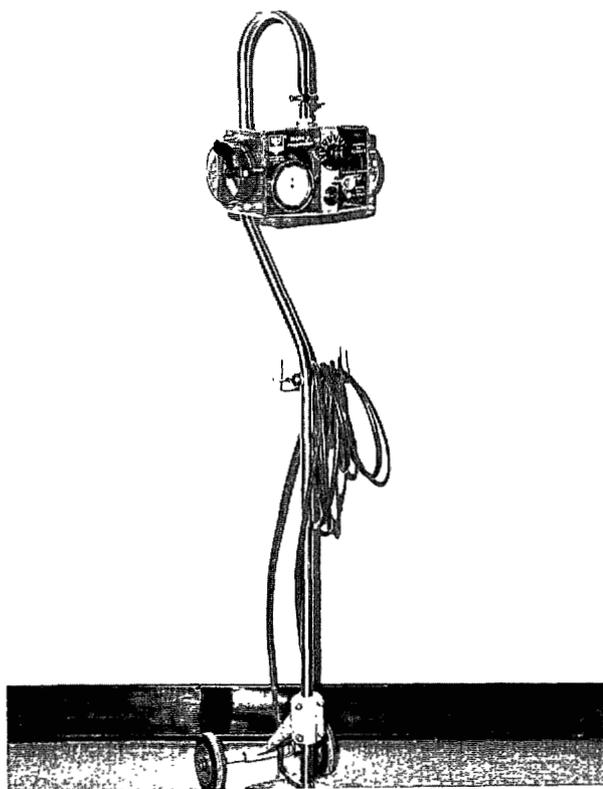
If the committee determines that the patient's stay in the institution is no longer medically necessary, it must notify the institution, the patient, and his attending physician within 48 hours after consulting the attending physician. Payment may not be made for more than 3 days of hospital or ECF services after the institution is notified.

Our examination of the utilization review procedures of selected hospitals and ECFs pointed up important problems in the manner in which the institutions had implemented the requirements for utilization review and in the controls being exercised over the functions by SSA, the fiscal intermediaries who paid the benefits claimed, and the State agencies.

In response to our recommendations, HEW agreed that additional practical measures were necessary to foster the role of utilization review committees. HEW outlined several actions which it had taken or proposed to take to improve the utilization review function. Among these was a program for presenting comparative data on lengths of stays for Medicare patients discharged from hospitals. This program was designed to identify those hospitals where the average length of stay differed significantly from other hospitals in the same geographic area. HEW estimated that, as a result of its actions, Medicare costs in fiscal year 1972 would be reduced by about \$60 million. (Report to the Congress, B-164031 (4), July 30, 1971)

77. Providing Durable Medical Equipment.—The Medicare law was not promoting the most economical ways of providing durable medical equipment—such things as wheelchairs, hospital beds, and respirators—used by Medicare patients in their homes. Medicare patients often rented durable medical equipment even when the periods of need—as estimated by their physicians—were long enough to justify purchase. On the basis of an analysis of samples selected from the claims of 20,000 patients at six Medicare insurance carriers in five States, we estimated that savings of nearly \$1 million could have been realized for the 20,000 patients if equipment had been purchased.

The original Medicare law provided only for rental of equipment for use in patients' homes. In January 1968 the Congress amended the law to authorize either purchase or rental, but for purchases of "expensive" equipment costing over \$50 Medicare pays in periodic



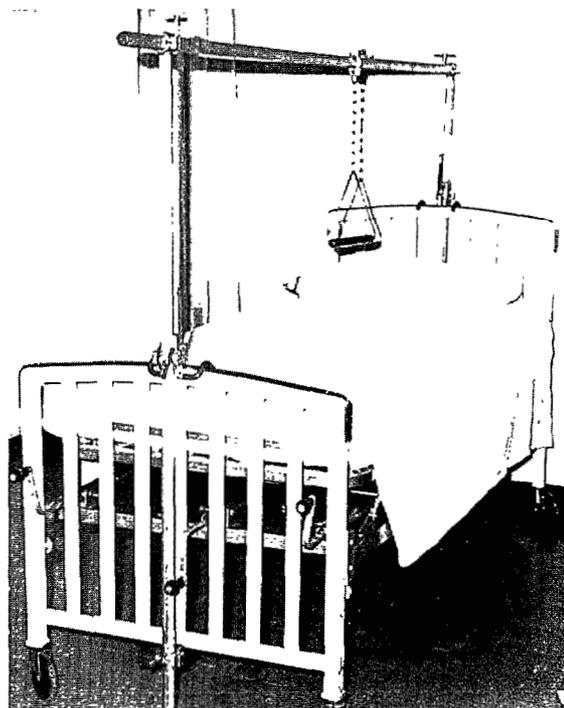
RESPIRATOR

RENTAL CHARGES FROM SEPTEMBER 1968 THROUGH AUGUST 1971	\$1,932.00
PURCHASE PRICE	396.00
EXCESS OF RENTAL CHARGES OVER PURCHASE PRICE	\$1,536.00

installments equal to rental payments. The amendment was intended to prevent Medicare payments for the purchase of costly equipment used or needed for only a short time.

If a Medicare patient dies, recovers, or is hospitalized, Medicare installment payments are stopped, even though the patient or his estate may not have been fully reimbursed for the purchase price. A factor that led patients to rent equipment even for long-term needs, was their inability to afford to make lump-sum purchase payments which were reimbursable by Medicare only through installments.

We recognized that the best solution to this problem might vary from area to area and believed that the Department of Health, Education, and Welfare (HEW) should have flexibility in finding the best solution in a given locality. We recommended that the Congress amend the Medicare law to authorize HEW to deal more effectively with the problem by giving HEW authority to (1) make lump-sum payments



TRAPEZE BAR MOUNTED ON MANUAL CRANK BED

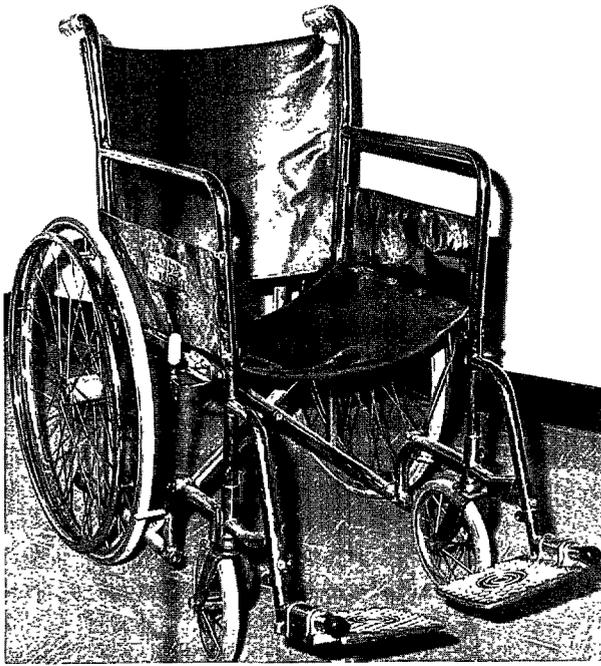
TRAPEZE BAR		MANUAL CRANK BED	
RENTAL CHARGES FROM DECEMBER 1967 THROUGH AUGUST 1971	\$342.07	RENTAL CHARGES FROM NOVEMBER 1967 THROUGH AUGUST 1971	\$1,654.20
PURCHASE PRICE	33.60	PURCHASE PRICE	283.50
EXCESS OF RENTAL CHARGES OVER PURCHASE PRICE	\$308.47	EXCESS OF RENTAL CHARGES OVER PURCHASE PRICE	\$1,370.70

for purchases of equipment when, on the basis of anticipated periods of need, purchase would be more economical than rental and (2) enter into agreements with suppliers to limit rental payments after they exceed the purchase prices by specified percentages.

HEW agreed with our recommendations. Further, on March 17, 1972, the Senate Committee on Finance announced that, in deliberating on the Social Security Amendments of 1971 (H.R. 1), it had decided to initiate an amendment to the Medicare law along the lines we recommended. (Report to the Congress, B-164031(4), May 12, 1972)

Mental Health Program

78. Improvements Needed in Management of Community Mental Health Centers Program.—The goal of the Community Mental Health Centers Program is to improve mental health services through Federal grant assistance for building and staffing the centers. The program was authorized by the Mental



ADULT WHEELCHAIR

RENTAL CHARGES FROM JULY 1969 THROUGH AUGUST 1971	\$550.50
PURCHASE PRICE	160.65
EXCESS OF RENTAL CHARGES OVER PURCHASE PRICE	\$389.85

Retardation Facilities and Community Mental Health Centers Construction Act of 1963. It is administered by the National Institute of Mental Health, Department of Health, Education, and Welfare (HEW). Each center is required to provide inpatient, outpatient, emergency, partial hospitalization (such as day care), and consultation and educational services.

HEW agreed to implement our recommendations for improving the administration of the program by (1) establishing a national goal for the number of centers to be built and supported by Federal funds and a time-phased program for meeting this goal, (2) initiating the Institute's plan to obtain adequate information on the financial needs and resources of recipients of staffing grants, (3) improving the administration of the staffing grant program through more comprehensive and timely onsite evaluations of newly established centers, adequate guidance to centers and review staffs on accountability for grant funds, and other means, and (4) obtaining settlements of overpayments made under staffing grants. Most of these recommendations were subsequently implemented. (Report to the Congress, B-164031(2), July 8, 1971)

Narcotic Addiction Treatment and Rehabilitation

79. Limited Use of Federal Programs to Commit Narcotic Addicts for Treatment and Rehabilitation.—The Departments of Justice and Health, Education, and Welfare (HEW) jointly administer narcotic addict treatment and rehabilitation services provided under titles I and III of the Narcotic Addict Rehabilitation Act of 1966, which authorized a Federal civil commitment program. Title I authorizes the pretrial civil commitment for treatment, in lieu of prosecution, of addicts charged with certain Federal crimes, and title III provides for the civil commitment for treatment of persons not charged with any criminal offenses.

We reported that pretrial civil commitment under title I of the act had not been used to the extent anticipated during the first 3 years of the program: only 179 addicts had been committed during the first 3 years compared with about 900 a year estimated before the act was passed. Also, about 57 percent of the persons who voluntarily applied for examination and evaluation of treatment potential during the first 3 years of the title III program were rejected as unsuitable for treatment by the two Public Health Service clinical research centers.

We attributed the shortfall in the title I program to (1) a lack of emphasis by U.S. attorneys on implementation of the program, (2) a preference by U.S. attorneys for posttrial commitments, and (3) the practice of referring addicts to State and local courts for prosecution when violations of State law were also involved. Referral of addicts to State and local courts excluded the addicts from eligibility for pretrial civil commitment. We noted that neither Justice nor HEW had directed its financial assistance programs toward the development of close working relationships between State or local courts and federally funded State or local narcotic addict rehabilitation programs, despite the recognition that the majority of crimes committed by addicts fell under the jurisdiction of State and local courts. With respect to the title III program, U.S. attorneys generally indicated that they did not regard their offices as appropriate intake points for requests from persons seeking treatment.

In response to our recommendations, Justice stated that, prior to the effective date of title I of the act, all U.S. attorneys had been instructed to encourage the use of this program by the courts. Justice cited other possible reasons for the limited use of the program and

pointed out that its use was wholly discretionary with the courts. Both Justice and HEW indicated that grant guidelines would be used to encourage development of State and local civil commitment programs. Although HEW did not concur with our proposal that grantees and contractors be used to perform certain intake functions under the title III program, primarily because the functions were believed to be largely legal in nature, HEW did agree that its current advisory role to U.S. attorneys could be expanded if additional resources were to become available. (Report to the Congress, B-164031(2), Sept. 20, 1971)

80. Narcotic Addiction Treatment and Rehabilitation Programs in Washington, D.C.—At the request of the Chairman, Subcommittee No. 4, House Committee on the Judiciary, we obtained information on programs concerned with the treatment and rehabilitation of narcotic addicts in several locations, including Washington, D.C. The request called for data on the (1) amount of money spent by governmental agencies on narcotic treatment and rehabilitation programs, (2) number of addicts being treated under various types of treatment, (3) goals of the programs, (4) criteria to measure accomplishments of the programs, and (5) efforts by sponsors to measure the effectiveness of programs. We were not asked to evaluate program performance.

We reported that the Narcotics Treatment Agency (NTA), which was organized in February 1970 as a part of the District of Columbia Government, carried out most of the addiction treatment programs in the District of Columbia and had set the following four primary goals in treating and rehabilitating addicts:

- Assist the addict in finding productive employment or job training.
- Stop illegal drug use.
- Eliminate criminal behavior.
- Keep the addict under treatment.

NTA had initiated several studies to determine how well its programs were achieving these goals. Data was periodically collected on employment status, urinalyses, arrest records, and duration of treatment for each patient in the studies. This data was summarized and evaluated at 6-month intervals. Results of the study after 18 months showed that:

For 450 adult patients, 84 (19 percent) met all program treatment goals and 124 additional patients (27 percent) had been in treatment for 18 months but had failed to meet one or more of the program

goals. Lack of employment posed the largest problem for this group.

For 150 youth patients, two (1 percent) met all program treatment goals and 18 additional youths (12 percent) remained in treatment but failed to meet one or more of the program goals.

We were informed by program administrators, counselors, and patients that NTA's operational needs included (1) additional and better trained staff members to provide more effective services to patients, (2) additional supportive services, such as job placement, training, and recreation for patients, and (3) better physical facilities. (Report to Subcommittee No. 4, House Committee on the Judiciary, B-166217, Apr. 20, 1972)

Pollution Control and Abatement

81. Adequacy of Motor Vehicle Certification Procedures.—We examined the adequacy of the motor vehicle certification procedures of the Environmental Protection Agency (EPA) and its capacity to oversee preparation of certification data by auto companies and their procedures for developing such data.

We reported that the number of EPA personnel assigned to certification activities had been insufficient to adequately perform all activities necessary to insure that auto companies complied with Federal certification regulations. We stated that, because of insufficient personnel and the lack of in-plant monitoring, EPA did not have reasonable assurance that the companies were complying with Federal regulations. EPA officials said that the Agency was considering several procedures for insuring the integrity of certification testing.

We presented certain facts and discussed the circumstances surrounding the violation of Federal certification regulations by the Ford Motor Company, which company officials attributed to a lack of proper management control over certification testing. They stated that some corrective action had already been taken and that a number of additional steps would be taken toward improvement.

Our report also included information on the certification test procedures of the General Motors Corporation, the Chrysler Corporation, and the American Motors Corporation. None of these companies had prepared written procedures, but officials of each stated that it was unlikely that unauthorized maintenance would be performed on their certification test fleet ve-

hicles without the knowledge of upper management personnel. (Report to the Chairman, Subcommittee on Air and Water Pollution, Senate Committee on Public Works, B-166506, June 12, 1972)

82. Assessment of Enforcement Efforts of the Water Pollution Abatement Program.—Enforcement of water quality requirements traditionally has been primarily the responsibility of the States. The Federal role, as administered by the Environmental Protection Agency (EPA), generally has been to take action when the States fail to act or when they request assistance. Our review of the Federal and State enforcement efforts in Florida, Georgia, Indiana, Massachusetts, New Jersey, and North Carolina showed that in the past both the States and the Federal Government relied heavily on voluntary compliance with water quality requirements and that few enforcement actions were taken against polluters. As a result only limited success was achieved in abating water pollution. After 1970 Federal and State programs improved substantially and enforcement actions were pursued vigorously. Even so, more could be done.

The policies and practices of some States led to more effective enforcement and should, in our opinion, be adopted by other States. Some States, for example, established time-phased interim dates in their plans requiring municipalities and industrial plants to construct waste treatment facilities. The States that used interim dates had more effective bases for measuring the progress in constructing waste treatment facilities and for taking timely enforcement action when progress lagged.

Other good practices included a close working relationship between the State pollution control agency and the State attorney general's office and an effective system for monitoring the progress of polluters in abating pollution.

Federal enforcement under the Federal Water Pollution Control Act was hampered by the lack of authority to enforce specific restrictions. Enforcement action against a polluter had to be based on a showing that waste discharge reduced the quality of the water below established standards or endangered health and welfare, which might be difficult and costly. The use of effluent restrictions would permit treatment requirements to be set before pollution became a problem and would facilitate enforcement action, because evidence of a failure to meet the restrictions would be sufficient grounds to start enforcement proceedings.

The act also did not permit swift enforcement action. A minimum waiting period of 6 months was required between the date that EPA notified a polluter of the violation and the date that EPA could refer the case to the Department of Justice for court action.

The Refuse Act provided EPA with more effective enforcement authority with regard to industrial plants discharging wastes into navigable waters. Under the act, EPA and the Corps of Engineers implemented a permit program to regulate the discharge of industrial pollutants into navigable waters. Violators could be referred without delay to the Department of Justice for court action. The act, however, did not provide EPA with the comprehensive authority needed to adequately carry out Federal enforcement because municipalities discharging sewage in a liquid state and industrial plants discharging wastes into municipal sewers generally were not subjected to enforcement proceedings. In addition, enforcement authority was split between EPA and the Corps.

Some Federal enforcement actions were taken without coordination among the Federal agencies concerned and/or without consultation with the State water pollution control agencies. The lack of coordination among the Office of Water Programs, EPA; U.S. attorneys; and State water pollution control agencies, in some cases, resulted in duplication of State and Federal efforts and caused confusion among polluters as to which agency had responsibility for enforcement. During 1971 both the Department of Justice and EPA issued guidelines designed to promote coordination among Federal and State enforcement agencies.

EPA agreed, in general, with our conclusions and said that it was acting to resolve the problems. The Corps of Engineers, the Department of Justice, and the six State water pollution control agencies also agreed, in general.

The enactment and effective implementation of legislation pending before the Congress when we issued the report should resolve the major problems discussed in the report. The legislation would:

- Expand Federal authority over municipal discharges into all navigable waters.

- Authorize the establishment and enforcement of specific effluent limitations.

- Establish a comprehensive permit program.

- Facilitate swift enforcement action.

- Require a water quality inventory.

(Report to the Congress, B-166506, Mar. 23, 1972)

83. Cleaner Engines for Cleaner Air: Progress and Problems in Reducing Air Pollution From Automobiles.—The Congress, in the 1965 amendments to the Clean Air Act, called for a Federal program to reduce air pollution from cars by prohibiting the sale of new cars—domestic and foreign—that did not conform to Federal emission standards. Further amendments in 1967 provided for Federal assistance to States to develop programs for on-the-road inspections to insure that cars would continue to meet the standards. Our review of the Environmental Protection Agency's (EPA's) progress and the problems encountered in controlling auto-caused air pollution showed that some progress had been made but that much remained to be done before the desired control over pollutants from cars was achieved.

EPA's program provided for testing emissions during three stages of a car's life cycle—design, production, and actual use. In the design stage EPA had been testing and certifying prototypes since the 1968 model year, but there were a number of weaknesses in the certification program. Starting with the 1972 model year, however, a number of changes were made which should result in a more effective certification program.

Although we believed that EPA had authority in 1965 to test emissions from cars as they came off the assembly line, an assembly-line test program had not been developed. EPA's goal was to begin testing on 1973 model cars, but the testing was delayed until the 1974 model year because a number of problems had to be resolved—problems that might have been resolved earlier had EPA initiated efforts several years before to develop an assembly-line testing program.

We reported that even less progress had been made in the final, and perhaps most important, step—the periodic inspection of a car's emission throughout its useful life. Tests of cars in actual use showed that their emissions often exceeded the standards applicable to the certified prototypes. EPA had awarded a few grants to State and local governments to develop highway inspection programs, but it informed us that implementation of an effective nationwide highway inspection program was 2 to 4 years away. Although various programs were being considered, EPA hoped to achieve some measure of control over the emissions from cars on the road through a recall program planned for 1972 models.

The recall program had one inherent weakness, however, in that the return of cars to the manufacturers for modifications when emissions exceeded established

standards was voluntary. The manufacturers were required to notify owners whose cars' emissions exceeded standards, but the owners were not required to have the emission control systems modified. We recommended that the Congress consider the need for additional legislation to require car owners to return their cars for modification, if they have been notified that their cars' emissions exceeded established standards.

We reported also that EPA's efforts to research, develop, and test control devices for conventional automobile engines were limited because EPA did not (1) have adequate financial resources, (2) obtain detailed information from the automobile manufacturers on a timely basis, and (3) disseminate all available information to interested persons.

In addition, we noted that resources committed to the search for a low-polluting alternative to the internal-combustion engine had been considerably less than those considered necessary to accomplish the program objectives by 1976. EPA's allocation of the limited resources to many types of engines, including those with little likelihood of timely success, slowed the research and development work related to the more promising engines. In July 1971 EPA decided to discontinue work on engine systems requiring long-term development and to concentrate its resources on the most promising engines; namely, the gas turbine, the Rankine cycle engine, and the stratified-change engine. (Report to the Congress, B-166506, May 15, 1972)

84. Federal Efforts To Implement the National Environmental Policy Act of 1969.—Section 102 of the National Environmental Policy Act of 1969 (Public Law 91-190) requires all Federal agencies to prepare detailed environmental impact statements on proposals for legislation and other major actions significantly affecting the quality of the human environment. Our review of seven selected agencies' implementation of section 102 showed that its requirements were not being carried out uniformly and systematically.

Most of the agencies did not complete environmental statements in time for them to accompany proposals through all agency levels of review to be used in the early stages of decisionmaking. They also did not effectively review the results of plans to insure that the environment was protected as anticipated.

The agencies' methods of preparing environmental impacts statements did not appear to be useful as guidelines for officials in defining the actions for which environmental statements were required or in deter-

mining the range of environmental impacts to be considered. The Council on Environmental Quality provided little guidance to the agencies concerning the range of impacts to be considered in environmental statements. Similarly, none of the agencies had defined in their procedures for preparing the statements the full range of impacts and alternatives that should be considered.

Although the seven agencies recognized the need for public participation, their procedures varied significantly in the use of mailing lists, news media, and public hearings. Also their efforts to achieve public participation seemed less than what was intended by either the act or the guidelines from the Council.

While the seven agencies had established some procedures for obtaining views and comments from other Federal, State, and local agencies on proposed actions, a systematic approach for identifying and obtaining environmental expertise was lacking in most agency procedures.

In assisting the agencies to resolve issues, the Council on Environmental Quality generally adopted an advisory approach, communicating its views informally on both environmental statements and procedures, and relying upon the agencies to resolve any issues raised.

The Environmental Protection Agency had not met its legislative responsibility on a timely basis to make public its comments on agency impact statements and to review and comment on proposed Federal agency procedures for preparing statements.

Except for water resources projects, the Office of Management and Budget did not require the agencies to furnish environmental impact statements as a prerequisite for legislative proposals significantly affecting the environment. Thus only a limited number of statements had been so prepared.

The agencies generally agreed that improvements were needed in implementing the act and that our findings and conclusions would be helpful in refining their procedures. (Report to the Chairman, Subcommittee on Fisheries and Wildlife Conservation, House Committee on Merchant Marine and Fisheries, B-170186, May 18, 1972)

85. Limited Impact of the Solid Waste Disposal Demonstration Grant Program.—The major goal of the Solid Waste Disposal Act of 1965 was to provide a Federal program to aid in the development of new and improved methods of solid waste disposal, including reduction of the amount of solid wastes and re-

covery and reuse of recyclable solid waste material. The Environmental Protection Agency's (EPA) demonstration grant program was supposed to be the primary mechanism to test newly developed solid waste disposal technology on a full scale basis.

We reported that EPA's grants had had limited impact on the national solid waste disposal problem. Few grants had been awarded for projects primarily concerned with recycling—cited by many, including the Senate Committee on Public Works, as the only long-term solution to the solid waste problem. Some funds granted for the purpose of demonstrating new and improved techniques were, in reality, merely for refinements of existing disposal methods. In one case, the equipment or facility funded by a program grant to demonstrate new methods or uses was not used by the grantee in the intended manner.

To improve the effectiveness of the program, we proposed that EPA:

- Establish specific goals for the demonstration grant program and a plan for meeting these goals.

- Establish criteria for evaluating project proposals.

- Identify priorities and establish procedures to insure that the priorities are made known to prospective grant applicants.

- Establish procedures to insure that facilities and equipment are being used for their intended purposes and that project results are promptly obtained, evaluated, and disseminated to potential users.

- Place greater emphasis on the selection of civilian personnel as project officers.

- Promulgate formal written policies on the functions, duties, and responsibilities of project officers and establish a basic orientation and training program for new officers.

- Require that Office of Solid Waste Management personnel follow up on actions taken by grantees to implement plans developed under all completed study and investigation projects.

We proposed also that EPA, in establishing goals and priorities, place greater emphasis on the need to develop and demonstrate new methods, devices, and techniques of solid waste disposal—particularly those related to resource recovery and recycling—which have potential for national or widespread use.

The Agency generally agreed with our proposals and stated that it had taken or planned to take appropriate steps to implement them. (Report to the Congress, B-166506, Feb. 4, 1972)

85a. Alternatives to Secondary Sewage Treatment Offer Greater Improvements in Missouri River Water Quality.—

The Environmental Protection Agency (EPA) is authorized to award grants to States and municipalities for constructing sewage treatment facilities if enforceable water quality standards have been established. The legislation empowering the grants does not specify the minimum levels of sewage treatment necessary to meet the water quality standards. EPA, however, is requiring the States along the Missouri River to provide secondary sewage treatment by 1975 for municipal wastes entering the river. The cost of providing secondary treatment along the Missouri main stem is estimated at \$206 million.

To enforce its requirements, EPA has advised State and local officials that the Federal Government will not participate in the cost of constructing sewage projects along the river unless the States include secondary treatment in their water pollution control programs.

We believe that water pollution control programs along the Missouri River main stem would be more effective if available Federal funds were used to construct or improve primary plants and sewer systems to prevent raw sewage from entering the river rather than to provide secondary treatment at this time. Tests have shown that the dissolved-oxygen levels in the Missouri River currently are above the minimum required by State standards. However, untreated sewage, producing offensive conditions, is pouring directly into the river at certain locations. Many projects for constructing or improving primary treatment facilities or interceptor sewers to channel sewage to primary treatment plants are being delayed until after 1975 to concentrate on providing secondary treatment required by EPA.

We recommended that EPA reconsider the timing of the requirement for secondary treatment of municipal wastes along the Missouri River in the light of conditions existing along the river and the nature of the sources of its pollution. Also, the Administrator should determine whether greater public benefits would be attainable sooner from expenditures for pollution abatement projects other than secondary treatment projects.

EPA agreed that the conditions existing in the river, the sources of pollution, and the intended uses of the water should be considered in determining the level of treatment required. State and local officials with whom we discussed the matter agreed that construction of secondary treatment plants would divert funds from

other projects which might provide more immediate results. (Report to the Congress, B-125042, Jan. 6, 1972)

Soil and Water Conservation

86. Conservation Benefits Under the Rural Environmental Assistance Program.—Under the Rural Environmental Assistance Program, the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, shares with farmers the cost of carrying out practices to build soil and conserve soil and water. The Federal cost share is usually 50 percent.

We believe that funds provided for the program could be more effectively used if (1) the authorizing legislation were amended to eliminate a provision for increases in small payments to farmers, (2) certain ineffective conservation practices were eliminated from the program, and (3) the administration of the program were improved.

A 1938 amendment to the Soil Conservation and Domestic Allotment Act states that, if a farmer receives Federal cost shares totaling less than \$200 a year for carrying out conservation practices on a farm, he will be paid an additional nominal amount. The intent of this provision was to provide greater financial assistance to operators of small farms. However, the nominal payments—which ranged from 40 cents to \$14 each—do not further the program's objectives and are an administrative burden. We recommended that the Congress amend the act to eliminate the nominal payments and thereby free about \$7 million annually which could be used to enable thousands of additional farmers to participate in the program. No change had been made in the act by the end of the fiscal year.

We reported also that:

Although significant soil and water conservation benefits had been realized under the program, our review in five States showed that substantial amounts of funds had been spent on practices that had not produced any appreciable conservation benefits, had not stimulated agricultural production, or had not provided lasting conservation benefits.

Program funds were allocated to the States on the basis of the estimated amount of money needed annually by each State for soil and water conservation, but the method of allocating funds to the States did not provide sufficient flexibility to meet each State's conservation needs because ASCS did not make re-

alistic adjustments as provided for in the authorizing legislation.

ASCS had not provided the States with guidelines for developing specific priorities at the State and county levels directed at solving their most urgent conservation problems. Corrective action was initiated when we reported this matter to ASCS.

ASCS did not have reporting procedures for informing its management at the State and national levels about the progress of program activities, by conservation practice, at the county level. We believe that such information on a periodic basis would enable management to better direct the program.

The Department agreed in general with our recommendations. It said that a number of practices which we had questioned had been eliminated from the program and advised us of additional actions which had been or would be taken with respect to other problems. (Report to the Congress, B-114833, Feb. 16, 1972)

Unemployment Services

87. Impact of a Computerized Job Bank.—

Finding jobs for unemployed persons is one of the most important functions of the Federal-State employment security program which is funded by the Department of Labor. The introduction of job banks was intended to provide job market information more quickly and on a broader scale so as to increase the effectiveness of the job placement process.

Maryland's Department of Employment Security established a job bank in Baltimore in May 1968 which was adopted by the Department of Labor as a prototype for job banks in other metropolitan areas throughout the country. By June 1971 job banks had been established in 88 metropolitan areas throughout the country at a cost, in fiscal year 1971, of about \$14.3 million.

We reported on the impact of the Baltimore Job Bank and discussed a number of weaknesses in the operation of the Federal-State employment security program in the Baltimore area.

The Baltimore Job Bank had improved several of the employment services provided to employers and to job seekers, as noted below.

Daily updated information on job openings was made available to all job applicants registering at any State agency's office and at the offices of other agencies involved in job placements.

State agency interviewers no longer contacted employers to solicit jobs, which eliminated the numerous solicitations employers previously had complained about.

The number of applicants referred to employers was brought under effective control.

In its first 2 years of operations (through May 1970), however, the job bank had no appreciable impact in terms of the number of applicants placed and in the use made by employers of the agency's services. We noted a significant increase in job openings and in new registrations, a small increase in job referrals, and a decrease in job placements in each of the 2 years. Further, our tests showed that the number of job placements reported by the State agency had been overstated by 21 percent, which indicated the need for obtaining more reliable information on job placements. It was not possible to verify the increases in job placements reported, because the criteria for classifying persons as disadvantaged had been revised by the Department several times and factors considered in determining whether applicants were disadvantaged were not documented or consistently applied.

The employment services provided by the State agency needed to be improved in several areas if the potential benefits available through utilization of the job bank were to be realized. We noted that opportunities existed for improvements in interviewing and counseling applicants, job development, and followup on reported job placements. Also, steps needed to be taken to increase the use of the job bank by all Federal, State, and local organizations involved in manpower activities in the Baltimore area.

We presented a series of recommendations for the Department of Labor to correct the weaknesses and strengthen the deficiencies we had noted. The Department generally agreed with the recommendations and advised us of corrective actions it was taking. (Report to the Congress, B-133182, Apr. 27, 1972)

Wage Rate Determinations

88. Administration of Minimum Wage Rates Under the Davis-Bacon Act.—

In a series of reports issued between June 1962 and August 1970, we informed the Congress of the manner in which the Department of Labor—under the Davis-Bacon Act and related legislation—had made minimum wage rate determinations for selected major federally financed

construction projects. Our reviews covered wage rate determinations for 29 selected construction projects, including military family housing, low-rent public housing, federally insured housing, and a water storage dam. We estimated that, as a result of minimum wages' being established at rates higher than those actually prevailing in the area of the project, construction costs had increased from 5 to 15 percent. This increase amounted to about \$9 million of the total \$88 million in construction costs involved in these projects.

Higher wage rates not only increase the costs borne by the Federal Government but also can adversely affect the economic and labor conditions in the area of the project and in the country as a whole. The inflationary impact of minimum wage determinations was highlighted by the President when he temporarily suspended the Davis-Bacon Act and related legislation in February 1971 because of the severe inflationary pressures existing in the construction industry.

The concept of the Davis-Bacon Act was that payment of prevailing wages would preclude the depressing of local wages but would not be inflationary and therefore would not bring about unreasonable increases in the cost of federally supported construction. We believed that these objectives could and should be achieved through a more reasonable implementation of the act and by an improvement in the wage determination process in the following respects.

The Department needed to identify the classifications of workers for which determinations should be made. In some cases the Department applied the wage rates of one classification to another classification without investigating the rates paid to each.

In defining the geographical area for which prevailing wages were to be determined, the Department, in some cases, had gone beyond the county in which the project was located and applied rates from other, sometimes nonadjacent, counties or from another State having different labor conditions.

In many cases the Department had not distinguished between different types of construction, such as commercial and residential, although significant variances existed between labor rates applicable to these two types of construction. Often wage determinations had applied to the higher rates for commercial building construction and had disregarded the rates for residential construction.

The department had placed undue emphasis on wage rates established in prior determinations or rates included in collective-bargaining agreements,

without verifying whether such rates were representative of the rates prevailing on similar construction in the area. These practices could be attributed to the fact that the Department had not compiled sufficient up-to-date and accurate information on prevailing basic wages and fringe benefits.

To obtain up-to-date information—including data on wage patterns and labor practices in specialized industries—the Department needed the cooperation of the Federal agencies which financed construction projects.

The Department's wage determinations did not generally prescribe separate rates for helpers and trainees. We believed that, when local labor practices recognized these categories, separate rates would assist in lowering construction costs and encourage contractors to hire semiskilled and untrained persons on Government-financed projects. Such a procedure could be particularly desirable in areas of hard-core unemployment.

The Department agreed to take action on our recommendations to (1) formulate explicit guidelines and criteria covering the principal elements of adequate wage determinations, (2) implement improved procedures for collecting needed data on basic wages and fringe benefits, (3) establish with the principal Federal agencies financing construction contracts a formalized and continuing working relationship for the exchange of pertinent wage information, and (4) require that, where appropriate and in accordance with labor practices, helper and trainee classifications be included in its wage determinations.

We suggested that the Congress consider a revision of the Davis-Bacon Act to increase the minimum contract cost (presently \$2,000) subject to wage determination. We stated that an amount between \$25,000 and \$100,000 would be more representative of present-day costs of construction projects. Also an increase in the minimum contract cost would substantially reduce the number of wage determinations to be issued by the Department and thereby lessen the administrative burden imposed on it (and on the contracting parties) without appreciably affecting the wage stabilization objectives of the act. (Report to the Congress, B-146842, July 14, 1971)

Water Resources Development Program

89. Environmental and Economic Problems Associated With the Development of the Burns

Waterway Harbor, Ind.—The Secretary of the Army is authorized by Public Law 89-298 to reimburse the State of Indiana for the construction of such parts of the Burns Waterway Harbor as are approved by and constructed under the supervision of the Chief of Engineers. The same law requires Indiana to furnish assurances satisfactory to the Secretary of the Army that air and water pollution will be controlled to the maximum extent feasible in order to minimize any adverse effects on public recreation areas.

The Deputy Director, Bureau of the Budget, now the Office of Management and Budget (OMB), recommended authorization of the project subject to the condition that, prior to the expenditure of funds for construction, local interests assure the Secretary of the Army that adequate transfer and terminal facilities would be constructed on a self-liquidating basis. The Secretary agreed and stated he would require binding assurances.

We believe that pollution from existing and future development in the Burns Waterway Harbor area, unless adequately controlled, will have a detrimental effect upon the Indiana Dunes National Lakeshore Park area, which is currently being developed in the general vicinity of the harbor.

We also questioned the adequacy of the assurances obtained by the Corps from the State that the arrangements and schedules for providing public terminal and transfer facilities would support the traffic on which the Burns Waterway Harbor project benefits were based and that such facilities would be financed on a self-liquidating basis.

In response to our recommendation, the Departments of the Army and of the Interior and the Environmental Protection Agency agreed to coordinate their efforts to insure that the Dunes recreational area would not be adversely affected by the industrial development. The Department of the Army stated that Indiana's assurances had been interpreted to mean that the State's ability and intent to provide the landward facilities on a schedule that would meet the need for developing traffic had been demonstrated. (Report to the Congress, B-160199, Sept. 20, 1971)

90. Land Rights on Watershed Projects.—The Soil Conservation Service (SCS), Department of Agriculture, provides technical and direct financial assistance to State and local organizations for watershed improvements to prevent floods; to reduce damage from floodwater, sediment, and erosion; and to conserve, develop, utilize, and dispose of water.

Many of the projects which had received SCS planning assistance had been terminated prior to completion or their construction had been delayed primarily because project sponsors had failed to acquire or had delayed in acquiring the land, easements, or rights-of-way needed for the projects. These failures and delays had resulted in (1) expenditure of Federal, State, and local funds for planning and installation costs on projects that might never be completed, (2) significant increases in project costs due to general rises in construction price levels, and (3) long delays in realizing benefits from projects that might eventually be completed.

We asked SCS whether anything could be done to provide assurance that construction of projects, once planned and approved, would not be terminated prior to completion. In reply SCS said that it had taken, or proposed to take, certain actions concerning preplanning assessments of project sponsors' abilities and willingness to acquire land rights. If carried out, these actions should provide greater assurance that construction of future projects will not be terminated or delayed because of land rights problems.

We suggested that the Congress consider requesting SCS to examine into and report on problems and other matters with respect to 10 major projects which were authorized in 1944 but had not been completed. Information provided by such an examination, along with this report, would provide the Congress with a basis for evaluating the need for completing the projects, the desired timeliness of completion, and the need for specific legislative actions to facilitate completion. (Report to the Congress, B-144269, July 13, 1971)

91. Observations on Dredging Activities and Problems.—The Corps of Engineers (Civil Functions), Department of the Army, is responsible for improving and maintaining navigation channels and harbors in the United States. The Corps uses its own dredging equipment and also contracts with private dredging firms.

The Corps' dredging equipment consists of two main types—hopper and pipeline—and is widely dispersed along the coasts and interior waterways of the Nation. The hopper dredges—self-propelled, oceangoing vessels which work in the large coastal harbors—are being used efficiently throughout the country. However, the pipeline dredges—dredges of lesser mobility which dump the material from the dredging sites via floating pipelines to disposal areas—are not being fully used. We believe that the Corps should consider realistically

alternative means of accomplishing its pipeline dredging workload prior to rehabilitation or replacement of pipeline dredges.

We reported also that there was a general lack of coordination among district offices of the Corps which led to inconsistencies in cost estimating and cost accumulation procedures and practices. The Corps' method of developing Government estimates for bid purposes, based on fair and reasonable contract costs plus 25 percent, was inconsistent with existing legislation which required that estimates be based on in-house costs plus 25 percent. In addition, the Corps had allowed certain low bidders on dredging contracts to reduce their bids voluntarily after bid opening to get within the legislative limitations.

In response to our recommendations, the Corps agreed to (1) undertake a comprehensive study of its pipeline dredging requirements, (2) make regulatory changes to reduce inconsistencies in cost estimates and cost accumulation procedures and practices, (3) hold periodic cost-estimating conferences to insure uniformity and realistic consideration of the critical factors affecting dredging estimates, and (4) revise its regulations to prohibit the practice of low bidders' voluntarily reducing their bids after bid opening.

In view of the existing and continuing magnitude of the dredging program, the mutually dependent relationship between the Corps and the private dredging industry, and the estimated cost of maintaining and replacing existing Corps dredges, we recommended that the Congress provide guidance to the Corps as to what the role of the Federal Government should be in meeting the future national dredging requirements. We believed that the Corps had the alternatives of (1) maintaining the current level of effort with the existing Corps plant, (2) taking over a larger share of the program by expanding the Corps' plant capability, or (3) curtailing the Corps' role and/or getting out of dredging completely.

We recommended also that, if the requirements of 33 U.S.C. 624 were determined to be a current expression of congressional intent, the inconsistency of the Corps' current practice be considered in future dealings with the Corps. Should the specific requirement of the law no longer be deemed appropriate, we recommended that the language be amended to permit the development of Government estimates for dredging contracts on a basis comparable to normal contracting practices of other Federal agencies and consistent with the requirements of the Armed Services Procurement Regu-

lations. (Report to the Congress, B-161330, May 23, 1972)

92. Recovery of Dredging Costs.—In a report to the Congress (B-118634, Dec. 29, 1966) we proposed that the Corps of Engineers (Civil Functions), Department of the Army, require industrial companies to stop depositing waste solids into navigable waters unless a permit was obtained authorizing such deposits and requiring that plants share in the cost of dredging.

Our followup review showed that the Corps had negotiated only a few cost-sharing agreements. Corps officials told us that they had not been able to identify all of the companies who were depositing solids nor the extent to which the deposits formed shoals obstructing navigation. They indicated, however, that a new permit program, established pursuant to Executive Order No. 11574, dated December 23, 1970, would correct the problem. (Report to the Secretary of the Army, B-118634, Feb. 1, 1972)

93. Reevaluation of Federal Power Transmission Rates.—Wheeling rates—fees charged for transmitting non-Federal power over Federal transmission systems—in effect in fiscal year 1970 had not been adjusted for changes in costs and other factors that had occurred after the rates were established in 1956. Wheeling revenues received in 1970 by the Bonneville Power Administration (BPA), Department of the Interior, were inadequate to recover the cost of providing wheeling services.

We recommended that the Department of the Interior:

Establish a policy providing specific criteria as to cost elements or other factors to be considered by the power agencies in developing wheeling rates.

Require the power agencies to periodically reevaluate the adequacy of wheeling rates and to apply the rates consistently.

Require BPA to amend its existing contracts at the earliest possible date to eliminate reductions in wheeling charges to customers who purchase Federal power and to customers who provide lines connecting their generators to Bonneville's transmission system.

The Department generally disagreed with our recommendations; however, we believe that the actions we recommended are necessary to recover from wheeling customers the full cost of providing services and should be implemented. (Report to the Congress, B-114858, Sept. 29, 1971)

Miscellaneous

94. Processing of Claims for Black Lung Benefits.—In response to a question as to why the Social Security Administration (SSA) awarded benefits to a higher percentage of claimants from Pennsylvania than from West Virginia, we reported that miners of anthracite coal were more likely to become afflicted with black lung—a chronic disease of the lung caused by inhalation of coal dust—than were miners of bituminous coal. From 1920 through 1969, one-half of the miners employed in Pennsylvania worked in anthracite coal mines and one-half worked in bituminous coal mines; all of the miners employed in West Virginia during this period worked in bituminous coal mines.

Other reasons were that in Pennsylvania:

Miners had more coal-mining experience and therefore presumably more exposure to coal dust.

Miners were older and certain criteria for determining eligibility were more lenient for older miners.

Claimants often had evidence readily available to support claims for benefits (as a result of the Pennsylvania workmen's compensation program which covered coal workers disabled by black lung since 1965).

West Virginia claimants did not have as great an advantage because that State did not have a workmen's compensation program for black lung until July 1969.

In response to a question concerning a disparity between States in the number of claims filed in relation to the number of employed coal workers, we reported that, although more coal miners were employed in West Virginia than in Pennsylvania as of January 1970, Pennsylvania employed twice the number of miners as West Virginia during the period 1920–69. We said that this may explain why more claims had been filed in Pennsylvania than in West Virginia.

SSA advised us that its policy had been and continued to be to provide equal treatment in processing claims, regardless of the States in which they were filed. SSA statistics indicated, however, that Pennsylvania claims were processed slightly faster than West Virginia claims.

Administration representatives explained that, due to the Pennsylvania workmen's compensation program, many Pennsylvania claimants had, at the time of filing their claims, much of the evidence required for SSA to adjudicate their claims and that the availability of this evidence contributed to the faster processing of their claims. (Report to the Chairman, Special Subcommittee on Investigations, House Committee on Interstate and Foreign Commerce, B-170686, Aug. 3, 1971)

INTERNATIONAL ACTIVITIES

Foreign Assistance Programs

95. U.S. Participation in Foreign Aid to Indonesia.—The new Indonesian Government was formed following the aborted Communist Coup in the fall of 1965. The United States—and other Western nations—responded to a request of the new Government by providing assistance to help Indonesia rebuild its shattered economy.

Basic U.S. policy has been to limit direct involvement in Indonesian affairs by providing most of its assistance through a consortium of donors formed in 1967. The United States provided \$646 million of the \$1,688 million in economic assistance committed by the consortium donors through March 1971.

The United States has also provided substantial aid outside the framework of the consortium (over \$110 million in military and additional economic assistance through June 1970) and, together with the other creditor nations, has agreed to reschedule the excessive external debt which the new government inherited from the former regime.

Although the economic benefits to be achieved by the United States as a result of U.S. aid have not been a prime consideration in the formulation of U.S. assistance policy, relatively greater economic benefits will probably accrue to the other consortium members as a result of Indonesia's development, notwithstanding the fact that the United States is, by far, the largest donor.

We found that:

The United States had increased its percentage share of multidonor assistance costs significantly above that anticipated (one-third of the total bilateral requirements) when the consortium was formed.

Whereas other assistance donors were financing commodities which contributed to their long-range trade potential, a major share of U.S. assistance consisted of those types of assistance, such as readily consumable goods, which were much less attractive in terms of long-range trade advantages.

U.S. products were noncompetitive in comparison with those of other donors. This was illustrated by the fact that, even though the terms of U.S. assistance loans were more liberal than those of other major donor countries, usage of the U.S. loans was slow.

We told the Congress that, in view of the changing complexion in comparative economic strengths of other donors and potential donors, the economic benefits to be gained by the United States in relation to those to be gained by other nations seemed to warrant increased attention in the formulation of U.S. assistance policy. We also reported that U.S. assistance dollars will, in effect, contribute to the repayment of Indonesia's debts to Communist countries. Since these factors have a bearing on U.S. foreign assistance policy, the Congress may wish to review these matters with the Department of State and the Agency for International Development (AID).

We believe the issues raised are particularly pertinent at this time, inasmuch as U.S. assistance to Indonesia is provided under a multilateral framework heralded as the coming thing in foreign assistance.

The Department of State and AID stated that expanding U.S. exports was not the purpose of U.S. assistance and that some U.S. assistance had a favorable effect on long-term trade expansion. They added that, if Communist countries were to make new offers of foreign aid to Indonesia, debt repayments to Communist countries would be directly offset, in whole or in part, by Communist aid and trade. (Report to the Congress, B-172450, Sept. 7, 1971)

96. Alleged Mismanagement of a Peruvian Highway Project.—In 1964 the Agency for International Development (AID) and the Export-Import Bank of the United States approved \$35.1 million for financing construction and design costs of the Tarapoto-Rio Nieva Highway Project in Peru. The Government of Peru's share of the project was about \$12 million, which brought the total financing to about \$47 million.

SECTION I

As of October 1971 approximately \$16.3 million of the U.S. funds had been disbursed.

To provide engineering services and project control, Peru engaged a U.S. firm as project consultant. Construction work was begun on the project early in 1966 by an international consortium headed by another U.S. firm as contractor. Beginning in January 1967 numerous problems and disagreements arose among the consultant, the contractor, and the Government of Peru over interpretation of contract terms and construction methods, primarily concerning the cause and removal of, and payment for, large landslides that had occurred on the project. By February 1970, both the consultant and the contractor were no longer working on the project and the Government of Peru had taken it over. The Government of Peru and the contractor were negotiating to resolve project problems.

An employee of the project consultant made a number of major charges including: (1) payment for slide removal during construction was not authorized under the terms of the contract and, furthermore, because the slides had been caused by the contractor's negligence, he should not be paid for much of this work, (2) the consultant's design for the Tarapoto road was deficient, and (3) a fellow consultant employee had improperly used contract funds for personal benefit.

At the request of a Member of Congress, we made a review and found that:

Interpretation of contract terms regarding payment for slide removal by concerned parties varied. Evidence supporting the charge of contractor negligence conflicted.

The consultant had neither performed geologic surveys nor taken adequate core borings in areas involving deep roadway cuts, and the drainage facilities under large fills had not been properly placed, in part, causing the roadway fills to fail. The reasons why geologic surveys and core borings were not done and sufficient pipe was not used on the project are not clear.

A U.S. Mission audit and other records substantiate the charge that a fellow consultant employee had improperly used contract funds derived from food payments for personal expenses and had charged the Peru contract for material and labor used to construct a private house for himself. We believe that restitution remains to be made for at least \$3,200 for this employee's personal expenditures.

The U.S. Mission in Peru and AID/Washington were aware of many of the project's problems by early

1967 but did not take substantive action until the end of 1968. The Bank relied on the other U.S. Government agencies and the two American firms involved to monitor the project. We believe the U.S. Mission's organizational structure for managing this project and the apparent lack of coordination among the parties—AID, the Government of Peru, the consultant, and the contractor—involved contributed to AID's lack of timely action to resolve these problems.

We recommended that the Administrator of AID or the President of the Bank act to insure that (1) full restitution is obtained from the consultant employee or the companies involved, (2) AID officials are made fully aware of, and carry out, AID's monitoring role, and (3) in projects where Bank funds are being used jointly with those of another Government agency, the Bank is provided with inspection or evaluation reports made by the other Government agency involved.

The President of the Export-Import Bank agreed with our recommendation concerning coordination with other Government agencies and instructed his staff that as a basic procedure the Bank must receive copies of all inspection or evaluation reports made by other Government agencies involved in jointly financed projects. Implementation of the other report recommendation by the Bank must await pending Peruvian court decisions. AID did not agree with all aspects of our report, but noted that in recent years it has taken measures to strengthen project implementation and to insure that those officials directly responsible for management of program activities are fully aware of the nature of their responsibilities. (Report to Senator William Proxmire, B-172661, Dec. 2, 1971)

97. Reorganization Proposals Relative to Foreign Aid and Foreign Military Sales Programs.—At the request of the Senate Committee on Foreign Relations, we analyzed the administration's proposed reorganization of the foreign aid and foreign military sales programs and identified priority problem areas synthesized from our general experience with these programs.

We identified six priority problem areas:

Two basic uncertainties arise from the proposed U.S. shift from a directing to a supporting role in international development matters. The first is whether international development organizations have the capability and will be willing to assume the

directing role envisioned for them, including the increased funds and the functions of planning, negotiating, and monitoring, which would be shifted from U.S. agencies. The second is whether the U.S. emphasis on social progress and reform will be dropped or will receive significantly decreased emphasis under international organization leadership.

The U.S. development program lacks a clear demonstration of the basis on which the program is justified and of what can be expected realistically from the program. Many of the identified problems relating to the U.S. foreign aid programs can be directly related to the problem of uncertainty of the U.S. motives for, and basic goals of, such programs. Without a reasonably clear rationale and definite aims, U.S. foreign aid is certain to be increasingly questioned by the Congress and by the public, which will rightly want some measurable evidence that their investments in such aid are sound and warranted.

Currently both a need and an opportunity exist for establishing allocation and evaluation standards. A basic principle underlying U.S. development assistance programs is that a recipient country should receive assistance in relation to the level of development effort and sacrifice that it is making in its own behalf. This principle, however, has not been translated into a program practice due to the lack of standards establishing a common basis for measuring and evaluating a recipient country's performance and development progress.

The present U.S. structure for administering the various U.S. foreign aid programs is not conducive to consideration of an optimum assistance mix for a given recipient country.

There is a need for reassessing whether increasing recipient debt-service burdens invalidate the argument for U.S. loan as opposed to U.S. grant assistance.

We believe that foreign aid justifications to the Congress should be expanded to present collective information on all U.S. assistance programs and resource flows to recipient countries together with a comprehensive, unified plan for each separate program—not in relation to a single year but in terms of ultimate U.S. goals and purposes.

We noted that the administration's proposals provide for:

The United States to assume a supporting role,

rather than the present directing role, in international foreign aid matters.

The United States to become more competitive with respect to arms sales.

New basic authorities and organizational entities to be established to separate the different types of U.S. foreign assistance according to purpose.

The President to be given greater flexibility in both the economic and the military foreign assistance programs by eliminating or modifying many of the legislative restrictions in existing legislation.

The authorization authority and sources of funding for assistance to be expanded.

We identified (1) a series of issues, including certain changes in the Congress' authority and responsibility, which would arise from the proposals and (2) certain areas in which the proposals fell short of, or did not expressly address, findings and recommendations resulting from our earlier reviews.

Finally, we recommended legislative language to remedy, or to give legislative emphasis to, a number of matters discussed in our report. We made 21 suggestions of revisions of the administration's legislative proposals on the following topics:

Establishment of allocation and evaluation standards.

Expansion of program justifications to the Congress.

Application of advance certification requirements to excess defense activities.

Exemption from contract law regulations might permit exemption from foreign military sales contract provisions.

Formulation of program aims in objectively measurable terms.

Treating U.S. preferential trade as having a foreign aid component.

Treating debt rescheduling as a form of foreign assistance.

Improved methods and criteria for assessing country capability for contributing agreed resources for U.S.-supported activities.

Restriction on payment of foreign taxes.

Recipient payment of transport costs of U.S.-donated surplus commodities and property.

Increased management attention to use of local currency resources.

Use of U.S.-owned or controlled local currency in lieu of dollar assistance.

Improved monitoring and evaluation of performance of international organizations.

(Report to the Chairman, Senate Foreign Relations Committee, B-172311, Nov. 24, 1971)

98. Latin American Scholarship Program.—At the request of the Chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations, we reviewed certain aspects of the Latin American scholarship program of American universities (LASPAU)—a program financed by the Agency for International Development (AID) and U.S. universities. We compared LASPAU costs per student with the costs of American students underwriting the expense of their own education and pursuing a comparable course of instruction.

We found that on the average the estimated maintenance cost (room, board, books, supplies, and personal expenses) per day for LASPAU students for the 1971-72 academic year was \$10 while comparable U.S. students' budgets averaged \$8 daily. Also maintenance allowances allowed by AID exceeded those allowed by the Department of State for students in the same schools by an average of about \$37 per month, or 16 percent.

We believe that AID and State need to give more attention to standardizing maintenance rates for the foreign students they sponsor. In July 1968 we recommended that the Secretary of State and the Administrator of AID standardize these rates applicable to foreign students receiving full scholarships to American institutions. Analysis and actions relating to the problem since that time, in our judgment, have been minimal. Considering the significant potential for reducing program costs—since 1968 AID has sponsored and provided maintenance support to about 21,000 students attending U.S. colleges and universities—we suggest that the Committee and the Congress give legislative emphasis to (1) the need for establishing standardized maintenance allowances for students attending U.S. colleges and universities under the sponsorship and support of U.S. Government agencies and (2) the need for maintaining such allowances at levels no greater than those recommended by the Institute for International Education as necessary for satisfactory subsistence.

In accordance with the Committee's request and its subsequent discussions with GAO representatives, GAO did not follow its usual practice of submitting a draft report to the interested agencies for comment. The

report was publicly released on May 18, 1972, and no agency comments were received as of June 30, 1972. (Report to the Subcommittee on Foreign Operations, Senate Committee on Appropriations, B-173240, May 5, 1972)

99. Assistance to War Victims in Vietnam.—The Ministry of Social Welfare, Government of Vietnam (GVN), is responsible for managing the war victims program. The United States provides financial, commodity, and technical support, but U.S. personnel have no direct authority or responsibility for program operations.

No formal list of priorities has been established for U.S. assistance in Vietnam. The relative importance placed on the program may be inferred from the fact that the program, having funds of \$6.3 million, ranked seventh among the 10 largest dollar-funded projects in fiscal year 1971. Also it received the equivalent of \$30.5 million (26 percent) of the local currency which had been provided in support of the Vietnamese civil budget.

A reporting system was developed to facilitate the gathering of data needed to assess the progress of activities relating to refugee and social welfare programs. Our inspection of these reports showed that the reliability of the frequently revised management information system continued to be affected by the reporting of erroneous, misleading, and confusing data.

Many years of U.S. assistance has increased GVN's capability to deal with emergency relief but not with long-term rehabilitation and reconstruction problems of war victims. The United States has no plans for long-range assistance to war victims, and its future commitment in this respect is unknown.

Payment of temporary assistance benefits to refugees continued to receive high priority. Some persons still were not being recognized promptly as refugees, however, and benefits for recognized refugees were delayed for long periods of time. GVN's reports showed that the number of refugees generated during the first 9 months of 1971 totaled 120,484. Relocation of people from the U-Minh Forest area of Military Region 4 and relocation of Montagnards and other South Vietnamese in Military Region 2 generated a significant number of refugees.

GVN policy is to help refugees return to their original homes or, when security does not warrant it, to resettle them as soon as possible in good locations. Since 1964, GVN has assisted 1 million refugees in returning to their original villages and 2.2 million to

resettle. Although some progress has been made, problems continue to plague the program. They include a lack of coordination between Vietnamese ministries, an inadequate consideration of refugees' wishes and needs, a slow expenditure rate, a shortage of trained personnel, and a lack of interest by some Vietnamese personnel.

We visited 38 refugee sites and on the basis of GVN criteria found that most of the sites lacked adequate classrooms, wells, and medical and sanitary facilities. The principal obstacle to economic development of the sites seemed to be the limited quantity of land the refugees had. U.S. observers believed the refugees needed more land to be self-supporting.

GVN's refugee and social welfare programs received financial assistance totaling about \$72.4 million and \$65.6 million in fiscal years 1969 and 1970, respectively. The fiscal year 1971 estimate was \$50.4 million, down about 21 percent. The U.S. contribution decreased from 85 percent of the total assistance provided in fiscal year 1969 to 69 percent in fiscal year 1971. The GVN contribution increased from 5.2 percent to 18 percent during the same period. (Report to the Chairman, Subcommittee To Investigate Prob-

lems Connected With Refugees and Escapees, Senate Committee on the Judiciary, B-133001, Mar. 27, 1972)

100. Civilian Health and War-Related Casualty Program in Vietnam—1 Year Later.—The Ministry of Health, Government of Vietnam (GVN), operates civilian health programs in Vietnam with financial, commodity, and technical support provided by the Agency for International Development (AID), the Department of Defense, various free-world countries, and voluntary agencies. Overall responsibility for administering U.S. assistance to health programs in Vietnam is assigned to AID.

No specific priority designation had been given by AID to the public health program in Vietnam. However, AID evidently considers the program high in priority since AID funds provided for the program generally have been larger than those for any other civilian technical assistance program.

U.S. support for the health program for fiscal year 1972 is significantly less than in previous years. AID funds, which averaged over \$20 million a year from 1968 through 1971, are scheduled at \$14.1 million for fiscal year 1972. Funds provided by GVN from 1968



An Xuan refugee resettlement site, Phu Yen province, Vietnam.

through 1971 amounted to \$125.6 million, including \$2 million of U.S.-controlled piaster counterpart funds. GVN's funding for health programs increased each year; however, the share of its total civil budget allocated to health programs decreased from 7.6 percent in 1968 to 4.5 percent in 1971. The reduction of U.S. assistance will place greater burdens on the GVN civil budget to meet its needs in the health area.

There still is no reliable information on the total number of civilian war-related casualties in Vietnam. Available statistics show only admissions to U.S. military and Ministry of Health hospitals. Current field reports received by U.S. officials responsible for monitoring the program contain statistics only. Those reports provide no information on the adequacy of staffing, logistical support, and progress made in preventive medicine, malaria control, and environmental health.

From January 1970 to July 1971, the hospital capacity in Vietnam increased 7 percent. Conditions had improved at the hospitals we inspected in 1970 and reinspected in 1971. However, hospitals often reported difficulties in obtaining needed supplies from GVN depots. (Report to the Chairman, Subcommittee To Investigate Problems Connected With Refugees and Escapees, Senate Committee on the Judiciary, B-133001, Feb. 29, 1972)

101. Civilian Health and War-Related Casualty Program in Laos.—Since 1963 the U.S. Government has assumed a large part of the responsibility of meeting the health needs of the Laotian population as part of the Public Health Development program of the U.S. Agency for International Development Mission in Laos (USAID/Laos). The two principal USAID/Laos-supported activities dealing with civilian health and war casualties are the Village Health and the Operational Brotherhood projects. U.S. obligations for these two projects in fiscal year 1971 totaled about \$4.8 million—an increase of about \$200,000 over 1970.

Operation Brotherhood supports hospitals in six urban areas. The hospitals are staffed and operated by Filipino medical personnel under contract with USAID/Laos. In fiscal year 1971 these hospitals treated an average 2,100 inpatients and 15,400 outpatients a month.

Conditions at the hospitals supported under Operation Brotherhood are better than those at other medical facilities visited in Laos; however, we observed patient overcrowding, ward areas congested by patients' families, and generally poor sanitary conditions.

The Village Health project supports a large number of small dispensaries, two hospitals, and one hospital functioning as a dispensary—all located in rural areas. These facilities provide essential medical care to military and paramilitary groups, refugees, and local communities. In fiscal year 1971 about 750 inpatients and over 257,000 outpatients a month were being cared for by these facilities. In October 1971 there were 220 dispensaries—155 serving refugee communities and 65 serving other communities.

Conditions at the hospitals appeared to be worse than those observed at Operation Brotherhood hospitals but better than those at the Royal Lao Government hospital. We visited 19 dispensaries located in five provinces. Although the facilities were somewhat crude, they were orderly and were staffed by at least one person who could perform basic medical tasks. These dispensaries appeared to be well stocked with medical supplies.

Although the quality of medical treatment could not be evaluated, people were using the dispensaries and there was no visual evidence of insufficient medical attention.

There has been little change in USAID/Laos management practices since our prior review, and several management weaknesses persist. We found that overall improvement had been made in obtaining statistics at USAID/Laos-supported medical facilities. The data for war casualties was not complete or reliable enough to reach conclusions concerning the nature, extent, or trends of war casualties. USAID/Laos had no complete, reliable data showing the extent of mortality among refugees. (Report to the Chairman, Subcommittee To Investigate Problems Connected With Refugees and Escapees, Senate Committee on the Judiciary, B-133001, Mar. 13, 1972)

102. Problems in Cambodia Concerning War Victims and Related Casualties.—The Cambodian Government had not developed an overall program to deal effectively with the civilian war victim problem. There were no specific programs for providing temporary relief to refugees, so relief had been granted on a case-by-case basis. Some resettlement efforts had also been made on a case-by-case basis by the Cambodian Government to assist refugees in obtaining vocational training and employment.

U.S. policy has been to not become involved with the problems of civilian war victims in Cambodia. There is no specific U.S. program for assisting refugees



Refugee huts along the road in Svay Rieng, Cambodia, September 1971.

in that country; however, the United States is providing military and economic aid to Cambodia.

The Cambodian Commissioner General for War Victims and the Ministry of Community Development are the two agencies most directly concerned with the war victims' problems. As many as nine Cambodian Government agencies have been involved to some degree with civilian war victims, but there is a lack of coordination among the agencies.

There was no reliable measure of the number of civilian war-related casualties. The Cambodian Government officials estimated that as many as 1,400 civilians had been killed and as many as 20,000 combined military personnel and civilians had been injured. We were not in a position to comment on the reliability of these estimates. Shortages existed in all areas of health services, and certain types of pharmaceuticals were in critically short supply. We found that about 64 percent of the prewar health facilities were functioning.

The total number of refugees in Cambodia was largely conjectural because there was no system for counting refugees and they were moving continually. The Cambodian Ministry of Health estimated that more than two million persons had been displaced by the war between March 1970 and September 1971. We found no basis for assessing the reliability of this figure or any other overall figures.

We visited 15 locations where refugees were living. Although living conditions varied from place to place, conditions were generally less than adequate. Lack of sufficient food rapidly was becoming a serious problem among the population in general and among the refugees in particular. (Report to the Chairman, Subcommittee To Investigate Problems Connected With Refugees and Escapees, Senate Committee on the Judiciary, B-169832, Feb. 2, 1972)

103. U.S. Disaster Relief Following the November 1970 Cyclone in East Pakistan.—U.S. officials estimate that the cyclone killed some 300,000 people and destroyed or damaged about \$158 million worth of crops and livestock and over \$30 million worth of other property.

As of September 30, 1971, the United States had provided about \$39 million for cyclone relief. This amount included \$2.2 million for emergency relief (helicopters, blankets, tents, etc.), \$30 million for food grain, and \$6.7 million for reconstruction projects—housing, coastal embankments, and cyclone shelters.

Although the Pakistan Government was responsible for managing the cyclone relief efforts, about 70 countries in addition to the United States, numerous voluntary agencies, and the United Nations took part by supplying tents, clothing, food, and transport services. By early March 1971 about \$28.5 million worth of



Remains of a coastal village's market the day after the November 1970 cyclone, East Pakistan.

assistance had been contributed. As of September 1971 an additional \$23.1 million worth of aid had been contributed by other sources.

In December 1970 the Pakistan Government, in conjunction with the World Bank, developed a reconstruction and rehabilitation plan for the cyclone area. The United States proposed a grant of \$100 million in U.S.-owned rupees toward the plan, but as of September 1971, a grant agreement had not been reached. The Pakistan Government was reluctant to accept the rupees because it did not consider them to be real economic assistance.

Rehabilitation and reconstruction were seriously disrupted by the civil strife. In September 1971 AID did not know how much the Government of East Pakistan had spent for reconstruction programs or the status of the programs. (Report to Senator Edward M. Kennedy, B-173651, Feb. 23, 1972)

104. U.S. Humanitarian Aid to Pakistan Following the Outbreak of Civil War.—After March 25, 1971, East Pakistan was torn by civil strife. East Pakistani political leaders developed a guerrilla movement to fight for an independent country. The military retaliated with acts of violence. Nearly 10 million people fled to India, and an unknown number of people fled to rural areas within East Pakistan. The economy and the civil administration were disrupted, and the internal transportation system was crippled.

In May 1971 the United Nations (U.N.) accepted the role of coordinating the international relief efforts for East Pakistan. The U.N. made international appeals for assistance and employed an administrative staff to coordinate relief efforts. It also had a limited number of monitors and relief specialists to observe field operations.

The U.N.'s capability to assure donors that the U.N.-donated relief supplies would reach the intended re-

cipients—the people of East Pakistan—was hampered by the reluctance of the Government of Pakistan to permit U.N. representatives ready access to the field. A status agreement on the U.N.'s role was not concluded with the Government of Pakistan until November 1971.

According to a September 1971 document prepared by the Department of State, the U.S. policy was to recognize the civil strife as essentially an internal matter. The U.S. objectives were to alleviate human suffering stemming from the dispute and to create conditions conducive to the restoration of normal political and economic conditions by supporting relief efforts within the framework of the U.N.

As of November 15, 1971, the United States had authorized about \$109.1 million worth of assistance—approximately \$98.3 million in food and public works assistance, \$5.3 million in transportation assistance, and \$5.5 million (\$2 million and the equivalent of \$3.5 million in U.S.-owned rupees) for U.N. administrative costs. However, a Public Law 480 food sales agreement, valued at \$44 million (including ocean freight costs), had not been implemented as of late March 1972, and a Public Law 480 food donation agreement valued at \$25.8 million (including ocean freight costs) had never been signed. As of September 30, 1971, \$5.6 million of the remaining \$18 million worth of authorized food assistance had not been scheduled for shipment.

Transportation disruptions and port congestion in East Pakistan caused diversions from, and suspensions of, shipments of U.S. food grains for East Pakistan. The politico-military situations relating to the civil strife and the Indo-Pakistan war also may have been contributing factors.

A U.N. grain specialist in East Pakistan reported exorbitant grain losses and damage caused by insect infestation, rodent destruction, and rough and improper handling. In addition, the Agency for International Development (AID) found evidence of food grain infestation and grain storage losses from samples taken from two central storage depots at the port of Chittagong, East Pakistan. AID estimated that about 16,000 metric tons of wheat, valued at about \$1.4 million, stored in Chittagong had been destroyed. An inadequate receipt and distribution system had allowed a substantial volume of grain stocks, unfit for human consumption but not disposed of, to contaminate newly arrived stocks and to clog the supply system. (Report to

Senator Edward M. Kennedy, B-173651, Apr. 20, 1972)

105. Aspects of U.S. Assistance to Disaster-Stricken East Pakistanis.—At the request of the Foreign Operations and Government Information Subcommittee, House Committee on Government Operations, we examined certain aspects of U.S. assistance to disaster-stricken East Pakistanis in India and East Pakistan.

Our report deals with the assistance authorized for East Pakistani victims prior to the outbreak of hostilities between India and Pakistan in December 1971. The new nation of Bangladesh (formerly East Pakistan) was officially recognized by the United States in April 1972. Consequently, some of the assistance authorized, pursuant to agreements with the Pakistan Government, obviously will not be provided. Other assistance has been and is being authorized for Bangladesh.

Several factors indicate that it was appropriate for the United States to provide wheat to rice-eating East Pakistani victims. Although rice is favored as food grain, East Pakistanis accept wheat for consumption. Moreover, wheat is slightly more nutritious than rice.

No wheat was provided to the Indian Government for refugee feeding. Under its Public Law 480 title II donations program, the United States provided approximately 35,000 metric tons of wheat, valued at about \$2 million, to the voluntary agencies (such as CARE) to replenish food stocks used to feed the refugees.

In Pakistan dollar assistance was used to finance the foreign exchange costs of items not available within that country. In contrast, almost one-half, about \$13.7 million, of the U.S. dollar assistance given to India through the United Nations was used to buy goods and services within the country and resulted in additional free foreign exchange for India.

Prior to the Indo-Pakistan war, the United States authorized an equivalent of \$133.8 million in Pakistani rupees for relief and rehabilitation projects for cyclone and civil strife victims in East Pakistan. Projects were being implemented which would use the equivalent of \$4.8 million. The Pakistan Government, however, was reluctant to accept about \$100 million of these rupees because it did not consider the grant as real economic assistance. The establishment of Bangladesh precluded the use of any of these rupees.

Use of U.S.-owned Indian rupees for refugee assistance has been limited to \$800,000 worth of grants.

Department of State officials informed us that the commitment of U.S.-owned rupees would represent a charge to existing resources rather than provide new resources to India and thereby would create additional inflationary pressures on the Indian economy. The Indian Government, therefore, would not regard such a commitment as real assistance.

Prior to the outbreak of the Indo-Pakistan war in December 1971, the United States made about \$50.6 million (\$39.2 million in cash and \$11.4 million in nonfood commodities and services) available for humanitarian relief for East Pakistanis. Of the \$50.6 million, about \$14.9 million (\$11 million in cash and \$3.9 million in nonfood commodities and services) was for relief in East Pakistan and \$35.7 million (\$28.2 million in cash and \$7.5 million in nonfood commodities and services) was for assistance in India. About \$23.9 million of the cash contributions for relief in India was donated by the United States to the United Nations (U.N.); the remainder, \$4.3 million, was granted to voluntary agencies to pay for commodities and services.

In two instances, the United States reduced dollar grants to the U.N. by providing about \$5 million worth of blankets rather than dollars. In two other instances, however, the United States could have provided trucks and nonfat dry milk from U.S. sources and could have reduced its dollar outflow by about \$3.3 million.

About fifty 16-foot assault boats, furnished by the United States at a cost of \$63,000 for relief assistance after the November 1970 cyclone, were confiscated by the West Pakistan military at the outbreak of civil hostilities in late March 1971.

The United States granted about \$4.4 million to assist in financing the foreign exchange cost of chartered vessels and crews to help transport food grains and other relief supplies to the inland areas of East Pakistan. These vessels were to augment Pakistan's relief transport capacity. In October 1971 it was reported that the U.S.-provided grain shipment capability apparently permitted Pakistani coastal vessels, previously engaged in food shipment, to be used for other cargo assignments. No data was available to either confirm or disaffirm allegations concerning the Pakistani military's use of these U.S.-financed vessels intended to assist in the distribution of refugee relief supplies. (Report to the Chairman, Foreign Operations and Government Information Subcommittee, House Committee on Government Operations, B-173651, June 29, 1972)

106. Criteria Needed for Measuring Technical Assistance Results and Contractor Performance.—

Contracts are an important instrument of the Agency for International Development (AID) in providing technical assistance. As of December 31, 1970, AID had 1,191 technical service contracts outstanding, totaling about \$679 million in 58 countries. We examined AID's use of technical service contracts for 10 agricultural projects in Kenya, Tanzania, and Uganda.

Neither AID's project planning and programing documents nor the contracts themselves provided specific targets, goals, or objectives. AID therefore could not evaluate progress and contractor performance objectively.

Clearly defined project and contract targets, goals, and objectives are essential to measuring anticipated project results and evaluating contractor performance. Even though positive results were apparent from the technical assistance projects in east Africa, these results could not be objectively evaluated nor related to anticipated results because of the absence, in the project planning and programing documentation, of predetermined targets, goals, and objectives in measurable terms. Also the contractor's performance could not be objectively evaluated because the technical service contracts were written in the same general terms as the project documents.

We felt that some positive results had been achieved through the use of technical service contracts on the 10 projects we reviewed. The projects appeared to have positive results but they could not be compared with anticipated results because quantitative criteria for supporting project documents was absent.

Various problems have hindered the effectiveness of AID's efforts. There were delays in recruiting and placing contract employees in-country, and some employees appeared to lack desired qualifications. Also other problems limiting the effectiveness of technical assistance were related to host country actions.

AID has worked, especially since 1967, to improve its technical assistance evaluation system and to overcome other problems hindering the effectiveness of its efforts. AID said that, since our fieldwork, several other changes had been made, including further improvements in the technical assistance evaluation system.

We recommended that the Administrator of AID obtain an independent evaluation of AID's current practices and procedures and determine the extent to which the types of weaknesses pointed up in this report have been overcome in actual practice.

In response to our recommendation, the AID Auditor General in a followup review concluded in April 1972 that AID has made substantial progress in project management in the past 2 years. (Report to the Administrator, Agency for International Development, B-160789, Oct. 20, 1971)

107. U.S. Technical Assistance To Support Indian Agricultural Development.—The Agency for International Development (AID) has provided increasing amounts of technical assistance to India for agricultural purposes. This assistance rose from \$1.3 million in fiscal year 1966 to \$5.4 million in fiscal year 1971. A total of 82 U.S. technicians were working under contract to AID in India as of December 1971 and were assigned to agricultural assistance. The efforts of these technicians are directed primarily toward developing Indian institutions for agricultural research and extension to make them responsive to problems arising from the introduction of new technologies.

In our opinion, the U.S. technicians in India are qualified and are interested in helping India increase agricultural production, and many of them have been placed in positions in which the work can have, and has had, a significant impact. The results of their efforts are mixed: some projects have been successful; others have not.

Project objectives established by AID are consistent with, and generally parallel, the broad goals established by the Indian Government. AID's activities, however, are only a fraction of the total agricultural effort; therefore, meeting the Indian goals depends almost entirely on the efforts of India itself.

Despite substantial problems India is increasing its food grain production. Since 1950 production has increased at an average annual rate of about 3.3 percent. On a per capita basis, the average annual rate of increase has been about 1 percent during this time. Recent annual production rates have been greater.

India's goal of food grain self-sufficiency probably will not be realized on a continuing basis unless rice production is increased in a manner similar to that in which wheat production is increased and unless India's population growth is stemmed.

Because AID project objectives are in general terms, they bear little, if any, resemblance to the activities of U.S. technicians and cannot be used for gauging the technicians' achievements.

The technicians' effectiveness is limited by factors mostly beyond their control. Indians themselves must resolve problems stemming from these factors, and

U.S. assistance must adjust to them. These factors include Indian economic and cultural conditions, regional loyalties which limit interstate cooperation, inadequate extension services, and insufficient operating and construction funds. Also the technicians have been hampered by problems—which AID can help to solve—in areas of planning, counterparts, and logistical support.

We made several suggestions to the AID Administrator concerning the need for better definitions of AID project goals, improved Indian counterpart arrangements, logistical needs of U.S. technicians, and evaluation and review of technicians' efforts.

In our opinion, the actions that AID said were being taken should achieve the objectives of our suggestions except in those instances in which we proposed that AID enter into discussions with Indian officials. In December 1971 the United States suspended economic loan assistance to India amounting to about \$80 million as a result of hostilities between India and Pakistan at that time. In view of the uncertainty in respect to future U.S. assistance to India, we did not believe it appropriate to recommend that such discussions be pursued at that time.

The AID Administrator should, when he deems conditions in India suitable, direct the U.S. AID Mission Director in India to seek discussions with Indian officials to:

- Secure the appointment of Indian counterparts who possess the skills necessary to assist in carrying out the project, who are receptive to working with AID technicians, and who understand the role of the U.S. technicians in the program.

- Eliminate or reduce the problems of the high turnover rate of Indian counterparts by obtaining authorization for longer tours of duty for personnel in these positions.

- Have dependable equipment and reasonable expenses furnished to the counterparts.

- Obtain evaluations from Indian officials of the U.S. technicians' work prior to the end of their tours of duty and seek suggestions from the Indian officials for strengthening the planning and application of AID's efforts.

(Report to the Congress, B-161854, June 22, 1972)

108. Utilization of AID-Financed Fertilizer To Increase Agricultural Production in India.—As of May 1970 the Agency for International Development (AID) has provided a total of \$429 million in loans to

India to finance fertilizer imports. However, supplies of ammonium sulfate and diammonium phosphate, valued at about \$70 million, remained unused as of January and April 1970 because (1) India's distribution and reporting system was not adequate for absorbing the significant increase of fertilizer available under the program and thus hindered its effectiveness, (2) procurement specifications for one of the principal types of fertilizer were changed without determining whether the new product would be acceptable to its users, and (3) unfavorable weather conditions in some areas of India decreased the demand for fertilizer.

The lack of an adequate distribution and reporting system for fertilizer caused problems of oversupply in some States of certain types of fertilizer which were readily marketable in other locations. It also caused an additional financial burden for distributors, because added costs were incurred for storage and reconditioning of fertilizer which had deteriorated.

Through a 1961 agreement with the International Cooperation Administration (predecessor agency of AID), U.S.-owned Indian currency valued at \$19 million had been made available to assist in constructing a storage and distribution system for food grain in India. No such similar assistance was provided, however, when large-volume shipments of fertilizer were approved for financing, even though the need for such a system was recognized. Adequate amounts of local currency were available for financing projects of this type and had been used in prior years to provide facilities for storage and distribution of food grains.

In placing primary emphasis on financing of fertilizer to assist India in achieving self-sufficiency in food grains, AID should have tested the marketability of new products being financed and should have established a system to be used to rapidly identify changes in consumer preferences.

AID generally agreed with our findings pertaining to the large accumulations of fertilizer but suggested that the circumstances surrounding the accumulation of the fertilizer be viewed against the background of a very rapid market expansion in India.

AID pointed out that the storage and distribution system for fertilizer in India had not developed sufficiently so that it could quickly adjust to changing market situations. AID questioned whether financial assistance from the United States was needed to improve the situation. Additionally, private marketing organizations, given greater scope by the Indian Government, were improving the marketing of fertilizer

and the quality of storage facilities. AID said that further development in that direction should lead to a satisfactory marketing mechanism but that some investment in new storage facilities would be needed. In future AID financing of large quantities of fertilizer, we believe that AID should ascertain what is needed to establish an adequate distribution and reporting system for fertilizer. Although progress may result from the greater latitude given to private marketing organizations in India, it is our opinion that this additional action will be necessary if AID is to meet its responsibility of monitoring the fertilizer program and is to insure that greater effectiveness is achieved in the assistance program. (Report to the Administrator, AID, B-161854, Nov. 16, 1971)

109. Procedures Need To Be Improved To Better Assist U.S. Small Businesses and To Shorten Commodity Procurement Cycle in India.—A large part of U.S. economic assistance to India is in the form of loans by the Agency for International Development (AID) to the Government of India to help finance essential imports. However, AID's business notification requirements have been found to be of little, if any, value in promoting U.S. small business participation or in securing responsive bids and establishing reliable sources of supply for Indian importers.

Recommendations designed to revise and improve AID small business procedures were approved by the AID Deputy Administrator, subject to appropriate liaison with certain congressional committees. Actual implementation, however, had not taken place as of March 31, 1971.

AID has placed no special emphasis on assisting small business. It contends that small business is not able to participate in most AID-financed transactions, because in many cases small business does not produce the commodities required. AID nevertheless has continued to publish procurement information and conduct activities under the small business label and has indicated, at least on the surface, that particular emphasis is being directed to the small business community.

The commodity procurement cycle in India averages 14 months and tends to adversely affect the benefits derived from U.S. financing of imports to India. Normal import license processing by the Government of India takes about 4 months; the subsequent AID business notice publication procedures average 2 months.

We believe that license processing and business notification, provided that the latter continues to be required, should take place concurrently, which would shorten the procurement cycle by about 2 months.

We recommended that the AID Administrator:

Modify current business notification procedures applicable to Indian importers to make the present requirements optional with importers.

Adopt for India, on a trial basis, the alternative procurement information bulletin procedure now used in several other countries.

Prescribe procedures to specifically assist U.S. small business suppliers in establishing agent relationships in India and to insure a flow of information to prospective purchasers abroad concerning commodities available from U.S. small suppliers.

Publish information on all waivers granted, including commodities involved, contract amounts, importers, suppliers, and reasons for granting waivers. If the procurement information bulletin procedure is adopted, the AID Administrator should identify all waivers granted, including the existing sole agency and proprietary relationships between importers and suppliers.

Resolve the contradictions suggested by the titles of Office of Small Business and Special Assistant for Small Business when compared with the actual activities being performed.

Insure that a continuing effort is made to collect data on small business participation in AID-financed transactions, to analyze the data, and to identify effective ways of increasing assistance to small business concerns.

AID said it had initiated corrective actions; however, it did not agree that the functions of the Office of Small Business should be substantially changed but did say that more emphasis would be given to assisting small business. (Report to the Administrator, AID, B-161854, Aug. 2, 1971)

110. More Timely and Realistic Evaluation Needed for Capital Development Projects in Pakistan.—The United States has provided over \$4.8 billion worth of economic and food assistance to Pakistan since 1951. Capital development project loans totaling about \$523 million are a basic component of the economic assistance program administered by the Agency for International Development (AID).

We reviewed AID's administration of project assistance loans to Pakistan for malaria eradication, elec-

tric power expansion, land reclamation and irrigation, road construction, and construction of coastal embankments. Our report is based on work performed before the outbreak of civil strife in East Pakistan in March 1971.

U.S. assistance has contributed significantly to progress made toward the economic development of Pakistan. The effectiveness of this assistance could have been greater if AID and the Government of Pakistan had given more attention to finding solutions to problems as they developed.

Although AID provided about \$52 million for malaria eradication activities in Pakistan, AID was unable to persuade the Government of West Pakistan to provide the financial, administrative, and operational support necessary for a long-range program to be effective. As a result, the malaria eradication program was about 2 years behind schedule, malaria had reached epidemic proportions in some areas of West Pakistan, and adequate provision was not made to prevent the recurrence of malaria once the incidence of the disease was controlled.

AID provided about \$81.1 million for three salinity control and reclamation projects in West Pakistan. Although successful in many respects, these projects did not fully attain planned objectives. Large numbers of tube wells constructed under the projects remained unused for long periods of time, and completed projects were not utilized fully because the Government of Pakistan did not establish an effective program for operating and maintaining the projects.

Three AID-financed power projects were not completed on time. As a result, increased costs of about \$1.9 million were incurred and the availability of much needed power was deferred.

The completion date for the Dacca-Aricha road project in East Pakistan was set back almost 5 years, due primarily to prolonged administrative indecision on the part of AID and the Government of East Pakistan over the scope and financing of the project.

Construction work on the coastal embankment project, which received \$82.2 million worth of U.S. assistance, was continually behind schedule because the Government of East Pakistan did not provide adequate support for the project.

Because of the situation in Pakistan at that time, we made no recommendations, but we believe any further U.S. support of economic development projects should be based on a realistic evaluation of the recipient's ability and willingness to support the projects.

AID commented fully on a draft of the report in February 1971. It felt that, under its relationship with the borrower (the Government of Pakistan or its agencies), it had done all that could have been expected to resolve the problems which arose with the projects covered by the review.

We recognize that there are limitations on the actions that AID can take to insure that projects are carried out promptly and efficiently. We noted several instances in which AID took all the actions that reasonably could have been expected. In other instances, however, if AID had been more concerned with problem areas and had been more persuasive in dealing with Pakistani officials, the difficulties cited in the report could have been alleviated and thus the benefits derived from the projects could have been increased. (Report to the Administrator, AID, B-158163, Nov. 10, 1971)

111. Development Performance of AID-Assisted Development Banks in Latin America.—We examined the development performance of eight development banks, located in five Latin American countries, which received about 40 percent of dollar loans by the Agency for International Development (AID) to development banks in Latin America. Development banks are financial institutions servicing the industrial sector which are organized and operated to assist in the economic development of less developed countries by financing and promoting private enterprise, particularly small- and medium-size ventures. They have received about \$400 million in AID dollar loans since fiscal year 1958. The examination, which included a review of the banks' loan portfolios, was not restricted to AID funds but where possible included all funds regardless of source.

The banks have to some extent assisted in the economic development of their countries since most of their loans were medium and long term and were made to the private sector. In addition, a number of banks were successful in attracting non-AID foreign funds.

In the following areas the banks' performance fell short of AID criteria and could be improved.

Size of firms—Large firms received the major portion of available funds.

Size of loan—The major portion of available funds was for loans in excess of \$100,000.

Stimulation of investment—The major portion of available funds went to firms which could have

undertaken their investments even if development bank financing had been unavailable.

Capital markets—The banks did little to establish and broaden capital markets.

Technical assistance—The banks provided little technical assistance to borrowers.

Promotion—The banks did little to search out and promote new investment opportunities.

In general, bank investment priorities were not established and AID's monitoring of the development bank program was limited.

Eight of the 13 loan agreements were two-step arrangements whereby the host government received repayment from the development bank and assumed responsibility for final repayment to AID. In such instances the host government repays AID over a longer period and at a lower interest rate than the development bank is required to repay the host government. Hence, substantial sums accrue to the host government from the two-step loan. None of the loan agreements or underlying documentation reviewed set forth the reasons for using the two-step arrangement or the rationale for the terms, and in some cases no provision was made for AID control of the funds generated.

Most of the AID loan agreements did not provide for AID control over the banks' use of roll-over funds; i.e., funds obtained from repayments of loans made by the banks from initial AID credits and held by the banks before repayment to AID or the host government.

We recommended that AID monitor more closely its assistance to development banks through periodic analyses to determine whether the banks are adhering to AID development goals.

We also recommended that:

AID establish, in conjunction with the host country, the specific priority activities to be financed with AID funds.

In those instances where assistance is to be provided under the two-step arrangement, AID document the reasons for its use and establish controls over the amount and use of the funds generated.

AID make provision in its loan agreements for control of roll-over funds.

In commenting on this report, AID stated that its support of development banks has achieved a significant degree of success in strengthening the channels for the investment of private sector funds; however, it recognized the continuing need for improvement in the program.

Regarding the recommendation for improved monitoring, AID indicated that it was reviewing the area. It agreed with the recommendation that it should establish in conjunction with the host government the specific priority activities to be financed with AID funds. It also stated that most two-step loans do provide for AID and host government agreement on the use of loan repayments by the host government. We believe all two-step loans should provide for AID control over the use of loan repayments and the reasons for use of the two-step arrangement and the rationale for the particular terms should be documented and explained.

AID disagreed with the recommendation regarding control of roll-over funds stating it was unnecessary and would be excessive. We believe control of roll-over funds can provide AID with increased leverage to influence the banks' performance after initial disbursement of AID funds. (Report to the Administrator, AID, B-175795, June 16, 1972)

112. Development Impact of U.S.-Insured Investment in Less Developed Countries.—A study of the development impact of U.S. investment in less developed countries insured under the investment insurance program (formerly administered by the Agency for International Development (AID) and now by the Overseas Private Investment Corporation (OPIC)) was made because of the stress placed by the Congress on the need for the activities undertaken by OPIC to be development oriented.

Our study related to insured investment in extractive and manufacturing industries in the less developed countries, which accounted for about 77 percent of total insured investment. It focused on the impact of insured investment on employment, efficiency, exports, and stimulation of the growth of local industry. Although these are not the only ways of measuring development impact, they are important factors in deciding whether insured investment may benefit less developed countries.

The results of the study, although based on limited available information, indicated that insured investment had a varied impact on development. We found that:

Creation of new jobs for unskilled workers had probably been limited because the overwhelming proportion of insured investment had gone into capital and skill-labor intensive industries.

Export orientation of U.S. investment in extractive industries appeared high but export orientation of U.S. investment in manufacturing industries appeared low.

It was not possible to determine from the available evidence whether insured investment had been efficient, i.e., whether costs of production from insured investment in less developed countries were reasonable relative to costs of production elsewhere. The limited available evidence did suggest that efficiency required special attention by the Overseas Private Investment Corporation.

Stimulation of the growth of local industry appeared to be mixed. While U.S.-insured manufacturing affiliates spent a large portion of their sales on locally produced goods and services, a relatively large number of U.S.-insured affiliates reported less than 25 percent local equity participation in their enterprises.

We recognize that investors are motivated primarily by profitability considerations which may not coincide with development considerations and that the U.S. Government has less influence over privately financed projects than those it finances. Hence, we can appreciate the views of officials of the Overseas Private Investment Corporation that their choice is not to decide whether a proposed investment offers maximum development impact to the less developed country but rather to decide whether the particular mix of returns—to the less developed country, to the investor, and to the enterprise concerned—offers significant constructive development impact in and of itself. (Report to the President, Overseas Private Investment Corporation, B-173240, Sept. 24, 1971)

113. Military Assistance and Arms Sales to Pakistan.—The March 1971 outbreak of internal strife in East Pakistan resulted in ending the trend of successive modifications to the U.S. military supply embargo, announced in 1965, on the supply of all military equipment to India and Pakistan.

Following the outbreak of internal fighting in East Pakistan, the United States decided to (1) hold in abeyance any further action on an earlier exception to the embargo on the sale of lethal end-items, (2) suspend the issuance of any additional export licenses or the renewal of expired licenses for articles on the munitions list, and (3) place a hold on the delivery of foreign military sales from defense stocks.

No embargo was placed on exports to Pakistan. Therefore defense articles on open export licenses

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issued prior to or on March 25, 1971, still could be exported to Pakistan. The value of the unshipped balance of munitions list articles licensed for export at this time was about \$35 million.

In inquiring into these interim actions and their results, we found that:

Munitions list articles exported to Pakistan between March 25 and September 30, 1971, under open export licenses were valued at about \$3.8 million.

Department of Defense agencies continued to release spares for lethal end-items from their stocks despite a departmental directive which placed a hold on such deliveries in April 1971.

The U.S. Air Force shipped directly to Pakistan, from March to July 1971, some \$563,000 worth of spare parts on a priority basis.

The United States and Pakistan entered into about \$10.6 million worth of foreign military sales contracts after March 25, 1971. However, no export licenses were issued for these contracts.

When hostilities between India and Pakistan broke out, the Department of State, on November 8, 1971,

revoked all outstanding licenses for exporting munitions list items to Pakistan. In commenting on the report, the Department of State advised us that exports to Pakistan, occurring prior to November 8, 1971, were inadvertent breaches of policy in effect at that time. (Report to Senator Edward M. Kennedy, B-173651, Feb. 3, 1972)

114. Assistance to the Khmer Republic (Cambodia).—After a cessation of about 7 years, the United States resumed assistance to Cambodia in April 1970 to aid in its defense against armed Communist aggression. We were requested by the Chairman, Senate Foreign Relations Committee, to provide information on the volume, source, and nature of assistance being given to Cambodia.

Nearly \$9 million worth of military assistance had been provided for the remainder of fiscal year 1970 and \$185 million had been programed for fiscal year 1971. About \$90 million worth of support had been provided by the United States at less than full cost under the military assistance program and from other sources. In addition, support was provided to Cambodia for which we could not assign a dollar figure.



Delivery of Public Law 480, Title I, wheat flour to Cambodia.

This latter military support included captured weapons and millions of rounds of ammunition.

We found that the fiscal year 1970 Military Assistance Program had not been developed in the normal manner due to the emergency nature of Cambodia's requirements. An attempt was made to design the fiscal year 1971 program along conventional lines. Due to limited information available as to what the Cambodians had and the combat conditions existing at the time, U.S. officials were extremely handicapped.

Deficiencies were also noted in the procedures for receiving material in Cambodia; however, we were advised that corrective actions had been taken. (Report to the Chairman, Senate Foreign Relations Committee, B-169832, Nov. 26, 1971)

115. Problems in the Dependent Shelter Program in the Republic of Vietnam.—Under a program designated as the Dependent Shelter Program, housing for the families of personnel in the Republic of Vietnam Armed Forces is being constructed at or near Vietnamese military installations in an attempt to raise troop morale and reduce desertion rates. The program was begun jointly by the United States Government and the Vietnamese Government in 1966. U.S. participation in the program is expected to continue until 1975 and to cost about \$37 million. We reviewed this high-priority Department of Defense (DOD) undertaking to determine the progress made in achieving program objectives and the manner in which the program was being managed.

The Department of Defense was unable to provide us with definitive data showing whether progress was being made in achieving program objectives. We found that implementation of the program had suffered from a lack of adequate planning and from fragmented and ineffective management. These circumstances had contributed, and, unless corrected, would continue to contribute, to a number of problems affecting overall program performance. These problems related to (1) improper computation of housing requirements, (2) poor construction quality, (3) construction delays, (4) inadequate controls over program costs and materials, and (5) inadequate utilization and maintenance of completed housing.

During our visits to various installations throughout Vietnam, U.S. officials stated that a major difficulty they had encountered had been a lack of interest in the program by the Vietnamese. We found no evidence that the program had been reviewed by

any Department of Defense or military department internal review group. In our opinion, had such reviews been made, program problems could have been identified and corrected much earlier.

We recommended that the Secretary of Defense have data developed that could be used in evaluating progress made in achieving program objectives and that, upon receipt of this data, he determine the need to continue or redirect the program before substantial additional U.S. funds were expended. If he decided that the program should continue, either along existing lines or in new directions, firm and positive action should be taken to overcome the problems identified in our report and periodic review of the program would be necessary. In commenting on the report, DOD generally agreed with our findings and indicated that actions were being taken on our recommendations. (Report to the Congress, B-159451, Feb. 17, 1972)

International Organizations and Institutions

116. Progress Made Toward Independent and Comprehensive Audits of the Inter-American Development Bank.—In 1967 the Congress directed the Comptroller General to assist the Secretary of the Treasury in working toward independent and comprehensive audits of the Inter-American Development Bank. In addition, GAO was to review periodically audit reports issued by the independent audit group and to report its findings to the Treasury and the Congress. In July 1971 we reported to the Congress on progress made by this group.

Our review was directed toward determining whether the reports submitted by the audit group were responsive to the basic guidance and directions of the Bank's Board of Executive Directors and to the interests of the Congress.

Our review showed that the audit group's productivity had been limited, in part, because of its small staff. We concluded that the staff, which consisted entirely of economists, should be expanded by adding senior staff with professional experience in varied academic backgrounds. We also noted that the group's first two reports had deficiencies in substance and format which limited their usefulness as management tools. However, progress was being made toward overcoming some of these problems.

We recommended that the Secretary of the Treasury:

Urge the Bank's Board of Executive Directors to expand the group with additional senior staff having professional experience in management auditing or consulting and varied academic backgrounds.

Impress upon the group the continued need for clear and concise presentation of its findings and recommendations for corrective action.

The Department of the Treasury said that it agreed with the overall thrust of our report and that it was in the process of implementing our recommendations. (Report to the Congress, B-161470, July 20, 1971)

U.S. Balance-of-Payments Position

117. Coordinated Consideration Needed of Buy-National Procurement Program Policies.—In calendar year 1970 the Nation's balance-of-payments deficit on the official settlement basis exceeded \$10 billion. The U.S. Government is pursuing several courses of action designed to alleviate the factors contributing to the unfavorable balance. One action concerns Federal procurement policies under the Buy American Act and the Balance-of-Payments Program, referred to jointly as the buy-national procurement program. This program regulates Federal procurement in situations where suppliers offering domestic products and services are competing with suppliers offering foreign products and services.

Policies and procedures implementing the buy-national procurement program generally permit Federal agencies to pay up to 50 percent more for domestic products than for comparable foreign products in order to protect domestic interests and to improve the U.S. balance-of-payments position. Although the buy-national procurement program has existed for a number of years, information has not been accumulated to evaluate the effects of the program on the balance of payments or to determine what it has cost to obtain balance-of-payments benefits.

We question whether it is in the national interest to pay premiums of millions of dollars annually to retain procurement dollars in the United States, without some form of reporting system to determine whether balance-of-payments benefits are being achieved.

Also Federal agencies are not required to determine the value of foreign and domestic components in end products or to determine whether the additional cost

that may be paid for a domestic end product will result in an appropriate benefit to the U.S. balance-of-payments position.

The buy-national program is complex. Its complexity is further compounded by the program's effect on major domestic and international program policies, such as the level of Federal spending, efforts to curb inflation, protection of domestic industry and employment, and U.S. foreign economic and trade objectives, including negotiations aimed at gaining access to foreign government procurements. We recognize that most of these considerations are not subject to precise measurement—that subjective judgments by management might well outweigh the basic buy-national determinants of cost versus benefits. Decisions must consider that changes in any program may result in divergent effects on other programs.

We recommended that the Director, Office of Management and Budget (OMB):

Initiate a reporting system to assist in evaluating the effectiveness of buy-national procurement program policies in terms of balance-of-payments benefits and additional costs incurred.

Determine the feasibility of requiring the compency information to be obtained and considered on procurements that involve buy-national program policies.

Assess the indicated costs and benefits under the buy-national procurement program against other alternatives.

In commenting on our report, OMB's basic position is that, since most of the buy-national procurement programs were enacted for the benefit of domestic industry, it is inappropriate to attempt to measure the program's effectiveness in terms of cost and balance-of-payments benefits.

In its preliminary judgment, a reporting system to assist in evaluating the effectiveness of the program in terms of cost and balance-of-payments benefits would have limited capabilities which do not justify the high cost of development and implementation.

OMB also concluded that (1) it was not feasible to obtain and consider compency information on procurements, (2) an assessment of the benefits of the program against the potential adverse impact on other U.S. foreign economic and trade objectives would properly be the responsibility of the Council on International Economic Policy, and (3) it was not in a position to assess which programs might be more cost effective or which might accrue greater benefits in

assisting the domestic economy and the U.S. balance of payments.

In view of the apparent millions of dollars that the buy-national program is costing the U.S. Government, we believe that, to assess the effect of the policy, a system of reporting is needed to determine whether the program's objectives are being achieved. (Report to the Congress, B-162222, Dec. 9, 1971)

118. Ways To Increase U.S. Exports Under the Trade Opportunities Program.—The Department of Commerce conducts the Trade Opportunities Program to collect and report information useful to U.S. businessmen interested in overseas markets. The program relies on U.S. embassies and consulates to identify and report potential business opportunities to Commerce, and the information is then disseminated by Commerce to trade associations and businesses directly or through field offices and publications.

The Trade Opportunities Program has had some success in bringing U.S. exporters and overseas importers together, but management actions by Commerce and State are needed to improve the program at all levels: overseas, in Washington, D.C., and in U.S. field offices.

U.S. diplomatic posts overseas could increase significantly the number of reported trade leads by more aggressively seeking out trade opportunities. The potential for actual exports could be enhanced by providing more descriptive product information.

Business competition makes time a critical factor. Yet about 90 percent of the reported leads on private trade opportunities were handled routinely in Washington. Thus, about 3 weeks elapsed before trade leads received in Washington were published in Commerce publications.

About 60 percent of the Government procurement opportunities submitted for the benefit of U.S. suppliers were never published. Of those published, many had bid deadlines that already had expired or were close to expiration.

In most field offices dissemination of trade leads was given low priority. Files for identification of potential suppliers were incomplete, outdated, or inadequate. As a result many leads were sent to firms with little or no potential for fulfilling the need. Followup efforts were sporadic.

The program has reporting channels in U.S. embassies and consulates throughout the world, and, during fiscal years 1968 and 1969, about 6,000 private

trade opportunities were reported annually to Commerce. In comparison the State of New York developed over 30,000 private trade opportunities with overseas offices in Brussels, Belgium; Tokyo, Japan; and San Juan, Puerto Rico, in 1969. The United Kingdom furnished over 30,000 opportunities for its suppliers in 1969 and, using a newly computerized system, plans to double its subscribers to this service.

There is significant unrealized potential for increased benefits from the program through a more dynamic and imaginative approach. The potential for increasing sales under the program might be gauged by comparing the results of Commerce's program with the results of those operated by the State of New York and by the United Kingdom.

Other benefits would be achieved by an aggressive Trade Opportunities Program. By increasing contact with prospective buyers, Foreign Service officials abroad could learn of unexplored opportunities or trade barriers.

Despite certain obstacles hindering program improvement—fragmented organization, restrictive trade policies, and the attitudes of business and Government officials—we believe that greater benefits can be obtained from the program if management is willing to give the program the kind of attention necessary to maximize its potential.

The recent devaluation of the U.S. dollar and the revaluation of currencies of other major trading nations should make the price of U.S. goods more competitive in overseas markets and afford new opportunities for increased sales abroad. If the program is given an increased level of support, greater numbers of sales opportunities can be identified and translated into exports.

A key ingredient in an improved program is the high degree of coordination required among the three operations—overseas, Washington, and U.S. field offices. These activities are interdependent. Unless improvements are carried out in concert, maximum benefits cannot accrue.

We recommended that the Secretaries of Commerce and State jointly determine the relative importance of the Trade Opportunities Program within the framework of current commercial activities. This determination should focus on the potential benefits of a more dynamic program rather than on the program's past accomplishments.

The Departments should examine the features of the trade opportunities programs of New York State and

the United Kingdom with a view to adopting practices that offer potential for improving the U.S. program.

The Departments should also consider:

Centralizing management authority in a single business-oriented administrator.

Pursuing aggressively program objectives at overseas posts to identify, accumulate, and transmit trade opportunities.

Strengthening Washington procedures for reviewing trade leads.

Improving field office support of overseas submissions in bringing leads to the attention of businesses.

Expediting transmission of information obtained overseas to Washington and to potential suppliers.

Examining the feasibility of an automated system.

Studying the desirability of charging a fee for the service.

The Department of Commerce agreed that the Trade Opportunities Program had a potential for increased benefits. It is taking steps to improve the program, but it has pointed out that major improvements are dependent on the resources that the Departments of State and Commerce can allocate to the program in the light of other priorities and budgetary consideration.

The Department of State fully concurred in our central recommendations. Although the Department shared the belief that a potential probably exists for an increase in benefits from an intensified program, the questions of priority and personnel and budgetary limitations clearly support the in-depth test study suggested by GAO. (Report to the Congress, B-135239, Jan. 28, 1972)

119. Opportunities for Increasing Effectiveness of Overseas Trade Exhibitions.—To expand U.S. exports the Department of Commerce has for many years organized and administered a variety of trade promotion programs, including trade center shows and trade and industrial exhibitions. We believe that Commerce can increase the effectiveness of trade exhibitions as a tool to promote foreign trade by increasing its promotional programs in developing countries and by charging exhibitors on a flexible-fee basis for participation in such programs.

In fiscal years 1969 and 1970, Commerce spent about \$15 million—78 percent—of its promotional costs of \$19.2 million for trade exhibitions in developed coun-

tries. It estimated that first-year export sales from exhibitions were about \$277 million.

We believe that these benefits were greatly overstated. It is unrealistic to attribute that volume of sales to the trade exhibitions, because the majority of participants in the shows already exported their products to those markets.

The exhibitions are not being used effectively to attract new companies to the export field or to emphasize new product lines. The exhibitions are used primarily by American companies that already are engaged in international trade. About 95 percent of the 4,957 participants in exhibitions during 1969 and 1970 previously were exporting to foreign markets and 70 percent already were exporting the products exhibited to the countries in which the exhibitions were held.

Based on interviews with 34 American companies which had participated in trade exhibitions, the consensus was that Commerce could be of greater assistance if promotional programs were offered in less developed countries. Such countries are considered growing markets but have few promotional activities presently available to American businessmen. The exporters believe that the number of Commerce-sponsored trade exhibitions in developed countries could be reduced without hurting their overseas sales, since other means of displaying their products are available.

Short-range cost-to-benefit ratios used by Commerce are not the best indicators of the success of trade exhibition programs. Markets where American companies have few promotional facilities and relatively less export experience are largely ignored, and the majority of companies which should be the principal targets for expanding exports are not drawn into the programs. The programs should consider other measures of accomplishment, such as:

The number of new-to-export companies attracted to the programs.

The number of new product lines exhibited.

The extent to which promotional efforts are keyed to competitive U.S. products in countries where the U.S. share of the market is relatively low.

The extent to which promotional efforts are keyed to countries where there are few facilities for exhibiting U.S. products.

Stemming from these conclusions is the question of whether it is useful to concentrate trade promotion efforts on a few fixed-facility trade centers in developed countries. The fact that the centers are there and must be used means that Commerce is under pres-

sure to induce companies to use the facilities, without regard to whether these companies are experienced or inexperienced in the export field.

Commerce charges exhibitors at trade exhibitions nominal participating fees which are not intended to recover the cost of staging exhibitions. In fiscal years 1969 and 1970, participation fees collected amounted to \$2.6 million, which was only 13.6 percent of the \$19.2 million cost of the trade exhibitions.

Commerce makes no distinction between exhibitors which participate for the first time and those which participate repeatedly. Since one of the purposes of the program is to introduce American companies to international trade, it might be desirable to charge new exporters less than experienced exporters. A sliding scale of fees would encourage new exporters to exhibit their products. In addition, repeat exhibitors, since they claim significant sales as a result of the exhibitions, presumably would be willing to pay more of the cost.

We recommended that the Secretary of Commerce consider:

Allocating a greater portion of Commerce's resources for overseas promotional activities to developing countries and limiting promotional efforts to developed countries mainly to introducing new products or new-to-export companies.

Initiating a continuing program to contact American companies, State governments, and other internationally oriented organizations to determine what types of promotional services are needed and to provide those services not presently offered under existing programs.

Developing a more effective domestic program to inform American companies of the benefits of foreign trade and to stimulate these companies to use trade exhibitions to expand their export businesses.

Evaluating the desirability of maintaining permanent, fixed-facility trade centers in view of the need for alternative promotional devices in developing countries.

Adopting more useful measures of the benefits of trade promotion programs, recognizing that these programs cannot always produce immediate results.

Establishing a flexible-fee structure using minimal fees to attract new companies and charging higher fees to repeat exhibitors and established international trading companies.

The Department of Commerce concurred, in general, with our recommendations and advised us that corrective actions had been initiated or were planned.

The Department of State also agreed with our recommendations for increased promotional activities in developing countries but felt that it was equally important to preserve the U.S. trade share in the industrial markets. (Report to the Congress, B-135239, Nov. 4, 1971)

120. Foreign Trade Zones Contribute Minimally in Expanding Exports.—The Foreign Trade Zones program is intended to promote foreign commerce and transshipment. Therefore, as long as foreign merchandise remains in a "zone" or is transshipped or reexported to another country, no customs duties are applied. Duties are collected only if the merchandise is released into the domestic market.

Our review at four zones—Honolulu, Hawaii; New York, N.Y.; New Orleans, La.; and Seattle, Wash.—showed that the zones are contributing minimally in expanding U.S. exports. These zones are being used primarily for accommodating import trade and have had only limited effect in stimulating exports, reexport, and transshipments. Over 80 percent of all goods received in these zones eventually end up in the domestic economy.

The principal reasons that limited exports are generated through zone activities appear to relate to several constraining factors, including the (1) imposition of customs duties on manufacturing equipment and supplies, (2) restrictions on where the zones can be located, and (3) lack of promotional efforts on the part of zone operators and the Department of Commerce in seeking potential export users.

We concluded that the export potential of zones would be greatly enhanced if the legislation proposed by the Subcommittee on Foreign Commerce and Tourism, Senate Committee on Commerce, were passed, removing the imposition of customs duties on manufacturing equipment and supplies. Regarding the restriction that firms locate in or adjacent to a customs port of entry, we suggested that the Foreign Trade Zones Board consider proposing further relaxation of the act to expand the interpretation of a "subzone" to include inland facilities. Also, if other new and innovative approaches—such as aggressively searching for new export processing firms and zone locations, and reactivating export activities not fully developed—were considered, these actions would likely uncover a number of latent opportunities. As of June 30, 1972, no agency comments had been received. (Report to the Chairman, Foreign Trade Zones Board, B-114898, May 26, 1972)

121. Suggested Improvements in Processing Export Expansion Reports.—The Department of Commerce offers many services to assist businessmen interested in selling abroad. Among these services are World Trade Directory Reports (WTDR), which are marketing profiles of foreign firms prepared by U.S. embassies and consulates overseas. About 33,500 reports, sold for \$2 each, were prepared in fiscal year 1971. Our review showed that various improvements could be made in processing these reports because (1) mailing outdated reports of limited value to requestors resulted in unnecessary work and cost, (2) delays in responding to requests for reports hindered their usefulness, and (3) reports were being requested for purposes other than export expansion.

Some urgent requests could be met with telegraphic communications of essential information and thus reduce requests for complete reports and expedite the flow of information to requestors.

We recommended that, to help make improvements in these areas, the responsible Commerce office (1) institute a method for identifying the purpose of requests so that Commerce's response could be greater correlated with the request, (2) establish a variable fee to correspond with the type of information requested, (3) make greater use of telegraphic means to communicate on requests for imminent export transactions, (4) establish optimum time frames for processing requests and reports, and (5) establish a system for judging benefits received from the reports versus the cost of providing the services.

Department officials have informed us that a task force is preparing detailed plans for implementing our recommendations as well as its own recommendations. (Report to the Director, Office of International Trade, Department of Commerce, May 11, 1972)

122. Distributing New Product Information to Potential Market Areas Overseas.—During our continuing reviews of the Department of Commerce's export expansion effort, we noted the possibility of increasing U.S. exports through more extensive dissemination of information on new products available from U.S. manufacturers. Commerce provides some information on new products to the Department of State overseas posts but on a very low profile basis. We noted several situations indicating the desirability of expanding the exposure of such information. The program appears to offer the opportunity for an inexpensive supplement to other Commerce programs for introducing small- and medium-sized firms to interna-

tional trade. We therefore suggested that Commerce solicit opinions of the overseas posts on expanding the distribution of new product information and, if warranted, prepare appropriate procedures for coordinating the flow of information from industry, commodity analysts, publications, and any other appropriate sources.

Commerce agreed with our observations but indicated that its actions were restricted because of the freeze on employment. However, Commerce indicated that it was taking some action, such as seeking advice from overseas posts on better ways to promote the sale of U.S. products and expanding its analysis and sources of information on new products with potential for export sales. (Report to the Assistant Secretary Designate, Domestic and International Business, Department of Commerce, Sept. 28, 1971)

123. Coordinated Consideration of Foreign Trade Leads for Agricultural-Type Products.—The overseas posts of the Department of State provide leads on potential trade opportunities to the Department of Commerce. We noted that such trade leads for agricultural-type commodities were not effectively coordinated between Commerce and Agriculture.

Thus the potential value of promptly disseminating trade opportunities through Agriculture's system for contacting potential exporters was not being realized.

We recommended that Commerce and Agriculture jointly consider establishing procedures for coordinating appropriate trade opportunities between the two Departments. These Departments informed us that procedures had been established which should result in better information and more timely dissemination of agriculture trade opportunities. (Report to the Deputy Assistant Secretary and Director, Bureau of Domestic Commerce, Department of Commerce, Nov. 29, 1971)

124. Economic Advantages of Using Unsalted Butter in Lieu of Coconut Oil for Producing Ice Cream by the European Exchange Service.—About 820,000 pounds of coconut oil is used to produce about 2.2 million gallons of imitation ice cream annually by the European Exchange System (EES), which is a part of the Army and the Air Force Exchange Service and a non-appropriated-fund activity in Europe. The purchase of the coconut oil, a net import item, adversely affects our Nation's balance-of-payments position about \$200,000 annually.

In view of the increasing inventory of surplus butter (then in excess of 100 million pounds), we inquired

into the feasibility of EES's using butter instead of coconut oil to make ice cream. EES could use about 1,360,000 pounds of butter a year but the price would have to be competitive with coconut oil, or about 16 cents a pound f.o.b. New Jersey.

The price EES is willing to pay is considerably less than the support costs incurred by the Department of Agriculture, but this lesser price may be more advantageous than maintaining a substantial supply of surplus butter which imposes budgetary support costs for storage and handling. We estimated budgetary benefits to Agriculture of about \$200,000 annually for EES's potential use of unsalted butter. A subsidiary benefit to the Nation's balance-of-payments would also be realized.

We suggested that Agriculture explore the possibilities of making unsalted butter available to EES for use in preparing ice cream and explore similar situations in other military and exchange activities.

Agriculture agreed that there would be potential savings in budgetary and balance-of-payments costs by implementing our recommendation but it was reluctant to do so for the following reasons.

EES is no different from a foreign buyer since it buys in the open market with nonappropriated funds.

It would be necessary to consider U.S. competitors and possible accusations of violating the General Agreement on Tariffs and Trade.

It cannot discriminate in favor of EES but is willing to give it the same terms as the military services and the Defense Supply Agency. These terms are lower than the support cost but considerably higher than 16 cents a pound.

We continue to believe that so long as large inventories of surplus butter remain in Government hands, all possible cost and balance-of-payments benefits should be considered. Agriculture's response did not address this basic point. (Report to the Secretary of Agriculture, B-172539, July 22, 1971)

International Activities—General

125. War Risk Insurance for Contractor Property and Employees.—The Department of Defense (DOD) and the Agency for International Development (AID) generally reimburse Government contractors for the cost of insurance purchased to provide

protection against war hazards to their property and employees.

The cost of this war risk insurance to the U.S. Government substantially exceeded contractors' losses. This was true for insurance purchased for contractor-owned vessels, contractor employees, and third-country nationals.

Savings of \$16.2 million could have been realized over the 3-year period covered by our report if two DOD agencies had followed the Government's long-standing policy of self-insurance. We believe significant savings can be expected if these agencies adopt a self-insurance policy for future years.

DOD and AID had reimbursed contractors for commercial war risk insurance to provide contractor employees with supplemental coverage for war-hazard death or injury. The coverage provides lump-sum benefits in addition to the workmen's compensation benefits provided under the Defense Base Act and the War Hazards Compensation Act. The cost of such insurance exceeded the losses incurred by \$2.7 million over the 3-year period reviewed.

AID and two military commands continued to reimburse contractors in Vietnam for war-risk insurance coverage of third-country nationals (citizens of countries other than the United States and Vietnam) employed by the contractors, even though a program of self-insurance generally adopted by DOD for such employees offered substantial savings.

We made several recommendations to the Secretary of State and/or the Secretary of Defense, including:

Establishing a plan of self-insurance for contractor-owned vessels.

Seeking legislation to authorize lump-sum benefit payments to contractor employees for war-hazard death or injury.

Discontinuing reimbursement of contractors for the cost of supplemental war-risk insurance.

Seeking authority from the Congress to self-insure for war-risk losses incurred by third-country nationals under AID contracts and issuing instructions to all DOD procurement activities to provide for self-insurance of third-country nationals as authorized.

DOD disagreed with those recommendations directed toward promoting the concept of Government self-insurance. DOD commented that, since contractor recruitment in Southeast Asia had passed its peak, it did not appear feasible to pursue legislation to permit the payment of lump-sum benefits.

AID, in responding for the Secretary of State, agreed that savings might be available through self-insurance but stated that administrative costs and other administrative problems would preclude it from undertaking a self-insurance program.

We believe that savings from a self-insurance program warrant additional administrative burden. The policy of self-insurance by the Government should be broadened to cover all programs, even during a period of decline, because the self-insurance concept offers an inherent savings to the U.S. Government in all but the most unique situations. (Report to the Congress, B-172699, Nov. 9, 1971)

126. Improvements in Policies Over Foreign Tax Relief.—In our report to the Congress in January 1970, we presented a wide variety of problems associated with the administration of foreign tax matters and cited examples of millions of dollars of direct and indirect tax payments made over several years by the U.S. Government on defense expenditures overseas. Our recommendations to the Secretaries of State and Defense were addressed to (1) defining the U.S. policy regarding relief from foreign taxes, (2) establishing clear responsibilities for appropriate U.S. agencies, (3) providing adequate administrative machinery to operate an effective tax relief program, (4) studying host country tax laws, (5) negotiating tax relief agreements with the Governments of Vietnam and Thailand, (6) reviewing the adequacy of North Atlantic Treaty Organization infrastructure tax rebate rates, and (7) having more periodic internal management reviews.

In our followup review, we found that the Departments of State and Defense had taken commendable initial steps along the lines of our recommendations to strengthen the management and administrative procedures of the U.S. foreign tax relief program.

Some of the specific actions taken were:

The establishment of a State/Defense/Treasury Interdepartmental Committee on Foreign Tax Relief. As of November 1971, 24 of 30 country tax studies undertaken had been completed and the Committee was reviewing these studies to determine the necessity for negotiating new tax agreements or amendments to existing agreements.

The Departments of Defense and State issued internal directives which restated U.S. policy on payment of foreign taxes and established a definitive course of action for obtaining the maximum tax relief on U.S. defense expenditures overseas, defined

responsibility within their departments for the foreign tax relief program, and prescribed policies and procedures for preparing and maintaining tax studies.

The Department of Defense called for greater emphasis by its internal audit agencies on foreign tax relief matters.

Concerning our recommendation for negotiating tax relief agreements with the Governments of Vietnam and Thailand, in November 1971 we found:

In Thailand a satisfactory tax relief agreement had not been reached, but the State Department concurred that a formalized arrangement on tax relief should be negotiated. The Committee anticipated that negotiations would begin early in 1972.

In Vietnam the United States still did not have an adequate tax relief agreement with the Government of Vietnam. In November 1971 the Committee informed us that, until the future pattern of the U.S. Government expenditures has been assessed, any effort to enter into negotiations would be counterproductive.

In our initial report we also discussed instances where contractors had excluded taxes from their contract prices but had been unable to obtain tax relief from the Italian Government because of a breakdown in administrative procedures, despite the fact that the United States has an agreement with the Italian Government which stipulates that the Italian Government will assume the burden of taxes on U.S. defense expenditures in Italy. Recently, two contractors filed appeals with the Armed Services Contract Appeal Board for reimbursement of the foreign taxes paid by them. These actions are based on provisions of the contracts. In the event of an adverse judgment by the Board, these contractors are free to bring a suit against the U.S. Government. The exact amount of all potential contractors' claims is unknown, but it has been estimated to be in excess of \$1,000,000.

Subsequent to our followup report, we were advised that in Thailand the Embassy will continue to look for a solution through informal talks with Thai officials. If this is not successful the State Department may need to proceed with formal negotiations. With respect to the Italian agreement on reimbursing Italian contractors, we have been advised that the agreement is being tested in the Italian courts and that Italian legislation permitting its implementation is pending. The U.S. Ambassador has interceded with the Italian

Government to bring about a solution. (Report to the Congress, B-133267, Jan. 6, 1972)

127. U.S. Government Moneys Supporting International Radios.—The Chairman, Senate Committee on Foreign Relations, requested that we undertake a study of Radio Free Europe and of Radio Liberty, directed particularly to an analysis of the public moneys already spent on these Radios or on the corporations to which they belonged. This study, together with a companion study on the effectiveness of the programs of the two Radios requested from the Congressional Research Service of the Library of Congress, was needed in the Committee's consideration of the merits of continuing the U.S. Government financial support of these Radios.

Cumulative income for both Free Europe, Inc., and Radio Liberty Committee, Inc., amounted to \$532.6 million at June 30, 1971. Cumulative expenses during this period amounted to \$512.4 million. The U.S. Government provided \$482.1 million for support of the Radios and associated activities. The balance of about \$50.5 million was received by these organizations from other sources. Both Free Europe and Radio Liberty Committee have agreements or licenses to operate radio transmitters in various countries. Annual payments in 1971 under these arrangements were about \$529,000.

In fiscal year 1971 the U.S. Government provided \$33.6 million to these organizations—\$20 million to Free Europe and \$13.6 million to Radio Liberty Committee. Free Europe expenses amounted to \$22.4 million, and Radio Liberty Committee expenses amounted to about \$14 million. To operate these Radios overseas, it was necessary during the year to convert \$26.9 million U.S. dollars into foreign currencies.

In our opinion, the Free Europe and Radio Liberty Committee have taken sufficient steps to insure that financial management practices are sound and that public moneys are reasonably accounted for, effectively administered, and applied for the stated purposes of the Radios and their respective corporations.

World conditions and international relationships have altered in the 20 years since Government support of the Radios began. We believe the need for continued support through appropriated funds should be reassessed in the light of present conditions and of U.S. foreign policy rather than on the accomplishments under the earlier conditions or on how the Radios are organized and managed. In arriving at a decision whether to continue or discontinue U.S. Government

support of these activities, the Committee should consider, since the activities of both Free Europe and Radio Liberty Committee have diminished to strictly radio broadcasting, that costs could be reduced if these organizations were consolidated and if some or all of their activities were merged.

Both organizations have separate executive offices and some programing offices in New York, N.Y.; extensive news-gathering operations and radio studio operations in Munich, Germany; and extensive plans involving millions of dollars to modernize and replace their present facilities. These plans are intended to upgrade the Radios in their efforts to compete with other radio stations for listeners in the target countries.

The Free Europe and Radio Liberty Committee estimated that liquidation of the two organizations would cost between \$44.1 million and \$83.3 million. (Report to the Chairman, Senate Committee on Foreign Relations, B-173239, May 25, 1972)

128. Funding and Management of Pacification and Development Program in Vietnam.—During the massive buildup of U.S. involvement in Vietnam, U.S. assistance programs for pacification and development were administered separately by several U.S. agencies. In May 1967 the United States established the Civil Operations for Rural Development Support (CORDS) organization to consolidate all U.S. support for pacification under a single organization.

CORDS is not an independent agency but is, instead, an administrative device operating with resources and personnel from several agencies. CORDS receives funding from the individual appropriations of the Department of Defense (DOD), the Agency for International Development (AID), and other U.S. agencies. We found that CORDS had not established financial control nor had it been given responsibility for financial stewardship over \$2.1 billion of direct U.S. contributions to support the program.

Neither CORDS nor DOD had developed a system for CORDS programs that would provide sufficient data to budget the assistance required by these programs or for measuring the amounts of assistance already provided. We believe that this information was not known in part because of the use of the Military Assistance Service Funded (MASF) system which also provides funding for assistance to the Vietnamese Armed Forces. We concluded that the justification presented to the Congress in 1966 based on conditions at that time to merge military assistance appropria-

tions for Vietnam into the regular appropriations of DOD may no longer be valid under present conditions.

We believe that the financial controls exercised over certain CORDS programs were inadequate. Of U.S. owned or controlled local currency, \$360 million was obligated for pacification and development programs with limited U.S. participation in selecting the purposes for which these funds would be utilized. Fifty-five percent of AID funds provided for four civil programs during a 4-year period were used to pay the salaries of AID's U.S. civilian employees. Controls over the commodities provided for war victims were inadequate and large quantities of food had spoiled, unneeded items had been purchased but not utilized for long periods of time, and commodities had been diverted for improper use.

Considering the foregoing observations, the quickly changing program emphasis and the accelerated withdrawal of U.S. military personnel (who constitute over 80 percent of U.S. personnel assigned to CORDS), this may be an appropriate time to reexamine the justification and rationale for continuing the CORDS organizational arrangement. We recommended to the Secretaries of Defense and State and the Administrator for AID that they conduct an appraisal of the need to retain CORDS and that they take action to improve their financial and management controls.

We suggested that the Congress reexamine the need for continuing the present funding of the major portion of the pacification and development programs from regular DOD appropriations and consider appropriating funds for such activities in Vietnam as military assistance under the Foreign Assistance Act.

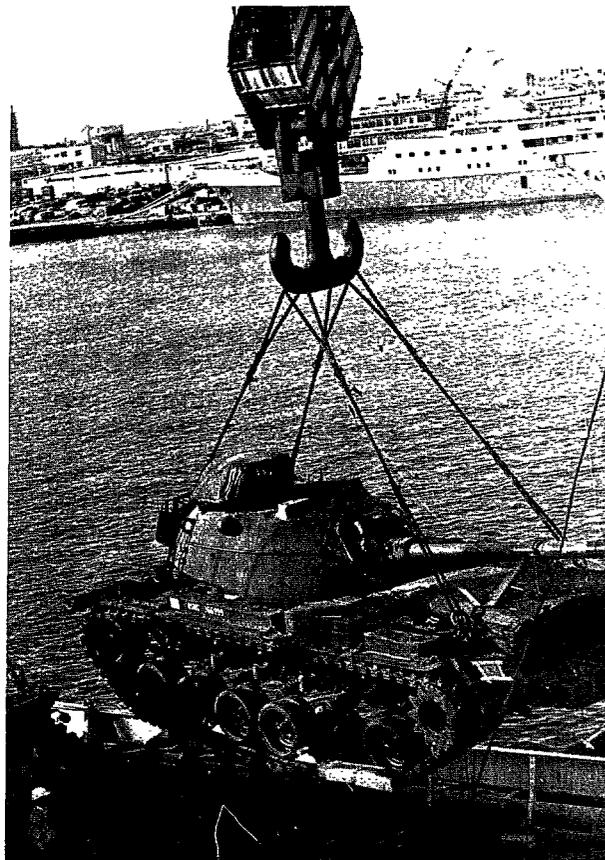
We did not obtain formal agency comments; however, we did discuss the substance of the report with appropriate officials of DOD, State, and AID. They did not disagree with the factual contents of the report, but they commented that our recommendations might be a little premature. We considered these views in finalizing our report. (Report to the Congress, B-159451, July 18, 1972)

129. Phasedown of U.S. Military Activities in Vietnam.—A previous report (B-171579, Mar. 15, 1971) concerned phasedown actions completed through April 15, 1970. We made a followup review of phasedown actions through December 1970 which revealed that considerable progress had been made (1) to insure an orderly phasedown and effective redistribution of equipment and materiel and (2) to cope with problems identified in the prior report.

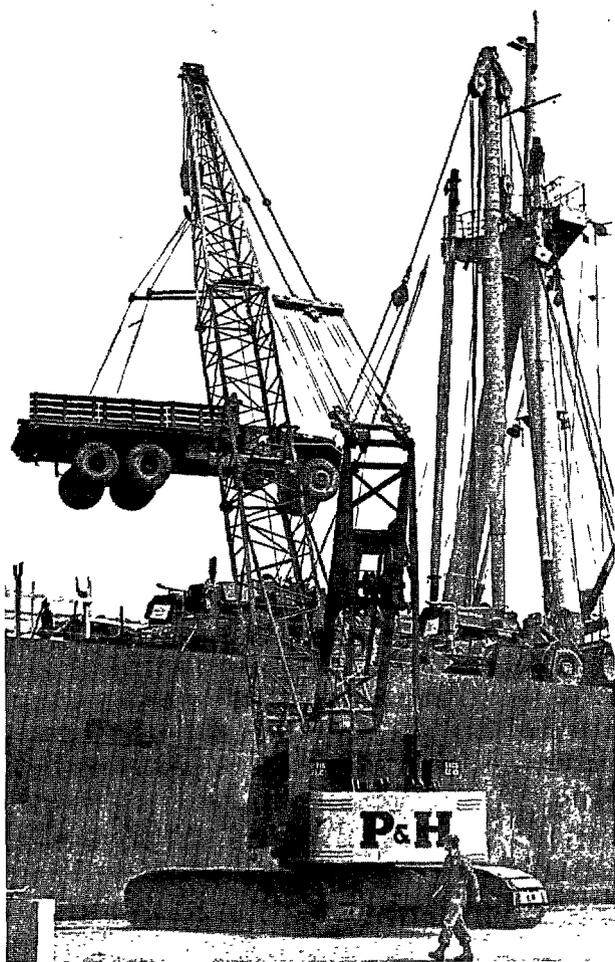
We reviewed the major facets of logistics phasedown—redistributing equipment of departing units, utilizing excess depot stocks, reducing the flow of materiel to Vietnam, and disposing of excess property.

In the earlier phasedown segments, there was a lack of coordination among the services in transferring equipment of departing units from one U.S. service to other than its counterpart service in the Vietnamese Armed Forces, e.g., from the U.S. Air Force to the Vietnamese Marines. Procedures were established to correct this. As one result, about \$2.9 million worth of materiel was transferred from the U.S. Marines to various Vietnamese services. Also, procedures for controlling transfer of equipment among Army units had been strengthened and resulted in canceling requisitions for equipment valued at about \$5.1 million. Other actions taken to cope with equipment disposal problems included:

Revision of unnecessarily restrictive criteria for equipment eligible for transfer to the Vietnamese,



M60 tank, retrograded from Vietnam, being unloaded at Naha Military Port, Okinawa.



Army vehicles returned from Vietnam being unloaded at Naha Military Port, Okinawa.

resulting in a reduction in the need to ship equipment from the United States.

Substantial completion of programs to more accurately identify Vietnamese requirements for turned-in equipment.

Implementation of mechanized procedures by the Air Force for screening available equipment against Vietnamese requirements.

Emphasis by the Air Force that, consistent with the deployment priorities of units returning to the United States, the units not take along their equipment, parts, and supplies without first considering the in-country requirements for the materiel.

Action by the Army to avoid undue backlogs of turned-in equipment awaiting maintenance and to permit its timely disposal.

Improvements have been made in the system for redistributing excess equipment and materiel in Vietnam depots to organizations that require them. Redistribution to meet requirements—especially those of the Vietnamese—had not been as effective as possible. The following problems were identified by us and by other audit organizations:

Until July 1970 there were no procedures for submitting Vietnamese Army requisitions through U.S. Army supply channels for screening against in-country materiel, although this screening was technically feasible.

Even after the International Logistics Center, Army Materiel Command, established procedures in July 1970, requisitions originating in the United States for equipment for the Vietnamese were still not being screened against excess materiel available at depots in Vietnam. The Army has since issued new guidance which provides for using the depot excesses to meet these requirements.

Until November 1970 the Vietnamese were not allowed to requisition their funded requirements from the large volume of excess materiel reported to the Pacific Command Utilization and Redistribution Agency.

Many effective actions were taken to adjust stock levels in response to decreasing requirements. Further improvements could be made, however, and we brought problem areas to management's attention. As a result:

The Army and Marines canceled more requisitions of departing units and thus further reduced the quantities of unneeded materiel being shipped to Vietnam.

The Army is blocking more effectively the processing of requisitions of units scheduled for phaseout.

We limited our review of property disposal to avoid duplicating work performed by the Army Audit Agency. The Agency concluded that the Army had exerted a strong effort to develop means to dispose of excess personal property in a complex Vietnamese business environment.

We discussed these problems with local management and appropriate officials in the Department of Defense and the military services. In each instance they took, or promised to take, prompt corrective action. Therefore, we included no specific recommendations in our report. (Report to the Congress, B-171579, Aug. 9, 1971)

130. Property Disposal in Vietnam.—During fiscal years 1969–71, property disposal activities in Vietnam processed \$1.7 billion worth of materiel, of which \$300 million worth was usable property and the remainder was scrap. The volume for fiscal year 1971 was \$117 million worth of usable property and \$194 million worth of scrap.

The Army has had difficulty in safeguarding and accounting for the materiel being turned in for disposal in Vietnam, and large quantities of usable materiel have been written off the records because they could not be located. In fiscal year 1971, the three disposal activities wrote off about \$18.3 million worth of such materiel. Our tests indicated that substantial additional materiel was missing. There were two principal reasons for the control problems in the disposal yards—divided program management and lack of qualified personnel.

Also, disposal activities have not always reported materiel to the Defense Logistics Service Center (DLSC), although required, for worldwide screening. Such screening has resulted in significant redistributions.

Materiel which has been screened is offered for sale to a wide range of potential purchasers. Despite restrictions imposed by the Vietnamese Government, reasonable efforts were being made to market property under competitive conditions; however, at one disposal activity, we found that revenue from the sale of scrap could be increased by \$1.2 million annually if scrap was segregated before being sold.

We discussed these problems with local management and appropriate Army staff officials who agreed in general with our findings and with the need for some corrective actions.

We recommended to the Secretary of Defense that (1) emphasis be given to improving the control over materiel in disposal yards, (2) plans be developed to insure that a qualified cadre of property disposal personnel is available for any future exigencies, (3) action be taken to insure that all property disposal activities report usable property to DLSC, and (4) procedures

be implemented to require all units to segregate scrap materiel before it is turned in to property disposal yards. (Report to the Secretary of Defense, B-163742, June 13, 1972)

131. Need To Improve Container-Receipt Operation in Germany.—We surveyed Department of Defense (DOD) practices and procedures for moving container shipments and found that commercial carriers had frequently been paid for hauling containers from the port of debarkation to final destination in Germany although the containers actually had been hauled inland by Army tractors. The paying offices were unaware that the commercial carriers had not rendered services to destination as originally ordered and the supporting documentation had not been annotated to show that Army equipment had been used for final delivery.

Also, detention charges on containers hauled by Army equipment were excessive compared with the detention charges on containers hauled by commercial equipment. Apparently, commercial carriers encourage consignees to return containers promptly; whereas no one encourages prompt return of containers delivered by the Army.

We discussed these matters with appropriate Commands in Europe and on the East Coast and with officials of Headquarters, Military Sealift Command, and Military Traffic Management and Terminal Service. In each case, they agreed with our findings and indicated that corrective action would be taken.

We also notified the Secretary of Defense of these findings and recommended that DOD review the container-receipt operation in Germany. Specifically, we suggested that DOD insure that (1) disbursing offices are notified when container shipments are shortstopped and delivered by military vehicles and (2) original bills of lading are annotated to preclude overpayments on shipments delivered by military vehicles. DOD should also review excess detention charges on containers moved with Army equipment. (Report to the Secretary of Defense, B-145455, Mar. 29, 1972)

RESEARCH AND DEVELOPMENT

Development of Major Weapons and Other Systems

132. Acquisition of Major Weapon Systems.—

The cost of acquiring major Department of Defense (DOD) weapons continues to make a heavy impact on the Nation's resources. Because of this and the belief that the acquisition process needs further improvement, we are continuing to appraise those factors most closely related to effectively procuring weapon systems. Our most recent report on such an appraisal presented the following findings and conclusions.

We considered programs that the Office of the Secretary of Defense and the military services instituted to improve management of the acquisition process. Our overall assessment was that, since our prior report, meaningful improvements had been made in the acquisition process. However, certain troublesome areas remained.

Weapon system development programs had changed considerably. This could be traced to early requirements planning and to inconsistent program direction caused by internal and external influences. There was a question as to whether, in the conceptual stage, sufficient consideration had been given to establishing the impact of one weapon system proposal on other programs, on the total force structure of a service or DOD, or on the possible ceiling on dollar resources. Some weapon systems appeared to have been conceived and justified as independent systems. Once initiated, programs changed because the cost of the item itself increased or because funds were needed for another more urgent program.

Weapon system acquisition problems were often aggravated by the cumbersome organizational structure. Decisions related to systems selected for program management appeared to be based primarily on the total expected cost rather than on the degree of technical risk, a need for aggressive management for that system, or the desirability of grouping equipments into systems classed as major acquisitions because of system interfaces and integration.

Managers differed in how they organized and operated their projects. The most significant difference was the extent of their actual authority and decisionmaking powers. There was evidence of improvements in the project managers' status and training—they now can progress further in their operating environments. Although it is impracticable to create a model project manager structure that will fit automatically every major acquisition, the management structure for each acquisition should be tailored to that particular program.

Considerable cost growth in acquiring weapon systems was directly attributed to unrealistic early cost estimates.

The services varied greatly in their testing and evaluation procedures and associated terminology. Test programs contained many approved deviations, substitutions, waivers, and examples of special circumstances. We concluded that there was a need for better understanding of the basic principles and for better application of testing in DOD.

The estimated cost of 77 weapon systems increased by about \$28.7 billion (31 percent). This increase represented the difference between the original estimates and the current estimates of total program cost. This increase was down from last year's 40-percent increase reported on 61 systems and could be attributed primarily to (1) the addition of several new systems to our review, which reduced the program-planning base on which the percentage computation was made and (2) the significant number of quantity decreases on many of the 77 systems, which was of much more concern to us. The effect of that kind of change is obvious, but perhaps far more significant is the impact of these quantity reductions on interrelated weapon programs, all of which are part of an overall plan.

In our report on these findings and conclusions, we recommended to the Secretary of Defense that he:

Emphasize (1) a continuing rigorous analysis of the need for new weapon systems, (2) a careful analysis of the proposed needs' impact on the manpower

and dollar resources of the total defense force and the implication to the plans for the usefulness of the equipment already in inventory, and (3) the inclusion throughout of a properly structured process which makes trade-offs between various ways of fulfilling a function.

Reexamine the weapon systems selected for, and retained under, project management and spell out, case by case, a project manager's duties.

Develop and implement DOD-wide guidance for consistent and effective cost-estimating procedures and practices, particularly (1) an adequate data base of readily retrievable cost data, (2) a uniform treatment of inflation, (3) an effective independent review of cost estimates, (4) more complete documentation of cost estimates, and (5) dependable program definitions.

Develop and implement DOD-wide guidance to provide that (1) appropriate testing and evaluation are completed before key decisions are made and (2) adequate controls are set over granting any waivers from required testing and evaluation.

Reassess the criteria for designating weapon systems for selected acquisition reporting to expand the system.

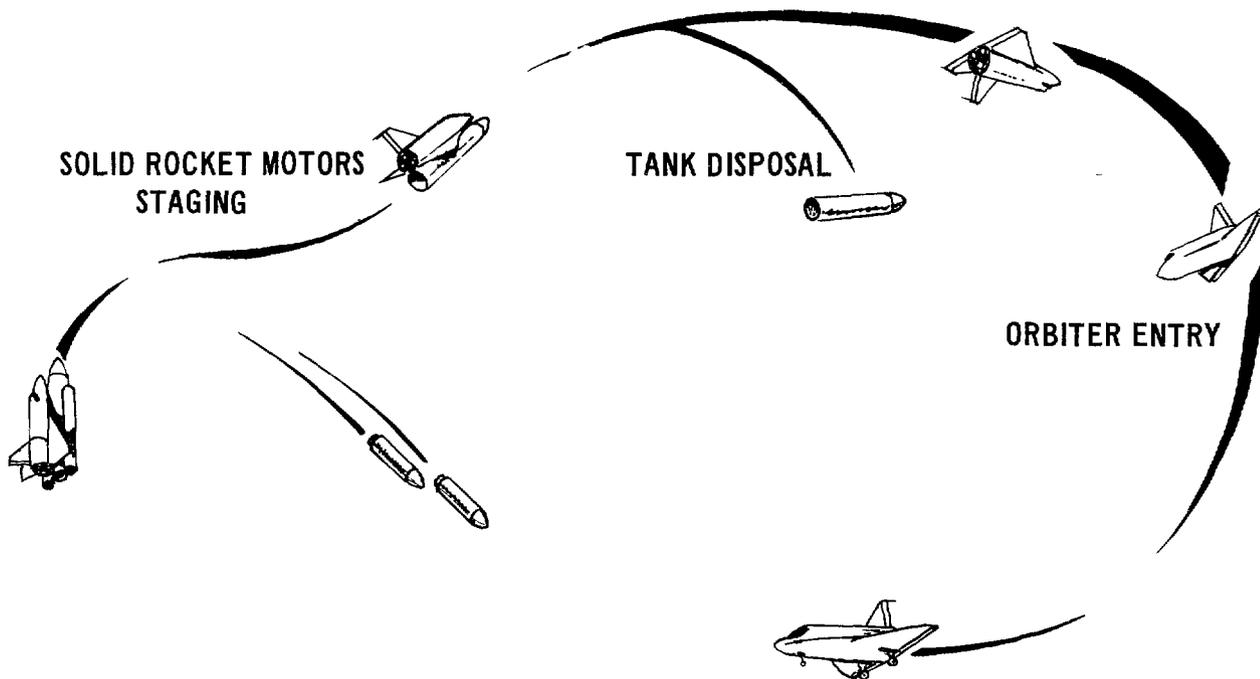
DOD stated that it agreed in general with our findings, conclusions, and recommendations and that it was

taking corrective actions. (Report to the Congress, B-163058, July 17, 1972)

133. Cost-Benefit Analysis of the Space Shuttle Program.—Senator Walter F. Mondale requested us to review the cost-benefit analysis used by the National Aeronautics and Space Administration (NASA) in support of the Space Shuttle Program announced in January 1972. The Senator allowed us to release our report to the Congress because of widespread interest in the space shuttle.

NASA proposed that a space shuttle be developed for U.S. space transportation needs for NASA, the Department of Defense, and other users in the 1980s. The Space Shuttle Program's objective is to provide a new space transportation capability that will (1) substantially reduce the cost of space operations and (2) provide a future capability designed to support a wide range of scientific, defense, and commercial uses.

The space shuttle will be the first space vehicle that can be used repeatedly. It will be boosted into space through the simultaneous operation of its solid-propellant booster engines and its orbiter-stage, high-pressure, liquid oxygen-liquid hydrogen main engines. The booster rockets will detach at an altitude of about 25 miles and descend into the ocean to be recovered and reused. The orbiter, under its own power, will continue into low earth orbit. The orbiter will look like a delta-winged airplane and will have a crew of four—pilot,



copilot, and two specialists—who will fly it back to earth for an airplanelike landing.

The orbiter will have a cargo compartment about 60 feet long and 15 feet wide. It will be able to place 65,000 pounds in a 100-nautical-mile due-east orbit and 40,000 pounds in a polar orbit. Propulsive stages (tugs) will be used to propel satellites into higher orbits or to achieve escape velocity.

NASA contracted with Mathematica, Incorporated, for an analysis of how economical the shuttle would be, compared with expendable launch systems. Mathematica used the results of numerous studies conducted by the Aerospace Corporation and the Lockheed Missile and Space Company concerning space transportation systems and payloads for the years 1979–90. These analyses were based on a comparison of estimated *total space program costs* for three alternative space transportation systems—the current expendable system, the new expendable system, and the space shuttle system. Mathematica defined “total space program cost” as the sum of launch system life-cycle costs and payload system life-cycle costs.

During these analyses the shuttle was evaluated only in terms of those capabilities common to the three alternative space transportation systems identified. Additional benefits and options that a reusable system might offer were not analyzed. For these analyses NASA and the Department of Defense postulated space missions involving different numbers of flights from 1979–90. The studies estimated the costs and other economic characteristics expected for each of the three alternative space transportation systems to perform these missions.

Our analysis primarily focused on Mathematica’s study. NASA and Mathematica officials said that this study demonstrated the shuttle was economically justified. We examined the economics of the Space Shuttle Program by comparing estimated total space program costs for the shuttle and the cost of the current expendable system. Although the new expendable system’s estimated cost was lower than the cost of the current expendable system, we did not consider it in the study because of the uncertainty in cost estimates for any new class of systems, including this one, and the lack of time to review the new expendable launch system estimates.

We did not independently analyze cost-benefits of the Space Shuttle Program. We worked with estimates from Mathematica for two representative space shuttle configurations of the space shuttle—one a reusable

solid booster shuttle estimated to cost \$41.4 million (\$14.6 million for the launch vehicle and \$26.8 million for the payload) and the other a reusable liquid booster shuttle estimated to cost \$41 million (\$14.2 million for the launch vehicle and \$26.8 for the payload). We did not evaluate the value of the payloads for which the shuttle or expendable systems would be used.

We identified uncertainties in critical areas of the estimated total space program costs received from Mathematica for the two identified shuttles. “Critical areas” were defined as assumptions and/or study elements that significantly influenced the estimated total space program costs. Whenever there was uncertainty in a critical area, it was possible to establish the upper and lower boundaries of the estimate and hence the ranges of cost uncertainty by assessing technological or operational uncertainty.

We made computations using NASA’s cost model developed by Mathematica to show the effect of increasing or decreasing selected critical areas within their plausible boundaries. Although we treated each critical area separately, this does not imply that variations may not occur in several areas as the Space Shuttle Program progresses. For example, changes in both payload refurbishment costs and launch system costs could occur during the program’s life cycle. According to a recent study, the cost of acquiring major systems has generally increased an average 40 percent after adjustment for quantity changes and inflation.

The two configurations were economically justified in terms of the 10-percent investment criterion proposed by Mathematica for evaluating the Space Shuttle Program. This justification assumed that these configurations would be developed, procured, and operated as presented to us by Mathematica. We identified the points at which the cost increases over the Mathematica estimates for the two configurations would no longer realize the savings required to meet the 10-percent investment criterion.

NASA generally agreed with the approach we used in assessing the effects on the economics of the Space Shuttle Program of changes in the cost and mission assumptions used in Mathematica’s analysis. NASA stated, however, that the 10-percent investment criterion used by it and by Mathematica was a conservative base point for the economic analysis and was not a decision criterion for proceeding with the Space Shuttle Program. In addition, NASA stated that shuttle development would be justified even if NASA had

not been able to demonstrate that the shuttle would have a substantial economic return, because of the additional benefits and options that would come with developing the shuttle. (Report to the Congress, B-173677, June 2, 1972)

134. Principal Issues in Choices of Aircraft for Close Air Support.—

The Army, Navy, Marine Corps, and Air Force all participate in close air support or reinforcement of ground troops by close-in delivery of ordnance from aircraft. The services have differed over, among other things, the best equipment to employ, the tactics to use, and the priority of this type of mission. Congressional committees have reviewed these differences and related problems from time to time, but the issues have been exceedingly difficult to resolve. Congressional concern was expressed that three different aircraft being considered for the close-air-support mission—the Army's AH-56A Cheyenne helicopter, the Marine Corps' Harrier, and the Air Force's A-X—might duplicate or substantially overlap in capabilities.

All three proposed aircraft are designed to defeat tactical targets, such as battle tanks, armored personnel carriers, field fortifications, and enemy troops; but the aircraft differ markedly.

The Cheyenne is a "compound" aircraft having rotary blades; wings for lift, like a fixed-wing plane; and a pusher-propeller in the tail.

The Harrier is the first vertical-takeoff airplane to become operational, after nearly 25 years of experimentation with this aeronautical concept.

The A-X is to be a conventional fixed-winged aircraft, the first fixed-wing aircraft in more than a generation to be designed specifically for the close-air-support mission.

A cohesive plan covering total Department of Defense (DOD) requirements for close air support had not been prepared. Ordinarily such a plan would be the basis for determining the total number of aircraft and the capabilities they would need to carry out the close-air-support mission. Instead each service has independently planned and proposed the sizes and the tactical concepts of close-air-support fleets, without considering each other's plans, the quantities and capabilities of existing aircraft, or the resources of U.S. allies.

The need for a new close-air-support aircraft could be argued more convincingly if the services agreed on available inventory aircraft (their numbers, accuracy,

payloads, response times, and other properties) and if it could be shown that there was a gap between these resources and the combined services' needs.

Some factors hampering effective management of the close-air-support mission and the development of an overall plan were:

Constraints on the choice among weapon-system types that each service can develop. For example, an agreement with the Air Force limits the Army to helicopters.

Lack of joint military doctrine on how to conduct the mission and on which equipment to use.

Lack of adequate data on whether the weapons now being considered will perform effectively in their ultimate environments and on certain human abilities needed to operate the weapons.

Equipping, staffing, and training for support missions usually are underfinanced in peacetime in favor of a service's first-priority mission. The more complex support missions—such as close air support—which require close, even delicate, coordination between air and ground troops, therefore are difficult to gear up when hostilities break out.

It was difficult to select one of the three aircraft with any confidence. It is not known, for example, whether they will be more effective than existing aircraft. The following capabilities of the three aircraft were not tested in a combatlike environment employing the tactics planned for each of them:

Ability to find and identify enemy targets in time to launch weapons before the enemy can fire at the aircraft.

Survivability against a well-equipped enemy.

Effectiveness against typical close-air-support targets.

Capability for a high, sustained rate of attack (sortie surge rate) in the battle area.

Data on proposed target-kill capabilities and survivability conflicted and was incomplete. Cost-effectiveness studies on those aircraft (none had been made on the Harrier) were:

Optimistic in their assumptions about environments, tactics, and the severity of enemy defenses.

Incomplete in comparing these aircraft with similar aircraft.

Out of date with current cost estimates, which rose markedly in the past 2 years.

Another cost-effectiveness study on the Cheyenne was underway.

DOD completed an interim study of the three aircraft in June 1971. The Deputy Secretary of Defense, in summarizing the study, concluded that the proposed aircraft would complement rather than duplicate other aircraft because each was expected to have exclusive capabilities for certain battle situations not possessed by existing aircraft. He recommended that all three aircraft programs be continued until operational testing could be completed to resolve certain specified uncertainties about each. The list of uncertainties seemed to apply to each aircraft alike, but the summary did not indicate that each aircraft would be evaluated against the list. Although the proposed aircraft would be tested further, it was not clear whether they would be compared with each other and with existing aircraft when the operational test data was available.

The Office of Defense Research and Engineering recently established a deputy directorship with direct access to the Deputy Secretary of Defense at certain critical milestones in the weapon acquisition process of these aircraft. The Deputy Director would do no actual testing but would advise and monitor in-service testing by the services and would evaluate the results. We did not attempt to determine whether the current operational testing and evaluation procedures would provide the necessary independence to insure that there was prompt and realistic operational testing of weapon systems before large-scale-production commitments were made. We agreed, however, that a powerful operational test and evaluation authority was needed in the weapon acquisition cycle.

In our report issued to the House and Senate Committees on Appropriations and Committees on Armed Services, we suggested that DOD should:

Establish the total DOD requirement for close-air-support resources within the force structure allowed by the budget.

Delineate the single- and joint-service tasks and subtasks in conducting close-air-support missions and assign authority and responsibility for specific tasks to the individual services.

Develop and implement, within some realistic deadlines, joint close-air-support doctrine which would spell out how military actions are to be conducted and coordinated; and prescribe the operational conditions and joint tactics for employing weapons.

The report also summarized major issues concerning the three aircraft which the Committees might wish

to pursue further with DOD. (Report to the Chairman, House and Senate Committees on Appropriations, and the Chairmen, House and Senate Committees on Armed Services, B-173850, Dec. 8, 1971)

135. Planning for Avionics Development Programs.—In prior reviews of Army aircraft system developments, we found that significant aircraft modifications were necessary because armament and avionics subsystems had to be redesigned to correct development deficiencies. Because development problems with the standard lightweight avionics equipment (SLAE) package affected airframe programs, we reviewed the SLAE program, which was committed for use in several new Army aircraft systems, to determine the underlying causes for such program shortcomings.

Although the military requirements established in May 1960 for the light observation helicopter limited the weight of the avionics equipment to 100 pounds, Army officials decided in October 1960 to use existing equipment which was about 55 percent heavier. The Army did contract for developing lightweight avionics until 1966, about 4 years after contracting for the helicopter development. This delay forced the development cycle of SLAE to be compressed and, in our opinion, was the primary cause of development and production problems. We believe that this inadequate planning was caused by the Army's lack of a long-range avionics planning system to promptly identify the avionics subsystems needed for its aircraft.

Because development of SLAE was delayed, the Army had to push the avionics package into production 9 months before preliminary design testing was completed to meet aircraft delivery schedules. Because SLAE was not available, older, larger, and heavier avionics equipment ultimately was installed in 2,013 helicopters. The substitute equipment reduced the effectiveness of all 2,013 helicopters. The schedule slippages and design changes to overcome deficiencies in the avionics equipment produced additional costs of about \$2.4 million.

In December 1966 the Assistant Chief of Staff for Force Development directed that SLAE be installed in seven additional Army aircraft systems and in all Army aircraft produced after fiscal year 1969, even though SLAE had never been successfully tested in the light observation helicopter for which it was designed. A component of the SLAE package also was to be installed in five aircraft systems as a second frequency modulation (FM) transceiver. These actions were

taken without determining whether the expected benefits would outweigh the expected cost and before completing any testing of SLAE to determine its suitability for Army use. (SLAE also was to be installed in an aircraft system procured for the Air Force, the Navy, the Marine Corps, and the Canadian Armed Forces.)

SLAE was not installed in two of the aircraft systems because the Army later determined that SLAE was not cost effective. Installing SLAE in three other aircraft systems was canceled because SLAE was unavailable, but modifications to one of these aircraft systems to prepare for installing SLAE had cost about \$185,000.

The Army solicited bids on a second FM transceiver for SLAE at an estimated cost of more than \$20 million without determining whether the need justified the cost. The Army did not consider using FM transceivers already being used in other Army aircraft. We notified Army officials of this and they promptly reevaluated the requirement and reduced the planned procurement about \$7 million.

In August 1969 the Commanding General, Army Materiel Command, decided to transfer program and fund control of the Avionics Laboratory from the Electronics Command to the Aviation Systems Command, but this decision had not been implemented at the time of our review. If the Aviation Systems Command is given program and fund control, it should also be given command control over the Avionics Laboratory to avoid the problem of dual control of the Laboratory.

We recommended that the Secretary of the Army:

Place additional emphasis on promptly preparing long-range avionics requirements plans.

Prepare a regulation which prohibits committing incompletely tested subsystems to additional systems, except under extraordinary conditions.

Establish additional controls to insure that cost-effectiveness determinations and analyses of economic alternatives are made before program approval, as required by Army regulations.

Initiate actions clarifying responsibility within the Army Materiel Command for preparing an economic analysis when more than one of its subordinate commands are directly involved.

We also recommended that the Secretary of Defense:

Require, before approving engineering development of an aircraft, that all subsystems needed to fulfill critical requirements of the aircraft are being developed and have sufficient leadtime to insure proper interface.

Establish procedures whereby his authorization is required before committing a critical developmental subsystem to additional systems unless it is proven acceptable by suitable tests.

The Army agreed that improved long-range planning was needed, but did not agree with our statements of what caused the SLAE developmental problems. It contended that changing requirements and unforeseen technical difficulties had caused these problems. We believe these problems could have been minimized or avoided had the Army initiated plans to develop lightweight avionics in 1960 to meet the military requirements then specified.

Although the Army commented that our recommendations were sound management practices, it cited only that it was preparing a long-range avionics plan. With respect to our other recommendations, it stated that:

Suitable regulations were in effect to control committing untested subsystems to additional systems. (The regulation, referred to by the Army, controls type classification of materiel; however, it does not preclude committing incompletely tested subsystems to additional systems.)

Cost-effectiveness determinations and economic analyses were required and cost analyses had been conducted to the appropriate degree. (We found that these determinations and analyses had not been prepared and that additional controls were needed to insure their preparation.)

The regulation requiring economic analyses was sufficiently clear regarding which activity prepared these analyses, in this case, the Army Materiel Command. (The Army Materiel Command's implementing regulation does not clearly indicate which subordinate command should prepare the analyses when more than one subordinate command is involved.)

The Office of the Secretary of Defense disagreed with our recommendation that engineering development not be approved unless all critical subsystems were under development with sufficient leadtime to insure proper interface. The Office contended that SLAE was not committed to additional systems before testing and that therefore the proposal was not appropriate. We disagreed. The plan to install SLAE in additional aircraft was included in the Five Year Avionics Requirements Plan used as the basis for procuring avionics and for modifying aircraft to accept new avionics. Using this plan, one project manager initiated modification actions to enable installation of

SLAE. These were subsequently terminated because SLAE was not available.

We suggested that the Congress might wish to be informed by the Secretary of Defense when critical subsystems still being developed are committed to additional systems, because such commitments could adversely affect the performance of all involved systems and the combat effectiveness of the Armed Forces. (Report to the Congress, B-174248, Dec. 28, 1971)

136. Replacement of Faulty Potting Compounds, a Protective Material, in Major Weapon Systems.—

Potting compounds protect electrical connections and other components from contaminants, such as moisture and corrosion. These compounds, which are installed as liquids, harden around the connections or components to be protected. After prolonged exposure to high heat and humidity, some potting compounds revert to liquids and leave potted components unprotected.

This reversion caused a potting compound used in about 775 active F-4 aircraft to be replaced at a cost of about \$39 million. In addition, 1,575 other active F-4s contained another potting compound also susceptible to failure by reversion. General failure of this compound is not expected to occur until 1976, and costs for partial repair may be limited to a few million dollars. We estimated that, if reversion occurs earlier and if total replacement is required, the cost to replace this compound could reach \$85 million.

Additional millions have been or may be incurred to replace compounds used in other weapon systems. For example, submarines built by the Mare Island Naval Shipyard in California during 1961-66 contained a considerable amount of a reversion-prone potting compound. The Department of Defense estimated that it would cost \$6 million to replace this defective compound.

We attributed the use of these faulty potting compounds to a lack of Government testing and evaluation. The compounds were newly developed and were not covered by military specifications. Government personnel approved their use solely on the basis of recommendations and test data from the equipment and compound manufacturers. The data did not identify the reversion characteristics of the compounds. One military laboratory, however, which already was aware that a similar compound was reversion prone, was not asked to evaluate these compounds. It was not required to use military laboratories to evaluate the ac-

ceptability of materials and components not covered by military specifications.

Furthermore, the Department of Defense (DOD) was unable to quickly disseminate information to all users. After field experience and Government testing confirmed that these compounds would revert, they were still used in the F-4 aircraft for several months. The Air Force is using a reversion-prone compound in the F-111 aircraft. This aircraft's system project office (which had been notified by Air Force laboratory personnel of the potential failure with this compound) decided to continue its use.

Because the services did not effectively coordinate efforts to develop repair techniques to remove and replace one kind of potting compound in the F-4 aircraft, repair costs may have increased. After recognizing the compound's reversion problem, Air Force and Navy activities concurrently developed different repair techniques. In fact, two activities within the Navy used different techniques. Concerning the F-4 aircraft's difficulties which are inherent in the approved material rather than in its use by the contractor, the Navy concluded, and we agreed, that there was no basis for a Government claim against the F-4 contractor. The Navy, however, is pressing a claim against the F-4 contractor concerning the improper mixing and use of some of the compound which, the Navy believes, hastened its reversion.

We recommended to the Secretary of Defense that he take action to insure that:

New, untried materials not covered by military specifications are tested adequately and that such newly developed materials are approved for their intended uses by a military laboratory.

The services disseminate information to other DOD users on deficiencies in materials and equipment having DOD-wide application, obtained through test, evaluation, or experience.

DOD agreed that faulty potting compounds used in defense equipment resulted in considerable expense but stated that our estimate of this cost in the F-4 aircraft was too high. After discussing this matter with DOD officials, we concluded that our estimate of \$39 million to replace one of the compounds was reasonable. We agreed that our estimate of \$85 million to replace another potting compound in 1,575 additional F-4 aircraft could be reduced if less than total replacement was required, but the exact amount of replacement will not be known for several years. DOD did not provide an alternative estimate of this cost.

DOD stated that several existing procedures provided sufficient guidance for testing and evaluating newly developed materials and components and that military program and project offices had access to DOD laboratories for assistance. These procedures basically were directed toward testing by contractors and did not include criteria to determine when Government personnel should request independent test and evaluation assistance from DOD laboratories.

DOD agreed that better communication among the military services was needed and that it was revitalizing an existing Government-Industry Data Exchange Program which provided for exchanging test data. We believe this program's usefulness is limited because both contractor and military participation is voluntary. (Report to the Congress, B-163058, Jan. 5, 1972)

Research and Development—General

137. Conversion of Defense Research Facilities to Civil Uses.—Because attempts to convert military facilities from defense and space use to civil uses have been only partially successful in the past, we reviewed the Army's efforts to transfer research facilities located at Fort Detrick, Md., to civil agencies of the Government. These unique and valuable facilities became available when the President decided to eliminate the country's biological warfare program.

The Army made a substantial effort to convert the research facilities to civil, scientific, or medical purposes, but it encountered problems which one agency acting alone could not control. The availability of specialized laboratories and expert scientific and technical personnel at each of two similar installations was made known to potential users. However, disposition of the facilities differed greatly.

The Food and Drug Administration (FDA) recognized the value of the Army's Biological Complex at Pine Bluff Arsenal, Ark., as particularly suited to its plans to develop a national center for food and drug safety evaluation. The site offered FDA a facility which it could not have acquired otherwise. FDA will use the facilities (renamed the National Center for Toxicological Research), all of the scientists and technicians, and most of the other personnel. FDA began converting the facilities in the latter part of fiscal year 1971 and obtained financing to undertake research programs in fiscal year 1972, with the gradual transfer of Pine Bluff personnel into FDA programs expected to be completed by June 1972.

Attempts to make the resources at Fort Detrick available for civil purposes encountered problems, often interrelated, such as:

- Size of the research facility and its work force (the laboratories are 40 times larger than those at Pine Bluff).

- Finding an agency willing to assume responsibilities as landlord for the facility.

- Lack of firm plans and available funds by prospective users.

- Reluctance of prospective users to be associated with a former biological warfare center.

The availability of Fort Detrick's facilities—valued at \$190 million—and its personnel were made known in January 1970. Recognized scientific authorities reported that the specialized facilities and the scientific personnel, while still intact as a group, should be given a national mission commensurate with their potential, such as finding a cure for cancer.

In June 1970 the Deputy Secretary of Defense reported an apparent accord that Fort Detrick's facilities would be transferred to the Department of Health, Education, and Welfare (HEW), as HEW had requested; however, actual agreement was not reached. HEW was still considering using some of the facilities 10 months later but had no firm plan. Part of HEW's interest depended on the Army's acting as landlord. The Army Surgeon General was interested in some of the facilities and was willing to accept responsibilities as host agency, but at the time he had not indicated the extent of his needs. Finally, in October 1971, the President announced that Fort Detrick would become the focal point for the National Cancer Institute's crusade against cancer.

The Army attempted to retain as many of the 1,800 persons employed at Fort Detrick as possible. Despite the Army's efforts, however, fewer than 600—primarily support personnel—remained at the time of our review. The Department of Agriculture took over one research facility employing 20 people, and plans are for the Army Surgeon General to retain some of the remaining personnel. Most of the unique scientific and professional staff formerly employed at Fort Detrick, however, are no longer available.

In our opinion, it would benefit the Government to have a coordination point between the prospective users and the offering agencies. The Office of Management and Budget (OMB), with assistance from the Office of Science and Technology and the General Services

Administration (GSA), could substantially contribute toward converting these valuable resources to civil use.

To conserve national resources, prompt action should be taken to close facilities no longer needed. When a facility has unique features valuable to the Nation, the Director, OMB, should:

Coordinate the efforts of defense and civil agencies in converting and transferring national resources.

Consider favorably requests for additional funds which enable an existing facility to remain operational. This would keep the work force intact until potential users' plans are more fully developed.

Designate a host agency, such as GSA, when several agencies would use a large facility but no single agency would be willing to assume responsibility.

OMB, which coordinated the response for the executive branch, informed us that matters to be decided in the succeeding months made it impossible to comment definitively on the positions taken and on the recommendations made.

The President's Advisory Council on Management Improvement agreed that it would be advantageous to coordinate planning and timely decisions between the prospective users of surplus facilities and the offering agencies. It further stated that OMB, with advice from the Office of Science and Technology, GSA, and the Civil Service Commission, could certainly serve that function. (Report to the Congress, B-160140, Feb. 16, 1972)

138. Implementation of Statutory Provisions Governing Payments to Contractors for Independent Research and Development and Bid and Proposal Costs.—Section 203 of Public Law 91-441 established requirements to be met by the Department of Defense, effective January 1, 1971, in paying contractors the costs of their independent research and development (IR&D) and bid and proposal (B&P) efforts. In October 1971 the Chairman, Senate Committee on Armed Services, requested us to review the actions taken by the Department pursuant to section 203.

We reported that it was still too early to make a conclusive evaluation of either the actions taken or the effects of the provisions of section 203. Based on our limited review, we expressed the opinion that the Department was being reasonably diligent in implementing the provisions.

We pointed out that some portions of the language of section 203 were not sufficiently clear as to meaning, particularly as to the criteria to be applied in determining when a project has "potential relationship to a military function or operation."

We have been requested to make a further investigation into the implementation of section 203 during fiscal year 1973. (Report to Chairman, Senate Committee on Armed Services, B-167034, Apr. 17, 1972)

139. Dissemination of Scientific and Technical Information.—The Atomic Energy Commission (AEC) supports research and development activities at Government-owned, contractor-operated laboratories and at universities, nonprofit research institutions, commercial organizations, and other Government agencies. Scientific and technical information derived from this original research is disseminated in a variety of ways, such as through articles in scientific journals, reports, oral presentations, and information and data centers.

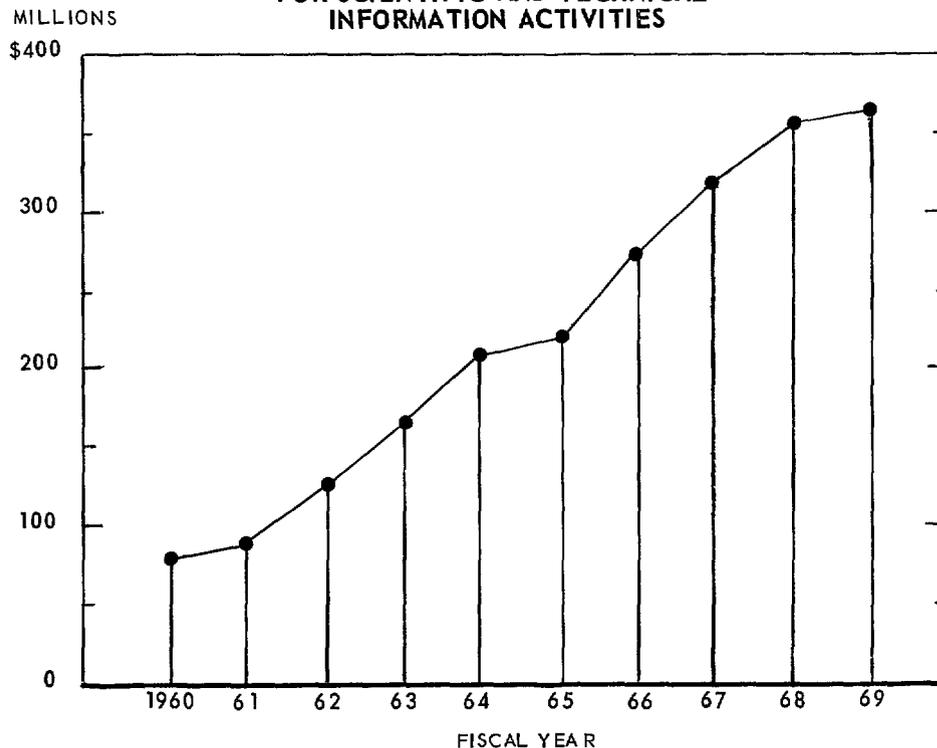
Publication in scientific journals is the preferred means of dissemination of scientific and technical information. Certain material, for reasons of length, originality, limited interest, or partial completion of total research effort, is not appropriate for journal publication. Generally this material is published by the laboratory as "topical reports."

At their own discretion, a number of program divisions at the laboratories included in our review had issued periodic reports reflecting research activities. We questioned the need for a number of these reports either because much of the information contained in them had been previously published or was to be published in a journal article or topical report. Certain of the reports substantially duplicated each other. In response to our recommendation, AEC eliminated or reduced duplicative periodic reports. (Report to the Congress, B-165117, July 15, 1971)

140. Use of Research Program Findings.—The McSweeney-McNary Forestry Research Act of 1928 authorizes the Forest Service, Department of Agriculture, to carry out a forestry research program to help Federal agencies, States, and private landowners solve problems in managing forest lands and resources.

Information on over 1,000 forestry research findings had been published annually, but the Forest Service had not identified which findings were ready for use by field managers. Instead, hundreds of field managers individually determined whether the findings could be applied to improve their operations. These managers

**TRENDS IN FEDERAL OBLIGATIONS
FOR SCIENTIFIC AND TECHNICAL
INFORMATION ACTIVITIES**



were not required to advise top management of their decisions or of problems encountered in attempting to use research findings. Also Forest Service procedures did not provide adequate means for (1) insuring that the best possible use was made of research results and (2) furnishing research officials with feedback of information which could be useful in planning and directing future work.

To identify and exploit fully the opportunities for improved resource management through the use of results of forestry research, procedures should be established to require that (1) evaluations be made of the extent of potential use, (2) field managers' decisions be documented, and (3) research officials be advised of the results of evaluations of the implementation of research results. We said that these procedures should be applied through an official or officials to be responsible for coordinating the use of findings.

The Forest Service agreed in general with our recommendations, and, to provide for a systematized review of research results, each regional forester was requested to assign the duties of research coordinator to a principal staff officer on or before October 1972.

The coordinators would be responsible for developing procedures for coordination between field resource management and the research program organization. (Report to the Congress, B-125053, Jan. 6, 1972)

141. Federal Support of Problem-Oriented Research.—At the request of the Chairman, Subcommittee on Science, Research and Development, House Committee on Science and Astronautics, we developed information concerning Federal support of research directed toward social, environmental, and technological problems (problem-oriented research). We were asked to give special attention to the National Science Foundation (NSF) program, "Research Applied to National Needs."

NSF had established this program in fiscal year 1971. It was designed to focus research on selected environmental and social problems and on opportunities for future technological development. NSF's support of problem-oriented research was intended to complement the research capabilities of Federal agencies having special concerns with environmental, social, and technological problems. In fiscal years 1971 and

1972, research support under the NSF program totaled about \$90 million.

We directed our efforts primarily toward obtaining the views of Government and non-Government organizations and individuals as to (1) who should sponsor and perform problem-oriented research, (2) the responsibilities of the sponsors and performers, and (3) what the roles of NSF and other Government, private, and nonprofit organizations should be in connection with problem-oriented research. We obtained views from 122 such organizations and individuals.

Those who commented indicated generally the following views.

NSF should sponsor basic research for the purpose of developing new fundamental scientific data and should sponsor research in problem-oriented and other areas not within the province of other Federal agencies.

NSF should serve as a national coordinator for Federal support of research and should support the development of scientific research capabilities.

Federal mission agencies should sponsor problem-oriented research within the areas of their statutory responsibilities because they are more aware of their research needs and opportunities for effective application and thus are better equipped to monitor the research programs and implement the results.

Academic institutions should perform both basic and applied research related to their principal mission of education and should provide technical and consultative support of problem-oriented research projects undertaken by others.

Industry should sponsor and perform problem-oriented research that is profit oriented. It was expected that research sponsored by industry would involve product improvement or developmental work which would evolve into something marketable.

Nonprofit research institutes, in addition to performing research, should (1) sponsor research which is of benefit to the general welfare but which is not adequately supported by the public, (2) provide advice and technical services, (3) concentrate research activities in those areas not covered by the Government or industry, and (4) assist the technical community in defining problem areas and, when known, in indicating probable solutions for them.

The consensus of those who commented was that a sponsor should clearly define the problem, select the performer, and monitor and guide the research work.

Monitoring the performance of research was considered essential for evaluating progress, for being kept informed on results being achieved, and for determining whether objectives remained valid or whether they should be modified. The primary responsibility indicated for a performer was to conduct the research work in an efficient and effective manner to provide research results as early as possible for use as intended by the sponsor.

In addition, some organizations and individuals advocated certain changes in the policies and practices for funding Federal research projects to provide greater stability in program support and to encourage greater industry participation in problem-oriented research.

Several individuals indicated that the dissemination of research information through normal channels, such as scientific journals, professional meetings, and news media, was not efficient or effective and that communication between the researcher and the practitioner needed improvement. (Report to the Subcommittee on Science, Research and Development, House Committee on Science and Astronautics, B-133183, Mar. 28, 1972)

142. Basic Research Programs.—Our survey of the Postal Service's research and engineering activities showed that there was no agencywide planning system that set forth goals and priorities for improving postal service which could be used to determine the feasibility of proposed research and development projects.

We concluded that, in the absence of an integrated, agencywide plan for improving postal operations and a time-table for implementation, the Service's research group had no real basis for evaluating the need for or the priority of projects proposed by the operating groups, research personnel, or outside sources. Further, we concluded that operating without such a plan was not conducive to getting the most out of the research dollars being spent. In 7 years the budget for research had increased almost 10-fold—from \$12 million in 1966 to \$110 million in 1972.

A Headquarters Research Department official told us that certain organizational changes had occurred and that the Research Department was in a position to require justification, approval, and transfer of funds from operating groups before a project was initiated. He said that before any long-range and expensive research project was undertaken, a complete study and evaluation were made of benefits to be gained and

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economic advantages to be achieved. The official told us also that consideration was being given to integrating the project with existing and planned mechanization. (Report to the Acting Assistant Postmaster General, Research Department, U.S. Postal Service, Jan. 28, 1972)

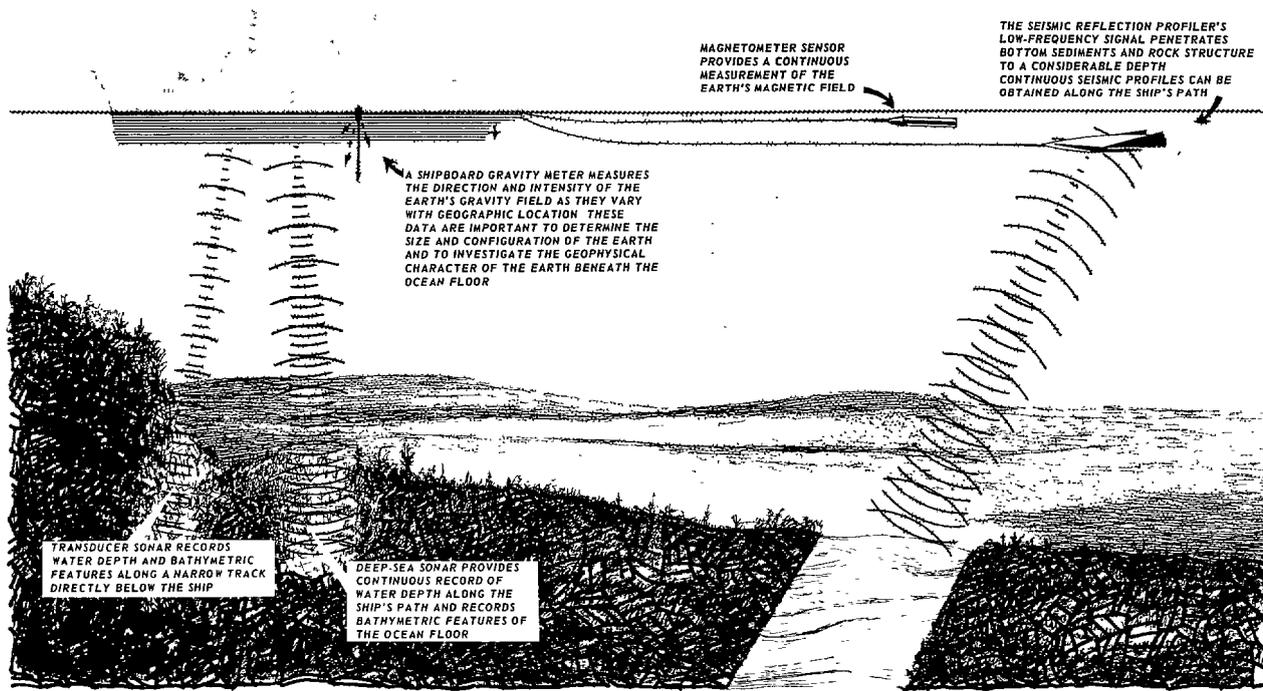
143. Coordination of Deep-Ocean Geophysical Surveys.—The National Oceanic and Atmospheric Administration, Department of Commerce, and the Department of the Navy planned to conduct deep-ocean geophysical surveys in the same areas of some 16 million square miles. We reviewed their respective requirements for geophysical data and concluded that the Administration could satisfy both its own and

Navy's needs. The elimination of Navy's geophysical surveys could save the Federal Government about \$20 million by the early 1980s.

The Administration and the Navy reached an agreement in principle on an exchange of personnel which would insure maximum effective coordination of the planning and scheduling of geophysical surveys.

The agreement to exchange personnel was an important first step toward eliminating duplication of geophysical surveys and improving Government efforts in this area. We believe, however, that survey specifications and administrative procedures must be established, evaluated, and jointly agreed upon before effective coordination could be accomplished. (Report to the Congress, B-133188, Dec. 8, 1971)

ILLUSTRATION OF A SHIP CONDUCTING AN UNDERWAY GEOPHYSICAL SURVEY



NOTE THE MEASUREMENTS SHOWN ARE EXAMPLES OF THE PRINCIPAL ONES OBTAINED DURING A GEOPHYSICAL SURVEY

SOURCE AN ADMINISTRATION PUBLICATION DESCRIBING THE CAPABILITIES OF THE SHIP "DISCOVERER"

PROCUREMENT

Contract Administration

144. Statutory Provisions Governing Payments to the Contractor for Production of the C-5A Aircraft.—Public Law 91-441 authorized \$200 million for the C-5A aircraft program for fiscal year 1971; Public Law 92-156 authorized \$325.1 million for the program for fiscal year 1972. Both laws provided that (1) payments be made to the contractor—Lockheed Aircraft Corporation—through a special bank account, (2) funds be expended only for reasonable and allocable direct and indirect costs of the C-5A aircraft program, and (3) funds not be used to reimburse Lockheed for intercompany profits, bid and proposal costs, independent research and development costs, similar unsponsored technical effort costs, and depreciation and amortization costs. These laws required that our office audit payments from the special bank account and submit quarterly reports to the Congress.

During the year we submitted four reports to the Congress on our audits of the payments, totaling \$320 million, made since the special bank account was set up in June 1971 through March 31, 1972. We found no payments that were contrary to Public Laws 91-441 and 92-156. However, we questioned certain practices concerning the contractor's manpower utilization, overhead allocation, and withdrawal of retirement funds before they were needed.

Our study, based on statistical-sampling techniques, of direct labor employees involved in assembly operations showed that costs could be reduced through more efficient use of manpower. We notified the contractor and the Air Force of this. The contractor advised us that it was establishing new control systems; the Air Force said that it was improving its capability to measure the contractor's worker productivity.

Public Laws 91-441 and 92-156 provide that the contractor not be reimbursed for bid and proposal costs. The contractor excluded the direct bid and proposal costs (material and labor) but included, and received reimbursement for, about \$500,000 of overhead costs which appeared to be allocable to bid and proposal op-

erations. We asked the Air Force to state its rationale for paying such costs. The Air Force replied and we are giving this matter further consideration.

Eight banks and trust companies serve as trustees for the contractor's 10 employee retirement plans. In 1971 an average of 14 months elapsed between the receipt of funds from the Government and the payment to the trustees. Costs incurred but not yet paid are reimbursable if otherwise valid. However, we questioned the propriety of reimbursing retirement costs well before the contractor had paid them. We recommended that the Department of Defense establish a consistent policy on this matter, but have not yet received a reply. (Reports to the Congress, B-162578, Aug. 9, 1971, Nov. 17, 1971, Feb. 18, 1972, and May 30, 1972)

145. Shipbuilders' Claims for Price Increases.—Although contractors' claims for price increases have recurred in Navy shipbuilding programs, this problem has become more significant in the last few years because such claims have increased in both size and percentage of shipbuilding contracts. In the past few years, the Navy has received shipbuilders' claims for price increases totaling about \$1 billion. The shipbuilders claimed that the Government owed them more than the contract price because the Navy failed to fulfill its part of the contract terms. In their claims, shipbuilders contended that the Navy:

Did not provide adequate specifications.

Was late in furnishing equipment and information it agreed to provide or did not provide them in a usable condition.

Increased quality assurance requirements beyond what could reasonably be anticipated.

Made verbal requests for changes in a ship for which the contractor had not been paid.

Certain shipbuilders also claimed that plans purchased from the lead yard—the shipbuilder that built the first ship of the class—were defective and/or not available when needed and that, since the Navy intended that such plans be purchased and used, the

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Navy shared responsibility for problems created by these plans.

To improve its ship procurement processes, the Navy has undertaken the Shipbuilding and Conversion Improvement Program, which includes several tasks intended to eliminate or minimize claims for price increases under future shipbuilding contracts. We reviewed these tasks because of congressional interest in this subject and because of the significant sums involved. We evaluated the potential of these planned tasks to eliminate or minimize the causes of claims. Of the 167 tasks in the Shipbuilding and Conversion Improvement Program, 26 relate to preventing the causes of claims. At least one task concerns each of the major causes of claims mentioned above.

The Navy has also initiated actions intended to improve its overall acquisition management. These improvements are categorized as organization, procurement, and personnel related, and most of them have been implemented. These actions hold considerable promise for minimizing the claims problem.

The Secretary of the Navy should direct that specific plans be devised whenever the lead-yard/follow-yard procurement method is used to insure that the follow yard is given sufficient time to review the lead yard's plans and to insure that the lead yard and follow yard make every effort possible to promptly correct any deficiencies. The Navy agreed with this recommendation.

We suggested that the Congress, in considering requests for shipbuilding authorizations and funds, inquire about the specific claims prevention measures the Navy plans to apply to the ship construction programs. (Report to the Congress, B-133170, Feb. 28, 1972)

Contracting Policies and Procedures

146. Preliminary Surveys and Construction Services for the Capital Improvements Program.—

As the result of an examination made at the request of the Chairman, Subcommittee on the District of Columbia, Senate Committee on Appropriations, we made the following observations on the capital improvements program of the District, as administered by the Department of General Services.

The District's procedure for selecting and negotiating with architects was similar to that being considered under proposed legislation. The procedure provided for (1) selecting three firms, in order of preference, on the basis of their qualifications and

performance data to be submitted annually and (2) negotiating a contract with the firm having the highest ranking. If a contract could not be negotiated at a fair and reasonable price, the proposed legislation would provide for negotiating with the second most qualified firm, etc. We said (1) that this method of procurement of architect-engineering services did not allow for sufficient competition and (2) that we believed the well-recognized concept of competitive negotiation could be successfully applied to the procurement of architectural and engineering services.

The Department of General Services should establish procedures for determining the liability of architects for deficiencies in project drawings and specifications and for recovering from the architects, when appropriate, the costs resulting from the deficiencies.

Potential might exist for the District to realize savings in the time and costs involved in school construction through the reuse of designs and/or the building systems construction approach. In view of the significant amount of school construction provided for in the District's capital improvements program (12 new or replacement elementary schools were included in the District's 6-year capital improvements program for fiscal years 1972-77), we believed that the Department of General Services should remain alert to opportunities for applying these concepts to school construction.

(Report to the Chairman, Subcommittee on the District of Columbia, Senate Committee on Appropriations, B-118638, May 5, 1972)

147. Contracts for Training and Technical Assistance Services Provided to Antipoverty Agencies.—

Improvements were needed in the Office of Economic Opportunity's (OEO) planning, monitoring, and evaluating of contracted services. To determine whether antipoverty agencies were obtaining the benefits anticipated from training and technical assistance services, we reviewed the results of the services provided under 11 selected contracts for about \$4 million awarded during fiscal years 1968-70. A followup review was also made to ascertain whether improvements needed in contracting procedures had been made for services to be provided in fiscal year 1972. We reported that training and technical assistance services provided under the contracts reviewed did not satisfy,

to a significant extent, the needs of local antipoverty agencies. Our review showed that:

OEO program offices did not determine the specific needs of local antipoverty agencies before awarding the contracts. As a result, in some cases, services contracted for could not be provided and those provided were inadequate or inappropriate to satisfy agency needs. Some agencies refused to accept services because they were dissatisfied with OEO contractors.

Under several contracts the services to be provided had not been scheduled adequately in advance by OEO, the contractors, and the recipient agencies. As a result, training sessions were poorly attended and technical assistance services were not provided in a timely manner.

A followup review of contracts for services to be provided during fiscal year 1972 showed that little progress had been made in identifying specific agency needs prior to award of the contracts.

In some cases, OEO had not promptly assigned project managers who could have participated in planning the contracted services and who could have guided contractor performance throughout the contract period.

No evaluations had been performed of the impact of the training services on the agencies to determine whether the intended objective of strengthening antipoverty programs had been achieved.

In commenting on our recommendations, the Director of OEO stated that OEO recognized the shortcomings in the training and technical assistance services provided to antipoverty agencies and that measures had been taken to reduce the furnishing of training and technical assistance through contractors. Allocations of training and technical assistance funds have been made to regional offices together with the responsibility for planning, implementing, and utilizing the funds.

OEO had started, on an experimental basis, a program of granting antipoverty agencies funds which were to be used to purchase their training and technical assistance or to build training capability within their agency.

A task force was appointed to revise instructions on grant and contract management procedures and policies in order to improve project management of training and technical assistance contracts.

(Report to the Congress, B-130515, Apr. 26, 1972)

148. Contract Award Procedures and Practices.—We reported that improvements were needed in the procedures and practices used by the Office of Economic Opportunity (OEO) in awarding contracts in fiscal years 1969 and 1970. Particular attention was paid to contracts awarded in June and to problems associated with June contracting.

Of the 332 contracts awarded in fiscal year 1969, 149, or 45 percent, were awarded during the month of June. June 1970 awards represented 56 percent of the 169 contracts awarded throughout fiscal year 1970. The high level of activity in fiscal year 1970 lessened OEO's ability to adequately evaluate the strengths and weaknesses of prospective contractors and their proposals. Also, OEO did not always allow sufficient time for preparation of proposals.

OEO did not always include in the negotiation process all contractors that had submitted responsive proposals determined to be in a competitive range.

Before awarding many of its contracts, OEO did not adequately determine whether prospective contractors possessed the technical and financial capacity to perform proposed contracts or were eligible to receive such contracts under applicable Government laws and regulations.

A followup review of OEO's June 1971 contracting activities generally showed improvement in the time periods it allowed for preparation of proposals by contractors and that there had been a marked increase in negotiations held with contractors submitting responsive proposals.

In commenting on our recommendations, the Deputy Director of OEO stated that the following actions were being taken to strengthen OEO's procurement process.

A procedure for the preparation of quarterly research and operating plans was instituted, aimed primarily at attempting to reduce the number of end-of-the-fiscal-year procurements. OEO expected that such early planning would tend to stagger contract performance periods so that completion would be reached in months other than June.

As part of an effort to improve reviews of offerors' proposals, a Source Selection Board was established to evaluate proposed procurements over \$500,000. The Board would make the final contractor selection by utilizing the findings of the Procurement Evaluation Board which evaluated

proposals and negotiated with contractors submitting responsive proposals.

Increased efforts were made to include in the negotiation process all contractors that had submitted responsive proposals within the competitive range. Emphasis was also placed on pointing out any deficiencies, omissions, and ambiguities in the offerors' proposals and on affording them opportunities to clarify, correct, improve, or revise their proposals.

To more effectively determine a prospective contractor's responsibility, OEO made a Contractor's Financial Analysis Form, to be executed by the prospective contractor, a mandatory requirement in the request for proposals. In addition, greater emphasis was placed on obtaining preaward surveys of prospective contractors.

A high-level task force was convened to reexamine and assess OEO's planning process, as well as the various phases associated with project definition, project management, and source solicitation and selection.

(Report to the Congress, B-130515, Dec. 15, 1971)

149. Contracts for Evaluation and Studies of Antipoverty Programs.—We reported that improvements were needed in the procedures and practices followed by the Office of Economic Opportunity (OEO) in administering evaluation and study contracts. We reviewed 14 evaluation and study contracts totaling about \$3.2 million, which had been recently completed or which were to be completed during fiscal year 1970. Our review showed that:

OEO considered that eight of the reports resulting from the 14 contracts were of no use or fell short of the intended objectives. Although OEO considered the remaining six to be adequate and useful, we believed that two were of questionable value because the contractors' independence may have been compromised due to their involvement in the operation they were evaluating.

Several areas of contract administration, such as contract specifications, monitoring of contractor performance, and evaluation of study reports, needed improvement.

Contract specifications did not always clearly and accurately describe the technical requirements of services to be procured.

The absence of monitoring guidelines, the ineffective action to deal with contract problems, and the

lack of continuity in monitoring evaluation and study contracts had resulted in reports that did not provide the objective and useful information contemplated.

The Deputy Director of OEO agreed with the intent of our recommendations and stated that the following specific actions had been or were being taken to improve contract management.

A high-level task force on program management, contracting, and grant issuance was convened to deal with those problems we identified and in other OEO studies that had not already been corrected.

More attention was being given to source selection criteria and methodology to insure that, after price and all other factors were considered, the best possible contractor was chosen.

Attempts were made to phase out many demonstration and other small projects which could reduce the number of evaluation studies associated with those projects and which should thereby reduce the workload of the limited staff of the Evaluation Division.

Arrangements were made to increase the size of the evaluation staff.

(Report to the Congress, B-130515, Dec. 28, 1971)

150. Implementation of the Truth-in-Negotiations Act.—The Truth-in-Negotiations Act of 1962 provides that contractors shall be required to submit cost or pricing data to support their price proposals and to certify that this data is complete, accurate, and current. Cost or pricing data is required, generally, for negotiated contracts when prices are expected to exceed \$100,000 and when adequate price competition is lacking.

In an October 1971 report to the Congress, we summarized 23 reports we had issued to agency officials and to contractors during fiscal year 1971 on pricing selected noncompetitive contracts. In the 23 reports, we reviewed selected cost elements included in the prices of 33 contracts, totaling \$217 million, negotiated with 19 contractors by 13 procurement activities of the Department of Defense (DOD). We selected contracts for review on indications that there were some pricing or contracting deficiencies. Therefore our findings did not apply to all noncompetitive contracts.

The negotiated prices for 28 of the 33 contracts were about \$8.7 million higher than indicated by cost or pricing data available to the contractors during nego-

tiations. No overestimated costs were found for the five other contracts examined.

Factors contributing to the overpricing included:

Contractors' failure to submit to the Government significant cost data which became available after they had submitted their proposals.

Contracting officers' failure to obtain all significant data or to have Government auditors review this data.

Inadequacies in the Government's audits and technical evaluations of contractors' proposals.

Because the contracts examined were relatively small in number and value and because they were selected on the basis of potential findings, we could not draw general conclusions as to whether DOD was effectively managing its responsibility to negotiate reasonable prices. Our findings indicated that DOD should pay continued attention to the personnel performing this function.

In our individual reports to agency officials, we recommended that they determine the extent to which the contracts entitled the Government to price adjustments. The responses indicated that the officials initiated such action. About \$421,000 had been collected through June 30, 1972, and additional claims were being negotiated and settled at that date. (Report to the Congress, B-39995, Oct. 14, 1971)

151. Fees Allowed Not-for-Profit Organizations by Various Government Agencies.—In an earlier report issued in February 1969, we advised the Congress that Federal agencies' guidelines for contracting research work with Government-sponsored not-for-profit organizations should be improved. These organizations are sponsored by an agency responsible for providing sufficient work and revenues to insure retention of capabilities acquired to meet Government needs.

In addition to contracting with sponsored not-for-profit organizations, Government agencies obligated about \$260 million during fiscal year 1969 for basic and applied research by nonsponsored not-for-profit institutions other than colleges and universities. We examined into agency policies and practices in the rates of fees allowed to nonsponsored not-for-profit organizations at six Department of Defense offices and at eight civil agency offices that award significant amounts of cost-plus-fixed-fee research contracts to not-for-profit organizations. We also obtained information at three of the larger nonsponsored not-for-profit organi-

zations on the Government fees they received. We selected these three organizations because their clients included nearly all Government departments and because they generally competed with universities and other not-for-profit organizations, both sponsored and nonsponsored, and with commercial organizations, for Government research contracts.

We did not evaluate the reasonableness of profit ranges prescribed in Government regulations for payment to either commercial or not-for-profit organizations, the profits or fees paid, or the profits or fees actually earned. But we compared fee rates allowed nonsponsored not-for-profit organizations with profit rates allowed commercial organizations.

In many instances, nonsponsored not-for-profit organizations, which pay no Federal income taxes on fees earned on Government work, were allowed approximately the same fee rate on estimated costs that commercial profitmaking organizations received for doing similar work. The composite weighted average fee rate paid by six civil agency procurement offices to the three nonsponsored not-for-profit organizations was only 0.6 of a percentage point less than the average fee rate paid commercial organizations; the rate paid by Department of Defense procurement offices was only 1.2 percentage points less than the average fee rate paid commercial organizations.

Most Government agencies have not sufficiently recognized the tax-exempt status of not-for-profit organizations nor the need for adjusting fees to place the organizations on an equitable basis with their commercial competitors. The nonsponsored not-for-profit research organizations included in our review did not agree that their fees should be adjusted. They contended that the Congress, in granting tax exemption, recognized the need for, and encouraged the development of, independent not-for-profit organizations as being in the public interest and that fee adjustments based on this tax exemption would defeat congressional policy and intent. Our review of the legislative background concerning the tax exemption did not disclose that the fee structure had been considered other than the stipulation by the Congress that none of the net earnings of the not-for-profit organizations should benefit any private individual.

In our draft report provided to various Government agencies and to the three not-for-profit organizations, we proposed that the Director, Office of Management and Budget (OMB), head an interagency study to develop a Government-wide policy which would govern negotiation of fees to not-for-profit and commercial

organizations and which would consider each organization's tax posture. We also suggested that, pending development of the Government-wide policy, each agency reevaluate its current policy and take steps to insure that fee payments are adjusted to adequately recognize the tax-free status of not-for-profit organizations.

OMB believed that the legislative charter of the Commission on Government Procurement included a study of contractor fees. Although OMB would work with the Commission and the affected agencies, OMB felt it would be premature to assume leadership. Several of the agencies were reevaluating their current policies pending development of a Government-wide policy. (Report to the Congress, B-146810, Nov. 26, 1971)

Facilities, Construction, and Leasing

152. Space Criteria for Building General Academic Classrooms.—Using criteria established by the military departments for planning space requirements for classrooms can result in constructing excessive classroom space.

Many civilian colleges and universities provide 15 to 18 square feet of space for each student in planning and constructing general academic classrooms. The Army and Navy, however, allow up to 35 square feet and 30 square feet of space, respectively, although local officials at several Army and Navy installations considered about 18 square feet of space for each student adequate. Neither department has instructions for using information on planned student load and training curriculums in conjunction with its criteria for determining the number and sizes of classrooms to be built.

The Air Force allows 12 square feet of general academic classroom space for each student included in the total student load but, in determining the number and sizes of individual classrooms, there is no requirement that the number of students to be seated in class at any one time or the expected number of hours of classroom instruction be considered. Thus, unless all students attend classes simultaneously, the criterion will provide more than 12 square feet of space for each student. This criterion had been followed in constructing classrooms at Lackland Air Force Base, Tex., where excessive classroom space, costing about \$300,000, had been constructed but has since been converted to other uses.

We recommended that the Secretary of Defense require that improved space-planning criteria be developed for general academic classrooms. Such criteria should (1) provide reasonably uniform space allowances for each student and (2) require that the number of classrooms constructed be based on efficient scheduling and classroom usage. The military departments should review their classroom construction projects to determine if they can reduce or eliminate proposed construction. The Department of Defense agreed with these recommendations and subsequently advised us that it had developed the recommended criteria and that the military departments were continuing their review of general academic projects to insure compliance with the new criteria. (Report to the Secretary of Defense, B-133316, Sept. 13, 1971)

153. Administration of Criteria for the Leasing of Buildings To Be Constructed.—The General Services Administration (GSA) is authorized to lease for up to 20 years privately owned buildings which exist or which are to be built by the lessors for Government use. The Public Works Committees of Congress must approve leasing those buildings which are to be erected at an estimated cost of more than \$200,000.

GSA does not believe it needs the Committees' approvals to lease buildings already under construction. It considers a building as being under construction if the prospective lessor has (1) title to or control of the site, (2) a complete design of the building, (3) construction financing fully committed, (4) a building permit for the entire structure, and (5) a firm construction contract or construction underway. The criteria are designed to provide objective insurance that a prospective lessor intends to continue construction, irrespective of his executing a lease with the Government.

GSA made known its space requirements for 11 buildings through discussions and correspondence with private developers interested in constructing buildings to be leased to the Government. When first approached, none of the developers had met GSA's criteria for insuring that construction was being undertaken as a private venture. GSA also delayed soliciting lease offers until it was satisfied that the buildings could be considered under construction.

We believe GSA did not objectively apply its criteria and negated the degree of control that Congress wished to retain in requiring congressional approvals for leasing buildings to be constructed.

On September 22, 1971, during hearings on a bill introduced the previous month (H.R. 10488, 92d

Cong.), we furnished the Subcommittee on Public Buildings and Grounds, House Committee on Public Works, with information showing that GSA had not obtained the required congressional approvals. In October 1971 the Subcommittee inserted a provision in the bill that would require the Public Works Committees to approve all leases having annual rental over \$500,000. The bill, which we believe strengthens controls over GSA's leasing program, was enacted into law on June 16, 1972 (Public Law 92-313). (Report to the Congress, B-118623, Apr. 19, 1972)

154. Site Selection, Construction, and Mechanization.—At the request of a Member of Congress, we reviewed the site selection and contract awards for the construction and mechanization of the U.S. Postal Service's New York Bulk and Foreign Mail Facility located in Jersey City, N.J. Emphasis was placed on certain allegations regarding cost overruns on the construction contract and the selection of the property owned by the Penn Central Railroad as the site for the postal facility. We reported that:

Alternative properties were eliminated from consideration as potential sites for the facility before sufficient data had been obtained to form a reasonable judgment that the property acquired was the most feasible site under consideration.

The Service awarded a \$4.2 million contract for piling without obtaining more soil condition information on which to base better estimates of pile lengths. When actual soil conditions became known, additional piling was required, increasing the contract price by more than \$2.1 million.

Sufficient data was not obtained to reasonably support the Service's selection of the two architect and engineering firms to compete for the final design contract for the New York facility.

Had the Service obtained available information on construction activities and on the labor market in the New Jersey area, it could have prepared more reliable construction cost estimates and more realistic construction time schedules. Total project costs were originally estimated at \$62.3 million. The latest estimate is \$130.1 million.

The Service awarded, on a sole source noncompetitive basis, an \$8.4 million contract for equipment critical to the economical operation of the facility. A preaward survey of the contractor's performance capability was not made and adequate measures to evaluate the contract prices were not taken.

The matters discussed in our report were the subject of extensive hearings held between October and December 1971 before the Subcommittee on Postal Facilities and Mail, House Committee on Post Office and Civil Service. (Report to Congressman H. R. Gross, B-171594, Oct. 29, 1971)

155. Cost, Schedule, and Design Aspects of Construction Projects.—Regarding the cost, schedule, and design aspects of five Atomic Energy Commission (AEC) construction projects, we pointed out that AEC had experienced significant changes in the estimated construction costs and significant delays in the estimated completion dates on certain of these projects. Also significant design changes had been made to each of the five projects, some of which had contributed to the increases in the estimated costs and to the extensions in the completion dates for certain of the projects.

With respect to one of these projects, we suggested that the contractor's practices for developing the current working cost estimates reported to AEC be revised to insure that the estimates were documented adequately to facilitate effective analysis and evaluation. AEC agreed and took steps in accordance with our suggestion. (Report to the Congress, B-164105, Aug. 17, 1971)

Procurement Procedures and Practices

156. Procurement of Buses To Transport Aliens.—The Immigration and Naturalization Service, Department of Justice, purchased seven buses through the General Services Administration (GSA) that were not adequate for their intended purpose—intercity transportation of aliens. The problems encountered in the use of these buses included insufficient power, inoperative air-conditioning and heating systems, and noisy mufflers. In our opinion, these problems were caused by inadequate procurement specifications.

This matter was brought to the attention of the Immigration and Naturalization Service and GSA in order to avoid any difficulties concerning planned procurement of an additional 20 buses. Action was taken to adopt improved procedures which included arrangements for:

Closer liaison between the two agencies in the preparation of contract specifications and in the approval of the contract award.

Cooperation from the Army Materiel Command for technical advice and assistance.

A preaward conference to determine contractor qualifications.

A postaward conference to reach full understanding with regard to all contractual terms.

Periodic inspections of the contractor's quality of workmanship and conformance with specifications.

(Report to the Attorney General, B-125051, Aug. 26, 1971)

157. Automation of Supply System.—The Veterans Administration (VA) is developing and using an automated supply system to control the procurement, storage, and distribution of supplies for the 166 VA hospitals. Planning for the system, called LOG I, began in 1963. The first segment, cataloging of supply items, was completed and installed in October 1967. The second segment, processing of supply transactions at VA depots, became operational in 1968. The third segment, processing of supply items at VA hospitals, is presently in the development stage and is being tested at a hospital. If the test is successful, VA plans to extend the system to all hospitals by fiscal year 1974.

Automation of the hospital supply system is desirable and should result in improving the supply operations and in achieving savings in operating costs. However, the design of the hospital supply segment of the system was relatively narrow in scope. As a result the system depends, to a large extent, on persons to perform many of the processes that otherwise could be automated. Also, the hospital supply segment of the system was designed to function on a pull concept. That is, each hospital would determine its own stock levels and purchase the required quantities. We believe that VA could better use its existing computer capabilities by changing the design of the system from a pull system to a push system. A push system would permit a computer to automatically direct, or push, supply items to hospitals in the quantities needed to maintain stocks at predetermined levels.

We recommended in July 1971 that VA, upon completion of the installation of LOG I, conduct a test of an automatic replenishment, or push, system to determine the number of individual supply items that could be processed and to identify the administrative functions which could be eliminated through the use of such a system. VA stated that it was interested in the recommendation, it agreed that it would save money, and it

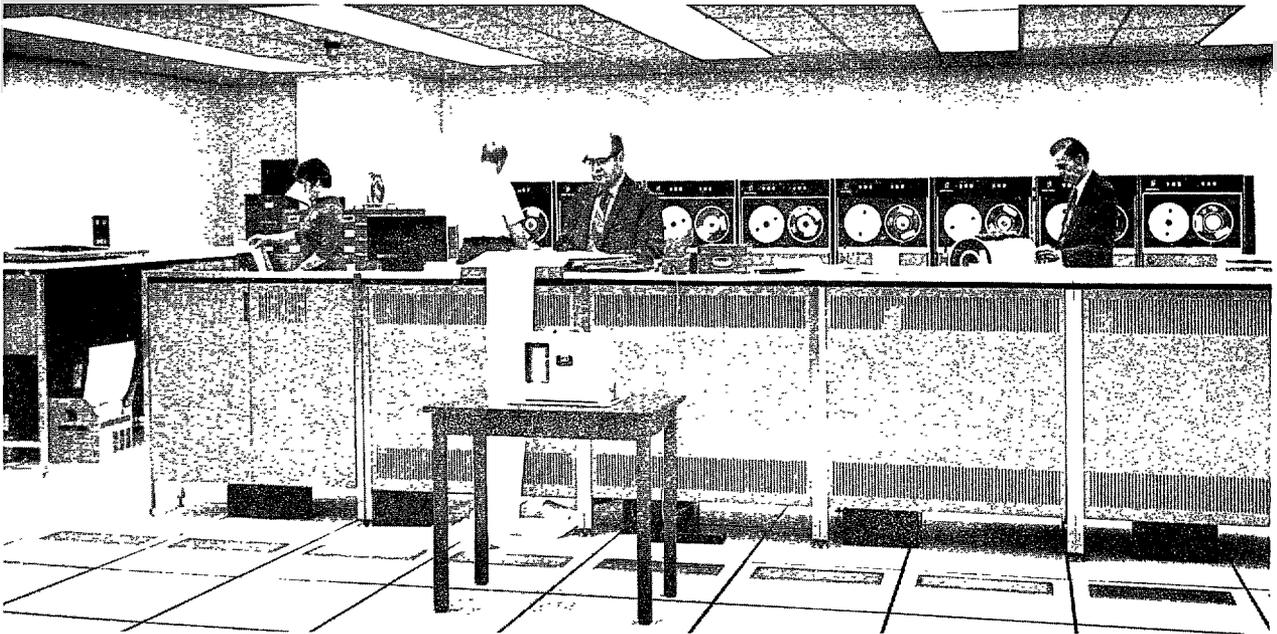
would conduct the suggested test when the automatic system was installed and operating smoothly. (Report to the Congress, B-133044, July 7, 1971)

158. Rental of Punched-Card Accounting Machine Equipment.—The General Services Administration (GSA) is responsible for coordinating and providing for the economic and efficient purchase, lease, and maintenance of the Government's automatic data processing equipment—including punched-card accounting machine (PCAM) equipment. PCAM equipment can be purchased or rented from leasing companies and manufacturers. Leasing companies purchase the equipment from the leading manufacturer—International Business Machines Corporation (IBM)—and then lease it at rates lower than IBM's rates. Because the Government spends a large amount of money for renting PCAM equipment from IBM—\$47 million during fiscal year 1970—we examined GSA's efforts to save money through competition in renting such equipment.

The Government could save substantially by competitively renting PCAM equipment, but GSA's efforts to achieve such savings have had limited success. At various times between 1966 and 1969, GSA furnished technical assistance to several agencies which obtained PCAM equipment from leasing companies, but there was no Government-wide response by agencies to use leasing companies as a competitive source for the equipment. Leasing companies indicated to GSA that, if they had been given the opportunity, they could have supplied considerably more of the Government's PCAM equipment needs.

GSA solicited proposals in January 1969 for renting 30,600 units of PCAM equipment that agencies had been renting from IBM. The solicitation resulted in awarding a Government-wide requirements contract to five leasing companies for 2,144 units of equipment, about 7 percent of the total desired. GSA estimated that renting the 2,144 units from the leasing companies would reduce the annual rental costs from \$6.6 million to \$4 million—an annual savings of \$2.6 million. GSA planned to periodically solicit proposals for renting additional equipment after agencies acquired the equipment offered under the requirements contract.

In April 1969 GSA told Federal agencies of the requirements contract and of the potential savings from leasing equipment under the contract. The agencies, however, were reluctant to acquire their equipment under the contract despite the fact that GSA regulations require that the contract be used as the supply



An electronic computer system which includes a central processor and a variety of input-output devices, such as magnetic tape units and printer.



Card punch machines on which data from source documents is entered on cards for machine processing.

source. As of January 1970 less than one-third of the units offered under the requirements contract had been ordered.

Several agencies told us they were concerned whether they could obtain equipment with the special features needed from the leasing companies. The GSA official responsible for the day-to-day administration of the requirements contract said, however, that this problem had been rare. The agencies were concerned also about possible administrative burdens and increased costs if, because of limited models and/or quantities offered by a leasing company, equipment would be rented from more than one supplier. We found no basis for this concern.

In August and September 1970, GSA issued further instructions requiring agencies to rent the equipment available under the requirements contract. But, as of December 31, 1970, the agencies had ordered less than half the 2,144 units offered.

GSA should determine whether additional measures are necessary to obtain maximum competition in renting PCAM equipment. GSA agreed and said that it had:

Reviewed the agencies' PCAM-equipment inventories to specifically identify equipment that leasing companies could replace at lower cost.

Sent telegrams to agencies that had not fully used the requirements contract, advising them that they had no authority to continue contracting with IBM for leased equipment if similar equipment was available under the requirements contract.

Sent letters to the same agencies requesting individual meetings between agency and GSA officials to reach determinations on each specific unit of equipment.

Issued a solicitation to provide for a greater supply of PCAM equipment on a competitive basis during fiscal year 1972.

(Report to the Congress, B-115369, July 15, 1971)

159. Rental of Office Copiers.—During 1970 the Federal Government spent \$67 million to rent and \$2 million to purchase office copiers. Federal agencies obtained these machines by placing orders with office copier suppliers under indefinite quantity contracts awarded by the General Services Administration (GSA). Each agency was to select the most economical copiers to meet its needs from a variety of makes, models, and rental plans. We made a review to determine whether the agencies were, in fact, selecting the

most economical models or rental plans. Because the Government paid 70 percent of its copying costs to the Xerox Corporation, we based our review on a random sample of 3 percent of the copiers rented from Xerox during the last quarter of contract year 1969 and the first quarter of contract year 1970.

On the basis of the sample, about 30 percent of the 14,500 copiers rented from Xerox during the test periods were not the most economical. If agencies had selected the most economical models or rental plans, the Government could have saved \$227,000 in rental costs and \$656,000 in labor efficiencies during the last quarter of the 1969 contract year, and \$283,000 in rental costs and \$802,000 in labor efficiencies during the first quarter of the 1970 contract year.

Some agencies did not have the information needed to compare the operating costs of the various copiers available under GSA contracts. Suppliers were not required to include such information in their catalogs describing available copiers. GSA should ask suppliers of office copiers to include specific cost data in their catalogs distributed to agencies to assist them in properly selecting copiers. GSA agreed and, in its bid solicitation for copiers to be supplied in 1973, requested that the suppliers include such information in their catalogs. (Report to the Congress, B-146930, Feb. 3, 1972)

160. Cash Discounts on Purchases.—The Commodity Credit Corporation (CCC) specified in its procurement announcements that discounts for prompt payment would not be considered in evaluating offers and that discounts were not considered in purchasing wheat flour and certain other processed commodities through the Minneapolis commodity office. This policy was in contrast to that of the Agricultural Marketing Service (AMS), Department of Agriculture, whose purchases were also paid for by the Minneapolis office. AMS specified that discounts would be considered and had benefited from such offers.

CCC stated in an internal memorandum dated July 28, 1967, that it was not practical to consider discounts for prompt payment in purchasing commodities on a competitive-bid basis. The reasons cited for this decision appeared to be outdated because the payment procedures at the Minneapolis office had been substantially automated since 1967.

After we brought this matter to its attention, the agency told us that a task force was reviewing the contract terms used by CCC and that the matter of cash discounts for prompt payment was being studied. (Re-

port to the Executive Vice President, CCC, Apr. 27, 1972)

160a. Feasibility of Constructing Price Indexes for Weapon Systems.—As a result of recommendations made by the Joint Economic Committee, we reviewed the feasibility of constructing price indexes for weapon systems. The primary need for indexes is for use in evaluating the effect of inflation on cost overruns. Inability to measure inflation accurately makes it difficult for the Congress to evaluate the effectiveness of Government's management in procuring weapon systems and to identify appropriate remedial action.

Available price indexes are unsuitable because they are based on purchases of items other than military items or because they do not include a sufficient cross section of military items. Therefore, we undertook a study of what would be needed to construct price indexes for military weapon systems. Two types of indexes were considered: end-item indexes which show trends in the prices of entire systems, such as ships or aircraft, and input indexes which show the prices of labor and materials used in production.

Specification change is a fundamental characteristic of weapon systems, so much so that it is not practicable to construct end-item indexes. This is not the case for such military items as Army trucks that do not involve the rapid or numerous changes that are characteristic of complex aircraft and ships.

Sufficient data was available to construct meaningful input price indexes for labor and materials. We constructed demonstration indexes for aircraft, ships, and electronics and determined that:

Labor price indexes for direct pay could be constructed for virtually all types of labor, direct or indirect (overhead).

Material price indexes could be developed at the prime contractor level for only part of the material used because of the specification change problem.

Both contractor and marketwide price indexes were necessary, to identify the extent of the price change and the component of change due to general inflation.

Contractors participate in private areawide and salary surveys, and the Bureau of Labor Statistics (BLS) conducts various wage and salary surveys as part of its regular programs. It appears that the types of surveys conducted by BLS could be extended to defense industries. Price indexes of the types described could best be constructed by the Department of Defense (DOD) and BLS.

Both BLS and DOD indicated that additional resources would be required to carry out a program for constructing the desired indexes. Neither agency stated what the estimated cost of such a program would be. (Report to the Joint Economic Committee, B-159896, Apr. 10, 1972)

INTERNAL MANAGEMENT PRACTICES AND RELATED CONTROLS

Accounting and Fiscal Matters

161. Accounting System Deficiencies (Department of State).—Our review of the accounting system for the Department of State's Working Capital Fund pointed out that many of the services initially intended to be included in the Fund had been excluded and that these exclusions had prevented the accomplishment of the Fund's intended purpose. We recommended that the Department either expand the Fund to permit the intended development of an improved method of managing, financing, and accounting for centralized administrative services or replace the Fund with appropriate accounting for accumulating costs and distributing them to the various operating entities. We identified other weaknesses pertaining to the Fund as it was currently being operated and recommended that they be corrected if the Department determined that the Fund should be retained. As of June 30, 1972, the Department had not responded to our report. (Report to the Assistant Secretary, Bureau of Administration, Department of State, May 23, 1972)

162. Accounting System Deficiencies (Agency for International Development).—Our review of the accounting system in operation for the Excess Property Revolving Fund of the Agency for International Development (AID) disclosed a number of areas in need of improvement. We identified accounting system weaknesses which included (1) unreliable reporting of rehabilitation costs, (2) delayed reporting of income, (3) unbilled costs, and (4) inadequate inventory control practices. Most of our recommendations related to implementing the approved accounting system design, but we advocated a change in the design regarding reporting of rehabilitation costs. AID agreed with our findings and cited a number of actions being taken. (Report to the Administrator of AID, B-158381, Aug. 31, 1971)

163. Overseas Administration of Loans.—Our review at selected overseas Missions of the Agency for International Development (AID) disclosed that a

number of questionable practices and procedures were being followed by Mission personnel in administering loans in the AID loan program. Our review identified weaknesses which required corrective action in order for AID overseas Mission Comptroller officials to effectively monitor the status of loans to foreign governments and enterprises.

These instances deal primarily with (1) the practice of maintaining memorandum loan records at the Mission level, (2) monitoring Agency Bank management of overseas loans, and (3) weaknesses in Mission cashier operations. We also identified a duplication of system design and development efforts.

In regard to the questionable practice of maintaining memorandum loan records at the overseas Mission level, we concluded that in most instances this merely represented reproducing the Washington report on the memorandum loan ledgers. We suggested that AID develop a mechanized record for use by the Missions and thus eliminate the need for duplication of effort by the Missions. AID generally agreed with our findings and cited a number of actions being taken. (Report to the Controller of AID, Mar. 1, 1972)

164. Purchase of Foreign Currency.—During our review of disbursing and related activities at the Department of State's Regional Finance and Data Processing Center at Paris, France, we found that savings could be realized if the U.S. Disbursing Officers' requirements for British pounds sterling were purchased in the London, England, market rather than in the New York market. The Treasury Department had been filling its requirements for British pounds by purchasing each month pounds costing about \$20 million from commercial banks in New York for deposit to disbursing officers' checking accounts in London. We found that savings could be realized if these purchases were made from an American bank in London rather than from New York commercial banks.

The Treasury Department informed us that, although it did not agree that British pounds could always be purchased at a more favorable price in the

London market, the Department had concluded that it would be mechanically simpler to buy the British pounds in London. Accordingly, the Department planned to issue instructions to the Embassy in London to adopt the practice of buying British pounds in the London market. (Report to the Fiscal Assistant Secretary, Department of the Treasury, May 1, 1972)

165. Need for Increased Use of Financial Data.—Our review of the Military Airlift Command (MAC), Department of the Air Force, showed that decisions regarding the initiation, expansion, and continuation of airlift service over established routes were made by airlift managers on the basis of operations but without considering pertinent costs and revenues. The report pointed out flights that earned, as well as lost, money over a 3-month sample period. By using the tariff rates established (one for passengers and one for cargo) to reimburse the fund, no differentiation was made between high- and low-cost services. Under these circumstances, it was not possible to bill customers for the approximate costs incurred by MAC in providing the services. Also the industrial fund was being used solely as a device to finance airlift services rather than as a management tool.

We recommended that (1) available financial data be compiled by identifiable operational segments of airlift established routes for use in airlift services management, (2) the Air Force make a study to determine the feasibility of devising and implementing a tariff system in which rates more closely approximate the cost of services, and (3) the appropriate Department of Defense (DOD) directive be revised to show more clearly the objectives and purposes of industrial funds to achieve better management. DOD agreed to take action on all our recommendations. (Report to the Congress, B-133025, Jan. 5, 1972)

166. Incomplete Installation of the Management Accounting System for Procurement of Equipment and Missiles.—Our review of the management accounting and reporting system of the Department of the Army for the procurement of equipment and missiles revealed that the system had great potential as a management tool. After 5 years of effort, however, the system was still not fully implemented. Some of the major factors contributing to the Army's inability to promptly implement the system were (1) failure to prepare an adequate study to evaluate the magnitude and complexity of implementation, (2) lack

of sufficient manpower and automatic data processing equipment, (3) incomplete contractor performance, and (4) inadequate supervision and control over implementation.

Our recommendations were designed to insure that the system was implemented and operable at the earliest practicable date and to preclude similar problems from recurring in future accounting system undertakings. The Deputy Assistant Secretary of the Army (Financial Management) informed us of the corrective actions taken which appeared to be responsive to our recommendations. (Report to the Congress, B-163074, Feb. 18, 1972)

167. Obligating Practices.—We reviewed the Department of the Army's policies and practices for obligating operations and maintenance appropriation funds during the last 2 months of each fiscal year. The Congress has limited the obligation of appropriated funds to not more than 20 percent during that period. This provision was designed to discourage obligating excess funds at yearend for items that are not valid requirements of the specified year.

We recommended that the Army (1) issue guidance near the end of the fiscal year emphasizing the requirements for establishing valid obligations and (2) take action to prevent the transferring of obligational authority for annual appropriations from one fiscal year to the next and to preclude the acceleration of stock fund issues for the purpose of obligating funds available near the end of the current year when the material is to be used in the subsequent year. The Army agreed to take the necessary action. (Report to the Secretary of the Army, B-174211, Oct. 26, 1971)

168. Accounting and Reporting System for the Procurement of Aircraft and Missiles.—Our review showed there was a need to improve the Department of the Air Force's procedures for identifying and recouping idle obligated funds not needed. We recommended that the primary responsibility for this activity be assigned to the administrative contracting officer. We also found that funding activities had not received timely information on contract payments and, consequently, were not current on the status of their obligated funds. Air Force officials informed us that a new system being implemented would provide expenditure information to funding activities with only a 1-day lapse. (Report to the Secretary of the Air Force, B-159797, June 20, 1972)

169. Financial Inventory Accounting.—The Congress, in numerous laws, and the Comptroller General, in prescribing accounting principles and standards, have long required that all Federal agencies have adequate property accounting records in both quantities and dollars. However, none of the Department of Defense (DOD) operational financial inventory accounting systems we reviewed had the financial controls necessary to improve the accuracy of inventory data used for making management decisions.

In all systems we reviewed, the financial records merely reflected inventory transaction data—receipt and issue of items—as recorded in quantity records. Consequently, incorrect quantity data resulted in incorrect financial data. There was no comparison of quantity record data with related financial data before the data was recorded in the financial record. Thus, there was no assurance that the quantities paid for agreed with the quantities entered in the detailed stock records and, subsequently, in the financial record.

All the military services and the Defense Supply Agency (DSA) have plans in various stages of implementation that will change their logistics and accounting systems. Although the proposed system changes do promise varying degrees of improved inventory control, only DSA's and the Army's changes appear to include the types of financial controls we believe necessary.

Both the Navy and Air Force have indicated that their new systems will not incorporate such financial controls. The Navy maintains that such controls can be added after the new systems are implemented. The Air Force believes that its new system should be implemented and evaluated before it considers using such financial controls.

DOD agreed generally with our conclusions that both financial and item inventory controls can and should be improved. DOD believes that the DSA system and the one being developed by the Army will have such financial controls.

We recommended that the Secretary of Defense evaluate the controls incorporated in the DSA system and insure that similar control techniques are built into the proposed systems of the other military departments, preferably during the design stage. Such techniques should include:

Comparison of quantity record data with related financial data.

System controls and procedures to insure the timely research and correction of discrepancies occurring in the comparison process.

Periodic comparison of financial and quantitative record totals as an overall test of reliability.

(Report to the Congress, B-146828, May 17, 1972)

170. Financial and Property Accounting Practices.—We identified four areas where there was a need for improvement in the administrative controls and related financial practices, including payroll activities, of the Maritime Administration, Department of Commerce.

The majority of unliquidated obligations in the salaries and expense appropriations for fiscal years 1969 and 1970 did not meet the requirements for reporting financial transactions as obligations prescribed in section 1311 of the Supplemental Appropriation Act, 1955, as amended.

Aggressive collection action to recover amounts due the Government had not been taken.

The practices of accounting for office furniture and equipment had resulted in an understatement of the cost of the assets, an overstatement of accumulated depreciation, and a loss of some assets.

Predetermined control totals over rates of pay had not been used.

The Maritime Administration agreed with our comments and took or planned to take corrective action. (Report to the Assistant Secretary for Maritime Affairs, Mar. 31, 1972)

171. Financial and Property Administration at Federal City College.—At the request of a Member of Congress, we issued a report in October 1971 which was based on two earlier reviews we had made at Federal City College, District of Columbia Government.

Our reviews showed that college funds were maintained in three commercial bank accounts. We believed that the enabling legislation for the college required that the funds deposited in two of the accounts be deposited in the U.S. Treasury. Although establishment of the other account was authorized by law, the funds deposited in it were not controlled and accounted for in the same manner as were other obligations and disbursements of the District of Columbia.

During both reviews we noted that the college had not exercised the control necessary for insuring that the correct amount of tuition had been paid. College officials informed us that many changes in tuition collection procedures were planned. They stated that the students would be required to preregister, after which the college would bill the students, and that a computer

listing would compare the amount of tuition with the amount paid.

Our first review showed that (1) equipment asset control accounts had not been established, (2) reliable inventories of supplies and equipment had not been taken, and (3) a list of persons authorized to requisition supplies had not been prepared.

Our second review showed that deficiencies (1) and (2) still existed. That review showed also that, although a listing of persons authorized to requisition supplies had been prepared, college employees not on the list had made 69 percent of the requisitions during the period August 21 through September 28, 1970.

In December 1970 a contract was awarded to a private firm to take an inventory of the supplies and equipment. The college anticipated that, after the inventory was taken, it would be able to maintain adequate control over its supplies and equipment. (Report to Congressman William J. Scherle, B-167006, Oct. 27, 1971)

172. Financial and Property Administration at District of Columbia Teachers College.—Our review at Teachers College disclosed management weaknesses which required the attention of the Board of Higher Education; District Government accounting, budgeting, and legal specialists; and college officials. These weaknesses were:

Commercial bank accounts, rather than the U.S. Treasury, were used for depositing funds. Applicable laws and accounting procedures required that funds be deposited in the Treasury.

The college's administrative controls over funds deposited in commercial bank accounts were inadequate, and the funds, in certain instances, were being used for questionable purposes.

District Accounting Office records showed that the college had overobligated its fiscal year 1971 apportionment of funds by about \$250,000.

The college maintained no accounting records for equipment and supplies and had no written procedures for control of such items.

Although students attending the college who were not residents of the District of Columbia were required to pay tuition, tuition had not been collected in many cases because either bills had not been prepared or collection efforts had not been made. Also foreign students on student visas had not been charged tuition because Teachers College officials erroneously had considered them to be residents of the District.

District agencies generally were required to obtain at least three price quotations before ordering goods or services costing over \$500 and to formally advertise for bids when costs exceeded \$2,500. Teachers College had not complied with these requirements and as a result might have incurred excessive procurement costs.

The Commissioner of the District of Columbia informed us that the results of our review were being carefully considered and appropriate action had been taken to improve the financial and property administration at the District of Columbia Teachers College. (Report to Congressman William J. Scherle, B-167006, May 16, 1972)

173. Financial Management and Auditing Responsibilities.—The Department of Health, Education, and Welfare (HEW) has budget and audit responsibilities for special institutions receiving Federal assistance—namely, Gallaudet College, the Model Secondary School for the Deaf, and Howard University, Washington, D.C.; the National Technical Institute, Rochester, N.Y.; and the American Printing House for the Blind, Lexington, Ky.

As a result of our review of financial management at Gallaudet and at the Model Secondary School for the Deaf, we recommended to HEW that the HEW Audit Agency give more attention to the adequacy and effectiveness of the financial management controls of the special institutions than to those of the HEW installations. More attention was needed because those institutions did not receive continuing departmental oversight and guidance to the same extent as did the HEW installations.

HEW agreed with our recommendation and modified its planning to provide for more frequent reviews at the special institutions and for early followups on significant audit findings and on corrective action taken. (Report to the Secretary, HEW, B-164031(1), July 12, 1971)

174. Improvements Needed in Financial Activity of the Federal Hydroelectric System in the Missouri River Basin.—Since 1963 the Bureau of Reclamation, Department of the Interior, had not published annual rate and repayment studies showing whether electric power rates were adequate to repay Federal investments in the Missouri River Basin Hydroelectric System within the required 50 years. We computed what repayments should have been under two

methods of amortization. Under a compound-interest method—requiring the lowest installment in the first year and progressively increasing installments in each succeeding year—repayments would have been \$41.8 million greater than the scheduled repayments. Under a straight-line method—requiring equal annual installments—the repayments would have been \$131.2 million greater than the scheduled repayments. We recommended that a rate and repayment study be prepared which would be supplemented by statements comparing actual repayments with scheduled repayments established on an orderly basis.

The Department agreed that the Bureau should consider the practicability of publishing an annual rate and repayment study but did not agree that a supplemental statement showing the status of repayments was necessary. We believe, however, that a comparison of actual repayments with scheduled repayments is needed for evaluating the adequacy of revenues in meeting repayment requirements.

The Bureau had not prepared consolidated financial statements for the hydroelectric system. We prepared the statements on the basis of information in the accounting records of the Bureau and the Corps of Engineers but concluded that the statements did not present fairly the financial position of system projects or the results of operations. The Bureau and the Corps had recorded costs of similar items differently. The Corps had not recorded revenues of about \$138 million, or all the costs applicable to project purposes.

The Departments of the Interior and the Army agreed, generally, that there was a need for comparable and complete accounting data and advised us that interagency committees had been appointed to study financial reporting problems. Also the Department of the Interior agreed that annual consolidated financial statements should be prepared. (Report to the Congress, B-125042, Feb. 28, 1972)

175. Production Cost Data for Individual Nuclear Weapon Systems.—The Atomic Energy Commission (AEC) has adopted a standard cost accounting system as a means of improving control of weapons production costs. Under this system AEC's weapons production contractors are responsible for controlling the costs incurred in the production of nuclear weapons. Although the cost accounting system was not designed to accumulate production costs by weapon system, such costs were computed for AEC's budget estimates.

The production costs for each weapon system delivered during the year, as computed by AEC, represented standard costs adjusted for a share of the variance between total standard costs and total production costs incurred during the year for all weapon systems. AEC assigned a share of the total variance to each weapon system on the basis of a uniform percentage.

Under this method the costs attributable to each weapon system could be distorted significantly. For example, the unit costs incurred by one contractor during fiscal year 1970 for its part of a warhead were more than the total unit costs that AEC attributed to the production of the entire warhead.

When requested by the Congress, AEC had provided estimates of the total costs of producing individual weapon systems. Because of the manner in which AEC assigned the cost variance to individual weapon systems, these estimates did not provide an adequate basis for identifying cost growth.

In response to our recommendations, AEC agreed to (1) improve its procedures for assigning cost variances to individual weapon systems to provide for developing more accurate cost data and (2) provide the Congress annually with information on production costs, explaining any significant differences between current and prior cost estimates. (Report to the Congress, B-165546, Feb. 29, 1972)

Management Information Systems

176. Adequacy of Information Relating to Narcotics and Dangerous Drugs.—The Bureau of Narcotics and Dangerous Drugs (BNDD) estimated that about 90 percent of the drugs in the illicit market were manufactured by legitimate drug manufacturers. A comprehensive information system is a valuable tool for detecting and preventing drug diversion and for measuring the impact of enforcement and regulatory efforts.

Our review of the BNDD information system showed opportunities for BNDD to improve its system by developing:

A more complete inventory of manufacturers' identification markings.

A procedure for identifying the manufacturers of the drugs seized by State and local enforcement groups.

A more systematic method for obtaining information from drug manufacturers and distributors on suspected illegal drug purchases.

A procedure for obtaining information from the military services on possible drug diversion.

A better definition of the types of information desired from State and local agencies on dangerous-drug thefts, seizures, and arrests.

The Department of Justice agreed that recommendations we had made with respect to improving the system were valid and said that it would implement them on a priority basis to the greatest extent possible. The Department indicated that the need to better define the types of information from State and local agencies would require extensive time, effort, and resources and that a task force was being established to consider the entire matter. (Report to the Congress, B-175425, Apr. 17, 1972)

177. Effectiveness Hampered by Lack of Complete, Current Research Information.—The Smithsonian Science Information Exchange is intended to be a clearinghouse for information on current research in physical, biological, and social sciences. The information is compiled to facilitate more effective planning and coordination of research and development programs sponsored with Federal funds. The Exchange was administered by the Smithsonian Institution under a contract with the National Science Foundation for fiscal years 1963 through 1971. Beginning with fiscal year 1972, the Smithsonian Institution assumed entire responsibility for the Exchange.

We found that many Government agencies were not using the Exchange to the fullest extent because, they claimed, its data bank was not current or complete. At the same time the ability of the Exchange to provide current information was hampered because the agencies were not providing the Exchange with the information it needed to perform the function of an information clearinghouse. Also, Government agencies were not required to submit complete information on their research and development programs to the Exchange.

We recommended that (1) the Office of Management and Budget (OMB) evaluate the role of the Exchange as part of OMB's responsibility for fostering coordination of Federal programs and (2) if OMB found that the Exchange should be continued, Federal agencies be required to submit pertinent, timely information about their research projects to the Exchange. OMB agreed to study the role of the Exchange and, on the basis of its study, decide whether to continue it and also whether to require agencies to report their research activities to the Exchange. Agencies

commenting on this report generally indicated that such a reporting requirement was desirable. (Report to the Congress, B-175102, Mar. 1, 1972)

Management Practices—General

178. Administration of Law.—We examined into the administration of a special provision of the Veterans Administration (VA) medical care appropriation, contained in Public Law 92-78, to determine whether the administration of this law was in full accord with the intent of the Congress.

We reported that the intent of the Congress was to have VA operate at an average daily patient census of 85,500, with 97,500 operating beds during fiscal year 1972. The intent was clearly established in the language of the bill passed by the House of Representatives on June 30, 1971, and the bill passed by the Senate on July 20, 1971. The identical language of the bills, pertaining to operating levels, was contained in Public Law 92-78. Since the Appropriation Act, Public Law 92-78, was not enacted until August 10, 1971, VA, under its spending authority, as provided for by the continuing resolution (Public Law 92-38, July 1, 1971), could have made funds available without an apportionment by the Office of Management and Budget to operate at these levels upon passage of the bill by the Senate.

VA made funds available to operate at these levels starting November 1, 1971. Because of the delay in making funds available, we believe that VA's administration of Public Law 92-38 and Public Law 92-78 was not in accord with the intent of the Congress. (Report to the Chairman, Subcommittee on Housing and Urban Development, Space, Science, and Veterans, House Committee on Appropriations, B-160299, Mar. 16, 1972)

179. Low Use of Open-Heart-Surgery Centers.—In 1964 Veterans Administration (VA) surgical consultants, recognizing that the field of heart surgery was becoming prominent, recommended that VA establish open-heart-surgery centers. The VA agreed and since 1965 has established 23 open-heart-surgery centers in its hospitals.

Over the past several years, VA medical officials and cardiovascular surgeons in the private sector have stressed the need for surgical teams to perform a minimum number of open-heart-surgery procedures to re-

tain their proficiency. VA adopted a minimum criteria of 52 cases per year for its open-heart-surgery centers.

From fiscal years 1965 through 1971, only five centers averaged the annual number of operations considered necessary. During fiscal year 1971, only seven of the 23 centers performed at least the minimum number of operations. One reason for the low use of the centers was that VA allowed some of its hospitals, which were not open-heart-surgery centers, to perform such surgery or to transfer their surgery patients to medical school hospitals with which they were affiliated, rather than to the nearest VA open-heart-surgery center.

We recommended that VA examine the program with a view toward redetermining the number and location of open-heart-surgery centers, considering the needs of its patients and the minimum workload necessary to permit surgical teams to retain the required technical skill. The VA agreed in principle and began developing plans to carry out the recommendation and established an advisory group to review existing centers. (Report to the Congress, B-133044, June 29, 1972)

180. Processing Veterans' Educational Assistance Payments.—The Veterans Administration (VA) provides financial assistance to veterans while they are obtaining an education. In fiscal year 1970 VA paid \$1 billion in educational benefits to about 1.3 million veterans. We reviewed VA's practices and procedures for processing veterans' status documents—the basis for payment of educational benefits—because of indications that processing delays had resulted in late payments and overpayments or underpayments.

During the processing of monthly payments, VA regional offices manually verify data on a veteran's status document, such as his name and identification number, with like data in his case file and compute the amount of monthly payments. VA could accelerate the processing of status documents by eliminating the manual verification and by relying more on computer verification.

We estimated that VA could realize net savings at about \$500,000 annually through computer verification. To achieve such savings it would be necessary for VA to incur one-time computer reprogramming costs of \$72,000.

We recommended that VA implement procedures to convert from manual to computer verification by forwarding, whenever possible, all data from status documents to the data processing center for processing without referral to case files.

VA agreed, in principle, with our recommendation and said that procedures for automating the processing of status documents in the educational assistance program had been implemented in 1970 and were being refined. VA said that it also planned to further automate the processing of other status documents as soon as reasonably possible. (Report to the Congress, B-114859, July 8, 1971)

181. Veteran Enrollment in Correspondence Courses.—The Veterans Administration (VA) provides financial help to veterans and servicemen while they are obtaining an education or training for a job. One way VA does this is by reimbursing veterans and servicemen for completed parts of correspondence courses. However, most veterans who enroll in correspondence courses do not complete them. We estimated that at June 30, 1970, about 160,000 veterans, or about 75 percent of those no longer receiving educational assistance payments from VA, had discontinued their courses before completion. Most veterans who did not complete their courses incurred costs—not refunded by the schools or reimbursed by VA—for those parts that they did not complete. According to responses to questionnaires we sent out, the costs incurred by veterans for uncompleted courses ranged from \$10 to \$900 and averaged \$180. We estimated that the total cost to veterans for uncompleted courses amounted to \$24 million.

About 31 percent of the veterans who did not complete their courses had not been aware that VA reimbursement would not cover all of their costs, and most did not know that they had to request refunds that might be due them from the schools. Most of those replying to our questionnaire indicated that they had not achieved the objectives which had prompted them to enroll in the courses. These objectives were to learn new skills or to improve existing skills to obtain better jobs or to earn more money.

We recommended that VA compile, and distribute periodically to its staff, data on the number of veterans who enrolled in each correspondence course subject and the number of veterans who did not complete the courses.

We recommended also that VA inform veterans about the percentages, by subject, of those who did not complete their courses, the financial obligations, and the requirement that any refunds due must be requested promptly from the schools. VA should inform

veterans of the advisability of seeking its advice and assistance before selecting educational or training programs.

VA agreed in general with our conclusions and said it planned to establish a system to provide the type of information recommended. VA advised that legislation had been proposed to reduce the losses incurred when veterans did not complete correspondence courses. (Report to the Congress, B-114859, Mar. 22, 1972)

182. Duplication of Published Information.—Bureau of Domestic Commerce (BDC), Department of Commerce, publications contained considerable information which duplicated data presented in publications issued by other Government agencies, primarily the Bureau of the Census, Department of Commerce. We concluded that a cooperative effort between BDC and the Bureau of the Census would eliminate much of the duplication and would result in substantial savings to the Department. The Department subsequently transferred responsibility for one publication to Census and discontinued another, which resulted in estimated annual savings of \$10,000. (Report to the Secretary of Commerce, B-146830, July 13, 1971)

183. Improvement in Administration of Education Program.—The Omnibus Crime Control and Safe Streets Act of 1968 included a provision for an educational assistance program to improve and strengthen law enforcement. To carry out this provision, the Law Enforcement Assistance Administration (LEAA), Department of Justice, established a program under which funds were made available to institutions of higher education for loans and grants to eligible students.

Unnecessary Federal interest costs were incurred because LEAA advanced funds to institutions on the basis of estimates prepared several months prior to the start of the academic year. The amounts requested on many of the estimates were greater than the amounts actually used, and the excess funds were retained by the institutions for use in the succeeding fiscal year. Also, LEAA advanced the funds to the institutions from 1 to 6 weeks prior to the time that the students normally paid their tuition and other expenses.

The Department responded to our report by initiating action to delay the issuance of funds to schools

until the last possible moment and to revise its funding system to provide for the funding of institutional needs on a school-term basis. (Report to the Congress, B-171019, Nov. 3, 1971)

184. Improvement of Monitoring Manufacturer and Retailer Activities.—The diversion of legally manufactured drugs into the illicit market became a serious problem because of increased abuse of stimulants and depressants. Diversion occurred when drugs found their way from any of the 450,000 registered drug handlers, either intentionally or unintentionally, into the hands of illicit dealers.

Methods employed by the Bureau of Narcotics and Dangerous Drugs (BNDD), Department of Justice, for detecting and reducing the diversion of dangerous drugs included the investigation of legitimate drug handlers for compliance with Federal regulations and the establishment and dissemination of self-regulation guidelines for members of the drug industry.

Our review showed that, as a result of recent congressional action, BNDD had developed plans to increase significantly its monitoring activities. In addition, BNDD established agreements with States to share the monitoring of licensed drug retailers although some of the States had limited capabilities for monitoring. In addition, BNDD initiated a program to obtain complete data to evaluate the adequacy of State investigation programs.

The Department said our recommendation that BNDD work with drug associations to establish self-regulation guidelines for members of the industry was valid and would be implemented. (Report to the Congress, B-175425, Apr. 17, 1972)

185. Reinstatement and Improvement of Value-Engineering Program.—In June 1971 the Maritime Administration, Department of Commerce, discontinued the requirement that value-engineering provisions be included in ship construction contracts. Value engineering is a technique used to reduce design and construction costs of a ship without sacrificing efficiency and reliability. It is based upon development and application of new engineering and production techniques, materials, and processes. Value-engineering items may be proposed by the shipyards, the ship operators, or Maritime. Since its inception in 1957 the value-engineering program has resulted in millions of dollars in savings to the Government and industry.

The requirement was discontinued primarily because:

The Merchant Marine Act of 1970 eliminated much of the Government's participation in ship-building contracts.

The ship operators were opposed to the program because they were required to accept value-engineering proposals even though they may have felt that the changes were not in their best interests and because the monetary return was not sufficient.

The shipyards were opposed to the requirement because they felt that they would lose money if they had to delay work to incorporate a value-engineering change.

We reviewed the reasons for Maritime's discontinuing the requirement that value-engineering provisions be included in ship construction contracts. We concluded that, because of the substantial savings that had resulted from the program and the potential future savings, complete elimination of the value-engineering program was not warranted. We recognized, however, that a need existed for some revisions in the program to reflect changes in Maritime's ship construction activities and to correct inequities.

In response to our recommendations, the Department of Commerce agreed that Maritime would (1) require voluntary value-engineering clauses to be included in future ship construction contracts, (2) provide for savings from accepted value-engineering proposals to be shared equally by the owner and the shipyard, and (3) reestablish the practice of issuing value-engineering letters to industry for its information and use.

The Department also stated that the Value Engineering Branch would continue to review plans and specifications prior to approval of the contracts, but only when time permitted.

The Department disagreed with our recommendation that approved value-engineering changes found to be technologically and economically sound be included, whenever applicable, in future ship construction contracts because their inclusion would be an imposition on the ship operators. (Report to Congressman Larry Winn, Jr., B-118779, May 10, 1972)

186. Administration of a Chemistry Research Program.—During fiscal years 1970 and 1971, operating costs for the Atomic Energy Commission's (AEC) chemistry research program amounted to

about \$53.9 million and \$51.4 million, respectively. We evaluated the administrative practices of AEC and two of its contractor-operated laboratories and reported on the manner in which AEC's chemistry research program was being managed.

We commented on (1) budgeting and financial control, (2) establishment of research priorities, and (3) review procedures. We noted certain areas where it appeared opportunities existed for improving procedures to provide AEC and its contractor-operated laboratories with better information about the direction and results of the research program. We made several suggestions for improvement, and AEC agreed to take appropriate action. (Report to the Chairman, AEC, B-165117, Feb. 14, 1972)

187. Controls in the Automated Central Payroll System.—The network of controls built or programmed into the Department of Agriculture's computerized payroll system generally were functioning properly, and the system usually produced reliable results. However, management controls over certain manual aspects of the system needed to be strengthened to increase its efficiency and effectiveness and to minimize the possibility of improper manipulation of the information in the system.

There was a need to provide for:

Proper segregation of duties between the programming and computer operations of the system.

Current documentation for the primary system to facilitate future revisions and management reviews.

An adequate and safe backup system for contingency use in case the primary system was destroyed.

More effective programs to improve controls over (1) the maximum number of hours for which an employee could be paid in a pay period, (2) overtime payments, (3) payroll deductions for savings bonds, and (4) retirement deduction rates.

Supervisory review of manual pay operations to insure that established procedures were properly implemented to prevent duplicate payments and overpayments.

Adequate control over incoming and rejected documents.

A periodic review of the usefulness of reports produced by the system.

The Department took action to correct most of these weaknesses. (Report to the Secretary of Agriculture, B-146951, Nov. 29, 1971)

188. Different Laboratory Operating Practices in the Testing of Nuclear Weapons.—The Atomic Energy Commission's (AEC) two nuclear design laboratories—Lawrence Livermore Laboratory and the Los Alamos Scientific Laboratory—followed different operating practices in testing nuclear weapons. We identified three areas where the laboratories had followed different practices: hole-depth determinations, test-hole casings, and postshot drilling. These differences often resulted in significant variations in costs.

With respect to hole-depth determinations, for example, Livermore and Los Alamos independently developed different guidelines for determining the depth of burial necessary to satisfactorily contain radioactivity underground. These standards were based on the maximum credible yield expected from a particular nuclear device. Livermore and Los Alamos conducted many tests of about the same maximum credible yield, but Los Alamos' holes were about 200 feet deeper than Livermore's holes. Although Los Alamos contended that there were reasons why it had tested in holes deeper than had Livermore, Los Alamos could not determine numerically the extent to which the reasons had contributed to its determination of individual hole depths.

AEC agreed with our recommendations and established a study group to identify and evaluate significant differences in laboratory practices and to encourage the adoption of those most appropriate from cost and programmatic standpoints. (Report to the Chairman, AEC, B-165546, Sept. 17, 1971)

189. Increased Income Could Be Earned on Indian Trust Monies.—The Bureau of Indian Affairs (BIA), Department of the Interior, is responsible for managing funds held in trust for Indian groups (Tribal Trust Funds) and funds held in trust for individual Indians (Individual Indian Monies). These funds generally result from agricultural and mineral production in Indian reservation lands and proceeds of law suits.

Our review of the administration of the Indian trust monies showed a substantial amount of funds was not being invested so as to produce the highest yields.

BIA area and agency office officials were not able to invest available funds promptly because monthly financial reports received from the Division of Financial Management contained data up to 45 days old. Also these officials seldom had used the information, even though it was untimely.

We recommended that the Commissioner of Indian Affairs implement the most effective and economical method of realizing the maximum investment return on Indian trust monies. The Department concurred but stated that, insofar as Tribal Trust Funds were concerned, present policies and procedures were adequate. We believe, however, that BIA's practices and procedures did not provide the needed assurance that all funds were invested to the maximum advantage.

The Department also advised us of action taken to insure that investments of Individual Indian Monies were made in securities offering the maximum interest. (Report to Chairman, Subcommittee on Indian Affairs, Senate Committee on Interior and Insular Affairs, and to Senator Mike Gravel, B-114868, Apr. 28, 1972)

190. Processing Applications for the Construction and Operation of Nuclear Power Plants.—At the request of the Joint Committee on Atomic Energy, we reviewed the procedures followed by the regulatory staff of the Atomic Energy Commission (AEC) in processing applications for the construction and operation of nuclear power reactors. Under the Atomic Energy Act of 1954, as amended, AEC is responsible for insuring that the construction and operation of nuclear facilities will not result in undue risk to public health and safety.

The AEC regulatory staff had recognized the need for additional guidance, procedures, and techniques to improve the application review process; however, actions either had not been taken or had not been adequate to effect needed improvements. We believed that the primary reasons for this situation were that:

Management had not given priority to improving the whole review and evaluation process but had concentrated its available resources on individual cases.

Specific resources for the express purpose of developing and effecting improvements in the review process had not been requested.

An effective, independent group to conduct management reviews of regulatory staff activities had not been established.

We made a number of recommendations directed at improving the efficiency of the application review process. AEC said that actions had been or would be initiated to implement each recommendation. (Report to the Joint Committee on Atomic Energy, B-127945, Jan. 31, 1972)

191. Program for Storage and Disposal of Financial Records.—We reviewed the Department of the Navy's program for storage and disposal of contracts and disbursement and collection vouchers to gain an insight into how efficiently the Navy records disposal program was operating under the Federal Records Act of 1950. We found indications that records had been held or stored for excessive periods because of (1) misclassification of records, (2) failure to destroy unneeded copies of documents, (3) an excessive prescribed retention period, and (4) noncompliance with disposal instructions.

Although our review was limited to two types of documents within the Navy, we noted that a significant number of records were being retained or stored unnecessarily. We recommended that the Secretary of Defense bring the report to the attention of other Department of Defense components and emphasize the need for review of records management programs. We made specific recommendations designed to effect more efficient and economical storage and disposal procedures. (Report to the Assistant Secretary of Defense (Comptroller), B-147752, Mar. 1, 1972)

192. Closure of Ammunition Plant.—The Army decided to deactivate the Kansas Army Ammunition Plant on the basis of a study that had questionable elements.

The Army considered several alternatives for allocating its fiscal year 1972 production program for various types of ammunition among four plants. The production and transportation costs and the costs to maintain inactive facilities were compiled for each of the alternative plans. The alternative selected showed annual savings of \$2 million by phasing out the Kansas plant.

Our review revealed, however, that the study (1) had underestimated production costs at one of the remaining plants for one type of ammunition, (2) had overestimated shipping costs for certain ammunition produced by the Kansas plant, and (3) had included as savings certain cost reductions that were not related to closing the Kansas plant.

Subsequently, the Army reevaluated its study and decided to continue production at the Kansas plant. (Report to Senator James B. Pearson, B-172707, Feb. 14, 1972)

193. Modernization of Ammunition Plants.—In February 1968 the Department of Defense authorized the current Army program to modernize ammuni-

tion production facilities to enable them to meet mobilization requirements. The program—to start in fiscal year 1970—was originally estimated to cost \$2.4 billion and was to be completed in 5 years. This was ultimately stretched to 12 years, and expansion of the program increased the estimated cost to \$3.1 billion.

The Army program has not been adequately coordinated on a Defense-wide basis. The Navy also has ammunition-producing facilities which it plans to modernize. The modernization program of both services should be geared to meet Defense-wide ammunition needs.

Nor does the Army program seem to upgrade specific production lines or facilities on an orderly, time-phased basis in relation to total product requirements. Instead, the program is essentially an accumulation of projects, originally proposed by the contractors operating the plants, affecting individual operations or parts of facilities in all the plants over the 12-year period. In preparing its annual request for modernization funds, the Army generally selects projects which will cost approximately the same amount as the funds the Army believes will be available.

We suggested that further justification for many of the projects should be required. (Report to the Chairman, House Committee on Appropriations, B-172707, May 31, 1972)

194. Consolidation of Support Functions in the Pacific Area.—It is Department of Defense (DOD) policy to reduce costs by having one military service perform support functions for the rest. In its report on DOD operations, the Blue Ribbon Defense Panel concluded that effectiveness, efficiency, and economy could be improved through increased sharing of logistics functions.

The Pacific Command had numerous interservice support accomplishments. However, it had overlooked many opportunities to reduce costs by consolidating common services. For example:

The Army and Air Force both had laundry and dry cleaning facilities within 22 miles of each other in the Kanto Plains, Japan, area. The Army's more modern plant was operating at less than one-third capacity while the Air Force's plant was also operating at less than full capacity. After our review the Air Force plant was closed in December 1971 with annual savings estimated to be as much as \$750,000.

The Army, Navy, and Air Force each maintained a general hospital in the Tokyo, Japan, area within 30 miles of each other. The Army hospital had an occupancy rate during the 6-month period ended May 31, 1971, of only 68 percent of capacity with a lower rate expected in the future because DOD had stopped evacuating patients from Southeast Asia to Japan. To convert the Army hospital in Tokyo to a dispensary would save about \$2 million a year. During our review the size of the Army hospital was reduced, and DOD promised to consider converting it to a dispensary as soon as the situation in Southeast Asia permitted.

We suggested that the Secretary of Defense:

Establish a full-time staff responsible for administering an interservice support program in the Pacific Command.

Develop procedures to insure that the Unified Command knows about, and gives adequate consideration to, all potential interservice support opportunities.

Clarify or revise Joint Chiefs of Staff directives to provide clear-cut authority for a unified command to direct interservice arrangements when it would be economical and when the military missions of the services would not be compromised.

DOD cited several actions underway that would enhance interservice support. (Report to the Congress, B-160683, May 11, 1972)

195. Improved Controls Over Unused Transportation Tickets and Travel Advances.—We reviewed the Peace Corps' controls over unused transportation tickets to see if weaknesses we had previously reported had been corrected. We found that the agency had not established appropriate management controls over unused transportation tickets and had not sent uncollected refund claims to GAO for further recovery action. Because of slow processing, the carriers had rejected claims for refunds. Also, some unused tickets had never been submitted to the carriers for refunds.

At the time of our review, the agency had on hand unused tickets and parts of tickets valued at about \$100,000, awaiting processing and filing of refund claims. After we brought this to the attention of officials, a substantial number of refunds were obtained.

In addition, the agency had not complied with the Standardized Government Travel Regulations which require that personnel immediately refund excess travel advances. As of May 1971 the agency had not collected

\$16,000 advanced to 80 employees. This included \$7,000 in travel advances to 38 persons no longer employed by the agency.

We recommended that the agency assign a specific person to establish an effective system for obtaining refunds. Also, employees should be required to comply with regulations and administrative instructions concerning control and recovery of travel advances.

Peace Corps officials agreed with our findings and told us they had assigned responsibility for establishing a refund system and they were complying with their travel-advance instructions. (Report to the Director of the Peace Corps, B-156996, Dec. 8, 1971)

196. Test Results Inconclusive for Determining Economies of Using Great Lakes Instead of Tidal Ports for Shipping Military Cargo.—In 1969 the Department of Defense (DOD) decided to conduct a test using Great Lakes ports for moving military cargo between the United States and Europe. DOD reasoned that, by using the lake ports, it could decrease substantially the costs to move cargo overland to more distant tidal ports.

When the proposed test was announced, we received congressional requests to halt the test or postpone it until its need could be determined. We advised the interested Congressmen that the data necessary to determine the feasibility of using Great Lakes ports was not available and that we had no basis on which to recommend canceling the test. We did agree, however, to monitor the test and to evaluate its results.

The test was conducted from April through November 1969. DOD reported that it cost \$415,000 more to ship the test cargo through Great Lakes ports than to ship the same cargo through tidal ports.

In our opinion, however, the test results were inconclusive and invalid for determining the relative economies of using Great Lakes versus tidal ports. We found errors in the cost data used to evaluate the test and areas where improved management could have significantly changed the test results. These and other considerations reduced the excess costs reported from \$415,000 to about \$61,000.

Because of the relatively small adjusted cost difference between using Great Lakes and tidal ports and the possibility that better management could have further influenced the test results, we were not able to reach a conclusion regarding the economies of using Great Lakes instead of tidal ports. (Report to six Members of Congress, B-165421, Sept. 7, 1971)

SECTION I

197. Civil Service Labor Less Costly Than Contractor Labor.—Military freight is shipped in containers from the Military Ocean Terminal, Bayonne, N.J., to Europe. These containers were loaded exclusively by civil service labor until 1968. Although container shipments had increased significantly, additional civil service positions were not authorized. Consequently, in 1968 contractor stevedoring was expanded to provide the additional labor required.

Responding to complaints received from civil service employees, the Subcommittee on Manpower and Civil Service, House Committee on Post Office and Civil Service, reviewed the matter. The Subcommittee staff was advised that the cost of loading a measurement-ton of general cargo using civil service employees was \$8.19 and that the cost of using contract labor was only

\$6.05. On the other hand, the Subcommittee was informed that the cost was \$7.33 an hour for contract labor compared with \$4.95 an hour for civil service employees.

Because of the seemingly contradictory information, the Subcommittee Chairman requested us to audit the information. We found that the civil service operation cost \$6.12 a measurement-ton, significantly less than the \$8.19 reported. Contractor cost, on the other hand, was \$6.40 a measurement-ton, not \$6.05. Errors in computations had been made not only in the costs but also in the workload statistics used to determine per-measurement-ton costs. (Report to the Subcommittee on Manpower and Civil Service, House Committee on Post Office and Civil Service, B-171695, Jan. 25, 1972)

PAY, ALLOWANCES, AND EMPLOYEE BENEFITS

Government-Furnished Housing

198. Cost Accounting for Operation and Maintenance of Military Family Housing.—The Department of Defense (DOD) spends about \$400 million annually to operate and maintain family housing. Better information on these costs is needed. DOD's method of cost accumulation lumps together housing units that are widely dissimilar in age, size, type of construction, and condition, and unit costs are distorted by averaging out these differences. Moreover, at most installations little or no use is made of the collected data. Also, there are many older houses which are no longer economical to maintain.

DOD agreed that expanding the housing categories to produce better comparative cost data might be useful but thought that this would not justify the additional expense from the increased workload. We suggested that DOD first ascertain the cost of the expansion. If this was found to be uneconomical then DOD should simplify its elaborate system.

After the report was issued, DOD advised us that, as a result of a recent DOD study, some new housing categories were being added and existing ones were being revised to purify costs. However, DOD could not absorb the significant increase in effort proposed by us. Moreover, DOD considered it essential to develop and analyze data reflecting the effects of factors less obvious than size, such as organizational and procedural differences within as well as among DOD components.

DOD also agreed that there should be a plan to replace uneconomical housing and that as soon as more urgent priorities were met, a request to authorize the replacement would be presented to the Congress. We suggested, in view of DOD's indefinite response, that the Congress consider (1) requesting such a plan from DOD and (2) the merits of authorizing current expenditures for replacing uneconomical quarters to save operation and maintenance costs. (Report to the Congress, B-159797, July 2, 1971)

199. Bachelor Officers' Quarters.—There is a significant difference between the costs of providing

housing to military personnel on temporary duty and the costs of providing housing to those on permanent duty. Generally, when temporary-duty officers are not provided with Government accommodations, they are paid a per diem allowance for housing and subsistence off base. This allowance exceeds that paid to permanent-duty officers who are required to obtain accommodations off base by as much as \$4,000 a year per officer. From the standpoint of cost, therefore, it is to the Government's advantage to accommodate temporary-duty personnel on base in bachelor officers' quarters (BOQ) if suitable housing is available to adequately house permanent-duty personnel off base.

At a number of the military installations we visited, economies in housing costs could be realized because many temporary-duty officers were present for extended periods of time. Occupancy data for officer accommodations at these installations showed that relatively high BOQ occupancy rates could have been maintained by assigning these facilities to temporary-duty, rather than to permanent-duty, personnel. We estimated this action would have resulted in savings of \$1.3 million annually in per diem costs and in the costs of providing housing to both temporary-duty and permanent-duty officers.

The Department of Defense advised us that it was in the process of revising instructions concerning the adequacy, assignment, and occupancy of bachelor housing. (Report to the Secretary of Defense, B-133316, Mar. 2, 1972)

Pay, Allowances, and Benefits— General

200. Ineffective Audits of Military Pay.—The Navy's military pay system is unusually complex and error prone, and each year thousands of servicemen are either overpaid or underpaid. During fiscal years 1966 through 1970, over a quarter of a million errors totaling about \$16 million were made. We found that the Naval Audit Service—responsible for evaluating

the operation of the pay system and the work of the administrative examiners—had not done sufficient work in either of these areas to recommend changes or other actions to management which would effect the much needed improvements. Also, administrative examiner staffs had been operating with too few resources and too little direction and their work had not been well coordinated. Basic examination methods had not been uniformly applied. We recommended providing adequate resources to make audits and examinations more effective; requiring improvements in coordination of efforts among the various examination groups and in examination methods, including use of statistical-sampling techniques; and increasing efforts to identify and correct basic causes of errors.

The Navy advised that it plans to work toward full implementation of our recommendations by July 1, 1972, within resource feasibility. (Report to the Secretary of Defense, B-125037, Sept. 20, 1971)

201. Erroneous Payments at Time of Separation.—Our prior audits of pay accounts of Army personnel disclosed that errors, mostly overpayments, amount to millions of dollars annually. In 1964 the Army instituted a Quality Assurance Program to upgrade the quality of pay administration. Because a significant number of Army personnel separate from the service or reenlist each year (over 750,000 in fiscal year 1970), we reviewed individual pay accounts at the time the servicemen separated from the Army to test the Quality Assurance Program.

Test sampling of pay accounts of servicemen separating or reenlisting during a 1-month period revealed that (1) about 37 percent were in error, (2) overpayments amounting to about \$2 million and underpayments amounting to about \$100,000 were made, (3) the same general types of errors previously reported were made, (4) although the Army had increased its emphasis on pay and allowance transactions, the Program had not, as yet, significantly improved the quality of military pay administration, and (5) additional command emphasis was needed.

To correct the major causes of erroneous payments identified in the review, we recommended that local commanders' responsibilities in the area of pay administration be reemphasized, better training be provided payroll personnel, and excessive turnover in administrative personnel be reduced. Also, payroll audit activities should be expanded and improved and the Army's reporting of audit results should be upgraded.

The Army agreed with our conclusions and recommendations and initiated a series of actions to improve the detection and correction of pay errors. (Report to the Secretary of Defense, B-125037, Nov. 3, 1971)

202. Temporary Lodging Allowances.—We undertook a survey of the administration of the Temporary Lodging Allowance (TLA) program as a followup to a number of previous GAO reports (1964-65) to determine whether the corrective actions taken or promised by the Department of Defense in response to our prior recommendations had been effective in improving management control over the program. TLA is authorized to partially reimburse personnel first arriving at overseas duty locations for the more than normal expenses incurred for hotels and meals while awaiting assignment to Government quarters or securing other permanent accommodations. TLA is also authorized prior to departure from an overseas location. During fiscal year 1970 about \$28 million was spent for TLA.

Although the military services have made some progress in improving administration in this area, much more remains to be done. Some of the management weaknesses we noted were: assignment of responsibilities for determining eligibility for the allowance was not clearly defined in regulations; assistance by the overseas commands in locating housing and in monitoring the service members' own efforts to locate suitable accommodations was inadequate; unwarranted extensions of allowance entitlement periods were granted; coordination between housing officials and those designated to administer the TLA program was lacking; and statements of nonavailability of Government quarters were improperly issued by housing officials.

Substantial savings in TLA costs could be achieved by (1) increasing availability of transient quarters to persons receiving TLA, (2) converting some of the bachelor officers' quarters to enlisted men's quarters, and (3) leasing additional housing and providing it to the servicemen without charge in lieu of paying the TLA and quarters allowance. The Army's leased-housing program in Europe averaged about \$3,000 a year for each unit. For a family of four living on the economy of a country, TLA and quarters allowance payments averaged about \$12,000 a year. We believed that with proper use housing referral offices could serve their original purpose of eliminating discrimination in housing and also help reduce the incidence of TLA abuses.

The Department of Defense was in complete accord with our objective to avoid excessive payments of tem-

porary lodging allowances and was proposing revisions to the Joint Travel Regulations. (Report to the Secretary of Defense, B-146912, Jan. 13, 1972)

203. Erroneous Dislocation Allowance Payments.—Eligible military personnel may have their house trailers moved at Government expense in connection with a permanent change of station, in lieu of shipment of household goods and receipt of dislocation allowance (DLA). In 1965 we reported to the Congress that erroneous DLA payments were being made to trailer owners because, among other reasons, administrative procedures did not provide that notice be given to finance officers when the servicemen moved their house trailers. Although the military departments took some corrective actions as a result of our recommendations, we stated in the 1965 report that such actions would be more effective in detecting rather than in preventing erroneous payments. We made a follow-up review to determine how effective these actions had been.

The Army's error rate rose from 12 percent in fiscal year 1963 to 17 percent in fiscal year 1970 and the Navy's error rate over the same period rose from 6 percent to 11 percent. The effectiveness of Air Force controls was not tested. Our recommendation for preventing erroneous DLA payments provided for including a statement in permanent change-of-station orders of trailer owners authorizing shipment of trailers at Government expense. Such a procedure would provide positive notification to disbursing officers, as well as to transportation officers and internal auditors, that a trailer had been or was being moved at Government expense. Under these circumstances we believed improper payments of DLA could be avoided. (Report to the Secretary of Defense, B-125037, June 22, 1972)

204. Army Reserve Drill Pay System.—The Army operates a decentralized system at nine finance and accounting offices while the Navy and Air Force maintain centralized systems. We reviewed the Army Reserve Drill Pay System to determine the feasibility of developing a fully mechanized system at a central point and the effectiveness with which the current pay system is operating. We reported that:

It would be feasible to mechanize the system at Indiantown Gap, Pa., at annual savings of \$125,000.

In view of the low reenlistment rate (1½ percent) of enlisted reservists, retirement point credits should not be recorded until reenlistment; this would

result in savings of \$431,000 in personnel and machine costs.

Erroneous payments were being made to reservists because of discrepancies in attendance records and drill reports.

The Army agreed to (1) conduct a study on the feasibility of mechanizing and centralizing its Army Reserve Drill Pay System, (2) discontinue the recording of retirement point credits for obligated enlisted reservists until reenlistment, and (3) improve the accuracy of attendance records and drill reports. (Report to the Secretary of Defense, B-125037, Aug. 30, 1971)

205. Army National Guard Drill Pay System.—We found that the Drill Pay System was generally effective and that guardsmen were paid accurately. However, the efficiency and economy of the system could be improved through centralization and mechanization.

The Army agreed to study both the Army Reserve and National Guard Drill Pay Systems to determine the feasibility of centralizing and mechanizing the Army Reserve and National Guard drill pay functions at one location. (Report to the Secretary of the Army, B-125037, Dec. 16, 1971)

206. Naval Reserve Drill Pay System.—A review of the centralized Navy Reserve Drill Pay System revealed that, because of errors in attendance records and drill reports, erroneous payments totaling about \$130,000 were made to reservists.

We made a number of recommendations designed to improve the accuracy of attendance data and to facilitate internal review in the management of the drill pay system. The Navy agreed with most of our recommendations and stated that action would be taken to correct the adverse situation found. (Report to the Secretary of Defense, B-125037, Aug. 18, 1971)

207. Opportunities for Improving Administration of Government-wide Indemnity Benefit Plan of Health Insurance for Federal Employees and Annuitants.—The Civil Service Commission contracts for health benefit plans under the Federal Employees Health Benefits Program. One of these is the Indemnity Benefit Plan which provides Government-wide health insurance and which is the second largest of the health benefit plans in number of employees enrolled.

The Aetna Life Insurance Company carries out the Plan under contract with the Commission. The con-

tract provides that Aetna reinsure, with other companies, portions of the total insurance written. About 91 percent of the insurance under the Plan has been reinsured by about 120 other companies; Aetna has insured about 9 percent of the Plan. Cash payments are provided either to employees enrolled or, at their request, to doctors and hospitals.

We reviewed the administration of the Plan because of the considerable costs being incurred by Federal employees, as well as by the Government, for the health benefits. We had previously reported on the administration of the Service Benefit Plan—Blue Cross and Blue Shield—the largest Government-wide plan, which provides benefits by direct payments generally to doctors and hospitals (B-164562, Oct. 20, 1970).

Our review of the Plan included studies of (1) premium rates, (2) contingency reserves maintained by the Commission and Aetna, (3) risk charges and the reinsurers' expense allowances, (4) income earned by investing funds of the Plan, and (5) administrative expenses.

We reported that the Commission should:

Review the changes in enrollment to ascertain (1) why enrollees changed from the Plan to another plan or changed options within the Plan and (2) whether the age of the Plan's enrollees, as a group, increased at a greater rate than the age of enrollees in other plans.

Revisions of benefit coverage or other changes should be made, if warranted, to insure that Federal employees continue to have a choice of Government-wide plans.

Encourage Aetna to refine its methods of establishing premium rates for the Plan by utilizing, to the extent practicable, the results of studies of claims experience for different age, sex, and geographical groupings of the Plan's participants.

Determine the combined amounts of the reserves needed to be maintained by the Commission and Aetna to protect against adverse variations in claims cost and consider such determination before approving premium rates for the Plan.

Reassess the reasonableness of the amounts allowed Aetna and the reinsurers for risk charges and for the reinsurers' expense allowances.

Amend the contract with Aetna to formalize Aetna's practice of crediting the Plan with interest on certain reserve funds.

Review the practices followed by Aetna in arriving at the amount of investment income to be cred-

ited to the Plan and, during the review, give particular attention to the fairness of the amounts so credited and to the need for adjustments for inadequate amounts credited in prior years.

The Commission was generally receptive to our proposals and either took action, or agreed to take action, in line with most of them. The Commission did not agree with our recommendations for (1) encouraging Aetna to refine its method of establishing premium rates for the Plan and (2) reassessing the reasonableness of the amounts allowed Aetna and the reinsurers for risk charges.

Savings to the Plan of \$971,000 for 1970 and 1971 resulted from cancellation of a proposed amendment to the Aetna contract we questioned. Under this amendment Aetna would have been allowed amounts for administrative expenses substantially in excess of its actual costs.

With respect to risk charges, we believe that the amounts of the combined Plan reserves held by Aetna and the Commission have been higher than needed to protect against adverse variations in claims costs. In view of the minimal risks under the Plan and the substantial costs that have been charged to the Plan in connection with reinsurance, we suggested that the Congress consider amending section 8902(c) of title 5, United States Code, to eliminate the mandatory provision for reinsurance under this Plan. (Report to the Congress, B-164562, May 22, 1972)

208. Questionable Need for a Separate Employment Service for Military Retirees.—In 1970 the Department of Defense (DOD) began operating a nationwide computerized man-job matching employment service for military retirees, known as the Referral Program. A congressional committee report subsequently questioned the program's value since a similar program was proposed in the Department of Labor. Because DOD continued to operate the program despite the congressional reservations, we made a review to determine the costs and results of the program.

We found that, for the first year of operations, about 24,000 retirees—one-third of those eligible—had registered in the program and that only 212, or less than 1 percent of those registered, had been placed in jobs. Fewer than 1,600 employers had expressed interest in participating in the program, and only 105 had hired retirees through its services. The identifiable cost for

this first year of operations was approximately \$390,000, or about \$1,800 for each retiree placed.

We recommended that the Secretary of Defense consider discontinuing the Referral Program because it had been costly, had shown only limited accomplishments, and had duplicated the employment assistance provided by numerous other public and private agencies available to military retirees on a preferential basis.

In commenting on the report, DOD stated that it did not agree with the conclusions we had reached. However, in our opinion, the additional information included in DOD's comments did not show that the Referral Program should be continued. (Report to the Secretary of Defense, B-166843, Mar. 6, 1972)

209. Alcoholism Control Program for Military Personnel.—At the request of the Chairman, Subcommittee on Alcoholism and Narcotics, Senate Committee on Labor and Public Welfare, we sought to determine whether cost savings might be realized from a comprehensive alcoholism control program for military personnel. We concluded that substantial savings, as well as humanitarian benefits, could be realized from such a program.

We found that for each 1 percent reduction in the incidence of alcoholism, the potential gross savings could be about \$24 million annually. If the incidence is comparable to the estimated average 5 percent in the civilian work force, then the potential annual gross savings could amount to about \$120 million. We also found that the Department of Defense (DOD) has no complete, reliable data that shows the extent of alcoholism

in the Armed Forces. Negative attitudes and punitive statutes and regulations have resulted in hiding the problem. Many senior command and staff officers at military bases in the United States and overseas believed that the incidence of alcoholism among military personnel was negligible and, in any event, was lower than that among the civilian population. But others, closely involved with the problem, believed that the incidence was at least the same as that in the civilian work force.

Alcoholism rehabilitation programs had been formally established at some military installations we visited, but there was no DOD-wide alcoholism prevention and rehabilitation program and no DOD guidelines specifying uniform procedures to be followed by the military departments in treating the military alcoholic. As a result, the treatment given the military alcoholic at many bases was limited. However, DOD had recently established a task force to study all aspects of alcohol abuse among military personnel.

We recommended to the Secretary of Defense that he establish a comprehensive alcoholism control program for military personnel which would require that alcoholism be recognized as a treatable disease rather than as punishable misconduct, provide for educational programs, determine more precisely the extent of the problem, and make rehabilitative measures available to all military personnel. DOD indicated, in commenting on a draft of our report, that affirmative actions would be taken on our recommendation. (Report to the Subcommittee on Alcoholism and Narcotics, Senate Committee on Labor and Public Welfare, B-164031(2), Nov. 2, 1971)

OTHER GOVERNMENT ACTIVITIES

Civil Defense

210. Evaluation of the Civil Defense Program.—

In 1961 the civil defense program was revitalized to protect millions of people against radioactive fallout in case of a nuclear attack. The President recommended a long-range program to identify existing fallout shelters and to provide new ones and created the Office of Civil Defense (OCD) in the Office of the Secretary of Defense. In 1964 the Department of the Army assumed responsibility for civil defense and OCD.

Related program elements, such as warning and detection, complement the current civil defense program's principal goal to develop a nationwide fallout shelter system. There are, however, no programs (other than research) to protect people against chemical or biological weapons or the direct effects of nuclear explosions, such as blast, heat, and shock.

According to the Department of Defense (DOD), present fallout shelters would save 18 million to 30 million lives if there were a nuclear attack. Alternative combinations of additional fallout and blast protection, ranging in costs from \$400 million to \$8 billion for fiscal years 1970 to 1975, could save millions more lives. Appropriations for civil defense, however, have decreased.

OCD data indicates that, if current programs continue at present levels, up to one-half of the population will still lack standard fallout protection in 1975. Furthermore, available protection is unevenly dispersed. Major cities have 2.5 fallout shelter spaces per person, compared with less than 0.4 spaces per person outside major cities.

OCD has not used information regarding an enemy's likely targets in setting priorities for developing fallout shelters. It has followed a policy which generally regards all locations as equally vulnerable. Considering this program's limited funding, this approach is unrealistic.

OCD lacks the authority and funds to finance or subsidize shelter construction. It can only identify, license, mark, and stock available spaces. OCD has established

a minimum level of protection which must be met if it is to license, mark, and stock the shelter. When these shelters are unavailable, however, many lives could be saved and injuries reduced by using the best protection available even though it is below the standard. The Community Shelter Planning Program encourages people to use this protected space under the minimum standards.

We recommended that:

The Secretary of Defense set priorities in developing additional fallout shelter protection on the basis of targeting assumptions and the best available predictions of risk, to help insure that the limited financial resources are applied to areas most likely to need additional protection.

OCD stock the best available shelters regardless of protection rating, pending an overall assessment of area priorities.

The Secretary of Defense (1) justify to the Congress the role which civil defense plays in overall national security and (2) consider whether higher priority should be given to marking and stocking good shelter spaces already identified, considering the relatively low per capita cost of protection which these shelters provide.

DOD was aware that the civil defense program should be reevaluated and it expected to make broad policy decisions based on current administration studies. OCD hoped to further seek the cooperation of Government departments which provide financial assistance to construction programs for facilities, such as urban renewal and housing agency projects, which could provide vast quantities of fallout shelter space. It defended using the current fallout protection standard as a future planning objective but stated that it was applying the best available concept of shelter use in its current planning.

In view of (1) the imbalanced fallout protection, (2) the potential to expand protection by using best available space, (3) the civil defense program's limited progress in meeting its objectives, and (4) two recent special studies by the administration about civil de-

fense, appropriate committees of the Congress may wish to review the reports on these studies to use in considering any civil defense requirements. (Report to the Congress, B-133209, Oct. 26, 1971)

Manpower Utilization

211. Requirements for and Uses of Medical Professional Personnel in the Military Services.—The military departments spend more than \$2 billion annually for health care for servicemen and their dependents. More than 200,000 medical personnel, of whom more than 33,000 are professionals, provide this care. Because of the concern of the Congress with the national shortage of physicians, dentists, and nurses, we reviewed the services' use of their professional medical resources. We found that many medical officers were being used to fill staff and administrative positions in the various Washington headquarters and intermediate commands, where, in many cases, their professional abilities were being used only part time.

We also found that there was no uniform method of establishing manpower requirements for medical personnel in the three services. Imbalances existed in the number of medical professionals authorized and assigned in each service and in certain medical specialties. Although the military departments said that retention rates of medical personnel were a serious problem, they had not set goals for the numbers and types of experienced professionals that should be retained. These and other problems in the health-care field had been independently studied by the services but, in most cases, no coordinated effort had been made to solve mutual problems.

Our recommendations to the Secretary of Defense concerning use of medical personnel as administrators included assigning nonmedical personnel to staff administrative and management positions at the headquarters levels and using professionals as consultants for making medical decisions, placing Medical Service Corps officers with master's degrees in hospital administration in positions as hospital administrators, and expanding the paraprofessional programs for physician assistants and ancillary and support personnel. Regarding manpower requirements, we recommended that the Department of Defense (1) develop and direct the use of uniform staffing criteria for fixed medical facilities, supported by workload-related standards consistently applied by all the services, (2) develop a system for assigning medical specialists on a regional or area

basis, and (3) direct the services to identify and justify professional medical personnel requirements and to develop retention goals and career programs.

Other recommendations included implementing recent contractors' recommendations to improve productivity of dental health personnel and instituting controls over studies of medical problems shared by all the services to minimize overlapping and duplication. DOD generally agreed with our findings, conclusions, and recommendations and advised us that it had taken actions to implement many of the recommendations. (Report to the Congress, B-169556, Dec. 16, 1971)

212. Extensive Use of Military Personnel in Civilian-Type Positions.—Department of Defense (DOD) policy requires that civilians will be used to fill all positions not requiring military personnel for reasons of law, training, security, discipline, rotation, combat readiness, or a need for a military background to successfully perform assigned duties. If this policy is followed, the military departments should be able to maximize the use of military personnel in military positions and thereby hold military manpower requirements to the minimum needed to safeguard the national security. This, in turn, would aid in achieving an all-volunteer force. We reviewed assignment practices within the services to determine whether this DOD policy was being implemented.

At the military installations where we made the review, military personnel were being used extensively in civilian positions contrary to DOD policy. Although the services recognized the benefits and importance of carrying out the policy, according to installation commanders, it had not been followed consistently because of budgetary restrictions and civilian personnel ceilings. In our opinion a major contributing cause was the military departments' failure to determine the type and number of positions which should be filled by military personnel and which by civilians. Until military department headquarters make these determinations and provide implementing guidelines to subordinate commands (1) it is likely that installation commanders will continue to make subjective decisions concerning assignments and (2) realistic estimates of the numbers of military and civilian personnel required to fulfill the departments' missions cannot be prepared and included in future budget requests.

Since military and civilian personnel costs are funded in separate appropriations, it is not reasonable to expect the Congress to appropriate funds for these personnel on a basis consistent with DOD's policy, un-

less the budget requests are based on estimates prepared within the framework of that policy. Moreover, since civilian personnel ceilings usually are established by the Office of Management and Budget, DOD must provide that agency with realistic estimates of the number of military positions that can be converted to civilian positions and with convincing justification of the number of positions needed to accomplish its mission.

We recommended to the Secretary of Defense that he require the military departments to review personnel requirements and to determine whether the positions should be filled by military or civilian personnel. Findings of the review should be formalized in specific guidelines for use by subordinate commands and installations. Personnel survey teams, which periodically evaluate the management and utilization of personnel at military installations, should review compliance with the DOD policy and the guidelines. We also recommended that, if the Congress wishes to permit early action on the substitution of civilians for an equivalent or greater number of military personnel, DOD be authorized to transfer funds from fiscal year 1973 military personnel appropriations to the appropriation from which civilians are compensated. (Report to the Congress, B-146890, Mar. 20, 1972)

213. In-House Performance Versus Contractor Performance of Support Activities.—The Department of Defense spends about \$6.3 billion annually to provide military installations with commercial and industrial services and products, such as grounds and building maintenance, food service, transportation, and ammunition. About 82 percent of these expenditures are for products or services produced by Government employees. The Office of Management and Budget requires that these products or services be obtained from private contractors unless an in-house source of supply is necessitated by economy, military readiness, or certain other exceptions. An agency review of each in-house commercial or industrial activity is required at least once every 3 years to insure that its continuance is justified. The reviews should include cost studies when in-house performance is based on economy.

We reported to the Congress that the reviews by the military departments of in-house commercial/industrial activities were not effective because they were not performed as required. Except in a few cases where cost studies had been made, there were no factual explanations included in the review reports supporting local recommendations that in-house performance of

activities be continued. The few cost studies made showed that savings could be realized by converting activities from existing in-house performance to contract performance, or vice versa. We believe that these studies are indicative of significant potential savings available in activities not yet reviewed. Although the military departments should have completed the first 3-year cycle of reviews by June 30, 1968, they were all far behind schedule. As of June 1971 many activities had not been reviewed for the first time. Although it is required that all activities subject to review should be included on an inventory list, we found that certain activities subject to review were not on the lists, while others, for which reviews were not mandatory, were included. In addition, we found that Army installations had begun new in-house activities without first obtaining required department-level approval.

We recommended to the Secretary of Defense a number of corrective measures to improve the management effectiveness of the activities discussed in our report. The Department of Defense has advised us that it has implemented most of our recommendations. (Report to the Congress, B-158685, Mar. 17, 1972)

214. Assignment of Crews to Navy Ships Under Construction.—The Navy assigns nucleus or skeleton crews for temporary duty periods up to 6 months to ships under construction to insure delivery of ships with trained, well-organized crews. Over 2,800 enlisted men (representing 980 man-years and costing about \$6.2 million) were assigned to such duty for 43 ships during fiscal year 1970. Our review of crew assignments for five of these ships showed that the Navy had not evaluated work requirements to determine the type of personnel needed in these crews and that the number of personnel assigned was based on personal judgment and precedent, rather than on actual need. We also found that crewmembers had been sent to construction sites before they were needed and had been assigned tasks that were already the responsibilities of other Navy organizations. The Navy concurred in our recommendations that the composition and duration of crew assignments needed to perform essential functions be evaluated and that only such personnel as actually needed be assigned to nucleus crews, and then only for the length of time these services were actually necessary. (Report to the Congress, B-172632, Aug. 9, 1971)

215. Increase in Unsuitability Discharges of Marine Corps Recruits.—During the 12 years prior

to fiscal year 1970, only 1 to 4 percent of the men entering the Marine Corps received unsuitability discharges before completing recruit training. Beginning in fiscal year 1970, the discharge rate started to rise sharply and averaged more than 20 percent during the second half of the year. We made a review to determine (1) why the discharge rate had increased, (2) what steps had been taken, and (3) whether additional measures could be taken to reduce the discharge rate to traditional levels.

We found that over 11,100, or about 22 percent, of the male recruits enlisted in the Corps between December 1969 and September 1970 were discharged for reasons of unsuitability. More than \$15 million was spent to recruit, train, and return these men to their homes—an expenditure from which the Government received little or no benefit.

The increase in unsuitability discharges began after the Corps embarked on a program to increase the level of professionalism of its troops to that of the pre-Vietnam level. This program was to be accomplished, in part, by enlisting only those men who met the highest standards and by tightening the requirements for successful completion of recruit training.

The primary causes of the increase in the unsuitability discharge rate were the failure to determine beforehand how the professionalism program was to be carried out and the failure to provide guidance on how to implement the program at recruiting stations and recruit training depots. Recruiters continued to use the same enlistment standards in effect before the program began and, therefore, recruit quality did not improve. Training personnel, on the other hand, applied existing training standards more stringently and subjectively. Consequently, the number of recruits who were unable to successfully complete the training increased sharply.

Although the Marine Corps initiated a number of actions (such as literacy tests and remedial training) to reduce the unsuitability discharge rate, the rate was still abnormally high at the time of our review, indicating that, up to that time, these actions had not been effective. We recommended that, before initiating similar major programs, the Marine Corps should insure that necessary advance planning is carried out. This planning should include coordination among participating groups and dissemination to those groups of specific guidance needed to carry out the programs effectively. The Navy agreed with our findings and advised us that, after our review was completed, there was

a marked reduction in the unsuitability discharge rate. (Report to the Congress, B-164088, Feb. 15, 1972)

216. Readiness of Strategic Army Forces.—We reviewed the Strategic Army Forces (STRAF), composed of 4 $\frac{1}{3}$ divisions that are to be constantly available to support national commitments. Two prior reports in a series on the readiness of key commands within the general-purpose forces (B-146964, Oct. 6, 1969, and June 30, 1970) pertained to the 7th Army units in Europe and the Navy's Atlantic and 6th Fleets, respectively.

It would be difficult for STRAF units to deploy quickly because many units are not combat ready. Considerable maintenance support would be required to make the essential combat and combat support equipment fully ready. In the units we reviewed, more than one-third of such equipment could not perform its primary mission.

Battalion and division levels did not have adequate supply support to promptly repair equipment. In the three divisions reviewed:

No stock was available for about 25 percent of the authorized repair parts.

Requisitions for repair parts were not being prepared promptly.

No followup actions were being taken on unfilled requisitions.

Other factors beyond the divisions' control, such as high turnover of personnel, lack of qualified personnel, and funding restrictions, prevented them from achieving and maintaining a high state of readiness.

Readiness reports did not always contain accurate information to permit command officials at division levels and at the higher echelons to adequately evaluate the divisions' readiness.

Since the STRAF divisions' manpower problems are not likely to be remedied in the near future, the Army should consider alternative means to protect its substantial investment in the equipment assigned to STRAF units and consider whether restructuring STRAF would help. Also, the criteria used in preparing readiness reports should be revised and the divisions should more closely supervise requisitions.

The Army generally concurred with our evaluations and many of our suggestions and recommendations. It did not analyze, however, the costs or benefits of alternative plans to protect equipment or restructure STRAF. We recommended that it study such matters. (Report to the Congress, B-146896, May 8, 1972)

Automatic Data Processing Systems

217. Acquisition and Use of Postal Source Data System.—In 1966 the Post Office Department began a multimillion dollar program to install a nationwide automated data collection and processing system, the Postal Source Data System (PSDS), which was to provide postal management with more timely and accurate information on employee time and attendance, labor hour distribution, and mail volumes processed than was possible under manual data systems. PSDS was to be installed initially in 75 of the largest post offices but the Department later made plans to install PSDS in 35 other large post offices.

The Department estimated in 1966 that (1) the total acquisition cost of PSDS would be \$30.2 million and (2) it would be fully operational in the initial 75 post offices by November 1968. The Department predicted that savings would average \$7.2 million annually, during each of the first 5 years of PSDS operations.

Despite the lack of sufficient data on the feasibility of the proposed system and the types and quantities of equipment needed and contrary to the recommendation of its own study groups, the Department awarded a \$22.7 million contract for the purchase and nationwide installation of equipment for PSDS. The premature award of the contract resulted in acquisition of unneeded electronic data collection equipment costing \$1.2 million and of other equipment that was not used for substantial periods of time.

As of November 20, 1970, a fully operational system had not been implemented at nine of the initial 75 post offices, including two of the largest in the country—New York, N.Y., and Washington, D.C. PSDS acquisition costs at the initial 75 offices had reached \$44.5 million by February 1971, an increase of \$14.3 million over the original estimate.

We believed that the predicted savings would not be realized. Annual employee costs, as of October 1970, for authorized PSDS positions had exceeded the Department's original estimate of \$5.5 million by at least \$14.1 million. Increased costs also resulted from diversion of other postal employees from their regular duties to operate the system. Other annual operational costs, for such items as supplies and services, maintenance, and amortization of equipment, had exceeded the Department's original estimate of \$9.1 million by at least \$7.9 million.

The reports generated by PSDS at the time of our review were less timely, less meaningful, and less accurate than reports available prior to installation of

PSDS and therefore were less useful to postal management.

Despite the many deficiencies in the system, the Department continued expanding PSDS to additional post offices.

We recommended that the Postmaster General (1) suspend the expansion program pending a comprehensive evaluation and cost-benefit study of PSDS and (2) curtail the procurement of equipment and software for the system and keep operational costs to a minimum pending the outcome of the evaluation and study.

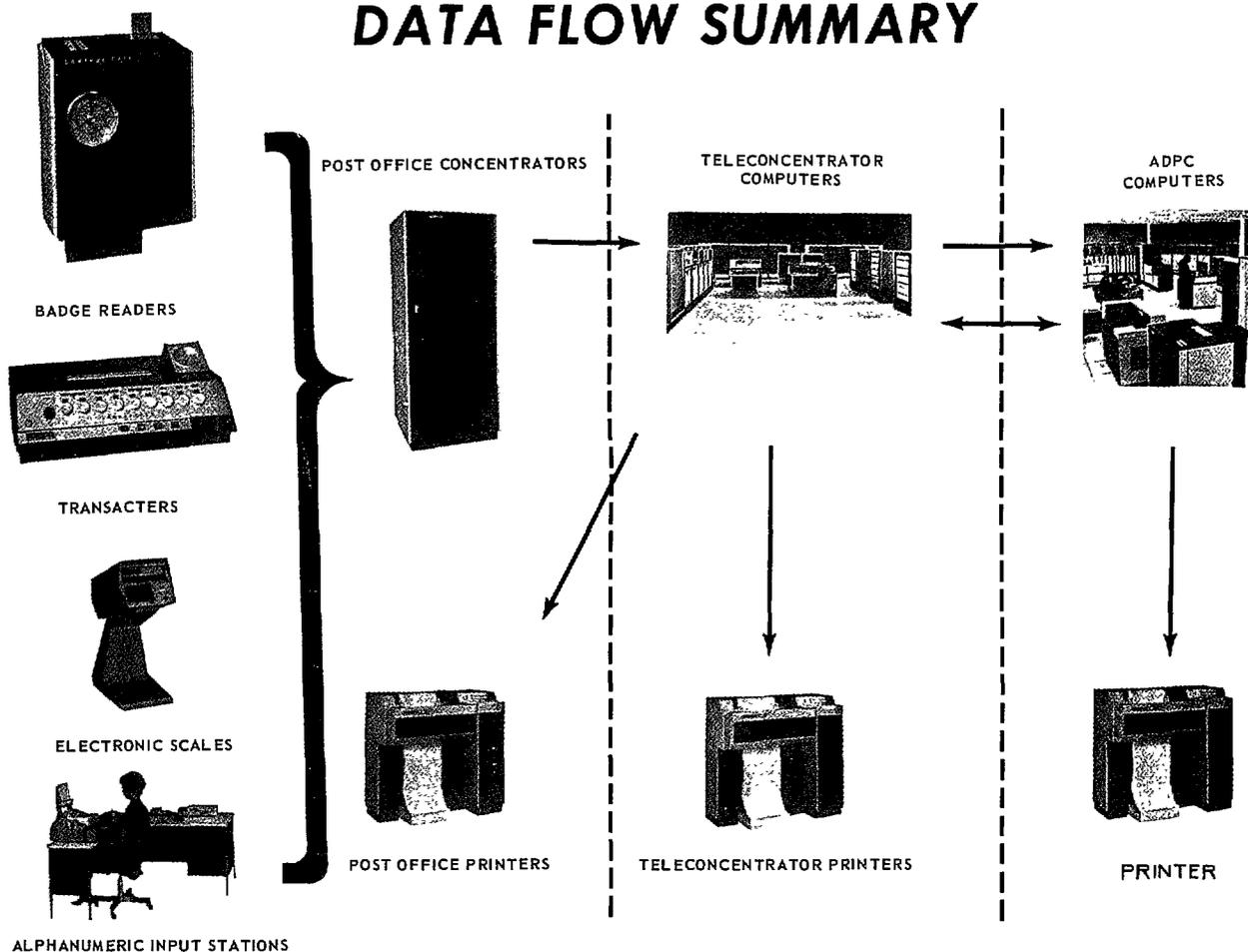
The Postmaster General concurred generally with our recommendation that further expansion of PSDS be suspended pending a comprehensive evaluation and cost-benefit study of the system. He stated, however, that expansion of PSDS to 110 post offices would continue because the equipment had been purchased and the preparatory work at the offices was underway. We believed that it was neither a desirable nor a judicious use of funds to expand the system to 110 offices. Future expansion of PSDS, beyond the 110 offices, would depend on the outcome of a major review of the Service's management information needs which was planned for completion in late 1972. (Report to the Congress, B-114874, July 1, 1971)

218. Development of the Army's Combat Service Support System.—The Army's Combat Service Support System (CS3) is a mobile, computer-based system designed to increase the readiness of combat units by improving the efficiency and responsiveness of combat support at the division, corps, and depot levels. In two prior reports to the House Committee on Appropriations (Mar. 18, 1970, and May 7, 1971), we concluded that the Army was not in a position to extend the system beyond the prototype stage.

During our subsequent review, we found that (1) the CS3 subsystems were being modified or replaced, (2) compatibility between the CS3 and two other major computer-based systems had not been adequately demonstrated, (3) test results had not satisfied certain objectives, and (4) the cost-effectiveness analysis of the system was questionable. Although the Army has continued its efforts to correct deficiencies in the system, additional testing and evaluation are still necessary before it can be deployed.

In March 1972 the Army revised deployment plans to provide for testing the changes contemplated in the personnel, maintenance, and supply subsystems and testing the new teleprocessing features before deployment. The Army is now following a better deployment

POSTAL SOURCE DATA SYSTEM DATA FLOW SUMMARY



approach; however, the plan to deploy to the division level in March 1973 appears to be optimistic in view of the Army's past performance in developing this and other major computer-based systems.

We suggested that firm plans for deployment be deferred until the Army has demonstrated that the system is workable and cost effective. We intend to continue monitoring the testing and development of the system and to keep the House Appropriations Committee informed of its progress. (Report to the Chairman, House Committee on Appropriations, B-163074, June 2, 1972)

219. Development of Base Operating Information System.—The Army's Base Operating Information System is an automated management information system consisting of three subsystems: finance, supply,

and personnel. It is intended to improve the readiness of Army units, to be responsive to the informational requirements of all units, and to provide commands with accurate and timely data.

We issued a report to the Secretary of Defense in August 1971 illustrating numerous deficiencies in the system and the Army's inability to correct them on a timely basis. We concluded that the system should not be extended until the Army had corrected the deficiencies and had clearly demonstrated that the system could function efficiently and effectively. A copy of this report was furnished to the House Committee on Appropriations, and it (1) recommended that further extension of the system be deferred and (2) made the Office of the Secretary of Defense (OSD) responsible for insuring that improvements be made. OSD advised us that the Army would not resume extension un-

til the problems addressed in our report had been resolved.

Although our most recent followup revealed a large number of operating problems, a great deal of command emphasis and high-level attention has been brought to bear on insuring that problems will be corrected and that the system will fulfill the operational needs of the Army. We concluded that the system could be extended further if this attention was continued and the Army and OSD assured the Committee that the problems had been resolved. (Report to the Chairman, House Committee on Appropriations, B-163074, Apr. 11, 1972)

220. Rehabilitating Instrumentation Tape.—Instrumentation tape, available through contracts awarded by the General Services Administration (GSA), is a type of magnetic tape used to record instrumentation data and is commonly used in telemetering and scientific projects. The Government pays about \$10 million annually for this tape.

The National Aeronautics and Space Administration and the National Security Agency have established programs to rehabilitate and prolong the useful life of instrumentation tape. Although these agencies were using the rehabilitated tape in critical applications, the 11 installations included in our review used only new tape for recording critical data. Rehabilitating the quantity of tape procured by these installations during fiscal year 1969 could have saved \$890,000.

Some agencies have recognized the potential benefits of these rehabilitation programs, but certain installations may not use enough tape to warrant establishing these programs. We recommended that the Administrator of General Services enter into a Government-wide rehabilitation program and promote its use.

GSA agreed with our recommendations and planned to study the technical and logistical requirements and other aspects of a Government-wide program. If the study showed that such a program were feasible, it would initiate the program and would notify the agencies of the potential savings. (Report to the Congress, B-164392, Aug. 23, 1971)

221. The Navy Integrated Command/Management Information System.—This system is a general approach for improving and changing the existing information systems of the Chief of Naval Operations (CNO) until the systems become more economical, integrated, and effective.

Progress in developing the system has been slow since its inception partly because of staffing problems. Also, the Navy has not created a master plan for the system although a study committee and CNO emphasized that need. We believe that an approved plan is needed to define the desired system structure and to provide a model for the automated systems. We suggested that the Chairman, House Committee on Appropriations, explore the need for a master plan with the Secretary of the Navy.

We noted that the system originally was to be developed to comply with a Department of the Navy long-range plan to integrate the Navy and Marine Corps information systems into a Navy-wide information system. That plan was not being pursued, however, because (1) top management would not support it, (2) there was a lack of qualified staffing, (3) management could not define its total information needs, and (4) the consensus was that the Navy was not ready for such finite planning.

We believe that it would be desirable for the single CNO system and systems not under CNO to be guided by a Navy long-range plan. Such a plan would help insure that the systems (1) are compatible with each other, (2) are standardized, integrated, or interfaced when appropriate, and (3) serve all managers including those within the Office of the Secretary of the Navy.

The Secretary should reevaluate the long-range plan and, if it no longer applies or is unworkable, he should consider a new plan which would include the Department's goals and objectives for its information and data systems. Also, the Chairman should discuss this matter with the Secretary of the Navy. (Report to the Chairman, House Committee on Appropriations, B-163074, Sept. 10, 1971)

Government Claims

222. Review of the Administration of Debt and Payment Claims.—As a part of our continuing program to review agency instructions, procedures, and operations in claims against the Government (payment claims) and claims by the Government (debt claims), we made reviews at the General Services Administration (GSA) central office and Region 3, both in Washington, D.C.; the Federal Supply Service, Procurement Operations Division, Arlington, Va.; and at Regions 9 and 10 located in San Francisco, Calif., and Auburn, Wash., respectively.

Instructions relating to debt claims were consistent, for the most part, with the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies (GAO Manual), the Federal Claims Collection Act of 1966, and the Joint Standards issued by the Comptroller General and the Attorney General of the United States. We pointed out that modifications should be made to more clearly reflect the intent of these guidelines.

To improve its debt collection activities, we recommended that (1) followup collection letters contain more aggressive language and (2) controls be established to insure timely (a) processing of demand letters, (b) placing the debtor's name on the Army Hold-Up List, and (c) initiating action for internal offset. There should also be a closer liaison between sections in GSA and its debt collection activities.

Some claims had been prematurely terminated without the necessary action having been taken. The Federal Claims Collection Act and the Joint Standards set out the criteria under which an agency may cease collection action on debts owed to the Government. Until such criteria are met, there is no authority to stop collection operations. We also found that the feasibility of compromise was not explored in appropriate cases.

We were satisfied that determinations of actions taken on payment claims were made at a responsible level but found that the Army Hold-Up List was not being used to make offsets against amounts payable to contractors. (Report to the Deputy Administrator, GSA, B-117604(11), Aug. 31, 1971)

223. Administration of Debt and Payment Claims.—We made reviews at the U.S. Coast Guard Headquarters in Washington, D.C., and at the 8th District in New Orleans, La., to evaluate the effectiveness of operations in both the payment and debt collection areas.

The Coast Guard Comptroller's Manual which provides general procedures relating to claims against the Coast Guard appeared to be generally adequate and in conformity with the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies (GAO Manual). We found that decisions were made at a responsible level as to whether (1) a claim was doubtful and should be transmitted here for settlement or (2) a claim required an authoritative decision to serve as a precedent and should therefore be submitted to the Comptroller General.

Instructions relating to debt claims were consistent, for the most part, with the GAO Manual and the Joint

Standards issued by the Comptroller General and the Attorney General, but modifications were necessary to reflect more clearly the intent of these guidelines.

We noted several areas in which collection operations could be improved by (1) processing demand letters more promptly, (2) making demand letters more forceful, (3) attempting to increase the size of installment payments, (4) obtaining financial information about debtors, (5) exploring the feasibility of compromise, (6) using available sources to locate debtors, and (7) terminating claims only after all required collection actions had been taken.

Collection actions on a number of admiralty claims of \$400 or more were terminated on the basis that the costs of collection would have exceeded the amounts recovered. It was the opinion of the Coast Guard that it had the right not to refer a claim to the Department of Justice if it believed that the cost of collection would exceed the amount recovered.

An official in the Admiralty and Shipping Section, Civil Division, Department of Justice, informed us that generally the cost of collecting was not a factor as the actions were against vessels which could be seized and that the Department of Justice could collect penalties of \$500 to \$2,500 for damages to aids to navigation. The Department of Justice is interested in collecting these debts because of the perils to shipping and because of a desire to avoid liability suits against the Government. We suggested that this matter be resolved between the Coast Guard and the Department of Justice and that we be advised of its resolution.

In New Orleans we found that improved procedures were needed to insure that the values of claims referred to the U.S. attorney for collection are properly recorded in the accounts and that the bases for terminating collection actions are adequately documented in the case files. Penalties were not recorded as receivables at the time notices of violations were issued because they generally were dismissed with letters of warning, remitted in full, or mitigated to amounts substantially less than the statutory penalties. Cases referred to the U.S. attorney are in amounts reflecting the assessed penalties. Thus, those receivables which were recorded in the mitigated amounts were not adjusted to reflect the increased amounts of the claims forwarded to the U.S. attorney.

The Coast Guard agreed that the full value of all claims should be recorded. We recommended that procedures be revised to record claims in statutory amounts, especially those penalty claims which are referred to the U.S. attorney for collection. (Report to

the Commandant, U.S. Coast Guard, B-117604(12), Dec. 20, 1971)

224. Office of Education Should Improve Procedures To Recover Defaulted Loans Under the Guaranteed Student Loan Program.—The Guaranteed Student Loan Program was established pursuant to title IV, part B, of the Higher Education Act of 1965. This act, which is administered by the Office of Education (OE), Department of Health, Education, and Welfare (HEW), enables students attending colleges or vocational schools to finance part of their education by borrowing. A student may obtain a loan directly from a bank, credit union, savings and loan association, or any other participating lender. In case of default, the Government is liable for 100 percent of the unpaid balance of the principal amount on any loan which it guarantees. Because of the potential liability of the Government for these loans, we evaluated OE's debt-collection operations and its efforts to recover debts arising from student loan defaults.

As of January 31, 1971, over 1 million loans amounting to nearly \$1 billion had been guaranteed under the Program. Of these loans, 5,920 were in default, and by September 30, 1971, the number of loans in default had almost tripled.

In our report to the Congress, we pointed out that the resources allotted to the collection efforts at OE were inadequate in view of the rapid buildup of defaulted loans. No collection action had been taken on almost half of the defaulted loans. There were also several areas in which OE's collection activities could be improved.

We recommended that, to the maximum extent practicable, a national refund policy be established in the Program. This policy should set up uniform conditions and procedures under which tuition refunds would be made by educational institutions, and it should require specifically that any refunds due, regardless of the reason, be applied first to reduce the outstanding loan indebtedness or to reimburse the Government in the event the Government previously had paid the lender under its guarantee obligation.

HEW commented that it was considering the possibility of formulating a refund policy which would be fair to the student, the lender, and OE. It hoped to resolve in the near future questions involving the establishment and enforcement of a national refund policy. (Report to the Congress, B-117604(7), Dec. 30, 1971)

225. Review of Title I Insured Loans at the Federal Housing Administration.—To determine whether collection operations and procedures of the Federal Housing Administration (FHA), Department of Housing and Urban Development, complied with the Federal Claims Collection Act of 1966 and the implementing Joint Standards issued by the Comptroller General and the Attorney General, we made reviews in the central office in Washington, D.C., and the Insuring Office in Hempstead, N.Y.

We were concerned with title I insured loans. If a loan becomes uncollectible, a lender may file claim with FHA for 90 percent of the outstanding balance, at which time the United States becomes subrogated to the rights of the lender.

We found that collection activities in the central office were promptly handled and generally complied with the act and the Standards. Although FHA did not use or request social security numbers, we were informed that this information would be requested on all applications. FHA also instructed its title I representatives in the field to obtain social security numbers for accounts which are charged to them.

Delays in processing debt cases in the Hempstead Insuring Office were not serious and appeared to be attributable to the heavy caseloads they carried.

We noted that the overall default rate of 1.56 (percentage of the number of loans defaulted to the number of loans issued) experienced on FHA-insured loans in the Hempstead area was generally lower than that of commercial institutions or similar loans. (Report to the Assistant Secretary for Housing Production and Mortgage Credit and Federal Housing Commissioner, B-117604(13), Jan. 21, 1972)

226. Debt Collection Operations at the National Oceanic and Atmospheric Administration.—

We reviewed debt collection operations in connection with overpayments of pay made to current and former employees of the National Oceanic and Atmospheric Administration (NOAA), Department of Commerce, Rockville, Md. We included in our review the accounts of employees who transferred to international organizations in accordance with chapter 35, subchapter IV, title 5 of the United States Code. These employees may arrange to retain coverage, rights, and benefits in the department or agency from which they transfer.

By specific agreement regular quarterly billings are issued to transferred employees in sufficient time to insure that remittances are received for inclusion in the voucher transmitting payment to such fund accounts as

Civil Service Retirement and Disability, Federal Employees Life Insurance, and Federal Employees Health Benefits.

In our review of the bills issued to these transferred employees, we found cases in which the agreed upon amounts had not been received. When this situation was brought to the attention of NOAA officials, action was taken to collect the delinquent accounts.

Administrative procedures and controls were generally effective but we offered suggestions for improving debt collection operations. (Letter report to Chief, Finance Division, NOAA, Apr. 24, 1972)

Training and Education of Military and Civilian Personnel

227. Establishing Duplicate Training Capabilities.—Department of Defense (DOD) directives provide that (1) the training facilities of a military department be utilized to the maximum extent in meeting the requirements of the other military services and (2) duplication be eliminated or avoided when practicable and when economically and efficiently warranted. We found that the Air Force had recently discontinued using six common skills training courses offered by other services and had established similar courses of its own. These actions were taken even though the Air Force considered the training provided by the other services to be adequate and the one-time costs of establishing the new courses would be nearly \$2 million and annual recurring costs would be at least \$23,000. In addition to those six courses, the Air Force had established three other courses formerly conducted by other services, had approved the establishment of eight others, and was considering three more.

We believe that the costs versus the benefits expected to be received by DOD should be weighed fully before establishing the new training courses, since they duplicate training capabilities already available from other services. Therefore, in our report on this matter, we recommended that the Secretary of Defense direct the Air Force to advise him, on a priority basis, of the specifics and rationale for establishing any new training courses which were being provided by other services. (Report to the Secretary of Defense, B-175773, May 23, 1972)

228. Graduate Education Programs for Civilian Employees of the Department of Defense.—During

fiscal year 1971 about 1,000 civilian employees of the Department of Defense (DOD) participated in long-term, full-time training and education programs. Such training and education programs are usually graduate-level courses offered by colleges and universities or comparable Federal institutions in management, scientific, engineering, or technical fields. The costs to the Government for salaries, tuition, books, travel, and other expenses for employees enrolled at State and private institutions during the year were more than \$13 million.

We reported to the Congress that the programs' objectives were not being achieved as effectively as possible. This was due, primarily, to management's failure to fully and effectively implement existing DOD and military department regulations and, secondarily, to the minor deficiencies of those regulations. Serious inadequacies existed in the program planning practices of local management in determining training needs, selecting participating employees and institutions, and using the employees' new skills. Evaluation and review at all management levels of training and education programs were inadequate to measure realistically how well such programs were achieving their objectives. Centrally pooled funds made available at the department level in support of the local installation programs were being used, in some instances, for unrelated purposes.

We recommended to the Secretary of Defense several means whereby controls over the programs could be improved to insure more effective and timely accomplishment of objectives. DOD and the Civil Service Commission agreed with most of our recommendations and corrective actions have been initiated in those areas where needed. (Report to the Congress, B-70896, June 30, 1972)

Communications Systems

229. Unrecovered Costs for Launch Services Provided to Comsat.—The Communications Satellite Corporation (Comsat) and the National Aeronautics and Space Administration (NASA) have entered into agreements whereby NASA supplies launch services to place communications satellites in orbit. Some of the services NASA has agreed to furnish are provided by the Air Force and billed to Comsat through NASA. At the request of Senator Mike Gravel, we evaluated the Air Force charges to Comsat. We did not evaluate NASA's charges to Comsat.

SECTION

Beginning with the first communications satellite (Early Bird) in 1965, there has been controversy over the proper amounts and types of costs to be billed by the Air Force. Although there were no formal agreements between the Air Force and NASA, a series of letters and memos resulted in an informal agreement not to bill Comsat on a full-user-charges basis. Our review showed that the Air Force did not charge Comsat for over \$6 million of launch service costs through fiscal year 1969.

Because the parties have agreed upon the method used to determine costs chargeable to Comsat for the Intelsat I, II, and III series of launches, we believe that no legal basis now exists for the Air Force to change the method unilaterally. Certain costs of the Intelsat III launches were chargeable to Comsat under the method agreed upon but were not charged. Such costs—GAO has identified \$31,000—should be charged to and recovered from Comsat.

For the Intelsat IV series of launches, a new agreement was executed. Although the agreement is essentially the same as before, it allows the method of charging costs to Comsat to be changed through negotiation. We recommended that the Air Force determine the charges to Comsat for the Intelsat IV series on a full-user-charges basis, including a provision for depreciation, and that NASA negotiate with Comsat to use such costs in its billings for all Intelsat IV launches.

The Air Force has directed that a revised method of accumulating costs for launch services to non-Government organizations be implemented so that full-user-charges could be determined on an actual cost basis. Subsequently, the Air Force advised us that it would hold meetings with NASA to agree on billing procedures for launch services to Comsat and that it would fully consider our views. (Report to the Congress, B-168707, Oct. 8, 1971)

230. Elimination of Unnecessary Telephone Equipment.—The General Services Administration (GSA) establishes standards for telephone equipment used by civil agencies. The 16 civil agency installations which we reviewed did not comply with these standards.

Since each of the installations had installed excessive or sophisticated equipment, we proposed reducing the number of call directors, reducing or reallocating primary and extension lines, and removing or replacing other equipment. Such changes would not impair telephone service at these installations. Our proposals were

estimated to save 18 percent of the \$409,700 in telephone equipment and services costs incurred annually at the 16 installations.

We suggested, and the Office of Management and Budget and GSA agreed, that surveys be conducted which would insure compliance with GSA standards. In January 1972 GSA amended the Federal Property Management Regulations to require civil agencies (1) to periodically survey installed telephone equipment and (2) to furnish GSA with certifications that the surveys have been conducted. The first survey was to be accomplished by June 30, 1972, and was to be followed by annual surveys. (Report to the Congress, B-146893, Sept. 9, 1971)

231. Benefits from Centralized Management of Leasing Communications Service.—DOD, which spends about \$250 million annually for leased communication services in the United States, established the Defense Communications System—a worldwide, long-distance, Government owned and leased system—and the Defense Communications Agency to manage it. It has not established, however, a complete inventory of its communications resources. Also, usage information is not always available and the information which does exist is not always reliable. Further, use of communications systems does not always indicate the purpose for new requirements.

Because the offices responsible for reviewing new requirements do not have complete information on existing systems, they cannot evaluate new requirements or existing resources from a comprehensive systemwide viewpoint. Generally, these offices can recommend disapproval or alternative means to provide a service but have no directive authority. Reevaluations of the need for existing services, if made, are performed by the users of the service.

We proposed that the Secretary of Defense study:

The feasibility of a centralized DOD activity with authority and responsibility to select the means of providing new service after the appropriate levels have approved its need. The cost of a centralized validation office should be compared with the cost of the dispersed functions now performed.

Providing the centralized activity resources, including a complete inventory of communications facilities (or, as an alternative, access to such information) and data on their traffic volume and purposes.

Assigning the activity responsibility and authority for controlling the scheduling and for monitoring the qualitative aspects of the periodic reevaluations of existing services and for determining whether such services could be provided more economically, but with acceptable effectiveness, by other means, particularly where common-user facilities are available.

DOD advised us that it examined its policies and procedures in consonance with its objectives and the studies referred to above and concluded that a centralized authority, per se, would not necessarily resolve all leased telecommunications management problems and in fact might create new problems. DOD considered it more appropriate to deal with general problems through present management arrangements together with more effective action by the military departments. The Joint Chiefs of Staff were directed to develop standard and timely review procedures to reevaluate leased communications and a standard data base to provide accurate inventory data and increased cost visibility. Also, certain terminals, circuits, and portions of networks were eliminated which resulted in saving about \$120,000 annually. (Report to the Secretary of Defense, B-169857, Dec. 22, 1971)

Property Management

232. Buying Spare Parts for Initial Support of New Aircraft.—The Air Force spends hundreds of millions of dollars annually to obtain spare parts needed to support new aircraft during initial operation. This support, known as initial provisioning, includes spares and repair parts ranging from bolts and resistors costing pennies to wing assemblies and electronic modules costing thousands of dollars. We selected the F-111 aircraft for evaluating the policies and procedures under which initial provisioning was carried out because the program was well under way at the time we began our review.

The Air Force spent too much too soon to buy many F-111 spare parts which were not needed during the initial support and which may never be needed and subsequently may be scrapped. This occurred because of a management system which assumed deliveries of the aircraft would be made on schedule and which was not sufficiently flexible to permit timely changes in the program for initial provisioning. The system committed the Air Force to buy large quantities of spare parts for aircraft which may not be delivered or which may be de-

livered long after originally scheduled. Furthermore, because of numerous changes in design which invariably occur in developing and producing military aircraft, many of the spare parts rapidly become obsolete.

The lack of flexibility in the initial provisioning program for the F-111 aircraft resulted in:

Buying about \$116 million worth of spare parts before they were needed. Spare parts worth \$9.6 million had already been declared excess.

Buying substantial quantities of spare parts several times even though data available to the Air Force showed that there was no current need for these parts.

These problems were compounded because the Air Force had committed itself early in the program to buy all the spares at a markup from the prime contractor rather than directly from the manufacturers. The Air Force had not evaluated the trade-off between the markup and the value of the service provided by the prime contractor. We estimated that the markup was about \$56 million on \$291 million worth of spare parts manufactured by subcontractors.

In response to our recommendations, in which it generally concurred, the Air Force said:

It would revise its policies and guidelines for determining materiel requirements to emphasize that initial provisioning applied to short-term deliveries.

It would provide a schedule showing realistic projected aircraft deliveries to the user when slippages were forecast.

Air Force activities which computed requirements had been instructed to adjust estimated demand rates as appropriate for new items and the Department of Defense had studied this matter.

Actions were currently being evaluated which should permit expanding competitive procurements from other than the prime contractor and a new system would be developed and tested.

Current weapons systems audits and those planned by the Air Force Audit Agency would evaluate basic provisioning concepts, policies, and practices.

(Report to the Congress, B-133396, Jan. 31, 1972)

233. Initial Support Stocks for Navy Ships.—Much of the backup equipment and spare parts which cost the Navy millions of dollars annually as initial support for shipboard equipment is seldom, if ever, used. These quantities could be reduced significantly

without impairing fleet readiness and thus result in savings in inventory investment and maintenance costs.

We proposed that the Secretary of the Navy:

Redefine the policies for acquiring insurance items—i.e., those for which a repetitive demand is not anticipated—so that only one such item is obtained.

Reevaluate the policy of obtaining both complete equipment and spare parts to support equipment installed on ships.

Eliminate the separate determination of requirements for depot and tender stocks to support ballistic missile submarines.

Direct the Naval Audit Service to broaden its audit coverage in the provisioning area.

The Navy agreed that it should attempt to solve problems concerning its investment in repair parts. Although it did not concur in certain of our proposals, it cited a number of actions that had been taken, or which were being taken on the problem areas noted. (Report to the Congress, B-133058, June 28, 1972)

234. Maintenance of Equipment.—We reviewed certain repair programs in each of the military services to determine whether the most economical mix of buying and repairing equipment was used. In the Navy, the Air Force, and the Marine Corps, there were only a few insignificant instances when materiel was procured while similar items were not repaired. In the Army, there also were only a few instances but some involved substantial amounts.

In April 1971 there were about 980 armored personnel carriers (M113A1) to be repaired at Army depots in the United States. The Army Tank Automotive Command (TACOM) originally scheduled 454 vehicles for repair in 1971 but only 42 were actually approved because TACOM had not been provided enough operation and maintenance funds. During 1971, however, TACOM spent about \$34 million to buy 1,125 armored personnel carriers.

It costs about \$12,000 to overhaul an M113A1 and about \$31,000 to buy a new vehicle. Thus, while the 412 vehicles not included in the fiscal year 1971 repair program could have been repaired for about \$4.9 million, it cost about \$12.8 million to buy new ones.

A similar condition existed in the Army Mobility Equipment Command for five items of equipment included in our review.

We recommended that the Army establish procedures to identify situations in which repair programs

are not sufficiently funded but procurements of new items are scheduled. In those cases, funds should be transferred from the procurement to the operations and maintenance appropriation to create balanced repair and procurement programs.

The Army generally agreed with our recommendations and published guidelines which restrict procurement of principal items when an unfunded repair requirement exists. The Army applied these guidelines while it prepared its fiscal year 1973 budget and reduced planned procurements by \$159.9 million with a corresponding increase in overhaul programs of only \$28.7 million. (Report to the Secretary of Defense, B-146888, Jan. 6, 1972)

235. Repair of Air-to-Air Missiles.—The Navy placed too little emphasis on repairing Sparrow and Sidewinder missiles in fiscal year 1971. New ones were ordered and funds were requested to procure additional missiles in fiscal year 1972 while the number needing repair increased. As a result, the Navy's readiness goal was not met and the Navy's capability for air-to-air combat was impaired.

Since repair takes less time and costs less, we suggested that additional funds be provided to repair Sparrow and Sidewinder missiles in fiscal year 1972 by transferring funds from other repair programs or reprogramming new missile procurement funds.

The Navy informed us that it would consider the potential for transferring funds from other repair programs in its midyear budget review but, because of contract commitments and other factors, it was undesirable to curtail production of new missiles programmed for procurement in fiscal year 1972.

We accepted the Navy's position but recommended, if a similar situation occurs in fiscal year 1973, the Navy act earlier to transfer procurement funds to the operation and maintenance appropriation to fund a larger repair program. (Report to the Congress, B-132995, Apr. 25, 1972)

236. Vehicle Use and Maintenance Practices.—In managing motor vehicle fleets, the Department of Agriculture, like other Federal agencies, uses General Services Administration guidelines which state that reviews of time-of-use data—the number of days vehicles on hand have been used—are necessary for evaluating vehicle needs.

Although the Forest Service policy provided for its field offices to make analyses of time-of-use data, some of the Forest Service field offices had been lax in estab-

lishing criteria and procedures and in implementing the analyses in evaluating vehicle needs. The Soil Conservation Service (SCS) had not provided for its field offices to use the analyses in evaluating vehicle needs. The positive benefit which can result from the use of periodic analyses was shown by comparing the small percentage of idle vehicles in a Forest Service region which used the data with the large percentage of idle vehicles in Forest Service and SCS locations which did not use the data.

Also, in view of the wide variance in average vehicle maintenance costs among its regions, the Forest Service needed to review, compare, and evaluate the vehicle maintenance practices of its various regions. Our comparative analysis of annual maintenance costs in two regions showed that differences in the average number of maintenance labor hours per vehicle had been the major cause of the variance.

In response to our recommendations, the Forest Service stated that vehicle utilization study directives were being revised and that a detailed study of maintenance cost variances was being initiated. SCS, while agreeing to make time-of-use analyses at certain field locations, stated that it believed the recording and analysis of time-of-use data for all vehicles at all locations would cost more than any savings which might be realized. (Report to the Secretary of Agriculture, B-114833, Aug. 13, 1971)

237. Leasing of Land Acquired for Federal Water Resources Projects.—Land acquired by the Corps of Engineers (civil functions), Department of the Army, for reservoirs or projects with similar purposes may be leased to former owners for agricultural use. In accordance with the Corps policy, land acquired before 1956 had been leased for extended periods without any restrictions against the production of price-supported crops. Land acquired after 1956 had been leased without any crop restrictions for 5 years. As of June 30, 1970, the Corps had 2,032 leases for about 272,000 acres of land without restrictions and 2,382 leases for about 260,000 acres with restrictions. The rentals were not providing a return to the Government consistent with its cost of the land.

Our review of 740 unrestricted leases showed that 365 leases for land acquired after 1956 had resulted in a loss of revenue in 1 fiscal year of about \$254,000. Of 375 leases for land acquired prior to 1956, 284 leasees received payments of about \$302,000 in 1 year from the Department of Agriculture for price-supported

crops. These payments exceeded the annual rentals paid for the lands by about \$148,000.

Public Law 86-423, approved April 9, 1960, permitted farm owners who leased agriculture land acquired by the Government to continue to produce price-supported crops on the land and to be eligible for payments under the price-support and related programs. Contrary to this law, about 121 of the leased properties were being operated by individuals other than the former owners or tenants. Department of Agriculture payments on these leased properties of about \$156,000 in 1 crop year exceeded the annual rentals by about \$88,000.

In response to our recommendations, the Department of the Army advised us that the Corps of Engineers would analyze its current policies and practices for leasing project lands for agricultural purposes and would consider the impact of price-support payments and other factors on appraisals. (Report to the Congress, B-173324, Oct. 1, 1971)

238. Consolidation of Reserve Fleet Activities.—The Maritime Commission, the Department of the Navy, and—to a lesser extent—the Department of the Army maintain inactive vessels or reserve fleet sites on the east, west, and gulf coasts. The agencies have a common mission of preserving the reserve fleets in the best condition possible with available funds in case they are needed for commercial or national defense purposes.

Because the reserve fleet activities are similar and because the fleet sites are close to each other, we reviewed the situation to see if it would be practicable to consolidate the management of Maritime, Navy, and Army fleet sites in the Beaumont, Tex., and San Francisco, Calif., areas.

We reported that, after the first year, annual savings of about \$664,000 could be realized by having the Maritime Administration, Department of Commerce, assume the function of preserving certain Army and Navy inactive vessels in the areas we reviewed and by closing a Navy berthing site and an Army wet storage area. Savings during the first year would amount to about \$392,000 because of certain nonrecurring impact costs, such as towing, corrective preservation steps, and site preparation, that would be incurred in effecting the consolidation.

We believed that Maritime would be able to assume the maintenance and preservation function more economically than the Navy in the Beaumont and San Francisco areas because Maritime used experienced

civilian employees, whereas the Navy used relatively inexperienced military personnel. Additionally, fewer administrative employees would be needed by Maritime because some of the Navy administrative tasks would be absorbed by the employees located at Maritime reserve fleet sites.

We recommended that the Secretary of Defense and the Secretary of Commerce study the feasibility, including the effect on costs, of consolidating functions for other Army, Navy, and Maritime Administration inactive fleet sites.

Maritime and the Army agreed with our recommendations. The Navy concurred in the intent of our recommendations but was strongly opposed to having Maritime assume the maintenance, preservation, and related administrative functions at one of its San Francisco sites. The Navy was concerned about the ability of Maritime to preserve combat ships and the ability of the Navy site to carry out its military responsibilities should Maritime assume the maintenance and preservation responsibility for the inactive vessels.

The Deputy Assistant Secretary of Defense informed us that the Army and the Navy would study, with the Maritime Administration, the feasibility of consolidating the functions of other inactive fleet sites. (Report to the Congress, B-168700, Nov. 18, 1971)

239. Management of Motor Equipment Activities.—Our review of the District of Columbia Government's management of its motor equipment activities revealed a number of areas in need of improvement. For example:

Responsibility and authority for surveillance of motor equipment activities throughout the District Government had not been assigned to a single individual or office.

The District Government's departmental systems for recording and reporting motor equipment cost and operational data did not provide accurate and meaningful information necessary for satisfactory management of the equipment.

A potential existed for rotating motor equipment between high- and low-use assignments and for pooling low-use equipment.

Neither the District Government nor any of its departments had established policies and procedures for determining when maintenance and repairs to motor vehicles would not be economically justified or when motor vehicles should be replaced.

The departmental maintenance facilities generally scheduled preventive maintenance of motor vehicles at more frequent intervals than recommended by the vehicle manufacturers.

The District Government had improperly augmented its passenger vehicle fleet by acquiring excess Federal passenger vehicles without regard to the limitations set in annual appropriation acts.

The District Government agreed, in general, with the cited weaknesses in motor equipment management and accepted our recommendations (1) to assign the responsibility and authority for surveillance of motor equipment activities to a single office and (2) to establish District-wide control over passenger vehicle acquisitions and disposals. Action was taken in March 1972 to implement our recommendations. (Report to the Congress, B-118638, July 2, 1972)

240. Real Property.—Our review showed that about 460 of the 2,600 properties listed in the real property inventory as owned by the District of Columbia should have been deleted because they were no longer available for use. The review also showed that, despite substantial changes in landholdings, the District's financial statements for fiscal years 1968, 1969, and 1970 consistently showed landholdings valued at \$39,759,298.

The District's financial statements were inaccurate because procedures for adjusting the accounting records for the acquisition and sale of land had not been followed. Furthermore, financial records were not reconciled with inventory records.

The District's Director of General Services in response to our recommendations stated that the District was (1) developing a real property information system and (2) preparing a Commissioner's Order to fix responsibility for keeping the system accurate and up to date. (Report to the Director, Department of General Services, Sept. 15, 1971)

241. Transfer of Inventory Accounting From Stock Funds to Industrial Funds at Installation Level.—A report to the Congress outlined the benefits to be derived by the transfer of Department of Defense (DOD) inventory accounting from stock funds to industrial funds at the installation level. We noted that the maintenance of separate accounting systems for the Aberdeen, Md., industrial fund and stock fund resulted in duplication of functions and records. Assumption of the stock fund accounting operations by

the industrial fund would eliminate the entire stock fund accounting and reporting system and would thereby result in annual savings of almost \$100,000 in personnel costs and reduction in computer processing time and keypunch and verification effort.

We proposed that the stock fund accounting system be eliminated at Aberdeen and that inventories now owned by the stock fund be capitalized and controlled under the industrial fund. Similar actions should be taken where practicable at other DOD installations.

DOD agreed that simplification of accounting systems and the elimination of duplication were desirable objectives; however, DOD believed that the financial procedure we recommended was not in accordance with the provisions of law which authorized working capital funds. We believed our recommendations were not contrary to law but were an extension of the current practice of the industrial fund to finance and control inventories needed for its own use. We are continuing to pursue this matter with DOD in the interest of economy and efficiency. (Report to the Congress, B-159797, July 30, 1971)

Transportation

242. Ammunition Distribution System Responsive, but Sometimes Costly.—The Department of Defense's ammunition distribution system responded to military requirements in that ammunition was moved with relatively few delays en route. However, we believe this responsiveness in certain circumstances was achieved at unnecessarily high costs.

As a result of our work, significant economies were achieved by:

Obtaining lower rail rates which saved more than \$16 million in 10 months.

Reducing vessel sheathing which should reduce transportation costs as much as \$500,000 annually.

No longer using an unnecessary port in Europe.

Establishing ammunition renovation facilities in Vietnam, which eliminated shipping ammunition needing renovation out of the country.

Shipping ammunition directly to Vietnam rather than to offshore depots which should save more than \$4 million annually in transportation costs.

Computerizing a segment of the management information system to provide information not previously available.

The Department has also promised to study or initiate other corrective measures. (Report to the Secretary of Defense, B-176139, June 19, 1972)

243. Improved Use of Cargo Space on Ammunition Ships.—Cargo space on ammunition ships was not fully used. In 1969, 355 Victory- and C2-class ammunition ships departed U.S. ports for the Far East and Southeast Asia with more than 200,000 measurements of unused cargo space worth about \$6.5 million. In planning ammunition shipments, the Department of Defense (DOD) had restricted the amount of cargo to less than the ships could carry, and thus considerable cargo space was unused.

When we notified DOD officials of this, they increased the shiploads and used space on these ships more efficiently. We estimated that this improvement saved more than \$900,000.

Also, DOD had no way of knowing that cargo space had been used ineffectively because it did not require ships to report sailing with unused space. We recommended that DOD establish a reporting system to provide management with current information on cargo space used on ammunition ships and the reasons for any unused space. We also suggested that DOD evaluate ammunition ship utilization in their regular internal audit program.

DOD agreed that there was a need for a reporting system and indicated that a system would be established. Also, one of its traffic management organizations will monitor space utilization on ammunition ships as an integral part of its internal review program.

Although DOD did not agree that faulty planning primarily caused unused cargo space, Victory- and C2-class vessels' average loads increased significantly after planning was improved. However, larger C3- and C4-type vessels had not similarly improved. We therefore recommended that the Secretary of Defense review the load planning on those vessels. (Report to the Congress, B-133025, Mar. 21, 1972)

244. Improvements in the Postal Transportation System.—We surveyed the Post Office Department's transportation system before the Postal Reorganization Act was enacted and found that, although its system was responsive to its needs, savings could be realized by:

Using the less costly Star Route Service instead of Government Rural Delivery Service. This could save

as much as \$24 million annually in one postal region and about \$5 million annually in another.

Using contract service to transfer mail between airports and post offices.

Obtaining more favorable rates from air carriers. We found that over \$900,000 annually could be saved on shipments from a single facility to just three destinations if rates at the general commodity level were applied to mail.

Presorting first-class mail. We estimated \$779,000 in handling costs could have been saved annually in one postal region and \$438,000 in another if large mailers had voluntarily presorted their mail.

The Postal Service—successor to the Post Office Department—agreed to take action to achieve these savings. (Report to the Postmaster General, B-114874, June 29, 1972)

245. Control Over Government Transportation Requests.—Our review of policies and practices relating to the Army's management and control over Government Transportation Requests (TRs) revealed that the Army made an estimated 60,500 errors totaling \$6.2 million in providing transportation to servicemen and dependents during fiscal year 1970.

Of this amount the Army failed to collect about \$2.8 million for TRs issued on a cost-charge basis (unofficial travel) because of a breakdown in the flow of paperwork. When we brought this condition to the Army's attention, immediate action was directed to provide for timely collection of such charges under the new centrally computerized pay system.

TRs valued at about \$2 million were not properly considered in settling mixed travel claims for official travel when part of the travel was performed at the serviceman's expense. To improve this situation we suggested that TRs involving mixed travel be treated on the same basis as cost-charge TRs.

About \$1.4 million was erroneously paid for travel of dependents. These errors involved reimbursement for travel which had actually been performed by use of TRs, travel of ineligible dependents, and transportation to overseas locations for dependents of servicemen who did not qualify for such benefits. When we brought these errors to the Army's attention, regulations were changed to eliminate the latter abuse.

The Department of Defense agreed, generally, with our report and has initiated actions responsive to its conclusions and recommendations. (Report to the Secretary of Defense, B-173370, May 24, 1972)

246. Transportation of Mexican Aliens.—Although the Immigration and Naturalization Service, Department of Justice, had reduced the cost of transporting Mexican aliens in the Southwest Region, we believed that further reductions could be made by using Government-owned buses rather than airplanes. The Department, in commenting on our report, stated that the Service was extending its use of buses in substitution for movement by airplane.

The Southwest Region of the Service did not request financially able Mexican aliens to pay their transportation cost from the point of apprehension to the Mexican border. In contrast, the Northeast, Northwest, and Southeast Regions did request aliens to pay for their transportation.

The Assistant Attorney General stated that, because of the vast number of aliens in the Southwest Region compared with the lesser number in the other regions, it was not operationally feasible to request apprehended aliens to pay for transportation. He said that it was believed that many aliens would refuse to pay for transportation and that the Department did not have authority to force them to pay.

The Assistant Attorney General said also that under the law the Service would be required to conduct deportation hearings for those who refused to pay, which would result in detaining the aliens for longer periods of time. He said that steps were being taken to recommend appropriate legislation to deal with this problem and that, pending action by the Congress, the Service would continue operating in its same manner. (Report to the Attorney General, B-125051, Aug. 26, 1971)

User Charges

247. Collection of Federal Highway Use Tax.—We reviewed the effectiveness of the Internal Revenue Service's (IRS) collection of the Federal highway use tax which is paid on the basis of voluntary compliance. IRS denied us the right of access to its records on tax administration on the basis that only the Joint Committee on Internal Revenue Taxation had the right to review the IRS administration of the tax laws. Our review of IRS highway use tax activities was therefore restricted to an analysis of summary data made available by IRS.

In fiscal years 1970 and 1971, IRS collected additional highway use taxes of \$1,096,000 and \$1,538,000, respectively, as a result of returns compliance work. This work was performed on a manpower-available

basis and was conducted for the most part by nine of 58 IRS district offices. Because our review was restricted to an analysis of summary data provided by IRS, we were unable to ascertain whether the compliance work for the nine districts represented a partial or complete cross-referencing of State truck registration data against IRS records of truck owners who filed highway use tax returns.

We concluded that IRS should strengthen enforcement of the highway use tax law by adopting a long-standing recommendation by the Federal Highway Administration (FHWA) that decals be placed on trucks for which the tax had been paid. FHWA said that, during the normal work activities of its safety investigators with the cooperation of State employees, about 250,000 trucks could be inspected annually for compliance. We believe that the increased compliance that would result from the impact of a decal system on truck owners, as well as the enforcement effect of FHWA personnel reporting violations, would justify any additional administrative expenses.

IRS agreed that a decal system had merit, but said that during fiscal year 1973, it planned to conduct an intensive highway use tax collection program utilizing State registration data. IRS said that an estimated 180 to 200 man-years would be used in the program. In its fiscal year 1973 budget presentation, IRS requested \$5 million for 400 additional man-years to identify taxpayers who had never filed returns. As indicated by IRS, 180 of the 400 man-years would be devoted to the highway use tax program resulting in securing an estimated additional 75,000 to 126,000 returns having a maximum assessed value of \$26.6 million. Because budget information submitted by IRS indicated that returns compliance work for other types of taxes would result in a higher dollar return per man-year, we believed that this was an inefficient use of manpower. (Report to the Legal and Monetary Affairs Subcommittee, House Committee on Government Operations, B-164497(3), May 15, 1972)

248. Cost of Processing Business Reply Mail.—

The Congress intended that fees charged for business reply mail service be adequate for recovering the cost of this service. Although Postal Service costs had increased, the fees had not been changed since they were established by law in 1958.

The Postal Service was not recovering the cost of providing the business reply mail service because personnel costs had increased significantly from the time the fees were established. The average direct labor

cost for each piece of business reply mail exceeded the average fee by .9 cent at 13 postal facilities located in seven cities. The Postal Service processed 733 million pieces of business reply mail during fiscal year 1970.

We recommended that the Postal Service determine the nationwide cost of the business reply mail service and propose to the Postal Rate Commission appropriate fee adjustments to recover the costs of providing this service. The Postmaster General stated that the relationship between costs for a postal service and rates for that service was a matter for review by the Postal Rate Commission.

Because the Postal Service had not compiled information on the nationwide costs of providing the business reply mail service, we believed that an informed decision could not be made as to the fees that are required to recover the costs of providing the service. (Report to the Congress, B-114874, Oct. 28, 1971)

249. Multiple Post Office Box Rentals.—Many commercial firms receiving large volumes of mail had been renting numerous post-office boxes (multiple boxes). Each box was designated by a firm as the address to which its customers and other correspondents were to send particular types of business mail. In many instances there was no actual lockbox, but mail addressed to a box number was sorted and placed in a mail bag for pickup by the addressee. Boxes rented under these circumstances were referred to as phantom boxes.

The costs of providing commercial firms with multiple and phantom boxes at 80 selected large post offices exceeded the revenues by about \$3.1 million annually. These additional costs primarily consisted of increased clerical cost of sorting a large volume of mail sent to recipients with numerous post office boxes.

The Postmaster General advised us that the box rental policy would be revised to recover the costs of multiple and phantom box services. However, because the Postal Rate Commission must review proposed fee changes, the Postal Service was not sure when the new fees or services it might propose would become effective. The Postal Service planned to propose a rate change for box service to the Commission in January 1973. (Report to the Congress, B-114874, July 19, 1971)

250. Need for Verification of Claims for Duty Refunds.—Refunds of duty paid (drawbacks) are permitted by law upon the exportation of items manufactured from duty-paid imported material or like ma-

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terial substituted for imported material. With respect to sales to Government agencies, a manufacturer may claim drawback only if the claim is accompanied by a certificate signed by an official of the purchasing agency stating that the right to drawback was reserved by the supplier with the knowledge and consent of the agency.

Many of the documents supporting recent drawback claims of an oil and refining company for petroleum products shipped abroad showed a subsidiary of the company as the consignee. Some of the documents contained information, however, which enabled us to identify the purchaser as a Federal agency.

A limited review of the Federal agency's files and the oil company's drawback claims indicated that the oil company may have claimed drawback on substantial shipments of lubricating oil abroad under Government agency contracts. We were advised by an official of the oil company that the company had not reserved the right to drawback for any of its sales to the Government.

Customs regulations provided for collectors to refer drawback documents to Customs Agency Service for verification. We believed our review disclosed sufficient information to warrant a verification of the oil company's sales and other records pertaining to drawback claims for 1967 and subsequent years to determine the extent to which drawback was paid or claimed on sales of petroleum products to the Government. The Bureau advised us on April 24, 1972, that this matter was receiving its attention. (Report to the Acting Commissioner, Bureau of Customs, Mar. 30, 1972)

251. Priority Mail Handling of Publications.—

Although not authorized by law, the Postal Service traditionally has provided priority handling to certain newspapers and periodicals. These publications receive priority handling for the same postage rates paid by publishers receiving nonpriority service. About 4.1 billion of the 9.4 billion pieces of second-class mail handled in fiscal year 1970 were given priority handling. Priority handling consists of expeditious distribution, dispatch, transit handling, and processing.

The Postal Service provided this priority service to mailers of some second-class matter without recovering the additional costs incurred. The Detroit Post Office incurred an additional \$197,000 in letter carrier costs to expedite handling certain periodicals during fiscal year 1970. Also, we estimated that the annual

costs for clerks and mail handlers to prepare priority second-class mail were \$114,000 at the Washington, D.C., City Post Office; \$40,000 at the Detroit Post Office; and \$7,500 at the Seattle Post Office.

Because the criteria for determining which publications qualified for priority handling were vague, local post offices were inconsistent as to which publications should receive priority service.

The Postal Service advised us it would review the mail classification system, including the services needed by publishers, the costs of providing such services, and the appropriate rates to be charged. Although the Postal Service stated that our proposals would be considered in this study, it did not indicate that it would implement the recommendations. (Report to the Postmaster General, B-114874, Mar. 23, 1972)

252. Reduced Postage Rates for Nonprofit Organizations.—

By law certain types of nonprofit organizations can qualify to mail matter at reduced second- and third-class postage rates. The reduced rates range from 23 to 60 percent less than the regular rates. Organizations such as business leagues, citizens' and civic improvement associations, and social clubs are not eligible for the reduced postage rates.

Because the Post Office Department had not been making proper determinations of the eligibility of nonprofit organizations for reduced rates, the Department had not collected substantial revenues to which it was entitled. At five post offices we reviewed, 115 organizations did not qualify for the reduced postage rates. We estimated that the Department undercharged these groups by \$1.5 million during a 1-year period.

The criteria used by postal personnel to determine the eligibility of nonprofit organizations for reduced postage rates was inadequate. Some organizations, as a result, were granted nonprofit mailing privileges at some post offices, while the same or similar organizations were denied these privileges at other post offices. The total amount of lost revenue to the Postal Service could be significant because it delivers an estimated 6.1 billion pieces of nonprofit mail nationwide annually.

On May 24, 1971, the Postal Service issued new guidelines for determining the eligibility of organizations for the reduced third-class postage rates. These guidelines were also being used for reviewing applications for the reduced second-class rates. (Report to the Congress, B-114874, Apr. 4, 1972)

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FINANCIAL SAVINGS ATTRIBUTABLE TO THE WORK OF THE GENERAL ACCOUNTING OFFICE, FISCAL YEAR 1972

Collections and Other Measurable Savings

(000 omitted)

	Collections	Other measurable savings	Total
DEPARTMENTS			
Army	\$220	\$157, 424	\$157, 644
Navy	384	20, 073	20, 457
Air Force	126	3, 324	3, 450
Defense	518	53, 351	53, 869
Agriculture	36	4, 195	4, 231
Commerce		260	260
Health, Education, and Welfare	¹ 9, 072	968	10, 040
Housing and Urban Development		284	284
Interior	27	3, 203	3, 230
Justice		1, 470	1, 470
State (including AID, Peace Corps, and USIA)	67	5, 051	5, 118
Transportation		5, 310	5, 310
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AGENCIES			
Atomic Energy Commission		179	179
Civil Service Commission	65	561	626
Environmental Protection Agency		21	21
General Services Administration		3, 962	3, 962
Office of Economic Opportunity	1	31	32
Small Business Administration		250	250
U.S. Postal Service		2, 050	2, 050
Veterans Administration		90	90
Judicial Branch		900	900
Total for departments and agencies	10, 516	262, 968	273, 484
Transportation audit	14, 165		14, 165
General claims work	4, 612		4, 612
Total	\$29, 293	\$262, 968	\$292, 261

¹ Includes recovery of (a) \$616,000 in overpayments under the Medicare program and (b) \$8,200,000 in excessive payments to States for the Federal share of aid to families with dependent children program.

Details of Other Measurable Savings

Details of other measurable financial savings including additional revenues attributable to the work of the General Accounting Office during fiscal year 1972 totaling \$262,968,000 are listed below. Approximately \$56 million of the savings or additional revenues are recurring in nature and will continue in future years. The items listed consist largely of realized or potential savings in Government operations attributable to action taken or planned on findings developed in GAO's 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>Action taken or planned</i>	<i>Estimated savings</i>	<i>Action taken or planned</i>	<i>Estimated savings</i>
Logistics:			
Reduction in procurement of heavy equipment made possible by repairing equipment already on hand—Army (nonrecurring) . . .	\$131,200,000	Voluntary reductions and refund arising from reductions in quotations filed by Calnev Pipeline Company and Southern Pacific Pipeline, Inc., for fuel shipped to Air Force bases located in California, Nevada, and Arizona—Air Force (nonrecurring, \$255,000; estimated annual savings, \$775,000)	\$1,030,000
Reduction in DOD's cost of transporting ammunition by obtaining lower rates from western rail carriers—Defense (estimated annual savings)	19,200,000	Cancellation of requisitions for unauthorized items and excess items already included in stocks on hand—Army (nonrecurring) . . .	920,000
Elimination of duplicate investment in general inventory by the Marine Corps—Navy (nonrecurring)	15,000,000	Reduction in the inventory levels for subsistence in England—Air Force (nonrecurring) . . .	773,000
Transfer of assets erroneously retained by the Army and identification of unrecorded Defense Supply Agency stock in Army depots enabled DSA to satisfy requirements that otherwise would have necessitated procurement—Defense (nonrecurring)	13,800,000	Use of multiyear contracts for ADP equipment—General Services Administration (nonrecurring and indeterminable savings over a 4-year period)	559,000
Base closure and reduction in DOD proficiency flying program for officers attending long-term instruction courses—Defense (estimated annual savings)	13,197,000	Increased use of rebuilt tires by the Air Force in Europe—Air Force (nonrecurring)	267,000
Termination of the Roll-on/Roll-off cargo transportation program in the Pacific—Army (nonrecurring)	10,000,000	Ammunition stocks found during review of inventory controls at Tooele Army Depot resulted in postponement of future procurements—Army (nonrecurring)	196,000
Increased use of rebuilt tires by Army units in Europe—Army (estimated annual savings)	9,300,000	Reduction in procurement resulting from recalculation of condemnation rate for certain parts used by the Air Force—Air Force (nonrecurring)	175,000
Purchase of certain ADP equipment which had been leased—General Services Administration (\$1,680,000, nonrecurring; \$1,703,000, estimated annual savings)	3,383,000	Substitution of less costly truck transportation for LOGAIR service—Air Force (estimated annual savings)	145,000
Reclamation of required aeronautical materiel which was erroneously declared excess—Navy (nonrecurring)	2,108,000	Cancellation of a contract for the offshore procurement of ice cream—Army (nonrecurring)	133,000
Reductions in recurring transportation costs by eliminating a Coast Guard owned and operated ship and using commercial and military shipping services instead. Avoidance of one-time cost to renovate the above ship in fiscal year 1973—Transportation (\$600,000, nonrecurring; \$1,110,000, estimated annual savings)	1,710,000	Revision of Air Force regulations to require less frequent inspection/cleaning of aviation fuel tanks—Air Force (estimated annual savings)	106,000
		Use of rebuilt instead of new tires and reduced procurement of new tires—Air Force (nonrecurring)	96,000
		Cancellation of proposed procurements of new inventory when repairable items were available—Navy (nonrecurring)	87,000

<i>Action taken or planned</i>	<i>Estimated savings</i>	<i>Action taken or planned</i>	<i>Estimated savings</i>
Reduction in construction costs through more economical design—Army (nonrecurring) . . .	\$57, 000	Elimination of erroneous charges to the U.S. Disbursing Officer's tourist conversion account resulting in balance-of-payments savings by increasing the amount of excess U.S.-owned Pakistani rupees available for sale to tourists for U.S. dollars—State (nonrecurring) . . .	\$1, 108, 000
Elimination of a Government subsidy for dining operation at Kwajalein Missile Range—Army (estimated annual savings)	36, 000	Transportation:	
Transfer of assets erroneously restricted for war reserve requirement to an issuable stock account—Army (nonrecurring)	34, 000	Adoption by the Coast Guard of a self-insurance policy applicable to contracts with private shipbuilders for construction of major vessels—Transportation (nonrecurring and indeterminable future savings)	3, 600, 000
Recision of duplicate grant for environmental improvements by the Environmental Protection Agency (nonrecurring)	21, 000	Reduction in transportation costs resulting from the Immigration and Naturalization Service's requesting illegal Mexican aliens to pay the cost of their transportation from the border into the interior of Mexico—Justice (estimated annual savings)	1, 385, 000
Return of excess property to the GSA supply system—General Services Administration (nonrecurring)	19, 000	Manpower Utilization:	
Correction by the Military Ocean Terminal, Bay Area (MOTBA), Oakland, Calif., of government bills of lading to receive the benefit of lower volume rates. Also, adoption of procedures by MOTBA to assure the Government of lower rates on future shipments—Defense (nonrecurring and indeterminable future savings)	19, 000	Reduction in support-services personnel at Government-owned, contractor-operated ammunition plants—Army (estimated annual savings)	2, 700, 000
Purchase of subscriptions for periodicals at reduced multiyear prices—Air Force (nonrecurring)	15, 000	Training costs reduced by eliminating the additional 2-week assignment to a recruit training center of Navy enlistees performing as members of the center's Drum and Bugle Corps and Bluejacket Choir—Navy (estimated annual savings)	216, 000
Termination of aircraft parts contract which would have created excess inventory—Navy (nonrecurring)	6, 000	Dental work which would have been contracted out to private dentists because of extensive backlogs at one outpatient clinic was transferred to a nearby outpatient clinic with excess dental capacity—Veterans Administration (estimated annual savings)	90, 000
Loans, Contributions, and Grants:		Supply Management:	
Reduction of Federal costs as a result of deleting from an approved Federal Code Enforcement Grant program project 198 structures which were too deteriorated to be restored through code enforcement—Housing and Urban Development (nonrecurring)	218, 000	Cancellation of programed purchases that would have resulted in payments from military assistance program appropriations because approved purchases exceeded credits from the NATO Maintenance and Supply Agency—Defense (nonrecurring)	2, 500, 000
Voiding of grant funds awarded to a school district which was not eligible for program assistance—Health, Education, and Welfare (nonrecurring)	211, 000	Contract price reductions resulting from reviews of prices negotiated for supplies—Army \$308,000; Navy \$58,000; Air Force \$562,000 (nonrecurring)	928, 000
Grant to Ozark Area Community Action Corporation was reduced to correct an understatement of the Federal funds carryover transferred from the prior year—Office of Economic Opportunity (nonrecurring)	31, 000	Savings resulting from change in specifications to permit less costly but effective acceptance testing procedures for aircraft engines—Defense (nonrecurring and indeterminable future savings)	443, 000
Reduction in annual costs of Medicaid by limiting certain recipients under Kentucky's program to a single doctor and a single pharmacy—Health, Education, and Welfare (estimated annual savings)	26, 000	Cancellation of procurement of medical supplies that were in excess of requirements in Vietnam—Agency for International Development (nonrecurring)	239, 000
Utilization of U.S.-Owned Foreign Currencies:			
Elimination of erroneous charges to the U.S. Disbursing Officer's tourist conversion account resulting in balance-of-payments savings by increasing the amount of excess U.S.-owned Indian rupees available for sale to tourists for U.S. dollars—State (nonrecurring)	3, 606, 000		

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<i>Action taken or planned</i>	<i>Estimated savings</i>	<i>Action taken or planned</i>	<i>Estimated savings</i>
Supply Management—Continued		Interest Income:	
Savings resulting from more austere packaging of spare parts for aircraft engines—Defense (estimated annual savings)	\$200,000	Following a review of the average rate and repayment study which showed the status of repayment of the commercial power investment in the Missouri River Basin Project, the unpaid balance of the investment was increased. Increasing the unpaid balance of the interest-bearing investment also increased the Government's interest income—Interior (non-recurring, \$1,502,000; estimated annual savings, \$38,000)	\$1,540,000
Revenues:		Accounting procedures for computing amount of interest credits granted to rural housing borrowers by the Farmers Home Administration were revised to eliminate credits for periods of time prior to loan closing. The eliminated credits resulted in increased income to the Government—Agriculture (first year estimate and indeterminable future savings)	675,000
Inclusion of unrecorded interest expense increased the recoverable cost of Federal investments in the Little Goose and Lower Monumental Projects, Federal Columbia River Power System—Army (nonrecurring)	2,372,000	The Bureau of Reclamation, the power-marketing agent for the Missouri River Basin Project, reversed its policy and began to apply power revenues to reduce operating losses before applying the revenues to its commercial investment debt. Because the interest income computed on the operating losses was less than that computed on the investment debt, repayment of the accumulated losses before amortizing the investment debt will result in higher income payments to the Government—Interior (estimated annual savings)	48,000
The amount required to be repaid to the Treasury from the Southwestern Federal Power System power revenues was adjusted to include the cost of space rented from the General Services Administration—Interior (nonrecurring, \$670,000; estimated annual savings, \$147,000)	817,000	Increase in rate of interest paid to the Government on a war-risk stabilization fund—Defense (estimated annual savings)	8,000
Additional revenues due to revised procedures for determining the monthly charges for transmitting non-Federal power over the Federal transmission system—Interior (estimated annual savings)	110,000	The amount of recoverable construction cost to be included in the Government's total Canadian River Project investment was revised upwards due to correction of a rate used to compute interest during construction—Interior (nonrecurring)	5,000
Increased revenue derived from recomputation by the Geological Survey of oil royalties due the Government—Interior (nonrecurring, \$30,000; estimated annual savings, \$10,000)	40,000	Contracting Policies and Practices:	
An excessive reduction of the Federal investment base to be repaid from Bonneville Power Administration revenues was adjusted, resulting in an increase in the amount of imputed interest to be recovered by the Government—Interior (nonrecurring)	36,000	Reduction in the frequency of, and required time prescribed for, routine preventive maintenance on certain mail-handling equipment—Postal Service (estimated annual savings)	1,400,000
Automatic Data Processing Systems:		Savings resulting from use of surplus U.S. butter rather than purchasing European butter—Defense (estimated first year savings and \$1,700,000 annual future savings)	1,166,000
Savings resulting from reassessment of requirements and modification of a lease for ADP equipment from a 4-year to a 1-year term—Navy (nonrecurring)	2,337,000	Cancellation of a proposed contract amendment that would have granted an excessive allowance to the insurer for administrative expenses under the Government-wide Indemnity Plan of the Federal Employees' Health Benefits Program—Civil Service Commission (non-recurring)	527,000
Communications:			
Revision of commercial rates for special communication equipment and elimination of contingent termination liabilities—Defense (nonrecurring, \$1.15 million; estimated annual savings, \$1.18 million)	2,330,000		
Reconfiguration of portions of the Military Police Network resulting in a net reduction in the number of terminals—Army (estimated annual savings)	84,000		
Reductions in recurring costs for leased communications services by establishing improved management procedures for rerouting circuits, reevaluating service contracts, and other operational functions—Defense (estimated annual savings)	47,000		

<i>Action taken or planned</i>	<i>Estimated savings</i>	<i>Action taken or planned</i>	<i>Estimated savings</i>
Savings resulting from use of American-made buses rather than foreign-made buses at overseas locations—Defense (estimated annual savings)	\$300,000	Payments to Government Employees and Other Individuals:	
Delivery of contract services and material as payment of an overpayment—Agency for International Development (nonrecurring)	98,000	Reduction in stipends paid to veterans undergoing paramedical training who qualify for Veterans Administration educational allowances—Health, Education, and Welfare (nonrecurring)	\$465,000
Costs reduced by providing janitorial services under a single, advertised contract instead of both an advertised contract and a negotiated contract—Air Force (estimated annual savings)	79,000	Reduced housing allowance costs resulting from redesignation of bachelor officers' quarters for use by officers assigned to temporary rather than permanent duty—Air Force (estimated annual savings)	77,000
Change in contracting policy to provide for use of open-end bulk-bid contract for termite extermination services in HUD-acquired houses—Housing and Urban Development (nonrecurring and indeterminable future savings)	11,000	Other Items:	
The annual maintenance arrangement for servicing office machines was placed on the more economical per call basis—Treasury (estimated annual savings)	11,000	Savings realized through the elimination of price-support payments to owners or operators of farms which were declared ineligible for participation in the wheat and feed grain programs—Agriculture (nonrecurring and indeterminable future savings)	3,000,000
Interest Costs:		Interest expense on Federal municipal and industrial water investments applicable to units of the Missouri River Basin Project was recognized and used to adjust the amount of recoverable investment—Interior (nonrecurring)	607,000
Savings in interest costs (from Government borrowing) by the transfer of some registry funds of the U.S. district courts from non-interest-bearing accounts with commercial banks to Federal Reserve Banks—Judicial Branch (nonrecurring and indeterminable future savings)	900,000	The existing ground lease and the invitation to bid on a leased post office facility was canceled in favor of a decision to purchase a site for a Government-owned post office—Postal Service (nonrecurring)	400,000
Farmers Home Administration instructions concerning cash advances of loan and grant funds were revised to require that funds be distributed to association borrowers on an as-needed basis and thereby preclude unnecessary Government borrowing—Agriculture (nonrecurring and indeterminable future savings)	520,000	Savings in physicians' fees due to a revision of the Ohio Medicaid program which permitted certain over-the-counter drugs to be withdrawn from the list of drugs requiring prescriptions—Health, Education, and Welfare (first year estimate and indeterminable future savings)	266,000
Law Enforcement Assistance Administration's procedures for advancing funds to educational institutions were placed on a school-term basis which adequately served the needs of the institutions and avoided too-early advances and unnecessary Government borrowing—Justice (estimated annual savings)	85,000	Savings through reduction of air taxi mail service from 6 to 5 days a week—Postal Service (estimated annual savings)	250,000
Grant funds which had been prematurely advanced by a City Demonstration Agency (CDA) were recovered. Because the recipient of the grant funds had earned interest income of about \$46,000 through deposit of the funds, CDA reduced its budget accordingly. In addition, some Government borrowing was avoided with resultant reduced interest costs of about \$9,000—Housing and Urban Development (nonrecurring)	55,000	Reduction of funds available for expenditure resulting from the determination that funds collected for accrued annual leave costs of transferred employees could not be retained and used to augment the working capital fund of the National Bureau of Standards—Commerce (nonrecurring)	250,000
		Savings resulting from issuing receipts of remittance to borrowers once each year in lieu of each month—Small Business Administration (estimated annual savings)	250,000
		Elimination, reduction, or combination of periodically distributed reports found to be duplicative—Atomic Energy Commission (estimated annual savings)	179,000

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<i>Action taken or planned</i>	<i>Estimated savings</i>	<i>Action taken or planned</i>	<i>Estimated savings</i>
Other Items—Continued			
Savings in imputed interest resulting from adoption of a monthly rather than a weekly basis of reimbursing a contractor's costs—Navy (estimated annual savings)	\$160,000	Reduction in expenses charged to the Government-wide Indemnity Benefit Plan, Federal Employees' Health Benefits Program—Civil Service Commission (nonrecurring)	\$29,000
Savings resulting from a contractor's adoption of procedures for annual purchasing agreements with suppliers in lieu of repetitive purchases in small quantities—Defense (estimated annual savings)	142,000	Publications of one bureau, which duplicated information being published in another bureau, were discontinued or merged—Commerce (estimated annual savings)	10,000
Termination of a contract for operation of a weather station determined to be outside the mission of the Office of Naval Research—Navy (nonrecurring)	100,000	Savings resulting from combining two civilian payrolls at the Finance Center, Indianapolis—Army (estimated annual savings)	9,000
Consolidation of two separate industrial fund accounting systems into a single industrial fund accounting system—Army (estimated annual savings)	75,000	Increase in investment income earned by the Government-wide Indemnity Benefit Plan's deposit fund, Federal Employees' Health Benefits Program—Civil Service Commission (nonrecurring)	5,000
		Total other measurable savings	262,968,000

Additional Financial Savings Not Fully or Readily Measurable

Many significant financial benefits to the Government, 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 Congress, the departments, and the agencies to eliminate unnecessary expenditures or to otherwise correct deficiencies brought to light in our audit reports. Some examples of these actions identified during the fiscal year 1972 are described below.

Termination of Development of a Tactical Airborne Reconnaissance System

In September 1970 we reported to the Secretary of Defense that Army and Air Force developments of tactical airborne reconnaissance systems had been duplicative and that both services were proposing follow-on systems which also appeared to be duplicative. We pointed out that the duplication was the result of a roles-and-missions controversy between the two services and was traceable to reluctance of the Department of Defense (DOD) to resolve the matter in favor of one service or the other. We suggested that DOD review the proposed programs and consider eliminating unnecessary duplication.

The Director of Defense Research and Engineering agreed with our findings and stated that the proposed systems were being studied and that an area coordination paper was being prepared.

The area coordination paper presented three alternatives—approval of the Army proposal, approval of the Air Force proposal, or approval of a major redirection of the Air Force proposal. The paper recommended the first alternative—approval of the Army proposal.

In June 1971 the Director of Defense Research and Engineering reported to the House Committee on Appropriations that the Air Force proposal for a follow-on tactical airborne reconnaissance system had been canceled. The Air Force estimated that the total cost of this program would have been about \$510 million.

Reduction in Department of Defense Budget Request for the Lance Missile System

In April 1971 we reported to the Secretary of Defense that, since 1965, at least five studies were made

by the Army and the Department of Defense (DOD) concerning the effectiveness of the Lance missile system in a nonnuclear role. None of the studies, in our opinion, were favorable to the continued development and acquisition of the nonnuclear warhead. In July 1971 we sent to the House Committee on Appropriations a copy of our report and DOD's response. The Committee recommended, and the Senate Committee on Appropriations concurred, that \$3,780,000 should be deleted from the 1972 budget request for the nonnuclear warhead—\$900,000 of research, development, test, and evaluation funds and \$2,880,000 of procurement funds.

Collection of Medicare Program Overpayments to Supervisory and Teaching Physicians

Our report of problems in the administration of the traditional fee-for-service method of making Medicare payments for the services of supervisory and teaching physicians raised questions as to whether this method of payment was suitable in many teaching hospitals under the program.

The hospitals' records showed that teaching physicians' services paid on a fee-for-service basis under the supplementary medical insurance (part B) portion of the Medicare program had, in many instances, been provided only by residents and interns whose salaries were reimbursable as hospital services under the hospital insurance (part A) portion of Medicare. If reimbursement for the same services was made under parts A and B, Medicare would have been paying twice for such services.

We suggested that the Social Security Administration (SSA) determine the amount of overpayments at the six hospitals included in our review and determine

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whether similar overpayments had been made at other teaching hospitals.

In April 1971 SSA issued instructions to its carriers—paying agents under part B of Medicare—regarding the determination and recovery of overpayments for teaching physicians' services which it expected would involve 300 teaching hospitals. The carriers were instructed to make audits of a sample of claims at each teaching hospital.

As of June 30, 1972, carriers had identified Medicare overpayments of about \$2.8 million at 17 hospitals—not including the six we had reviewed—and had recovered about \$1,445,000 of the overpayments. Although actions taken by SSA as a result of our suggestion contributed substantially to these recoveries, we could not readily measure the amount attributable to our efforts.

Project Monitoring System To Insure Use of Open-Space Land in Accordance With Contract Grants

During our review we noted that, contrary to grant contract provisions, grantees in three Department of Housing and Urban Development (HUD) regional office jurisdictions had leased land acquired under the Open-Space Land Program without HUD's knowledge or approval. Of the 199 lease agreements we reviewed, 183, or about 92 percent, had not been approved by HUD. Also HUD had not established procedures to insure that grantees obtained this approval prior to leasing open-space land.

At the time of our review, revenues of about \$714,000, which grantees had collected under the 199 lease agreements, were not specifically set aside and utilized for open-space land project activities. We noted that HUD had not developed requirements or guidelines relating to the use of revenues received by grantees from leasing open-space land.

In a letter dated July 31, 1970, we recommended that HUD (1) establish a system of periodic site inspections of open-space projects to insure that grantees obtain HUD's approval prior to leasing open-space land, (2) establish guidelines for the approval of grantee requests to lease open-space land to insure that the proposed lease is compatible with the intent of the program and the timely development of the land for open-space uses, and (3) place restrictions on the use of revenues received from the leasing of open-space land. This matter was reported to the Congress in a report dated June 16, 1971.

On January 10, 1972, HUD instructed its field offices to insure that grantees used open-space land in accordance with the grant contracts. Grantees were required to annually certify to HUD that (1) there had been no change in the use of the land acquired under the program for other than open-space purposes, (2) there had been no leases, easements, or any other disposal of interest in open-space land other than those already approved in writing by HUD, and (3) any revenues (including leasing revenues) received in payment of a transfer of interest in open-space land had been specifically earmarked for future open-space activities. If this certification could not be made, grantees were required to submit detailed explanations from which HUD would determine whether they had violated Federal regulations. Where HUD determined that violations had occurred, grantees were required to (1) restore the land to its intended open-space use within a time limit approved by HUD or (2) submit its lease agreement for retroactive HUD approval.

In addition, the HUD field staff was instructed to make site visits to grantees who fail to submit certifications or explanations and to establish a schedule of site visits on a sample basis. Because of these requirements and instructions, the use of revenues should be improved with resultant savings to the Government.

Improved Administration of the Consolidated Open-Space Land Program

We reviewed 49 Urban Beautification and Improvement (UBI) projects and found that—contrary to established Department of Housing and Urban Development (HUD) guidelines and the general legislative intent of the program—HUD had approved 27 of these projects, having a total estimated cost of \$6.6 million, which we believed were partially or totally ineligible for Federal assistance under the UBI program. In our opinion, these 27 projects were approved by HUD regional officials because (1) central office program guidelines did not provide specific criteria against which the eligibility of proposed projects could be judged and (2) the review of proposed projects was often based on limited data which was insufficient for decisionmaking purposes.

With the passage of the Housing and Urban Development Act of 1970, the urban beautification, open-space land, and historic preservation programs were consolidated into a single grant program, effective July 1, 1971. HUD officials advised us that new guidelines would be issued for the use of the field office

staffs and also for grant applicants relative to the implementation of the consolidated open-space land program.

In a letter dated April 8, 1971, we reported our findings to the Assistant Secretary for Community Development and recommended that HUD (1) implement specific program guidelines relative to determining the eligibility of UBI activities for Federal financial participation and (2) perform in-depth program reviews of grant applications.

In a letter dated June 29, 1971, the Assistant Secretary for Community Development informed us that HUD had considered our letter in developing guidelines for the consolidated open-space land program. These guidelines, the Assistant Secretary added, would remedy certain of the weaknesses in HUD's administration of the UBI program, particularly with respect to definitions of eligible and ineligible items. The new guidelines were issued September 1, 1971, and if properly implemented should result in savings to the Government. The amount of such savings cannot be readily measured at this time.

Improved Administration of the Water and Sewer Facilities Grant Program

During our review we noted that as of February 28, 1971, the Department of Housing and Urban Development (HUD) had reserved approximately \$62 million in Federal funds for periods ranging from 1 to 4 years for 127 proposed water and sewer projects. We noted also that, as of this same date, HUD had 222 applications requesting about \$111 million in Federal funds for projects that it was unable to approve primarily because of a lack of funds.

We found that HUD had reserved—and continued to reserve—funds for long periods of time although grantees were not in a position to initiate construction of their projects within a reasonable time frame. We also found that HUD did not have a specific policy or procedure for transferring Federal funds from one project to another when grantees were unable to initiate construction within a reasonable period of time.

In a September 2, 1971, report to the Assistant Secretary for Community Development, we recommended that HUD (1) examine into the status of water and sewer projects for which HUD had reserved funds and for which construction was not initiated and (2) establish a policy for HUD regional and area offices to follow for withdrawing and transferring funds to other

projects when projects were not initiated within a reasonable period of time.

In a letter dated November 22, 1971, the Assistant Secretary for Community Development informed us that steps would be taken by HUD to reduce the delays in initiation of project construction and the length of time that Federal funds were not being used. The Assistant Secretary outlined actions to be taken by HUD to identify water and sewer projects which were not being constructed within a reasonable time period. He said that, where delays appeared to be of long duration, the projects would be canceled and Federal grant funds transferred to other projects.

In line with our report recommendations, the Assistant Secretary advised the Secretary of HUD that it was essential that HUD deal with the problem of excessive unexpended obligations. He advised the Secretary also that, to this end, the Community Development staff would prod individual grantees when there were lengthy delays in the start of construction of water and sewer projects.

Effective November 1971, a monthly report was required to be prepared for each HUD region showing, in part, the progress made toward recovering funds from grantees for water and sewer projects which would not be initiated within a reasonable period of time. It was required also that the monthly status reports for the Water and Sewer Facilities Grant Program be expanded to provide data on projects which were not progressing toward construction within specified time limits.

In addition, the Assistant Secretary directed that management conferences be held at each HUD regional office to discuss, with HUD central office representatives, the progress being made in monitoring water and sewer projects to insure that projects which were not progressing toward timely construction were expedited or canceled, as appropriate, and the funds recaptured.

Improvements in the Administration of Urban Studies Fellowship Program

Each year the Department of Housing and Urban Development (HUD) receives about 1,000 applications requesting financial assistance under the Urban Studies Fellowship Program. HUD evaluates these applications and selects about 200 which they submit to the Urban Studies Fellowship Advisory Board for review and approval. Of this number, the Board generally selects about 100 applications.

We noted that HUD had not provided applicant selection criteria for its evaluators. We noted also that, in its selection of applicants, HUD did not give prime consideration to applicants' academic achievements, although legislation required it to do so. In addition, HUD had not evaluated the program to ascertain whether (1) the program was accomplishing its basic objectives and (2) revisions in the administration of the program, including the selection criteria, were necessary.

In January 1972 we discussed with program staff our concern that HUD was using subjective criteria in evaluating applications. In a letter dated February 29, 1972, to the Assistant Secretary for Community Planning and Management, we recommended that HUD (1) develop suitable applicant evaluation criteria recognizing, to the extent possible, those factors generally accepted as measures of the applicant's abilities and (2) evaluate the program to determine:

Whether fellows entered the public service area of employment after completing their studies.

The length of time fellows remained in this area of employment.

Current duties, responsibilities, and positions of fellows.

The Assistant Secretary in a letter dated March 17, 1972, stated that HUD was aware of the need for more objectivity in evaluating applications and that his staff had developed review criteria and guidelines to be used in evaluating this year's (fiscal year 1972) 1,300 applications. These criteria, we noted, included the recognition of the students' academic achievements. The Assistant Secretary also stated that HUD planned to evaluate this program and that this evaluation would include, but not be limited to, the items discussed in our letter report. The Assistant Secretary added that HUD would attempt to simplify the administration of the program and arrange for better coordination with participating universities. We were subsequently advised that on June 12, 1972, the Assistant Secretary approved the evaluation which was to begin in July 1972.

We believe that the actions promised by the Assistant Secretary, if effectively implemented, should provide increased assurance that the financial assistance provided under the program is directed toward accomplishment of the program's basic objectives. These actions also should result in some savings in the time required by the Urban Studies Fellowship Advisory Board to review and approve applications.

Issuance of Grant Fund Guidelines Under the Community Mental Health Centers Program

Our review of the Community Mental Health Centers Program showed that some construction grants seemed larger than warranted because of improper allocation of construction costs and that there was a need for a realistic appraisal of an applicant's ability to obtain sufficient non-Federal funds for a center's operation and for monitoring a center's financial status after an award is made. In addition, about \$1 million in staffing grant money or center income was used for unauthorized or questionable purposes at several centers.

The Department of Health, Education, and Welfare agreed to implement recommendations contained in our July 1971 report to the Congress to (1) issue guidelines for allocating construction costs of service areas used jointly by a center and other components of a medical facility, (2) put into effect the plan of the National Institute of Mental Health to obtain adequate information on the financial needs and resources of recipients of staffing grants, and (3) issue adequate guidance to centers and review staffs on accountability for grant funds. These recommendations which should result in savings to the program were implemented in September 1971.

Reduction in Medicare Payments to Hospitals

To help control the cost of care provided to Medicare patients, legislation requires that each participating hospital and extended-care facility (ECF) establish a utilization review committee, consisting of at least two physicians, to review the medical necessity of patients' admissions to the institutions, the care provided, and the duration of the patients' stays.

Our examination of the utilization review procedures of selected hospitals and ECFs pointed up important problems in the manner in which the institutions had implemented the requirements for utilization review and in the controls being exercised over the functions by the Social Security Administration (SSA), the fiscal intermediaries who paid the benefits claimed, and State agencies.

We made several recommendations aimed at improving the utilization review function and achieving more effective enforcement of legislative requirements. Specifically, we recommended that the Secretary of Health, Education, and Welfare (HEW) arrange for SSA to establish more appropriate and uniform cri-

teria for determining when cases involving stays in hospitals and ECFs should be reviewed by utilization review committees.

HEW agreed that additional practical measures were necessary to foster the role of utilization review committees. HEW outlined several actions which it had taken or proposed to take to improve the utilization review function, including a program for presenting comparative data on lengths of stays for Medicare patients discharged from short-stay hospitals designed to identify those hospitals whose average length of stay differs significantly from the normal length of stay based on experiences of all hospitals in the same geographic area.

In testimony before a subcommittee of the House Committee on Appropriations on February 17, 1971, HEW estimated that \$60 million in Medicare costs for fiscal year 1972 would be saved by its requiring more extensive activity on the part of every hospital and extended-care facility utilization review committee to prevent unnecessary admissions and to reduce the lengths of patients' stays where warranted.

Actions taken by HEW as a result of our recommendations contributed substantially to the estimated annual savings of \$60 million in Medicare costs. However, the exact amount attributable to our efforts is not readily measurable.

Reinstatement of and Improvements in Value-Engineering Program

We found that the Maritime Administration had discontinued the requirement that value-engineering provisions be included in ship construction contracts. Value engineering is a technique used to reduce design and construction costs of a ship without sacrificing efficiency and reliability. The reasons given for discontinuance were that (1) the Merchant Marine Act of 1970 eliminated much of the Government's participation in shipbuilding contracts, (2) the ship operators opposed the program because they were required to accept value-engineering proposals which they felt might not be in their best interests and also because the monetary return was not sufficient, and (3) the shipyards opposed the program because they felt they would lose money if they had to delay work to incorporate a value-engineering change.

We concluded that, because of the substantial savings which resulted from the program and the potential future savings, complete elimination of the value-engineering program was not warranted. A need

existed, however, for some revision in the program to reflect changes in Maritime's ship construction activities and to correct inequities.

Our report made at the request of a Member of Congress contained several recommendations to the Secretary of Commerce directed toward reinstating the value-engineering program on a voluntary basis and to correct the inequities in the program.

Officials of the Department of Commerce advised us that the Maritime Administration would (1) require voluntary value-engineering clauses to be included in future ship construction contracts, (2) provide for savings from accepted value-engineering proposals to be shared equally by the owner and the shipyard, (3) reestablish its temporarily discontinued practice of issuing value-engineering letters to the maritime industry for its information and use, (4) continue to review ship construction plans and specifications from normal engineering and value-engineering viewpoints and make the review comments available to shipowners and shipyards, and (5) have the value-engineering staff continue to develop new materials, equipment, and ship systems that would either improve the operation of ships or reduce construction costs without an adverse effect on performance.

Relocation of the Internal Audit Function

The primary responsibility for conducting auditing activities of the Department of Housing and Urban Development (HUD) was assigned to (1) the Office of Audit, under the Assistant Secretary for Administration, and (2) the Audit Division, under the Assistant Commissioner for Administration, Federal Housing Administration. Also, the Inspection Division, Office of the Secretary, had an Examination Branch which performed certain functions characteristic of auditing activities. We concluded that a single audit organization placed at the highest practicable level would provide greater opportunity for more flexible use of staff resources and place the auditors in a better position to independently and objectively review and report on all HUD programs.

On March 14, 1969, we proposed that the Secretary consolidate all the audit organization into a single audit organization responsible to the highest practicable level, preferably the Secretary or Under Secretary.

In June 1969 the Secretary told us that the audit responsibilities of the two separate auditing entities had been transferred to the Office of Audit in May 1969 and that he had determined that the highest

practicable organizational level to which the Office of Audit should report was to the Assistant Secretary for Administration. We stated our belief that the placement of the internal audit organization under the Secretary or the Under Secretary would enhance the independence and objectivity of the audit staff and strengthen departmental control of audit activities.

On January 29, 1972, the Secretary created the Office of the Inspector General of HUD, reporting directly to the Secretary, and provided that the Office include the functions and personnel of the Office of Audit and the Office of Investigation.

We believe that this reorganization of the internal audit function should result in savings to the Government because it will permit more flexible use of staff resources and facilitate independent and objective reviews of all HUD programs.

Savings From Better Assessment and Collection of Postage

Our review of 334 publications involving annual mailings of about 373 million pieces of second-class mail showed that the Postal Service had undercharged postage of at least \$700,000 annually on 176 publications. The undercharges occurred because:

Ineligible publications were allowed to be mailed at low second-class rates.

The Postal Service had not established adequate criteria for classifying certain free copies of publications.

Postal Service examinations of publishers' records were neither timely nor effective.

The Postmaster General ordered an immediate examination of this situation, and the Deputy Postmaster General later informed us of various actions taken by the Postal Service to correct weaknesses in assessment and collection of postage for second-class mail. These actions should result in higher revenue in future years, but the amount is not readily determinable.

Use of Open-End Bulk-Bid Contracts for Termite Extermination Services for HUD-Acquired Houses

When a house is acquired by the Department of Housing and Urban Development (HUD) or the Veterans Administration (VA), as a result of foreclosure or voluntary deed in lieu of foreclosure, the house frequently requires termite extermination treatment before it is offered for sale. We found that the

HUD office in Jacksonville, Fla., was contracting for this service for each house at an average cost of about \$112. However, the VA office in Jacksonville had awarded an open-end bulk-bid contract for all of its required termite treatment services during a specific period at a cost of \$40 for each house treated.

On May 26, 1970, we sent a letter to the Secretary of HUD and suggested that the cost of termite treatment could be reduced substantially if HUD would use open-end bulk-bid contracts instead of contracting for this service on an individual basis. The Secretary of HUD subsequently advised us that the Jacksonville office was being asked to review its costs for termite treatment and to obtain the service at prices most advantageous to the Government.

In December 1970 HUD awarded a 1-year open-end bulk-bid contract for termite treatment of HUD houses located in the Jacksonville area. This contract reduced the cost for termite extermination to \$63, or by \$49 a house. At the end of the contract year—January 4, 1972—215 houses had been treated for termites at a savings of about \$10,500. Under a new 1-year contract awarded for the period ending January 4, 1973, termite control would cost \$53, or a further reduction of \$10 a house.

We are reporting the amount of \$11,000 as measurable savings attributable to this finding of the General Accounting Office. (See page 161.)

We believe the continued use of open-end bulk-bid contracts for termite control should produce further savings in subsequent years, but the amount of such savings is indeterminable at this time.

Reduction in Number of Crew Members Assigned to Ships Under Construction

The Navy assigns nucleus or skeleton crews for temporary-duty periods up to 6 months to ships under construction to insure delivery of ships with trained, well-organized crews. During the 12-month period ended July 31, 1970, more than 2,800 enlisted men representing more than 980 man-years costing about \$6.2 million had been assigned to temporary duty as nucleus crews for 43 ships. We questioned whether crews so assigned were being used efficiently and reviewed crew assignments for five of these ships.

Our report showed that at least 380 man-months costing about \$200,000 might have been better used and per diem costs of nearly \$200,000 might have been saved had the Navy limited the assignment of nucleus crews for these five ships to the minimum size and composition needed to perform essential functions.

As a result of our report, the Navy plans to reduce the size of nucleus crews currently being assigned to construction by about 35 percent. Actual annual savings will depend on a number of variables including fluctuations in the size of the Navy's ship construction program, the types of ships being built, and the extent of availability at the construction sites of Government quarters and messing facilities for the nucleus crews.

Prevention of Unnecessary Expenditures

From about July 1968 through February 1971, the Korean forces in Vietnam exceeded the number authorized by agreements between the United States and Korea. The United States continued to support the excess number of troops, including payment of overseas allowances. We concluded that the United States was paying allowances which were in excess of the commitments to Korea, and we questioned the payment of overseas allowances for forces in excess of authorized strength.

In April 1971, the Korean Government was advised that effective May 1971 overseas allowance payments would be limited to an amount justified by the authorized strength plus in-transit personnel. The Korean requests for payment for May through December 1971 reflected this limitation.

Improving Control of Unused Transportation Tickets and Travel Advances

In a survey of the transportation and traffic management procedures in the civil agencies, we found that the Peace Corps (now part of ACTION) had not established appropriate management controls over unused transportation tickets. Also, claims for unused tickets were not sent to GAO for further recovery, contrary to the requirements of the GAO Policy and Procedures Manual for Guidance of Federal Agencies.

Slow processing of refund claims by the Peace Corps resulted in about 140 claims being rejected by carriers during 1968 and 1969. Also, 260 unused tickets, 170 of which were valued at over \$14,000, were never submitted to carriers for refund; and \$100,000 worth of unused tickets was awaiting processing and filing of refund claims. The Peace Corps was also extremely lax in collecting outstanding travel advances. In August 1970 over \$30,000 was outstanding for an unreasonable length of time; by May 1971, it still had not collected \$16,000 worth of advances, \$7,000 of which was with individuals no longer employed by the agency.

In a letter to the Director of the Peace Corps dated December 8, 1971, we made several recommendations to improve the internal control of unused transportation tickets and travel advances.

In a letter dated January 20, 1972, the Director advised that his office had made a complete review of our report and, as a result, had incorporated new procedures in some areas and had taken positive action in other areas to tighten controls over unused transportation tickets and travel advances.

Justification for More Than One Daily LOGAIR Flight

In a report on LOGAIR (B-157476, Dec. 18, 1969), we pointed out that LOGAIR service was being provided twice a day to seven stations other than Air Materiel Areas (AMAs) transfer points and aerial ports of embarkation (APOEs). Since LOGAIR charges are based on miles flown and number of loadings, rather than tonnage carried, we believe substantial savings could be attained if LOGAIR service to such stations was restricted to one flight each day. In our draft report we brought this matter to the attention of the Department of Defense and recommended that Air Force Logistics Command (AFLC) review its scheduled stops at all stations receiving service from more than one daily flight with a view of eliminating non-essential LOGAIR service.

In February 1970, the Air Force Chief of Staff directed AFLC to include in the fiscal year 1971 LOGAIR program specific justification for more than one daily flight into any base other than AMAs, APOEs, and transfer points. Because of the above policy and other changes, such as the phaseout of the B-58 aircraft and the use of larger aircraft for LOGAIR, twice-a-day service was discontinued effective July 1, 1970, at the following Air Force bases: Grissom, Little Rock, Westover, Nellis, Carswell, and Cannon.

Reimbursement to the Government When Contractor Exercises Option To Buy Leased Land

In October 1966 we reported to the Secretary of Defense that land and buildings used by a contractor had been acquired under a 25-year lease with an option to buy certain parts of the land at a fixed price per acre. The lease provided that rentals would be credited against the purchase price should the option be exercised. We pointed out that nearly 100 percent of the

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contractor's operations were under defense contracts and that nearly all the rental costs were charged to the contracts. We suggested that an agreement be reached with the contractor which would insure that, should the contractor exercise the option, the Government would receive an equitable share of the rentals credited against the purchase price. Such an agreement was executed as of January 1, 1967.

A very significant increase in the value of the land in recent years virtually insures that the contractor will exercise the option to purchase at a fixed price. We estimated that the Government's equitable share of the rentals credited against the purchase price would have been \$173,000 had the option been exercised as of December 31, 1971, and will be about \$585,000 if the option is exercised at the end of the lease term.

Improved Controls To Recover Costs of Transportation Requests Issued for Unofficial Travel

We reported to the Secretary of Defense in May 1972 that the Army failed to collect an estimated \$2.8 million from certain Army members during fiscal year 1970 representing the cost of Government Transportation Requests (TRs) issued to them on a cost-charge basis for unofficial travel.

As a result of our review, the Army changed its procedures to control and recover the cost of TRs through its new centralized computer pay system. We recommended that the other services also consider controlling cost-charge TRs through their respective computerized pay systems. The amount of future savings that will result from this corrective measure could not be determined.

Increased Efforts To Identify and Adjust Erroneous Payments

The Navy Finance Center (NFC), Cleveland, Ohio, had been examining relatively few accounts of Navy personnel released from active duty—only about 3.5 percent in 1969. During limited tests of the unexamined accounts, we consistently identified numerous errors. For example, in 1969 we found overpayments totaling \$186 for each man-day of audit effort, and in 1970 we found overpayments totaling \$261 for each man-day of audit effort. We believed that increased examination effort could result in significant dollar recoveries and urged NFC to expand its audit operations.

On August 4, 1970, the commanding officer, NFC, informed us that he had assigned an additional full-time employee to examine pay accounts of personnel

separated from active duty. As of June 1971, the examiner had identified 505 errors (overpayments and underpayments) totaling \$43,199. During the same period examination costs totaled \$7,243.

Recovery of Excess Transportation Costs

In a survey of household-effect and mobile-home shipments made on Government bills of lading, we noted that in fiscal year 1971 the Transportation Division at the Finance Center, U.S. Army (FCUSA), identified 1,531 cases involving excess shipping costs incurred by Army members separated from active duty. The amounts due the Government from these members totaled in excess of \$197,000; however, collection action was attempted in only about 5 percent of the cases identified.

Because of the requirements of the Federal Claims Collection Act of 1966 (31 U.S.C. 952) that administrative agencies take prompt aggressive action to collect all claims of the United States, we recommended that FCUSA initiate collection action on all such cases, as required by law. The Army changed its procedures as a result of our survey to require that collection action be taken to recover excess shipping costs from out-of-service members for cases identified since January 1, 1972. The additional amounts that will be collected could not be determined.

Revision of Procedures To Establish Accounts Receivable for All Indebtedness Cases

In a review of pay accounts of servicemen separating from the Army, we estimated that local disbursing officers identified about 2,000 servicemen who separated in November 1969 and who were in debt to the Government. These debts, which amounted to about \$265,000, arose for such reasons as (1) prior overpayments, (2) failure to deduct allotments, or (3) excess leave taken. Local disbursing officers forwarded the indebtedness cases to the Finance Center, U.S. Army (FCUSA), for collection action.

We noted that FCUSA established accounts receivables for only those indebtedness cases which were included in sample audits of final pay vouchers. Only about 5.5 percent of all final pay vouchers were audited and the remainder were filed without action.

We brought this matter to the Army's attention and were advised that out-of-service collection procedures were being revised to establish accounts receivables in all final separation indebtedness cases.

Savings and Benefits to Others

Savings and benefits to others consist of realized or potential benefits other than those directly to the Government, which are attributable to action taken or planned on findings developed in GAO's examination of agency and contractor operations. The more significant savings or benefits to others identified during the fiscal year are described below.

Public Service Job Opportunities

The purpose of the Emergency Employment Act of 1971 is to provide unemployed and underemployed persons with transitional employment in jobs providing needed public services during times of high unemployment.

The Department of Labor's reports in the fall of 1971 indicated that the rate of hiring had not been as rapid as anticipated by the various program agents. For example, although Labor had approved funding applications which indicated that about 116,000 persons could have been placed in public service jobs by November, or possibly earlier, only about 50,000 persons were employed at November 23, 1971. Because hiring did not progress as planned, funds allocated for employment would not be used during the life of the grants.

In a letter dated December 8, 1971, to Labor's Assistant Secretary for Manpower, we pointed out that the purposes of the Emergency Employment Act of 1971 could be more effectively served by increasing the number of job opportunities. We suggested that this could be accomplished by requesting program agents to submit revised proposals as to how they could effectively hire more persons and thereby utilize program funds more promptly.

In response to our suggestion, the Department of Labor on February 9, 1972, issued a directive to all Regional Manpower Administrators pointing out that (1) the intent of the program was to provide as many employment opportunities as funds would permit and (2) available funds should be used for development of as many additional positions as might be needed to expend all funds within the life of the grant. The Department of Labor estimated that 35,000 more jobs than had been planned could be created.

Improved Demographic Data on the Housing Needs of Indians

Our review of the Government's program to eliminate substandard housing on Indian reservations showed that the housing needs of Indians had not been identified accurately and completely. The Bureau of Indian Affairs (1) had not established guidelines for determining whether housing units were standard or substandard and whether they needed to be renovated or replaced, (2) had classified newly constructed or renovated houses as standard although they lacked basic necessities, (3) had not insured that periodic inventories of housing conditions and needs were taken, and (4) had not considered family migration, adjacent off-reservation Indian population, housing deterioration, and family size and income in determining and planning to meet the long-term needs.

In response to suggestions made during our review, the Bureau issued new guidelines to its field officials for classifying Indian housing. Also the Bureau issued implementing instructions to field offices on taking annual inventories of Indian housing needs and considering other factors having an impact on such needs.

Redirection of Johnson-O'Malley Program Funds To Meet Unique Educational Needs of Indian Children

The basic concept of the Johnson-O'Malley Program, administered by the Bureau of Indian Affairs, Department of the Interior, is that Indian children from reservation homes are citizens of the State in which they reside and have the right to the same free public school education provided to other children. As provided in the Federal regulations, the Program is supplemental in nature and must be limited to meeting demonstrated financial needs after all other re-

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sources, including a reasonable tax effort, have been exhausted. Schools must limit the use of these Federal funds to meeting educational problems of Indian children under extraordinary or exceptional circumstances.

In a May 28, 1970, report to the Congress, GAO stated that Program funds were being provided to public schools for normal school operating costs on a formula or entitlement basis rather than on the basis of demonstrated financial need, including a reasonable local tax effort. The report also stated that, in delegating administration of the Program to the States, the Bureau had not provided a sufficient basis for determining, evaluating, and monitoring the school district needs for the funds.

In response to GAO recommendations, the Bureau (1) revised its contractual arrangements with the participating States to eliminate these problems and (2) took action to develop further guidelines and to provide for improved program review and evaluation. As a result the program funds redirected to special educational programs for the Indian children totaled \$11.5 million in fiscal year 1972, according to a Bureau estimate in February 1972.

More Effective Use of Funds for Agricultural Soil and Water Conservation

Under the Rural Environmental Assistance Program administered by the Department of Agriculture, Federal cost sharing with farmers for agricultural soil and water conservation practices averaged \$200 million plus \$36 million in administrative costs annually during

the 4-year period ended 1970. Federal cost sharing is based on the concept that conservation practices benefit the general public but yield little or no immediate special benefit to participating farmers.

We found that substantial amounts of funds were being spent on practices that did not produce any appreciable conservation benefits, that stimulated agricultural production—not an objective of the program, or that were otherwise questionable. These included (1) temporary practices primarily for growing grass cover to be plowed under in preparation for the next crop or to be used for grazing, (2) beautification practices that included establishing windbreaks for farmsteads, screening unsightly areas, and landscaping homesites, (3) farmland leveled to increase production, and (4) woodland converted for production purposes.

We questioned the propriety of various practices, both verbally and in writing, and suggested that some of them be eliminated from the national program. The questionable practices and related proposals were described in a report to the Congress dated February 16, 1972. The Department eliminated some practices that we had questioned and restructured others. On the basis of expenditures (excluding administrative costs) in 1970, the practices eliminated amounted to \$14 million plus an additional indeterminable amount annually. In addition, the reduction in cost sharing for restructured practices was substantial but indeterminable.

In future years, the funds that would have been spent for practices that have been eliminated or restructured will be directed to practices that accomplish program objectives and thus benefit the general public.

AUDIT REPORTS ISSUED DURING THE FISCAL YEAR 1972

	Reference	Addressee and date issued		
		Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES				
Department of Agriculture:				
Department-wide:				
Need for improved controls in the automated central payroll system	146951			11-29-71
Agricultural Marketing Service:				
Prices paid to producers under Federal milk marketing orders				5- 8-72
Agricultural Research Service:				
Real property management operations				5-22-72
Agricultural Stabilization and Conservation Service and Commodity Credit Corporation:				
Audit of Commodity Credit Corporation for fiscal year 1971	114824	1-14-72		
Greater conservation benefits could be attained under the Rural Environmental Assistance Program	114833	2-16-72		
Payment limitation under the 1971 cotton, wheat, and feed grain programs had limited effect on reducing expenditures	142011	4-12-72		
Potential benefit from considering discounts for prompt payment				4-27-72
Review of accounts and financial reports at the Minneapolis Commodity Office, fiscal year 1971				5- 2-72
Consumer and Marketing Service:				
Enforcement of Federal sanitation standards at poultry plants continues to be weak	163450	11-16-71		
Better inspection and improved methods of administration needed for foreign meat imports	163450	2-18-72		
Farmers Home Administration:				
Legislation recommended to reduce losses of two insured loan funds	114873	7-20-71		
Recreational projects financed by FHA provide benefits to a limited number of rural residents	114873	8-23-71		
Review of certain aspects of a sewer project in Adena, Ohio (request of Congressman Wayne L. Hays)	173465		2-22-72	
Information regarding a water project loan in Okmulgee County, Okla. (request of Senator William Proxmire)	114873		6-19-72	
Selected activities of the rural housing loan program in Arkansas, California, Georgia, Indiana, and Oklahoma (request of Chairman, Rural Development Subcommittee, Senate Committee on Agriculture and Forestry)	114873		6-22-72	
Review of certain aspects of the farm ownership and operating loan program				3-16-72
Subsidized interest rates on rural housing loans				4-28-72
Federal Crop Insurance Corporation:				
Audit for fiscal year 1971	114834	1-14-72		
Food and Nutrition Service:				
Two ways the Food and Nutrition Service could reduce costs of donating commodities	133059	2- 4-72		
Review of data gathered and reported for the Federal Outlays Report (request of Congressman Alvin E. O'Konski)	175150		6-27-72	
Administration and effectiveness of the Food Stamp Program				5-16-72

	Reference	Addressee and date issued	
		Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued			
Department of Agriculture—Continued			
Forest Service:			
Need to insure that the best possible use is made of research program findings . . .	125053	1-	6-72
Fees charged for recreation-residence-site permits on national forest lands (request of Congressman Wendell Wyatt)	152490	. . . . .	11-15-71
Proposed changes to Colorado Plateau pulpwood sale contract (request of Chairman, Subcommittee on Conservation and Natural Resources, House Committee on Government Operations)	173590	. . . . .	1-25-72
Settlement of accounts of accountable officers:			
Region 8, Atlanta, Ga.			9-20-71
Forest Service and Soil Conservation Service:			
Improvements needed in motor vehicle management	114833	. . . . .	8-13-71
Office of Plant and Operations:			
Updating mailing lists			2-17-72
Rural Electrification Administration:			
Policies and practices for advancing funds to borrowers			3-31-72
Soil Conservation Service:			
Construction of watershed projects terminated or delayed because of land rights problem	144269	7-	13-71
Department of the Army, Corps of Engineers (civil functions):			
Environmental and economic problems associated with development of Burns Waterway Harbor, Ind. (relates also to National Park Service, Department of the Interior, and Environmental Protection Agency)	160199	9-	20-71
Improvements needed in leasing Federal lands for agricultural purposes	173324	10-	1-71
Observations on dredging activities and problems	161330	5-	23-72
Condemnation proceedings on acquisition of a parcel of land (request of Senator Mark O. Hatfield)	173799	. . . . .	10-22-71
Progress payments on demolition contracts in Los Angeles area (request of Senator Alan Cranston)	174409	. . . . .	4-11-72
Improvements needed in Federal efforts to implement the National Environmental Policy Act of 1969 (relates also to other departments and agencies) (request of Chairman, Subcommittee on Fisheries and Wildlife Conservation, House Committee on Merchant Marine and Fisheries)	170186	. . . . .	5-18-72
Followup review of recovery of dredging costs from industries depositing solid waste in navigable waters	118634	. . . . .	2- 1-72
Interest-free periods allowed on Corps of Engineers projects in the Tulsa and Fort Worth Districts	167941	. . . . .	3-28-72
Revolving fund activities:			
North Pacific Division			7-12-71
Portland District			7-12-71
Seattle District			7-12-71
Summary report			12-21-71
Reasonableness of data submitted for inclusion in consolidated financial statements of the Federal Columbia River Power System for fiscal year 1971			5- 5-72
Acquisition of mineral rights at water resources projects			5-25-72
Need to evaluate the continued application of contractor quality control to civil works construction	118634	. . . . .	6-27-72

	Reference	Addressee and date issued		
		Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued				
Department of Commerce:				
Bureau of the Census:				
Cost estimates for mid-decade census proposals (request of Chairman, Subcommittee on Census and Statistics, House Committee on Post Office and Civil Service)	78395	. . . . .	7-27-71	
Cost estimates for major items included in proposed system of universal voter registration (request of Senator Edward M. Kennedy)	173959	. . . . .	11- 2-71	
Appraisal of mid-decade census proposals (request of Chairman, Subcommittee on Census and Statistics, House Committee on Post Office and Civil Service)	78395	. . . . .	1-31-72	
Review of accounting system in operation				12- 9-71
Bureau of Domestic Commerce:				
Statistical publication activities	146830	. . . . .		7-13-71
Economic Development Administration:				
Effects of Federal expenditures on the economy of Johnson County, Ky. (relates also to other civil departments and agencies)	130515	2-	7-72	
More effective use could be made of program resources to alleviate unemployment	153449	3-	21-72	
Impact of Federal programs on economic development, education, and housing in New Bedford, Mass. (relates also to other civil departments and agencies) (request of Senator Edward W. Brooke)	159835	. . . . .	1-11-72	
Federal financial assistance for construction and equipment of a sugar-processing plant in Easton, Maine (request of Senator Jack Miller)	165456	. . . . .	2-24-72	
Complaints against the Heart of Georgia Floriculture Project, Dublin, Ga. (request of Congressman Fletcher Thompson)	172934	. . . . .	5-24-72	
Maritime Administration:				
Savings available by consolidating certain reserve fleet activities (relates also to Department of Defense)	168700	11-	18-71	
Value engineering program needs to be improved and reinstated (request of Congressman Larry Winn, Jr.)	118779	. . . . .	5-10-72	
Settlement of accounts of accountable officers				3-31-72
National Bureau of Standards:				
Survey of consumer protection and safety programs				7-28-71
National Oceanic and Atmospheric Administration:				
Coordinating deep-ocean geophysical surveys would save money (relates also to Department of the Navy)	133188	12-	8-71	
Publication of the EASTROPAC Atlas (request of Senator Philip Hart)	135397	. . . . .	1- 6-72	
Pension plan valuation				1-17-72
Debt collection operations				4-24-72
National Technical Information Service:				
Survey of operations				3-21-72
Department of Health, Education, and Welfare:				
New York region:				
Settlement of accounts of accountable officers				6- 7-72
Office of the Secretary:				
Need to give increased attention to financial management controls of special institutions	164031(1)	. . . . .		7-12-71

	Reference	Addressee and date issued		
		Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued				
Department of Health, Education, and Welfare—Continued				
Food and Drug Administration:				
Fees not charged for processing applications for new drugs	164031(2)	11-	4-71	
Dimensions of insanitary conditions in the food manufacturing industry . . .	164031(2)	4-	18-72	
Investigational use of Isoniazid—a tuberculosis control drug (request of Chairman, Subcommittee on Executive Reorganization and Government Research, Senate Committee on Government Operations)	164031(2)		10-	7-71
Total diet study and other pesticide and residue surveillance programs (request of Chairman, Senate Committee on Commerce)	164031(2)		2-	23-72
Health Services and Mental Health Administration:				
The Community Mental Health Centers Program—Improvements needed in management	164031(2)	7-	8-71	
Limited use of Federal programs to commit narcotic addicts for treatment and rehabilitation (relates also to Department of Justice)	164031(2)	9-	20-71	
Planning, construction, and use of medical facilities (request of Chairman, Subcommittee on Executive Reorganization and Government Research, Senate Committee on Government Operations)				
Cincinnati, Ohio, area	167966		7-	15-71
Jacksonville, Fla., area	167966		8-	27-71
San Francisco Bay area	167966		10-	13-71
Baltimore, Md., area	167966		10-	14-71
Denver, Colo., area	167966		11-	16-71
Health Service Project for preschool children in Mississippi (request of Congressman Thomas N. Downing)	164031(2)		8-	2-71
Expenditures incurred for health services provided at Community Health Center in Bellaire, Ohio (request of Chairman, Special Studies Subcommittee, House Committee on Government Operations)	166539		9-	16-71
Claimed competitive advantage obtained in the acquisition of a product developed with Government grant funds (request of Senator Charles H. Percy and Congressman Robert McClory)	170688		1-	17-72
Summary of reviews of planning, construction, and use of medical facilities at selected locations (request of Chairman, Subcommittee on Executive Reorganization and Government Research, Senate Committee on Government Operations)	167966		3-	7-72
Narcotic addiction treatment and rehabilitation programs in Washington, D.C. (request of Chairman, Subcommittee No. 4, House Committee on the Judiciary)	166217		4-	20-72
Maternal and child health programs authorized by title V, Social Security Act (request of Chairman, House Committee on Ways and Means)	164031(3)		6-	23-72
Administration of the hospital and medical facilities construction grant program	164031(2)			3-23-72
National Institutes of Health:				
Delays in construction of a proposed addition to the Dental Health Center in San Francisco (request of Congressman William S. Mailliard)	164031(2)		12-	1-71
Problems involving the effectiveness of vaccines (request of Chairman, Subcommittee on Executive Reorganization and Government Research, Senate Committee on Government Operations)	164031(2)		3-	28-72
Management of health research and teaching facilities construction programs .	164031(2)			6-16-72
Office of Education:				
Assessment of the Teacher Corps Program at the University of Southern California and participating schools in Los Angeles and Riverside counties .	164031(1)	7-	9-71	
Need for improving the administration of study and evaluation contracts . . .	164031(1)	8-	16-71	

	Reference	Addressee and date issued	
		Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued			
Department of Health, Education, and Welfare—Continued			
Office of Education—Continued			
Assessment of the Teacher Corps Program at the University of Southern California and participating schools in Tulare County serving rural-migrant children	164031(1)	8-25-71	
Office of Education should improve procedures to recover defaulted loans under the Guaranteed Student Loan Program	117604(7)	12-30-71	
Examination of financial statements of the Student Loan Insurance Fund for fiscal year 1970.	164031(1)	1-12-72	
The Federal program of aid to educationally deprived children in Illinois can be strengthened	164031(1)	6-22-72	
Examination of project using summer interns for program evaluation (request of Congressman Wright Patman)	164031(1)		8-18-71
Development of the College Suggestor information system (request of Congressman John H. Terry)	164031(1)		9- 8-71
Weaknesses in school districts' implementation of the Emergency School Assistance Program (request of Chairman, Senate Select Committee on Equal Educational Opportunity)	164031(1)		9-29-71
Use of Federal funds by the school system in Trimble County, Ky. (request of Congressman M. Gene Snyder)	164031(1)		12-14-71
Examination into grants to National Reading Center Foundation (request of Senator William Proxmire and Congresswoman Edith Green)	164031(1)		4- 4-72
Social and Rehabilitation Service:			
Ineffective controls over program requirements relating to medically needy persons covered by Medicaid	164031(3)	7-28-71	
Continuing problems in paying State claims for administrative expenses of public assistance programs	164031(3)	2- 7-72	
Problems in attaining integrity in welfare programs	164031(3)	3-16-72	
Problems in providing guidance to States in establishing rates of payment for nursing home care under the Medicaid program	164031(3)	4-19-72	
Comparison of simplified and traditional methods of determining eligibility for aid to families with dependent children (request of Chairman, Senate Committee on Finance)	164031(3)		7-14-71
Information concerning reported weaknesses in procurement practices (request of Congressman John F. Seiberling)	164031(3)		8-30-71
Drug purchases for Medicaid patients in nursing homes in Illinois (request of Chairman, Subcommittee on Long-Term Care, Senate Special Committee on Aging)	164031(3)		9-10-71
Analysis of Federal expenditures to aid Cuban refugees (request of Chairman, Subcommittee to Investigate Problems Connected With Refugees and Escapees, Senate Committee on the Judiciary)	164031(3)		11- 3-71
Drugs provided to elderly persons in nursing homes under the Medicaid program (request of Chairman, Subcommittee on Long-term Care, Senate Special Committee on Aging)	164031(3)		1- 5-72
Collection of child support under the program of aid to families with dependent children (request of Chairman, House Committee on Ways and Means)	164031(3)		3-13-72
Review of pamphlet on welfare (request of Congressmen Ben B. Blackburn and Bob Price)	164031(3)		3-17-72
Functions of the Missouri system for reviewing the use of medical services financed under Medicaid (request of Chairman, House Committee on Ways and Means)	164031(3)		3-27-72
Functioning of the Florida system for reviewing the use of medical services financed under Medicaid (request of Chairman, House Committee on Ways and Means)	164031(3)		6- 9-72

	Reference	Addressee and date issued	
		Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued			
Department of Health, Education, and Welfare—Continued			
Social and Rehabilitation Service—Continued			
Cuban refugee program			3-22-72
Need to implement HEW policy prohibiting Medicaid payments for drug products classified as ineffective or possibly effective			5- 9-72
Social Security Administration:			
Improved controls needed over extent of care provided by hospitals and other facilities to Medicare patients	164031(4)	7-30-71	
Problems in paying for services of supervisory and teaching physicians in hospitals under Medicare	164031(4)	11-17-71	
Need for legislation to authorize more economical ways of providing durable medical equipment under Medicare	164031(4)	5-12-72	
Examination into questions on the processing of claims for black lung benefits under the Federal Coal Mine Health and Safety Act of 1969 (request of Chairman, Special Subcommittee on Investigations, House Committee on Interstate and Foreign Commerce)	170686		8- 3-71
Evaluation of hospital medical staff's comments on report on review of Medicare payments for the services of salaried supervisory and teaching physicians (request of Chairman, Senate Committee on Finance)	164031(4)		8-17-71
Examination into statements concerning possible improper payments of social security benefits (request of Congressman William L. Scott)	164031(4)		10-21-71
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Office of Solid Waste Management Programs:				
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Management of Indirect Support Aircraft	163453			6-30-72
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Move of Army intelligence units to Fort Huachuca, Ariz. (request of Congressman Otis G. Pike)	173556		3-15-72	
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Inquiry concerning report on the readiness of the Strategic Army Forces (request of Senator James L. Buckley)	146896		6-20-72	
Cost of using civil service versus contractor labor for loading and unloading at the Military Ocean Terminal, Bayonne, N.J. (request of the Subcommittee on Manpower and Civil Service, House Committee on Post Office and Civil Service)	171695		6-21-72	
Contracts for operation of the Louisiana Army Ammunition Plant (request of Senator William Proxmire)	167724		6-29-72	
Summary of review of procurement of Fort Totten resuscitators (request of Senators Edward W. Brooke; Edward M. Kennedy; John O. Pastore; and William B. Spong, Jr.)	165631		6-29-72	
Contracts awarded by the Ammunition Procurement and Supply Agency				7-20-71
Do				7-30-71
Do				8- 2-71
Utilization of the Army personnel assigned to Europe for 12 months or less (classified)	146890			7-22-71
Examination into the return of materiel from the Pacific area to the United States	173440			7-29-71
Review of the Army's Base Operating Information System	163074			8- 2-71
Review of the Army Reserve Drill Pay System	125037			8-30-71
Procurement of ammunition components	157535			10- 4-71
Review of the Army's policies and practices for obligating operations and maintenance appropriation funds during the last 2 months of fiscal years	174211			10-26-71
Need to detect and correct military pay errors prior to members' separation from the service	125037			11- 3-71
Review of the Army National Guard Drill Pay System	125037			12-16-71
Contracts awarded by the Electronics Command				3- 3-72
Plan to procure the nonnuclear Lance missile	159041			3- 6-72
Contracts for shipment of coal from the United States to Europe				3- 7-72
Study concerning the efforts of the Army Materiel Command to improve management of its logistics system	162394			3-23-72
Test and evaluation of artillery equipment	157535			4- 3-72
Body protection for combat soldiers	174472			5- 8-72
Prices negotiated for spare parts				5-15-72
Contracts awarded by the Munitions Command				5-17-72
Progress payments to a contractor	132923			5-24-72
Research, development, test, and evaluation of accounting system of the U.S. Army Electronic Command, Fort Monmouth, N.J.				6- 8-72
Audits of disbursing officers' accounts:				
Continental United States installations, 7 reports				Various
Overseas installations, 2 reports				Various
Civilian pay audits:				
Continental United States installations, 17 reports				Various
Overseas installations, 8 reports				Various
Department of the Navy:				
Too many crewmembers assigned too soon to ships under construction	172632	8-	9-71	
Increase in unsuitability discharges of Marine Corps recruits requires improved planning and administration	164088	2-15-	72	
Causes of shipbuilders' claims for price increases	133170	2-28-	72	

	Reference	Addressee and date issued	
		Congress	Agency officials
MILITARY DEPARTMENTS—Continued			
Department of the Navy—Continued			
Need to increase the quantity of air-to-air missiles scheduled for repair (confidential)	132995	4-25-72	
Reducing procurement of initial support stocks for Navy ships	133058	6-28-72	
Contract administration at the Pacific Missile Range, Point Mugu, Calif. (request of Chairman, Subcommittee on Priorities and Economy in Government, Joint Economic Committee)	165302		7-28-71
Cost control at major private shipyards (request of Chairman, Subcommittee on Priorities and Economy in Government, Joint Economic Committee)	133170		8-23-71
Examination into reworked bearings being scrapped at the Naval Air Rework Facility, North Island (request of Congressman Bob Wilson)	156022		8-23-71
F-14 aircraft costs (request of Chairman, Joint Economic Committee)	168664		9- 3-71
The Navy Integrated Command/Management Information System (request of Chairman, House Committee on Appropriations)	163074		9-10-71
Proposed construction of 200-family housing units at a naval base (request of Senator Claiborne Pell)	169926		12-13-71
Controls over shipyard costs and procurement practices of a private shipyard (request of Chairman, Joint Economic Committee)	133170		1-13-72
Do	133170		3-23-72
Secretary of the Navy guest cruise program	169242		1-18-72
Contract award at Guantanamo Bay (request of Congressman Henry Helstoski)	172650		1-27-72
Subcontract award under a prime construction contract at the Naval Underwater Systems Center (request of Congressman Fernand J. St. Germain)	174749		1-31-72
F-14 aircraft program cost analysis (request of Chairman, Senate Committee on Armed Services)	168664		2-15-72
Settlement of claims submitted by a contractor on ship construction contracts (request of Chairman, Joint Economic Committee)	133170		3-15-72
Inquiry concerning strategic implications for Merchant Marine ship design (request of Congressman Robert E. Jones)	172601		4-11-72
Information concerning costs of processing and the number of employee grievances filed at the Norfolk Naval Shipyard (request of Congressman W. M. Abbutt)	175663		5- 8-72
Plan to acquire commercial aircraft for the Naval Reserve (requests of Chairmen, House and Senate Committees on Appropriations)	175251		6-21-72
Navy procurement of publication services under indefinite-quantity-type contracts	165961		7- 8-71
Review of the centralized Naval Reserve Drill Pay System	125037		8-18-71
Review of the procedures used by the Naval Aviation Supply Office in fiscal year 1970 for retention and disposal of repairable items	146727		8-30-71
Test and evaluation of the Fast Automatic Shuttle Transfer System	163058		9-16-71
Need for more effective audits and examinations of military pay	125037		9-20-71
Collection of revenues from Naval Petroleum Reserve No. 3 and Naval Oil Shale Reserves	66927		12-27-71
Proposed allocation and reporting levels of the Navy integrated financial management system project			12-30-71
Erroneous use of industrial funds to perform certain construction at the Philadelphia Naval Shipyard	173237		1-31-72
Review of the program for storage of contracts and disbursements and collection vouchers	147752		3- 1-72
Acquisition of data processing capabilities, Naval Air Development Center	163074		4- 3-72
Proposed procurement program for the patrol hydrofoil missile ship	160877		4-12-72
Audit of military pay and allowances by Marine Corps onsite examination teams	125037		5- 1-72
Pricing of purchase orders under \$100,000			5- 9-72
Procurement of the AN/UYSK-7(V) computer system	163074		5-22-72
Contracts awarded by the Air Systems Command			5-26-72

	Reference	Addressee and date issued		
		Congress	Committees or Members of Congress	Agency officials
MILITARY DEPARTMENTS—Continued				
Department of the Navy—Continued				
Civilian pay audits:				
Continental United States installations, 22 reports				Various
Audits of disbursing officers' accounts:				
Continental United States installations, 9 reports				Various
Overseas installations and ships, 9 reports				Various
Department of the Air Force:				
Large costs to the Government not recovered for launch services provided to Comsat	168707	10-8-71		
Increased use of financial data and an improved tariff system needed by the Military Airlift Command.	133025	1- 5-72		
System for buying spare parts for initial support of new military aircraft needs improvement.	133396	1-31-72		
Unrecovered costs for launch services provided to Comsat (request of Congressman James J. Howard)	168707		7- 2-71	
Transfer of an Air Force base clothing store to a regional exchange activity (request of Congresswoman Patsy Mink)	169268		7-15-71	
Alleged distribution of supplies to avoid unfavorable inspection reports (request of Congressman David L. Henderson)	173012		8-15-71	
Civilian distinguished visitor program	169242		10- 6-71	
GAO comments on a copy of a military fact sheet concerning the relationship between the civil and military air transportation systems (request of Senator Charles McC. Mathias)	138942		10- 6-71	
Information concerning the utilization of military cargo aircraft (request of the Subcommittee on Priorities and Economy in Government, Joint Economic Committee)	157476		10-15-71	
Procurement of AN/PRC-90 radio sets (request of Congressman Parren J. Mitchell)	173404		11-16-71	
Research contracts awarded by aerospace research laboratories (request of Congressman Clarence J. Brown)	172602		11-22-71	
Separation of an engine from a C-5A aircraft (request of Congressman Clarence D. Long)	162578		11-22-71	
Procurement of BLU-63/B bomblets (request of Congressmen Donald D. Clancy and Frank A. Stubblefield).	173803		1-14-72	
Leasing of certain automatic data processing equipment located at an Air Force center (request of Senator William Proxmire)	151204		1-20-72	
Allegations concerning irregularities in award of Western Test Range contracts (request of Senator William Proxmire)	174518		1-25-72	
Costs incurred in treatment of warehouse floors at Seymour-Johnson Air Force Base (request of Senator William Proxmire)	174825		2- 4-72	
Contract for production of a bomb lift truck (request of Congressmen James M. Collins and Olin E. Teague)	173788		3- 3-72	
Routing via Military Airlift Command sometimes more costly than via commercial carriers (request of Senator Hiram L. Fong)	133025		3- 3-72	
Cancellation of an invitation for bid (request of Chairman, House Select Committee on Small Business)	174837		3-23-72	
Information concerning the utilization of Military Airlift Command aircraft (request of Subcommittee on Priorities and Economy in Government, Joint Economic Committee)	133025		5-22-72	
Contract award procedures at Seymour-Johnson Air Force Base (request of Congressman David N. Henderson)	175141		6-14-72	
Management of material furnished a contractor by the Government				7-30-71
Development and initial production of nonnuclear munitions	173619			8- 9-71

	Reference	Addressee and date issued	
		Congress	Committees or Members of Congress	Agency officials
MILITARY DEPARTMENTS—Continued			
Department of the Air Force—Continued			
Limited followup examination into effectiveness and economy of the Air Force's physical inventory program for supplies and equipment stocked at Air Force Air Materiel areas	146828		9-28-71
Air Force Management Engineering Program	160879		10- 7-71
Survey of field printing plant in Germany			10-28-71
Examination into the procedures used to achieve reliability in aviation equipment	152600		1-19-72
Cash balances held by 7500th air base cashier that appear to be in excess of requirements			3- 2-72
Use of test results in decisions affecting acquisition of systems	175414		3-23-72
Procurement practices of the Government as compared with industry			3-31-72
Acquisition of ground support equipment	167023		5-16-72
Instituting separate training capabilities in the Air Force instead of continuing to use existing courses of other military services	175773		5-23-72
Evaluation of selected aspects of the Air Force accounting and reporting system for the procurement of aircraft and missiles	159797		6-20-72
Civilian pay audits:			
Continental United States installations, 15 reports			Various
Overseas installations, 2 reports			Various
Audits of disbursing officers' accounts:			
Continental United States installations, 46 reports			Various
Overseas installations, 12 reports			Various

INTERNATIONAL ACTIVITIES

Action:

Need for the Peace Corps to improve its controls over unused transportation tickets and travel advances	156996		12- 8-71
Improvements needed in the management of Peace Corps training activities	161724		6-15-72

Agency for International Development:

U.S. assistance to Morocco (secret)	171888	8-13-71	
U.S. participation in the foreign assistance programs for Indonesia (secret)	172450	9- 7-71	
U.S. programs in Afghanistan (secret)	174120	11-23-71	
U.S. technical assistance to support Indian agricultural development.	161854	6-22-72	
Information relating to amounts appropriated, authorized, or obligated for selected international programs (request of Chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations)	173240		7- 2-71
U.S. disaster relief to Pakistan following the November 1970 cyclone in East Pakistan (request of Senator Edward M. Kennedy)	173651		2-23-72
Civilian health and war-related casualty program in Vietnam—1 year later (request of Chairman, Subcommittee to Investigate Problems Connected with Refugees and Escapees, Senate Committee on the Judiciary)	133001		2-29-72
Followup review of civilian health and war-related casualty program in Laos (request of Chairman, Subcommittee to Investigate Problems Connected with Refugees and Escapees, Senate Committee on the Judiciary) (secret).	133001		3-13-72
Followup review on assistance to war victims in Vietnam (request of Chairman, Subcommittee to Investigate Problems Connected with Refugees and Escapees, Senate Committee on the Judiciary).	133001		3-27-72
Followup review of the refugee relief program in Laos (request of Chairman, Subcommittee to Investigate Problems Connected with Refugees and Escapees, Senate Committee on the Judiciary) (secret)	133001		3-29-72

	Reference	Addressee and date issued	
		Congress	Committees or Members of Congress	Agency officials
INTERNATIONAL ACTIVITIES—Continued			
Agency for International Development—Continued			
U.S. humanitarian aid to Pakistan following the outbreak of civil war in March 1971 (request of Senator Edward M. Kennedy)	173651		4-20-72
Review of AID's use of excess currencies for population and family planning assistance (request of Chairman, Senate Subcommittee on Foreign Operations, Senate Committee on Appropriations)	173240		4-21-72
Limited comparisons of prices paid for certain petroleum products financed by AID under the commercial import program and those of DOD in Vietnam (request of Senator William Proxmire)	163928		5- 4-72
Latin American scholarship program of American universities (request of Chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations)	173240		5- 5-72
U.S. assistance for Pakistani refugees in India (request of Senator Edward M. Kennedy)	173651		5-10-72
Review of AID's use of excess currencies for population and family planning assistance programs—January 1 to March 31, 1972 (request of Chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations)	173240		5-26-72
Relief assistance contributions to disaster victims in India and Bangladesh (request of Chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations)	173240		6- 9-72
Additional information on GAO report on review of U.S. participation in the foreign assistance programs for Indonesia (request of Congressman Bob Price)	172450		6-15-72
Aspects of U.S. assistance to disaster-stricken East Pakistanis (request of Chairman, Foreign Operations and Government Information Subcommittee, House Committee on Government Operations)	173651		6-29-72
Procedures to assist U.S. small business and shorten commodity procurement cycle in India need improvement	161854		8- 2-71
Review of accounting system in operation for excess property revolving fund	158381		8-31-71
Criteria needed for measuring technical assistance results and contractor performance	160789		10-20-71
Utilization of construction equipment in India financed by the AID through the commodity import program			10-28-71
More timely and realistic evaluation needed for capital development projects in Pakistan	158163		11-10-71
Utilization of AID-financed fertilizer to increase agricultural production in India	161854		11-16-71
Need for improving AID Missions' administration practices and procedures relative to AID's loan program			3- 1-72
Needed improvements in the information system for technical assistance projects			5- 3-72
Development performance of AID-assisted development banks in Latin America	175795		6-16-72
Department of Agriculture:			
Potential economic advantages by using unsalted butter in lieu of coconut oil for the production of imitation ice cream by the European Exchange Service	172539		7-22-71
Department of Commerce:			
Opportunities for increasing effectiveness of overseas trade exhibitions	135239	11- 4-71	
Need for more effective dissemination of new product information to foreign service posts abroad			9-28-71
Coordinated handling of agricultural trade leads needed			11-29-71
Improvements needed in World Trade Directory report processing			5-11-72

	Reference	Addressee and date issued		
		Congress	Committees or Members of Congress	Agency officials
INTERNATIONAL ACTIVITIES—Continued				
Department of Defense:				
Military Assistance Program:				
U.S. assistance to the Government of Thailand for deployment of Thai forces to Vietnam (request of Chairman, Subcommittee on U.S. Security Agreements and Commitments Abroad, Senate Foreign Relations Committee) . . .	133258	. . . . .	1- 4-72	
Military assistance and arms sales to Pakistan (request of Senator Edward M. Kennedy) (secret)	173651	. . . . .	2- 3-72	
Report on certain supply management aspects of the military aid programs for the Republic of China.	125087	. . . . .		3-29-72
Review of investment and recovery of U.S. assistance to the NATO Maintenance and Supply Agency				4-13-72
Other Defense International Activities:				
Progress to strengthen U.S. Government foreign tax relief on defense expenditures overseas	133267	1- 6-72		
Problems being experienced in the dependent shelter program in the Republic of Vietnam	159451	2-17-72		
Efforts by the United States to obtain agreement on the value of improvements on properties returned to the Federal Republic of Germany (confidential) . .	156489	6- 9-72		
Assistance to the Khmer Republic (Cambodia) (request of Chairman, Senate Foreign Relations Committee) (secret)	169832	. . . . .	11-26-71	
Review of selected activities relating to the liquidation of the foreign military sales fund	165731	. . . . .		7-14-71
Interagency Programs:				
Food for Peace:				
Followup review on potential savings in costs of transporting food donated for distribution abroad	159652	. . . . .		8-17-71
Need for better documentation and more information on the negotiations for commodity sales agreements with foreign Governments	146820	. . . . .		9-23-71
Utilization of Foreign Currencies:				
Sales and conversions of U.S.-owned foreign currencies	146749	. . . . .		12-29-71
International Organizations and Financial Institutions:				
Progress made toward independent and comprehensive audits of the Inter-American Development Bank	161470	7-20-71		
Follow-on review of interest rate differentials on loans made by international financial institutions to intermediate credit institutions (request of Chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations) .	161470	. . . . .	9-13-71	
Office of Management and Budget:				
Coordinated consideration needed of buy-national procurement program benefits .	162222	12- 9-71		
Department of State:				
Problems in the Khmer Republic (Cambodia) concerning war victims, civilian health, and war-related casualties (request of Chairman, Subcommittee to Investigate Problems Connected with Refugees and Escapees, Senate Committee on the Judiciary)	169832	. . . . .	2- 2-72	
Improving financial management	115398	. . . . .		11-20-71
Questionable procedures for the retention of documentation supporting disbursing transactions of the U.S. Disbursing Officer in Paris, France				12- 2-71
Selected activities of U.S. refugee program in Europe				12-27-71
Survey of motor vehicle operations of the Department of State and related agencies in the Philippines				2- 4-72
Review of the Department of State's working capital fund accounting system in operation				5-23-72

	Reference	Addressee and date issued		
		Congress	Committees or Members of Congress	Agency officials
INTERNATIONAL ACTIVITIES—Continued				
Department of Treasury:				
Purchase of U.K. pounds sterling by Treasury for transfer to Disbursing Officer checking accounts in London				5- 1-72
Independent Agencies:				
Examination of financial statements of the Export-Import Bank of the United States, fiscal year 1971	114823	10-29-71		
Audit of the Inter-American Social Development Institute, fiscal year 1971	135075	2-29-72		
Audit of the Overseas Private Investment Corporation, fiscal year 1971	173240	5-16-72		
Study of certain operations of the Overseas Private Investment Corporation (request of Chairman, Senate Foreign Relations Committee)	173240		4-11-72	
Study of the development impact of U.S. investment in less developed countries under the investment insurance program	173240			9-24-71
Opinion on financial statements of the Overseas Private Investment Corporation, fiscal year 1971	173240			11-30-71
Boards, Committees, and Commissions:				
Foreign Trade Zones Board:				
Ways to increase exports through Foreign Trade Zones	114898			5-26-72
Multiagency Activities:				
Opportunity for savings in providing war-risk insurance for contractor property and employees	172699	11- 9-71		
Ways to increase U.S. exports under the Trade Opportunities Program.	135239	1-28-72		
Reorganization proposals relative to foreign aid and foreign military sales programs (request of Chairman, Senate Foreign Relations Committee)	172311		11-24-71	
Allegations of mismanagement of a Peruvian highway project financed with U.S. assistance funds (request of Senator William Proxmire).	172661		12- 2-71	
Other International Activities:				
U.S. Government moneys provided to Radio Free Europe and Radio Liberty (request of Chairman, Senate Committee on Foreign Relations).	173239		5-25-72	
Supplement to report on U.S. Government moneys provided to Radio Free Europe and Radio Liberty dated May 1972 (request of Chairman, Senate Committee on Foreign Relations) (secret).	173239		5-25-72	
GOVERNMENT-WIDE AND MULTIAGENCY ACTIVITIES				
Comments on the first annual report of the Office of Management and Budget and the Department of the Treasury regarding implementation of sections 201 and 202 of the Legislative Reorganization Act of 1970	115398	9-30-71		
Fees allowed nonsponsored not-for-profit organizations by various Government agencies	146810	11-26-71		
Status, progress, and problems in Federal agency accounting during 1970 and 1971	115398	5-19-72		
Survey of the application of the Government's policy on self-insurance	168106	6-14-72		
Instances of alleged waste (request of Senator Henry M. Jackson)	171594		7- 6-71	
Carrier's billings supported by certificates in lieu of lost bills of lading which GAO had determined to be barred for payment by statute of limitations (request of Senator Hugh Scott)	172370		7-30-71	
Restrictions on the use of travel agencies for the procurement of transportation for Government personnel (request of Congressman Nick Begich)	103315		9- 3-71	
Each Government agency is responsible for establishing minimum overcharges per bill of lading (request of Congressman Earle Cabell)	174034		9-21-71	

	Reference	Addressee and date issued		
		Congress	Committees or Members of Congress	Agency officials
GOVERNMENT-WIDE AND MULTIAGENCY ACTIVITIES-- Con.				
Propriety for payment of transportation charges to an intermediate carrier (request of Senator John O. Pastore)	173754	. . . . .	11-	3-71
Followup review of costs of operating executive lunchrooms (request of Senator Margaret Chase Smith)	168033	. . . . .	12-	7-71
GAO actions under section 204 of the Legislative Reorganization Act of 1970 (request of Congressman Michael J. Harrington)	115398	. . . . .	1-20-	72
Selected significant audit findings in the civil departments and agencies of the Government (request of Chairman, House Committee on Appropriations).	106190	. . . . .	1-24-	72
Selected significant audit findings in the Department of Defense (request of Chairman, House Committee on Appropriations)	106190	. . . . .	1-28-	72
Geographic breakdown of Department of Defense and National Aeronautics and Space Administration contracting (request of Senator John V. Tunney).	115398	. . . . .	3-	8-72
Padded Federal concessionaire costs at Federal airport (request of Congressman Joel T. Broyhill)	120047	. . . . .	3-	8-72
Transportation bills for services furnished the U.S. Government and our action in setting off amounts otherwise due the company for overcharges (request of Congressman James C. Wright)	170829	. . . . .	3-14-	72
Information concerning billing practices of contractor (request of Congressman Robert F. Drinan)	174628	. . . . .	3-30-	72
Offer from Government bill of lading service to post-audit certain Government Bills of Lading following the regular GAO audit (request of Congressman O. Clark Fisher)	175574	. . . . .	4-	3-72
Claim of Ellis Watson Moving and Storage Company for packing charges performed on household goods shipments (request of Congressman William R. Anderson)	175471	. . . . .	4-21-	72
Summary report of activities under the Joint Financial Management Improvement Program, 1971	84260	. . . . .	5-	9-72
Answers to questions supplementing the March 1, 1972, hearings on implementation of the Legislative Reorganization Act of 1970, sections 201 and 203 (request of Chairman, Joint Committee on Congressional Operations)	115398	. . . . .	5-	9-72
Comments on the costs for automatic data processing activities in the Federal Government (request of Congressman Henry Helstoski)	115369	. . . . .	6-	5-72
Comments on the reuse of Government-owned software among agencies, their contractors, and private industry (request of Congressman Manuel J. Lujan, Jr.)	115369	. . . . .	6-22-	72
Material for the record on the April 25, 1972, hearings on sections 201-203 of the Legislative Reorganization Act of 1970 (request of Chairman, Joint Committee on Congressional Operations)	115398	. . . . .	6-23-	72
Measuring and enhancing productivity in the Federal sector (request of Senator William Proxmire)	163762	. . . . .	6-30-	72
Progress in the implementation of Title II of the Legislative Reorganization Act of 1970 (request of Chairman, Joint Committee on Congressional Operations), 2 reports	115398	. . . . .	Various	
Survey of family housing management by Federal agencies in the Panama Canal Zone				11-23-71
Review of proposed integrated grant administration program				12-22-71
Case studies of auditing in a computer-based systems environment	115369	. . . . .		12-31-71
Glossary of terms relating to the budget and fiscal provisions of the Legislative Reorganization Act of 1970				12-31-71
Evaluation of cost-effectiveness analyses—a case study				5- 9-72
Regression analysis as an audit tool—a case study				6-30-72
Recommendations of the interagency study team to standardize administrative requirements for grants-in-aid, 6 reports				Various

	Reference	Addressee and date issued		
		Congress	Committees or Members of Congress	Agency officials
ORGANIZATIONS OUTSIDE THE FEDERAL GOVERNMENT				
Gorgas Memorial Institute of Tropical and Preventive Medicine, Inc.:				
Examination of financial statements for fiscal year 1971	114867			1- 7-72
Government Services, Inc.:				
Audit of financial statements for year ended Dec. 31, 1971	114820			3-24-72
Audit of financial statements of the Employee Retirement and Benefit Trust Fund and the Supplemental Pension Plan for year ended Dec. 31, 1971	114820			3-24-72
Informatics, Inc.:				
Comments on matters contained in GAO's report to the Congress on "Acquisition and Use of Software Products for Automatic Data Processing Systems in the Federal Government" (request of the President of Informatics, Inc., and Congressman Glenn M. Anderson)	115369		11-16-71	
Examination of financial statements of Disabled American Veterans—National Headquarters and Service Foundation for year ended Dec. 31, 1970, and Life Membership Fund for year ended June 30, 1971	55712	1-21-72		

LEGISLATIVE RECOMMENDATIONS

The Budget and Accounting Act, 1921, requires our Office to make recommendations to the Congress "looking to greater economy and efficiency in public expenditures." In cases where an audit or examination reveals that corrective legislation is required or desirable, our report will include an appropriate proposal for legislative consideration. In other cases, we may recommend that the affected agency sponsor a legislative proposal. Furthermore, we bring proposals for legislation to the attention of the committees of jurisdiction.

Those reports issued during the past year containing legislative recommendations, together with certain recommendations carried forward from prior years, are discussed in this section of the Appendix.

Recommendations to the Congress During Fiscal Year 1972

1. Delays in Completing Watershed Protection and Flood Control Projects.—Many watershed improvement and flood prevention projects administered by the Soil Conservation Service, Department of Agriculture, have been terminated prior to completion, or their construction has been unduly delayed. Some of the incomplete projects were authorized in 1944.

The major cause of the terminations and delays was the failure or delay of local sponsors to acquire "land rights"; i.e., the land, easements, or rights-of-way needed for the projects. The failures and delays resulted in expenditures of Federal, State, and local funds on projects that may never be completed, significant increases in project costs, and long delays in realizing project benefits.

We suggested alternative actions, including possible legislation, for the Congress to consider with respect to the projects that were being delayed many years beyond original target dates. (Construction of Watershed Projects Terminated or Delayed Because of Land Rights Problems, B-144269, July 13, 1971)

2. Minimum Wage Determinations Under the Davis-Bacon Act.—In a series of reports issued between 1962 and 1970, we informed the Congress of the manner in which the Department of Labor—under the Davis-Bacon Act and related legislation—had made minimum wage rate determinations for selected major federally financed construction projects. The reports stated that the rates prescribed by the Department were significantly higher than prevailing wage

rates and had substantially increased the cost of construction borne by the Federal Government.

For 29 selected construction projects reviewed over the past decade, we estimated that construction costs increased 5 to 15 percent. This amounted to about \$9 million of the total \$88 million construction costs involved in these projects. Higher wage rates can have an inflationary impact on the economic and labor conditions in the area of the project and in the country as a whole.

We suggested, in a report issued on July 14, 1971, that the Congress consider revising the Davis-Bacon Act to increase the minimum contract cost (presently \$2,000) that is subject to wage determination. An amount between \$25,000 and \$100,000 would be more representative of present-day costs of construction projects. An increase in the minimum contract cost would substantially reduce the number of wage determinations to be issued by the Department and thereby lessen the administrative burden imposed on it (and on contracting parties) without appreciably affecting the wage stabilization objectives of the act. (Need for Improved Administration of the Davis-Bacon Act Noted Over a Decade of General Accounting Office Reviews, B-146842, July 14, 1971)

3. Means To Reduce the Losses of Two Insured Loan Funds.—The Farmers Home Administration (FHA) has incurred substantial losses (\$104 million) in recent years in operating the Agricultural Credit Insurance Fund (ACIF) and the Rural Housing Insurance Fund primarily because, under money-market conditions, FHA interest rates on loans to borrowers have been substantially less than the rates at which

FHA sells the borrowers' loan notes to investors. Although the sale of the notes to investors is required by legislation establishing the funds, future operating losses of the two funds could be minimized if the legislation were changed to permit FHA to finance new loans through borrowings from the Treasury.

Operating losses of ACIF could be further reduced if FHA were authorized to charge interest on loans at rates more closely related to the Government's cost of financing the loans and to the borrowers' abilities to pay. The 1961 act authorizing ACIF established a 5-percent interest ceiling, but the legislative history of the act did not indicate the intent of the Congress in doing so.

FHA paid interest of less than 5 percent to investors who purchased its loan notes from 1961 to 1965, but since 1965 FHA has paid significantly more than 5 percent. Also FHA officials told us, and FHIA statistics showed, that many FHA borrowers could pay interest at rates in excess of the statutory ceiling of 5 percent.

In the interest of reducing losses of the two funds, we suggested that the Congress consider amending legislation to require that the loans be financed through borrowings from the Treasury within such amounts as may be specified annually in appropriation acts and that the interest rates on loans made from ACIF be based on the market yields on outstanding Government obligations of comparable maturities and be adjusted in accordance with the borrowers' abilities to pay. (Legislation Recommended To Reduce Losses of Two Insured Loan Funds of the Farmers Home Administration, B-114873, July 20, 1971)

4. Imposition of Monetary Fines on Small Business Investment Companies.—The Small Business Administration (SBA) is authorized to hold administrative hearings on activities of small business investment companies (SBICs) which are suspected of being in violation of the Small Business Investment Act of 1958 or regulations. If violations exist, SBA may order an SBIC to cease and desist from such activities or may suspend or revoke the SBIC's license. SBA, however, had not held administrative hearings as a means of enforcing compliance with the act or the regulations for many years.

SBA is authorized to impose fines against SBICs for the nonfiling or late filing of required reports. After SBA was authorized to impose fines, the nonfiling and late filing of reports ceased to be a problem. We were informed that, because no monetary penalties were provided for violations (except those relating to the

nonfiling or late filing of required reports), SBICs often chose to ignore SBA's administrative orders.

We believe that judicious use of administrative proceedings, coupled with the authority to levy fines against SBICs which fail to correct violations when directed to do so by SBA, should result in more timely corrective action by SBICs and should discourage them from committing violations. We therefore suggested that the Congress consider the feasibility of providing SBA with legislative authority to impose fines against SBICs which fail to correct violations when directed by SBA to do so. (Further Improvements Needed in Administration of the Small Business Investment Company Program, B-149685, July 21, 1971)

5. Need for Consideration of Rural Recreation Loan Program.—The Farmers Home Administration (FHA) makes loans under three programs to provide rural residents with outdoor-oriented recreational projects. Our review showed that the programs provided benefits to a limited number of rural residents because the projects served only a small percentage of the residents of rural areas; served primarily urban, rather than rural, residents; had membership restrictions which limited the use of facilities to organization members only; and/or charged fees that were beyond the ability of many rural residents to pay.

The scope of the programs had been decreased in recent years as a result of FHA's increasing realization that the programs, as constituted, were not meeting their objectives. Because of the limited extent to which the programs had served rural residents, we recommended that the Congress consider the matters discussed in our report with a view to determining whether recreational loan programs should be continued and, if so, what form the programs should take. (Recreational Projects Financed by Farmers Home Administration Provide Benefits to a Limited Number of Rural Residents, B-114873, Aug. 23, 1971)

6. Accomplishing Objectives of Work Incentive Program.—The Work Incentive Program (WIN) was designed to provide recipients of welfare under the Aid to Families with Dependent Children (AFDC) program with training and services necessary to move them from welfare dependency to employment at a living wage. We reported that the Department of Labor had experienced problems in attempting to meet this objective. Some of these problems result from the design of the program.

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Fathers frequently lose money by going to work because their AFDC payments are discontinued when they obtain full-time employment, regardless of their wages. Mothers continue to receive AFDC payments following their employment, and payments are reduced only after certain income levels have been reached. The immediate cutoff of welfare payments to AFDC families with working fathers is unrealistic and tends to discourage fathers from seeking employment.

The effectiveness of sanctions applied against persons who refuse to participate in WIN or to accept employment, without good cause, also appears questionable. Local officials have been hesitant to apply the sanctions because such application is administratively time consuming and penalizes the entire family, not just the uncooperative individual.

Since the design of the WIN and AFDC programs cannot be dealt with effectively by administrative action alone, we suggested that the Congress consider making family income and family needs the principal criteria upon which AFDC eligibility determinations are based, irrespective of whether the family head is male or female or whether employment accepted by heads of families is full time or part time.

We suggested also that the Congress consider adjusting the welfare cutoff provisions for both dollar payments and related supplemental benefits, examining the existing penalty provision of WIN, and enacting legislation to strengthen work incentive and work requirements. (Problems in Accomplishing Objectives of the Work Incentive Program (WIN), B-164031, Sept. 24, 1971)

7. Reorganization Proposals Relative to Foreign Aid and Foreign Military Sales Program.—At the request of the Senate Committee on Foreign Relations, we made an analysis of the administration's proposed reorganization of the foreign aid and foreign military sales programs and identified priority problems synthesized from our general experience with these programs.

We identified a series of issues, including certain changes in the Congress' authority and responsibility, which would arise from the administration's reorganization proposals. Certain areas in which the reorganization proposals fell short of, or did not expressly address, recommendations resulting from past GAO reviews were identified.

We recommended legislative language to remedy, or to give legislative emphasis to, a number of matters

discussed in our report. We made 21 suggestions for revisions of the administration's legislative proposals on the following topics.

- Establishment of allocation and evaluation standards.

- Expansion of program justifications to the Congress.

- Application of advance certification requirements to excess defense activities.

- Exemption from contract law regulations might permit exemption from foreign military sales contract provisions.

- Formulation of program aims in objectively measured terms.

- Treatment of U.S. preferential trade as having a foreign aid component.

- Treatment of debt rescheduling as a form of foreign assistance.

- Improvement of methods and criteria for assessing country capability for contributing agreed resources for U.S.-supported activities.

 - Restriction on payment of foreign taxes.

 - Recipient payment of transport costs of U.S.-donated surplus commodities and property.

 - Increased management attention to use of local currency resources.

 - Use of U.S.-owned or controlled local currency in lieu of dollar assistance.

 - Improvement in monitoring and evaluating performance of international organizations.

(Reorganization Proposals Relative to Foreign Aid and Foreign Military Sales Programs, B-172311, Nov. 24, 1971)

8. Differences in Training Allowances Payable Under Various Federally Assisted Manpower Programs.—The Federal Government supports various manpower programs to help unemployed and underemployed persons, primarily the poor and disadvantaged, prepare for and obtain suitable jobs. Persons participating in the manpower programs are paid training allowances, which are intended to be subsistence or incentive payments and are determined in accordance with enabling program legislation.

Our review showed that, in seven of the nine federally supported programs in the Atlanta, Ga., area, the training allowances varied significantly among the programs. For example, for trainees with no dependents, monthly payments varied as much as \$100 and, for trainees with three dependents who were not wel-

fare recipients, the differences could have been as much as \$145.

We believe that, in the interest of equitable treatment of all trainees and as a matter of consistent Government-wide policy, training allowances for all federally funded training programs should be standardized to the maximum extent practicable. We therefore suggested that the Congress consider amendatory legislation which would standardize such allowances for participants in similar training activities under similar circumstances in the same area. (Opportunities for Improving Federally Assisted Manpower Programs Identified as a Result of Review in the Atlanta, Ga., Area, B-146879, Jan. 7, 1972)

9. Need To Eliminate Small Cost-Share Increases Under the Rural Environmental Assistance Program.—A 1938 amendment to the Soil Conservation and Domestic Allotment Act requires that, if a farmer receives cost shares totaling less than \$200 a year for carrying out our conservation practices on a farm under the Rural Environmental Assistance Program, he be paid an additional nominal amount. The program is administered by the Agricultural Stabilization and Conservation Service, Department of Agriculture. The intent of this provision was to provide greater financial assistance to operators of small farms.

The nominal payments—which range from 40 cents to \$14 each and total about \$7 million annually—do not further the objectives of the program and are an administrative burden. The funds could be used to enable thousands of additional farmers to participate in the program. We therefore recommended that the Congress amend section 8(e) of the Soil Conservation and Domestic Allotment Act to eliminate the provision for cost-share increases. (Greater Conservation Benefits Could Be Attained Under the Rural Environmental Assistance Program, B-114833, Feb. 16, 1972)

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10. Extensive Use of Military Personnel in Civilian-Type Positions.—Department of Defense (DOD) policy is that civilians will fill all positions not requiring military personnel for reasons of law, training, security, discipline, rotation, combat readiness, or a need for a military background to successfully perform assigned duties. At the military installations where we reviewed the extent to which the policy was being implemented, we found that military personnel were being used extensively in civilian-type positions.

We reported that a major restriction to full application of the DOD policy was the failure of the military

departments to determine the types and numbers of positions which should be filled by military personnel and those which should be held by civilians. We noted that, until military department headquarters make these determinations and provide implementing guidelines to subordinate commands, (1) it is likely that installation commanders will continue to make subjective decisions concerning assignments and (2) realistic estimates of the numbers of military and civilians required to fulfill the Departments' missions cannot be prepared and included in future budget requests. DOD disagreed, saying that principal constraints on use of civilians had been restrictions on civilian employment and budgetary limitations.

Since military and civilian personnel costs are funded in separate appropriations, we recommended that DOD prepare and include in its future budget requests realistic estimates of the numbers of military and civilian personnel it intends to use. Unless these estimates are prepared within the framework of DOD's policy, it is not reasonable to expect the Congress to appropriate funds on a basis consistent with that policy. Also, since civilian personnel ceilings usually are established by the Office of Management and Budget, DOD must provide that agency with realistic estimates of the number of military positions that can be converted to civilian positions and with convincing justification of the number of positions needed to accomplish its mission.

GAO believes that substantial numbers of positions occupied by military personnel could be converted to civilian positions during fiscal year 1973. Therefore we also recommended that, if the Congress wishes to permit early action on the substitution of civilians for an equivalent or greater number of military personnel, DOD be authorized to transfer such funds as may be required from the fiscal year 1973 military personnel appropriations to the appropriation from which civilians are compensated. A precedent for this authority was provided in the Department of Defense Appropriation Act of 1955. (Extensive Use of Military Personnel in Civilian-Type Positions, B-146890, Mar. 20, 1972)

11. Efforts To Employ Disadvantaged Persons in the Federal Government.—It is the policy of the Federal Government to hire the economically and educationally disadvantaged. Efforts to carry out this general policy fall into five categories: Government-wide employment efforts, individual agency programs, youth

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programs, federally assisted manpower training programs, and the Public Service Careers Program.

We found that there was no assurance that the persons enrolled in Federal employment programs for the disadvantaged, such as the Public Service Careers Program, actually were disadvantaged as defined by the Department of Labor. The Civil Service Commission said that requiring an applicant for Federal employment to disclose information on family size and income would be an unwarranted invasion of privacy.

Another problem in effectively implementing the Government policy, we were told, is that the merit system requires the appointment of the best qualified candidates to the Federal service. This presents obstacles to those applicants who have limited skills and education. The Commission stated that it legally could not limit entry into the competitive service on such nonmerit factors as those included in the official definition of a "disadvantaged person."

We reported that specific legislation would be required if the Congress wanted the Civil Service Commission to have authority (1) to obtain and consider data needed to identify applicants as disadvantaged persons and (2) to afford preference to disadvantaged persons seeking Federal employment. We noted that in the past the Congress had provided certain statutory exceptions from the merit system, such as those for veterans and for unemployed and underemployed persons under the recently enacted Emergency Employment Act (Public Law 92-54). (*Efforts To Employ Disadvantaged Persons in the Federal Government*, B-163922, Apr. 17, 1972)

12. Insanitary Conditions in the Food Manufacturing Industry.—To assess sanitary conditions in the food manufacturing industry, we requested the Food and Drug Administration (FDA), Department of Health, Education, and Welfare, to inspect 97 food manufacturing and processing plants selected at random from about 4,550 such plants in six FDA districts including 21 States.

Of the 97 plants included in the sample, 39—or about 40 percent—were operating under insanitary conditions. Of these, 23—or about 24 percent—were operating under serious insanitary conditions having potential for causing, or having already caused, product contamination. On the basis of the sample, we estimated that 1,800 of the 4,550 plants were operating under insanitary conditions, including 1,000 operating under serious insanitary conditions. FDA officials stated that conditions at plants located in the 21 States would,

in their opinion, be representative of conditions at plants, nationwide.

Although responsibility for sanitation rests with the food manufacturers, FDA's limited resources for making inspections and its lack of timely and aggressive enforcement actions when poor sanitation conditions were found were factors contributing to the poor sanitation conditions in the industry.

We suggested that the Congress consider the adequacy of FDA's inspection of food plants with the resources available under its current appropriations and consider amending the law to provide for civil penalties when sanitation standards are violated. (*Dimensions of Insanitary Conditions in the Food Manufacturing Industry*, B-164031(2), Apr. 18, 1972)

13. Congressional Need for Specific Information To Evaluate Progress in Improving Indian Education.

—The major goal of the education program of the Bureau of Indian Affairs (BIA) is to close the education gap between Indians and other Americans by raising the academic achievement of Indian students up to the national average by 1976. BIA had made relatively little progress toward attaining this goal, had not adequately communicated this goal to its area offices and schools, and had not developed a specific plan of identifying and overcoming obstacles to, or for measuring progress toward, the accomplishment of this goal.

BIA did not have an effective management information system which would provide education program officials with data necessary for identifying educational needs of Indian children, designing programs and activities for accomplishing educational goals, allocating resources to these programs, and evaluating the costs and benefits in relation to the educational goals.

Because BIA had not developed and implemented an effective information system and in view of the concern expressed by the President and Members of Congress regarding the quality of Indian education, we recommended that the Congress consider enacting legislation requiring BIA to furnish specific information which the Congress could use to evaluate the progress being made in improving Indian education. (*Opportunity To Improve Indian Education in Schools Operated by the Bureau of Indian Affairs*, B-161468, Apr. 27, 1972)

14. Establishing Standardized Maintenance Allowances for All Foreign Students Under U.S. Government Agency Sponsorship.

—At the request

of the Chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations, we reviewed selected aspects of the Latin American Scholarship Program of American Universities (LASPAU)—a program financed in large part by the Agency for International Development (AID). We compared LASPAU costs per student with the costs of American students underwriting the expense of their own education and pursuing a comparable course of instruction. We found that maintenance allowances allowed by AID exceeded those allowed by the Department of State for students in the same schools.

We believe that sufficient attention has not been given to the need for standardized maintenance rates for foreign students sponsored and supported by AID and the Department of State. In July 1968 we recommended that the Secretary of State and the Administrator, AID, standardize maintenance allowance rates applicable to foreign students receiving full scholarships to American institutions. Analysis and actions relating to the problem since that time, in our judgment, have been minimal. Therefore we suggested that the Committee and the Congress give legislative emphasis to the need for:

Establishing standardized maintenance allowances for students attending U.S. colleges and universities under the sponsorship and support of U.S. Government agencies.

Maintaining such allowances at levels not greater than those recommended by the Institute for International Education as necessary for satisfactory subsistence.

(Latin American Scholarship Program of American Universities, B-173240, May 5, 1972)

15. Providing Durable Medical Equipment to Medicare Patients.—The Medicare law was not promoting the most economical ways of providing durable medical equipment, such as wheelchairs, hospital beds, and respirators, used by Medicare patients in their homes. Medicare patients often rented durable medical equipment even when the periods of need—as estimated by their physicians—were long enough to justify purchase. On the basis of an analysis of samples selected from the claims of 20,000 patients at six Medicare insurance carriers in five States, we estimated that, in such cases, savings of nearly \$1 million could have been realized for the 20,000 patients if equipment had been purchased.

The law authorizes either purchase or rental of equipment for use in patients' homes, but, for purchases of equipment costing over \$50, Medicare reimburses the patient in periodic installments equal to rental payments. If a patient dies, recovers, or is hospitalized, installment payments are stopped even though the patient or his estate may not have been fully reimbursed for the purchase price. This factor led patients to rent equipment even though their physicians had indicated that their needs would be long term.

We recommended that the Congress amend the law to authorize the Department of Health, Education, and Welfare to deal more effectively with the problem of unreasonable expenses to Medicare resulting from prolonged rentals of equipment by program beneficiaries. On March 17, 1972, the Senate Committee on Finance announced that, in connection with its deliberations on the Social Security Amendments of 1971 (H.R. 1), it had decided to initiate an amendment to the Medicare law along the lines recommended by us. (Need for Legislation To Authorize More Economical Ways of Providing Durable Medical Equipment Under Medicare, B-164031(4), May 12, 1972)

16. Controlling Automobile Air Pollution.—The largest single air pollution problem in the United States is the automobile which emits about 33 percent of the total pollutants in the air. The Environmental Protection Agency (EPA) has made some progress in controlling auto-caused air pollution and in developing new ways of reducing it. Much remains to be done, however.

Perhaps the most important step in controlling automobile air pollution is the periodic inspection of a car's emissions throughout its useful life. Tests of cars in actual use showed that their emissions often exceeded the standards applicable to the certified prototypes. Manufacturers will be required to recall nonconforming cars—beginning with the 1972 models—if EPA finds a substantial number of a particular model that do not conform to standards, although properly maintained and used.

The recall program has one inherent weakness—the manufacturer is required to notify owners of their cars' nonconformity, but the owners are not required to take their cars in for necessary modifications. In other industry recalls, only 30 to 40 percent of the notified owners returned their cars for safety modification, and there is no reason to expect a greater return for modification of pollution control. Unless more cars

are returned, the potential effectiveness of the recall program will be limited.

We therefore suggested that the Congress consider the need for additional legislation to require car owners who are notified that their cars' emissions exceed established standards to return them for modification. (Cleaner Engines for Cleaner Air: Progress and Problems in Reducing Air Pollution From Automobiles, B-166506, May 15, 1972)

17. Administration of the Government-wide Indemnity Plan of Health Insurance for Federal Employees and Annuityants.—The Civil Service Commission contracts for health benefit plans under the Federal Employees Health Benefits Program. One of these plans is the Indemnity Benefit Plan which provides Government-wide health insurance and which is the second largest of the health benefit plans in numbers of employees enrolled.

The Aetna Life Insurance Company carries out the Plan under contract with the Commission. The contract provides that Aetna reinsure, with other companies, portions of the total insurance written. About 91 percent of the insurance under the Plan was reinsured by about 120 other companies; Aetna insured about 9 percent of the Plan.

In view of the minimal risks under the Plan and the substantial costs that have been charged to the Plan in connection with reinsurance, we suggested that the Congress consider amending section 8902(c) of title 5, United States Code, to eliminate the mandatory provision for reinsurance under this Plan. (Opportunities for Improving Administration of Government-Wide Indemnity Benefit Plan of Health Insurance for Federal Employees and Annuityants, B-164562, May 22, 1972)

18. Dredging Activities of the Corps of Engineers (Civil Functions).—The Corps of Engineers (Civil Functions), Department of the Army, is responsible for improving and maintaining navigation channels and harbors in the United States. The Corps uses its own dredging equipment and also contracts with private dredging firms. Considerable controversy has existed over the years concerning the Federal Government's dredging role. Recently industry has opposed the Corps' plans to replace several of its older dredges and to buy additional dredges. Industry claims that it should be allowed to perform the dredging work done by the Government.

The Corps' practice of developing estimates for evaluating bids of private firms, on the basis of fair and reasonable contractor costs plus 25 percent, is inconsistent with existing legislation (33 U.S.C. 624) which requires that Government estimates be developed on the basis of in-house costs plus 25 percent. The Corps believes that its practice of basing contractor bids on estimates of the cost to a well-equipped contractor complies with the policies and intentions of both the Congress and the administration.

We recommended that the Congress guide the Corps on what the Federal Government's role should be in meeting future national dredging requirements. We recommended also that, if the requirements of 33 U.S.C. 624 are determined to be current congressional intent, the inconsistency of the Corps' current practice be considered in future dealings with the Corps. Should the specific requirement of the law no longer be deemed appropriate, we recommended that the language be amended to permit the development of Government estimates for dredging contracts on a basis comparable to normal contracting practices of other Federal agencies and consistent with the requirements of the Armed Services Procurement Regulations. (Observations on Dredging Activities and Problems, B-161330, May 23, 1972)

19. Cost of Providing Retirement, Disability, and Compensation Benefits for Federal Deposit Insurance Corporation Employees; GAO Audits on a Calendar Year Basis; Restriction on Access to Bank Examination Records.—The Federal Deposit Insurance Corporation (FDIC) is required to contribute to the Civil Service Retirement and Disability Fund on salaries paid to its employees after June 30, 1957. However, the law does not require FDIC (1) to pay into the fund the Government's share of the cost of providing the retirement and disability benefits for FDIC employees from the creation of the Corporation through June 30, 1957, (2) to make any payments into the Employees' Compensation Fund, or (3) to bear any portion of the cost of administering the civil service retirement system or the Employees' Compensation Fund.

We have recommended in annual audit reports that the Federal Deposit Insurance Act be amended to require FDIC to pay its share of the above costs. Adoption of the recommendation would result in a more equitable allocation of the cost of retirement, disability, and compensation benefits between the Federal Government and FDIC.

We have also recommended in several annual reports that section 17(c) of the Federal Deposit Insurance Act be amended to require that our audits of FDIC be made on a calendar-year basis rather than on a fiscal-year basis as provided in the act. This would eliminate the inconsistency between the periods covered by our audit reports and by FDIC's annual reports.

As in previous years, we were unable to make a complete annual audit of FDIC because FDIC would not permit unrestricted access to examination reports, files, and other records relative to the banks it insures. Without such access, we were unable to express an overall opinion on FDIC's financial statements.

We believe that access to these records is essential because they contain facts, opinions, and recommendations of vital importance to the conduct of FDIC's affairs. FDIC believes that the basic concept of confidentiality, regarding open bank data, is essential to the proper supervision of banks and to the functioning of deposit insurance.

Both FDIC and our Office believe that the law supports our respective positions on the access-to-records problem. The Chairman of the Board of Directors of FDIC advised us that legislative clarification eventually might be required if the problem were to be resolved; however, FDIC continues to restrict our access to its records.

In order that we may more effectively carry out our responsibility, we recommended that the Congress enact legislation which would clarify our authority for access for purpose of audit to all books, documents, files, and other records of FDIC, including bank examination reports of FDIC, the Federal Reserve banks, and the Comptroller of the Currency. (Audit of Federal Deposit Insurance Corporation for the Year Ended June 30, 1971, Limited by Agency Restriction on Access to Bank Examination Records, B-114831, May 25, 1972)

20. Limited Progress Made in Implementing the Highway Safety Improvement Program.—In a review of the attempts of the Federal Highway Administration (FHWA), Department of Transportation, to develop a voluntary national program to alleviate highway hazards, we found that, in light of the deaths and injuries associated with highway hazards, it was questionable whether the Department had taken all feasible action to implement a high-priority program.

Varying degrees of State compliance with FHWA's program guidance produced a fragmented approach to

reducing highway accidents and fatalities through identifying and correcting conditions at hazardous highway locations. FHWA guidance to States was largely advisory, rather than mandatory, and quantified goals had not been established. An opportunity exists to improve materially the Nation's traffic safety record if the Department will provide stronger leadership.

FHWA has not reserved Federal-aid highway funds specifically for highway safety programs, and the States have spent only a small part of Federal-aid funds for this purpose. During the 7 years ended December 31, 1970, the six States reviewed spent only 3 percent of their Federal-aid funds for eliminating highway hazards. We believe that setting aside a specific part of highway trust funds to be used annually for correcting highway hazards would promote greater efforts by the States to improve highway safety.

We suggested, in a report to the Chairman, Subcommittee on Investigations and Oversight, House Committee on Public Works, that the Subcommittee consider the need for legislation to establish a viable Federal highway safety improvement program. (Problems in Implementing the Highway Safety Improvement Program, B-164497(3), May 26, 1972)

Restatement of Prior Year Recommendations

1. Need for Change in Interest Rate Criteria for Determining Financing Costs of Federal Power Program.—The criteria used in determining the cost of financing the Federal power program of the Department of the Interior and the Corps of Engineers—costs that are repayable from revenues obtained from the sale of power—result in the use of interest rates that are not representative of the cost of funds borrowed by the Treasury during the construction of the various power systems. Consequently, the Government's cost of financing these systems has been significantly understated.

As an example of the understatement of financing costs, the interest rates used in the Federal Columbia River Power System, although established in accordance with long-accepted criteria, have resulted in (1) understating by about \$22 million the capitalized interest costs during construction for those major projects still under construction in fiscal year 1968 and (2) understating by about \$2 million the interest expense

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for fiscal year 1968 on the unrepaid Federal investment related to the transmission facilities of the Bonneville Power Administration.

Although recent changes by the Department and the Corps will result in significant improvements, we believe that they will not result in a realistic measure of the cost to the Treasury of borrowing money during the period of construction of power projects.

Accordingly, it was suggested that the Congress consider changing the interest rate criteria to provide that:

The interest costs to be capitalized as part of the Government's investment in power projects be based on an interest rate prescribed by the Secretary of the Treasury taking into consideration the average market yield, during the year in which the investment is made, on the outstanding marketable obligations which he considers to be most representative of the cost to the Treasury of borrowing money to construct the power projects.

The interest to be paid to the Treasury annually on the Government's unrepaid investment in power projects be based on a composite of the average market yields used in computing the capitalized interest costs.

(Change Proposed in Interest Rate Criteria for Determining Financing Costs of Federal Power Program, B-167712, Jan. 13, 1970)

2. Leasing of Federal Lands for Development of Oil and Gas Resources.—Most of the leases awarded by the Bureau of Land Management, Department of the Interior, for the development of oil and gas resources on Federal lands have been granted on a non-competitive basis and, in many cases, at prices less than their indicated fair market value. The lands are leased noncompetitively because of a statutory requirement that lands not located within the boundaries of a known geologic structure of a producing oilfield or gasfield must be leased noncompetitively. Generally, the geologic data needed to determine whether lands offered for leasing are within such a structure are not available to the Department before leasing and drilling.

We believe that the Government should and could use competitive bidding to a greater extent to obtain prices that more nearly approximate the lands' fair market value.

Also, indications were found that the statutory right of lessees to assign to other persons leases in units as

small as 40 acres impedes rather than induces the development of oil and gas resources.

The Department of the Interior stated that, of three alternatives it had considered for extending competitive bidding, it preferred the partially competitive systems. However, we believe that disposal of oil and gas rights on Federal lands should be based on the principle of a fair market return to the Government and that this objective can best be achieved under a competitive bidding system.

Accordingly, we suggested to the Congress that the Mineral Leasing Act be amended to (1) require that oil and gas leases on all Federal lands be awarded competitively unless otherwise justified and (2) increase the minimum acreage limitation applicable to the assignment of the leases. (Opportunity for Benefits Through Increased Use of Competitive Bidding to Award Oil and Gas Leases on Federal Lands, B-118678, Mar. 17, 1970)

3. Acquisition of Land for National Recreation Areas Containing Improved Properties.—The National Park Service (NPS), Department of the Interior, had acquired or planned to acquire high-cost improved properties located on or near the boundaries of authorized national recreation areas although, in our opinion, these properties could have been or could be excluded from the areas without interfering with the areas' development. Changes in boundaries to exclude such properties not yet acquired would result in significant benefits to NPS, especially in those areas where authorized funds have fallen far short of the amount required to complete the land acquisition and where considerable amounts of unimproved land with lower estimated costs remain to be acquired.

The Department of the Interior rejected the suggestion that consideration be given to adjusting boundaries of certain recreation areas to exclude high-cost improved properties and stated that some acquisitions of expensive properties are necessary to protect scenic, historical, and cultural values.

In enacting legislation authorizing the establishment of national recreation areas, the Congress frequently has to define boundaries before important facts, such as the cost of various tracts of land, are known. We therefore recommended that the Congress, in enacting such legislation, provide the Secretary of the Interior with guidelines for making changes in established boundaries when the acquisition of high-cost properties located on or near the boundaries is involved.

We also recommended that the Congress require the Secretary to prepare an analysis of the location and estimated cost of high-cost properties on the perimeter of those authorized recreation areas for which additional funds are needed and to justify to the Congress the desirability of acquiring such properties. (Problems in Land Acquisitions for National Recreation Areas, B-164844, Apr. 29, 1970)

4. Guidance on the Use of Motorized Equipment in Wilderness and Similar Areas.—The Forest Service, Department of Agriculture, has imposed severe limitations on the use of motorized equipment by its employees in managing about 14 million acres of wilderness and similar areas. These restrictions have resulted in additional costs and have created problems in protecting and preserving the areas. For example, the \$100 million estimated cost of planned construction and reconstruction of 18,000 miles of trails in three Forest Service regions could be reduced, possibly by one-half, if the use of a small trail machine especially designed for such work were allowed. The Forest Service, however, restricts the use of such machines. The National Park Service, Department of the Interior, also could realize significant savings by using the trail machines in areas it manages under the wilderness concept.

The Forest Service has also placed restrictions on using power saws for maintaining trails; helicopters for removing accumulated trash and litter, transporting equipment and materials for constructing trail bridges, and inspecting and repairing reservoirs; and compacting equipment for repairing reservoirs.

We recognize that the use of motorized equipment is not compatible with an ideal wilderness concept but believe that the construction of trails, bridges, and other facilities and the presence of litter left in the areas by users are also not compatible. We believe that, once decisions have been made to construct such facilities and dispose of accumulated litter, economy and convenience should be considered, along with other factors, in deciding when to use motorized equipment. Because the Forest Service and the National Park Service believed that their restrictions were consistent with the intent of the Wilderness Act of 1964, we recommended that the Congress consider providing further legislative guidance on the use of motorized equipment in these areas. (Problems Related to Restricting the Use of Motorized Equipment in Wilderness and Similar Areas, B-125053, Oct. 29, 1970)

5. Need To Provide More Complete Information on the Overall Impact of and Prospects for Foreign Assistance to Individual Countries.—We reviewed and reported to the Congress our findings and conclusions regarding the results of 10 years of U.S. assistance to Honduras. Comparisons were drawn between progress achieved and program objectives. As a result of experience with this review, we suggested that Congress consider:

If executive branch foreign assistance program justifications to the Congress should be restructured (1) to show the relative long-range acceleration of the recipient country's economic, social, and political development achieved in the past and planned in the future and (2) to provide a more explicit focus on the timespan envisioned to precede phase-out of U.S. assistance; the relative levels of such assistance during this timespan; and the nature and rate of economic, social, and political development anticipated and to be supported during this timespan; and

Whether congressional action might be desirable for facilitating the development of improved models and other analytical tools to better measure, with greater objectivity and accuracy, the impact of U.S. assistance programs on a recipient's rate of development.

(Administration and Effectiveness of U.S. Economic and Military Aid to Honduras (Secret), B-169521, Dec. 3, 1970)

6. Establishment of an Appropriate Minimum Rental Rate for Occupancy of Federally Subsidized Housing.—The Department of Housing and Urban Development (HUD) had not established a minimum rental rate for occupancy of the federally subsidized housing projects provided under section 221 of the National Housing Act, although other housing programs more recently enacted by the Congress require a minimum contribution. Under section 221, HUD finances multifamily housing for low- and moderate-income families at low interest rates. The minimum contribution required under the rental housing assistance program (authorized by section 236 of the National Housing Act, as amended) and under the rent supplement program (authorized by the Housing and Urban Development Act of 1965), both of which are generally directed toward families of lower income than those of the section 221 program, is 25 percent of family income.

We stated that it is inequitable for HUD to provide section 221 housing assistance without requiring a minimum percentage-of-income contribution when the Congress has deemed a minimum contribution appropriate for assistance under programs for generally lower income families.

The Secretary of HUD expressed the view that, although there had been ample opportunities since the enactment of the section 221 below-market-interest-rate program in 1961, the Congress had chosen not to amend the legislation to include such a requirement. In view of the large percentage of families that were contributing less than 25 percent of their income for section 221 housing, we suggested that the Congress consider whether HUD should establish an appropriate percentage-of-income contribution as the minimum rent to be required. (Tighter Control Needed on Occupancy of Federally Subsidized Housing, B-114860, Jan. 20, 1971)

7. Means To Reduce U.S. Holdings of Excess Indian Rupees.—We reported to the Congress that as of June 30, 1969, the United States had about \$678 million in Indian rupees available for expenditure in India and that American holdings of rupees are expected to increase substantially throughout the next 40 years. In summary, we found that important political, economic, and legal factors limit the amount of U.S.-owned rupees that the United States can spend in India during any period. Even so, considerably greater amounts than are now being spent could be beneficially used within the limitations. Administrative difficulties within the U.S. Government have also acted to restrain the level of excess currency spending.

We recommended that the Congress favorably consider foreign-currency denominated appropriations as an advantageous funding form and, with regard to the excessive accumulation of U.S.-owned foreign currencies in India, consider whether (1) a reduction in U.S.-owned rupees should be made to preserve good relations with India, (2) executive action in this regard meets congressional desires, (3) legislative action should be taken concerning the U.S.-owned rupee balance in India, and (4) authority should be given to use non-Public Law 480 excess currency in India for grants without appropriations, as is already permitted for Public Law 480 excess currency. (Opportunities for Better Use of U.S.-Owned Excess Foreign Currency in India, B-146749, Jan. 29, 1971)

8. Need for Improved Evaluation of the Results of the Military Assistance Training Program.—At the request of the Chairman, Senate Committee on Foreign Relations, we performed a detailed study of the military assistance training program. Several potential areas of improvement in administration of the program were identified. We also found that it was difficult to assess the degree to which U.S. military assistance training had increased the effectiveness of forces in the recipient countries because of the lack of (1) established measurement criteria and (2) a system for periodically evaluating the program.

In addition to describing recommended action to be taken by the Secretaries of Defense and State, we stated in the report that the committees of the Congress consider the desirability of enacting legislation requiring the Secretary of Defense to establish a measurement system to assist in determining the effectiveness of expenditures for military assistance training programs. (Problems in Administration of the Military Assistance Training Program, B-163582, Feb. 16, 1971)

9. Application of "Should Cost" Concepts in Reviews of Contractors' Operations.—The "should cost" approach to audits and reviews of Government procurement is an attempt to determine the amount that a weapon system or a product ought to cost given attainable efficiency and economy of operation. Because "should cost" reviews require examinations into many facets of contractors' operations and management not covered in GAO's statutory authority to examine contractors' records, we suggested that the Congress consider expanding our statutory authority to enable us to make effective "should cost" reviews on an independent basis. (Application of "Should Cost" Concepts in Reviews of Contractors' Operations, B-159896, Feb. 26, 1971)

10. Financing the Teacher Corps Program.—Beginning in 1969, corps members participating in the Western Carolina Teacher Corps program were assigned to State or locally allotted teaching positions. According to program officials, these corps members supplanted teachers who would have otherwise been hired by the local educational agencies. This practice is not authorized by the enabling legislation which states, in part, that no member of the Teacher Corps shall be used to replace any teacher who is or otherwise would be employed by a local educational agency.

Although the practice was not authorized, the State and local funds that would have been expended for regular teacher salaries were used for corps members' salaries and related benefits. As a result, State and local funding of the Western Carolina program increased from about 10 percent to about 70 percent and thus decreased the amount of Federal funds needed to operate the program.

Since this funding procedure was being used at other locations and could provide local educational agencies with the impetus to continue successful features of a Teacher Corps program after Federal funding ceases, we suggested that the Congress consider whether the legislation should be amended to authorize such arrangements. (Assessment of the Teacher Corps Program at Western Carolina University and Participating Schools in North Carolina, B-164031(1), May 20, 1971)

Legislative Proposals to Heads of Departments and Agencies

1. Opportunity for Savings in Providing War Risk Insurance for Contractor Employees.—The Department of Defense (DOD) and the Agency for International Development (AID) generally reimburse Government contractors for the cost of insurance purchased to provide protection against war hazards to their property and employees. We found that the cost of this war-risk insurance to the U.S. Government has substantially exceeded the losses experienced by its contractors.

We found that DOD and AID had reimbursed contractors for commercial war-risk insurance to provide contractor employees with supplemental coverage for war-hazard death or injury. The coverage provides lump-sum benefits in addition to the workmen's compensation type of benefits provided under the Defense Base Act and the War Hazards Compensation Act. We also noted that AID reimbursed contractors in Vietnam for war-risk insurance coverage of third-country nationals (citizens of countries other than the United States and Vietnam) employed by the contractors even though a program of self-insurance generally adopted by DOD for such employees offered substantial savings.

In our report to the Congress, we recommended that the Secretaries of Defense and State, among other things, seek legislation to authorize lump-sum benefit payments to contractor employees for war-hazard

death or injury and the Secretary of State seek authority from the Congress to self-insure for war-risk losses incurred by third-country nationals under AID contracts.

DOD and AID disagreed with our recommendations. DOD commented that, since contractor recruitment in Southeast Asia is past its peak, it does not appear feasible to pursue legislation to permit the payment of lump-sum benefits. AID did not believe savings would necessarily result from a self-insurance program administered solely by AID for its contracts because of the small insurance base in relation to the administrative expenses of such a program. However, AID also stated that the costs of a self-insurance program had not been determined.

Although DOD and AID doubt the practicability of adopting a program of self-insurance, we contend that it is warranted by the potential savings that can be realized. (Opportunity for Savings in Providing War Risk Insurance for Contractor Property and Employees, B-172699, Nov. 9, 1971)

2. Extension of Foreign Trade Zone Privileges.

In a report to the Chairman, Foreign Trade Zones Board, we reported on the Foreign Trade Zones program's contribution to U.S. export expansion efforts. Our review of activities at four zones—Honolulu, New York, New Orleans, and Seattle—showed that the zones are contributing minimally in expanding U.S. exports. The principal reasons that limited exports are generated through zone activities appear to relate to several constraining factors, including (1) imposition of customs duties on manufacturing equipment and supplies and (2) restrictions on where the zones can be located.

We concluded that the export potential of zones would be greatly enhanced if the legislation proposed by the Subcommittee on Foreign Commerce and Tourism, Senate Committee on Commerce, is passed, removing the imposition of customs duties on manufacturing equipment and supplies.

The Foreign Trade Zones Act requires that zones be located in or adjacent to a customs port of entry. This location requirement has limited the accessibility of firms to zone opportunities and facilities and particularly affects significant manufacturing efforts. Therefore we suggested that the Foreign Trade Zones Board consider proposing further relaxation of the act to extend zone privileges to firms located outside the existing zones. (Ways To Increase Exports Through Foreign Trade Zones, B-114898, May 26, 1972)

Restatement of Legislative Proposal to Head of Department

1. Need To Revise Fees for Services Provided by U.S. Marshals.—Statutory fees charged by U.S. marshals for serving processes for private litigants were about \$470,000 less than the amount necessary to recover costs incurred during fiscal year 1968. We recommended that the Department of Justice consider

proposing to the Congress legislation authorizing administrative adjustment of marshals' fees or revising the fees, which are presently prescribed by law. Although the Department stated, in April 1969, that it was considering proposing such legislation, it had not proposed such legislation through June 30, 1972. (Need To Revise Fees for Services Provided by the Immigration and Naturalization Service and U.S. Marshals, B-125051, Oct. 7, 1969)

INTERNATIONAL CONGRESS OF SUPREME AUDIT INSTITUTIONS

During the period September 7–16, 1971, the 7th International Congress of Supreme Audit Institutions was held in Montreal, Canada. The Congress was attended by delegations from nearly 90 member countries of the International Organization of Supreme Audit Institutions (INTOSAI). This organization consists of the top national auditors of the 139 member countries.

INTOSAI had its beginnings in the early 1950s. In 1953, at the invitation of the Cuban Government, auditors general and their counterparts from about 30 countries met for the first time in Havana. Thereafter, congresses were held at 3-year intervals.

The 7th Congress in Montreal was the first in which the General Accounting Office, representing the United States, participated actively. The U.S. delegation was headed by the Comptroller General.

The agenda for the Congress included a discussion of management or operational auditing, led by the Comptroller General. As a part of the proceedings, the U.S. delegation proposed a series of recommendations on this subject which were adopted by the Congress. These recommendations reflect GAO's broad concept of auditing of the affairs of governmental organizations. For this reason, and in view of the almost worldwide endorsement of this concept, these recommendations are stated here.

Recognizing the differing views on this complex subject and the necessary variances and stages of audit development deriving from the respective countries participating in this Congress, and with the view that they are compatible for progressive application through any stage, the following general recommendations are made:

1. That a full or complete concept for independent

auditing of governmental programs, agencies, or activities include recognition of the following elements:

Fiscal accountability, which should include fiscal integrity, full disclosure, and compliance with applicable laws and regulations.

Managerial accountability, which should be concerned with efficiency and economy in the use of public funds, property, personnel, and other resources.

Program accountability, which should be concerned with whether government programs and activities are achieving the objectives established for them with due regard to both costs and results.

2. That the laws governing the activities of supreme audit institutions do not preclude the scope of auditing stated in recommendation no. 1.
3. That governmental auditing that goes beyond financial transactions and accounting matters be extended gradually.
4. That audit staffs used in making governmental audits of whatever scope be adequately trained and supervised.
5. That, in making audits involving matters of economy and efficiency or of program effectiveness, necessary skills be available, either directly in the supreme audit institution or through contracting for expert services.
6. That supreme audit institutions encourage the development of strong internal audit systems in government agencies audited and that the work of such internal auditors be evaluated and fully utilized as appropriate in the making of independent audits by supreme audit institutions.