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COMPTROLLER GENERAL  
OF THE UNITED STATES

# annual report 73

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# ANNUAL REPORT 1973

COMPTROLLER GENERAL  
OF THE UNITED STATES



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

December 15, 1973

The President of the Senate

The Speaker of the House of Representatives

Dear Sirs:

In accordance with section 312(a) of the Budget and Accounting Act of 1921, I respectfully submit the annual report on the activities of the United States General Accounting Office during the fiscal year ended June 30, 1973.

*James B. Stutz*  
Comptroller General  
of the United States

The General Accounting Office is under the control and direction of the Comptroller General of the United States. There is also a Deputy Comptroller General of the United States<sup>1</sup> who performs such duties as may be assigned to him by the Comptroller General and who acts as Comptroller General during the absence or incapacity of the Comptroller General or during a vacancy in that office. The Comptroller General and the Deputy Comptroller General are appointed by the President with the advice and consent of the Senate for terms of 15 years.

**Comptrollers General  
of the United States**

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

**Assistant Comptrollers General  
of the United States**

Lurtin R. Ginn  
July 1, 1921—November 11, 1930  
Richard N. Elliott  
March 9, 1931—April 30, 1943  
Frank L. Yates  
May 1, 1943—June 29, 1953  
Frank H. Weitzel  
October 12, 1953—January 17, 1969

**Deputy Comptrollers General  
of the United States**

Robert F. Keller  
October 3, 1969—

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<sup>1</sup> Public Law 92-51 (approved July 9, 1971) changed the title Assistant Comptroller General to Deputy Comptroller General.

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**ABBREVIATIONS**

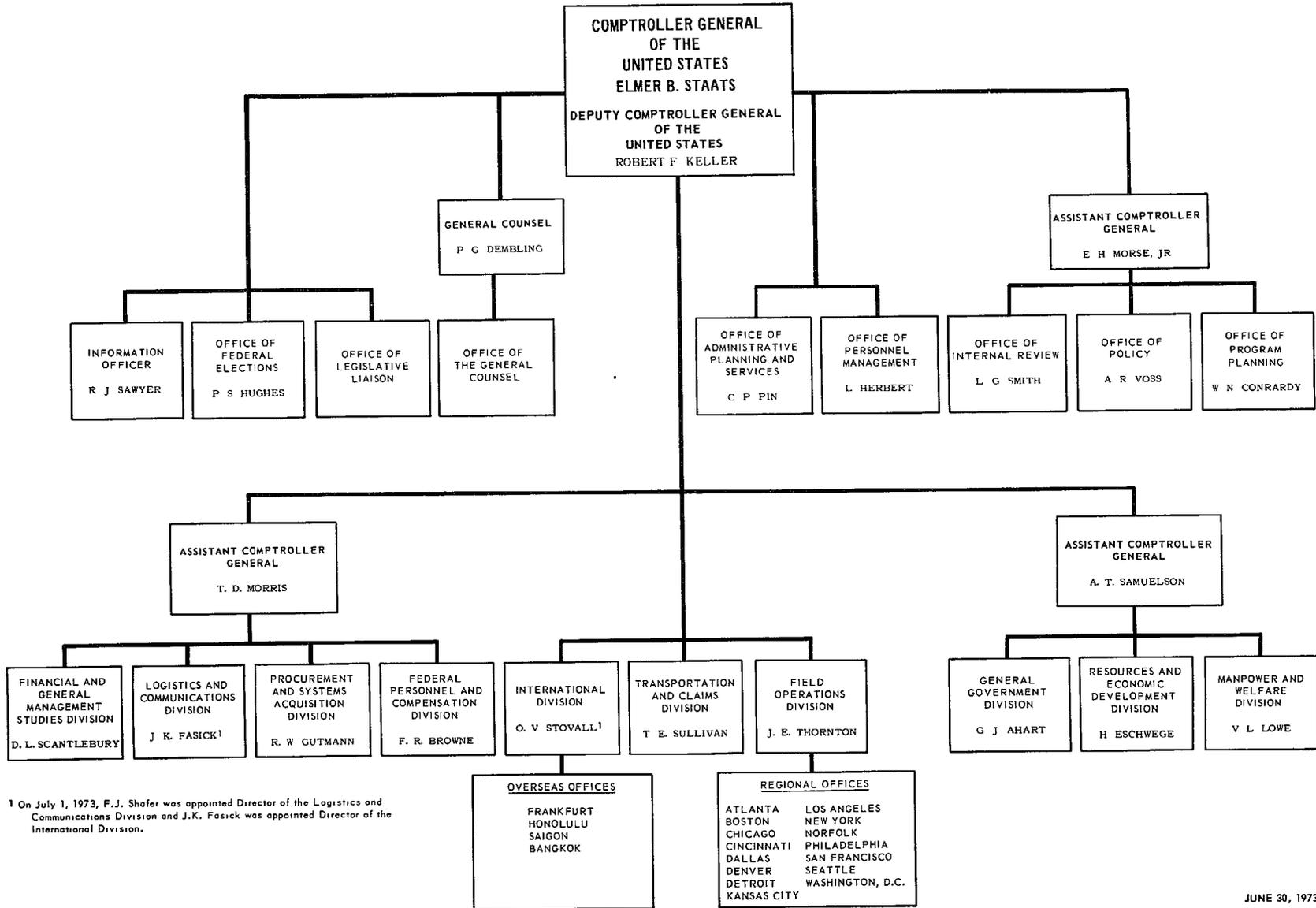
ACIF	Agricultural Credit Insurance Fund
ADP	Automatic Data Processing
AEC	Atomic Energy Commission
AID	Agency for International Development
AMTRAK	National Railroad Passenger Corporation
COMSAT	Communications Satellite Corporation
CORDS	Civil Operations for Rural Development Support
DES	Diethylstilbestrol
DOD	Department of Defense
EPA	Environmental Protection Agency
FAA	Federal Aviation Administration
FCC	Federal Communications Commission
FDA	Food and Drug Administration
FDIC	Federal Deposit Insurance Corporation

FHA	Farmers Home Administration
FTS	Federal Telecommunications System
GAO	General Accounting Office
GPO	Government Printing Office
GSA	General Services Administration
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
ICC	Interstate Commerce Commission
IRS	Internal Revenue Service
JATS	Joint Agency Transportation Study
JFMIP	Joint Financial Management Improvement Program
LITE	Legal Information Through Electronics
MAP	Military Assistance Program
NATO	North Atlantic Treaty Organization
NIH	National Institutes of Health
OEO	Office of Economic Opportunity
OMB	Office of Management and Budget
OSHA	Occupational Safety and Health Administration
PACEX	Pacific Exchange
ROTC	Reserve Officers Training Corps
TVA	Tennessee Valley Authority
USIA	United States Information Agency
VA	Veterans Administration

#### PHOTOGRAPHY CREDITS

United Press International, p. 2; GAO Watchdog, pp. 4, 13, 17, 28, 76, 85, 112, 129, 156, 172, and 174; Jerry Miller Photography, p. 37; U.S. Army, pp. 42, 44, 49, 56, 64, and 80; U.S. Navy, pp. 42, 43, 47, 56, 62, 81, and 141; U.S. Air Force, pp. 58 and 77; U.S. Army Tank Automotive Command, p. 56; Kaman Aerospace Corp., p. 56; U.S. Marine Corps, p. 78; Civil Service Commission, p. 83; Food and Drug Administration, p. 90; Bureau of Land Management, p. 108; Geological Survey, p. 116; Atomic Energy Commission, p. 120; Los Angeles Times, p. 126; D.C. Manpower Administration, p. 132; Agency for International Development, pp. 146, 148, and 149; Tennessee Valley Authority, p. 163; Bowling Green State University Photography Service, p. 168.

# UNITED STATES GENERAL ACCOUNTING OFFICE



<sup>1</sup> On July 1, 1973, F.J. Shafer was appointed Director of the Logistics and Communications Division and J.K. Fasick was appointed Director of the International Division.

## CHAPTER ONE

# HIGHLIGHTS OF ACTIVITIES FOR THE YEAR

## Responsibilities and Objectives

The General Accounting Office is an independent, nonpolitical agency in the legislative branch of the Federal Government. Created by the Budget and Accounting Act, 1921, it carries out several interrelated functions that are assigned by law:

Assisting the Congress in its legislative and oversight activities.

Assisting in the control of Federal election campaign expenditures.

Providing legal services.

Auditing the programs and activities of Federal departments and agencies.

Assisting in the improvement of Federal agency financial management systems.

Settling claims and collecting debts.

One of our most important objectives is to strengthen the processes through which the Congress can obtain from the executive branch reliable information on Government program operations.

We have done much in this direction, and we plan to do more. In the past 7 years, our direct assistance to the Congress has increased more than threefold to the point where it represents one-fourth of the total effort of our professional staff.

It is not our purpose to "sell" our services to the Congress. In fact, we often have resisted additional responsibilities if we thought we could not discharge them adequately. However, we have made strenuous efforts to foresee the needs of the Congress and to make our information, conclusions, and recommendations available promptly in order to be relevant and useful to the work of the congressional committees.

It is not our objective to become the "think tank" for the Congress on the best solutions to pressing national problems. Nor is it our job to assess overall national program priorities or budget-funding requirements. Our greatest contribution is to provide answers to such questions as:

Is it possible to eliminate waste and inefficient use of public moneys that the agencies and their contractors may have considered acceptable in the past?

Are Federal programs, whether administered directly by the Federal Government or through other organizations, such as the United Nations or State and local governments, achieving their objectives?

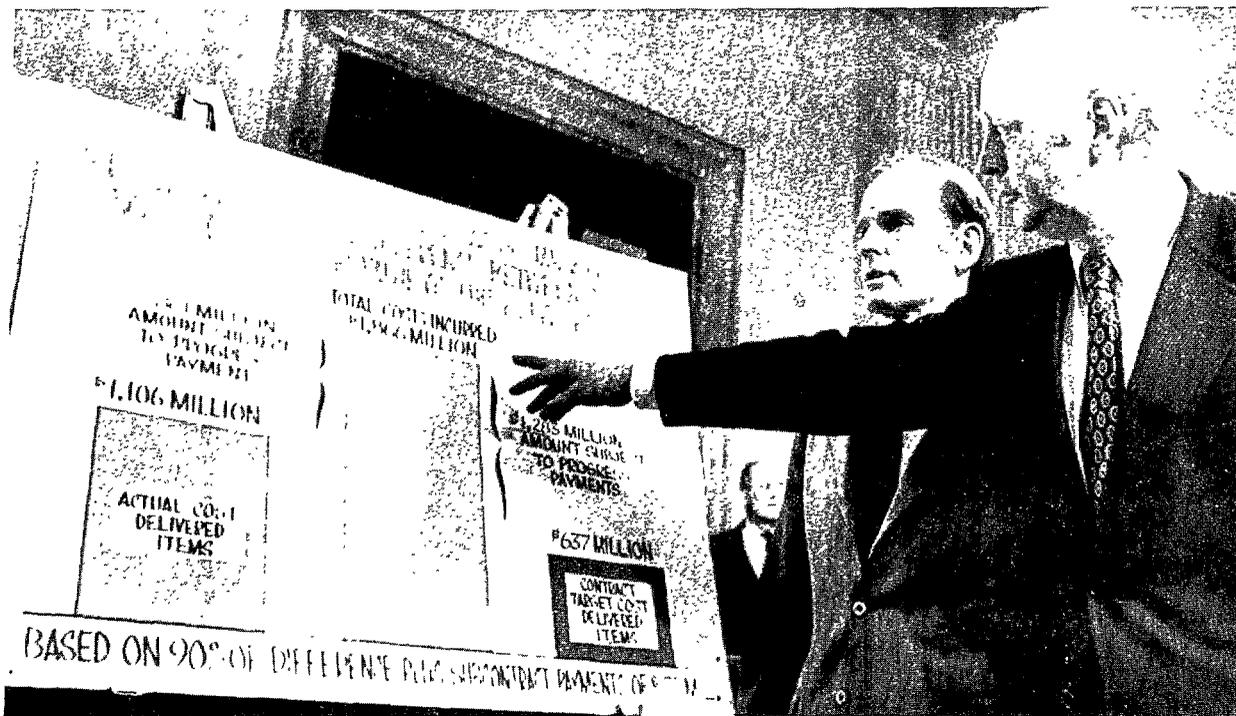
Are there other ways of accomplishing the objectives of these programs at lower costs?

Are funds being spent legally? and is the accounting system for them adequate?

Our objective is to recommend ways of making both proposed and ongoing Federal programs work better and to make the results of our studies known before decisions are reached. This is especially important when there are strong pressures to move to new and untried approaches or to infuse more money into programs that have not yet demonstrated their worth.

The first and foremost responsibility for providing this type of information to the Congress should continue to rest with the operating agencies. Our Office, especially in view of the independent position which it holds, can tell the Congress how well it thinks the agencies have done their jobs of evaluating the effectiveness of their programs. We can supplement agency efforts and go more deeply into problems which they may not have dealt with adequately.

Our greatest asset is the competence, dedication, and enthusiasm of our staff. We are employing and developing individuals with var-



Comptroller General Elmer B. Staats discusses complexities of progress payment practices on the C-5A aircraft with Senator William Proxmire during hearings by the Joint Economic Committee on December 18, 1972.

ied backgrounds and competence in keeping with the diverse areas which we review. It is essential that we maintain our hard-earned reputation for objectivity, accuracy, and high professional standards. This is particularly important as we increasingly emphasize audits having as their principal objectives the assessment of the results of Government programs and whether these programs are being carried out as the Congress intended.

We cannot avoid the situation where some of our reports will be considered controversial in the eyes of those who disagree with our conclusions and recommendations. This simply underscores the importance of developing and presenting our conclusions and recommendations as fairly, objectively, and factually as possible.

We do not lobby for a particular legislative or program decision. Rather, we endeavor to provide the kind of objective analysis of alternatives that can be valuable to the Congress in reaching its own conclusion. In short, we must avoid a partisan program role just as we have carefully avoided a partisan political role.

In a broader context, GAO is responsible to the public. GAO reports to the Congress, if not classified for national security reasons, are public reports. Although we have no official ombudsman responsibility, we try at all times to be sensitive to responsible criticisms of Federal programs and to take these criticisms into account in our reports and in deciding which areas to review.

We do not seek publicity for our reports. But we think it quite important that the public have full access to our findings and conclusions. We provide the public with a meaningful demonstration of the openness of our governmental processes.

We recognize that certain information must be classified in the interest of national security. The legal authority to classify information rests with the operating agencies. We do, however, question security classifications which seem unnecessary.

Concerns are being voiced increasingly in the Congress and elsewhere about the apparent decreased confidence in the Government, particularly in the Government's ability to make pro-

grams work effectively and to serve well those individuals and groups for which public funds are spent. Therefore, it is more important than ever that the public be aware of the work of GAO as an organization which has as its principal concerns fiscal integrity and the economical and effective management of Government programs.

## Organization

Until early in 1972, GAO organized its audit divisions by major classes of Federal agencies. For example, the Defense Division was responsible for the audit of the activities of the Department of Defense, the Civil Division for civil departments and agencies, and the International Division for international activities of all agencies.

In 1972 the Office was reorganized to assign audit and other responsibilities on a functional and program basis. The 1972 annual report discussed details of this change. The revised organization structure as of June 30, 1973, is shown at the beginning of this chapter.

Fiscal year 1973 was the first full year of operation under the revised organization. It has been a successful change which has strengthened and improved our ability to carry out assigned functions.

## Direct Assistance to the Congress

Since we are an arm of the Congress, our effectiveness has to be judged, to a large extent, by our performance in serving its many needs. We direct our staff resources to work that will produce information on Federal programs, activities, and operations that will be useful to the Congress and also contribute to improving program effectiveness, efficiency, and economy.

For planning purposes we classify certain work as being of *direct* assistance to the Congress. This work includes:

Special audits or studies requested by congressional committees and individual Members of Congress or made pursuant to recommendations in committee reports.

Testimony at hearings.

Work of GAO staff assigned to congressional committees.

Specific studies directed by law.

Advice and assistance to committees and Members of Congress on legal, legislative, accounting, and auditing matters—especially relating to legislation under consideration.

Accounting, auditing, and advisory services for House and Senate financial and administrative operations.

Liaison activities with congressional committees and individual Members.

This category of work does not include the very substantial amount of work involved in auditing the affairs of Federal agencies. We make these audits either because we believe the results will be useful to the Congress or because they are required by law on a recurring basis. Even though the committees and Members of Congress may use the information in these audit reports, we do not classify this work as direct assistance.

Although statistics on the numbers of audit reports issued do not tell the complete story of GAO operations, they do indicate the amount of work performed. Reports completed in fiscal year 1973, as compared with 1972, were as follows:

	<u>1973</u>	<u>1972</u>
Congressional reports:		
To the Congress .....	152	150
To congressional committees .....	180	130
To Members of the Congress .....	172	199
	<u>504</u>	<u>479</u>
Reports to Federal agency officials .....	405	469
Reports of Office of Federal Elections .....	40	...
Total .....	<u>949</u>	<u>948</u>

During the year, we submitted 504 reports on audits or special studies to the Congress, its committees, and its Members as compared with 479 for the previous year. In addition, copies of numerous audit reports to Federal agency officials were sent to interested congressional committees for their information and use. Under section 236 of the Legislative Reorganization Act of 1970, Federal agency heads are required to report directly to the Committees on Government Operations and the Committees on Appropriations as to actions taken on recommendations directed to them in GAO reports.

Overall, about 25 percent of our professional staff's time was spent on directly assisting the Congress during fiscal year 1973. Staff resources applied to assisting the Congress have increased substantially in recent years.

Statistical and other information about this category of our operations follows.

*Reports to committees and Members*—In response to specific requests for information requiring audit work or special studies, we provided 180 reports to chairmen of congressional committees or subcommittees (including 8 to officers of the Congress) and 172 reports to individual Members of Congress during the year. The titles of these reports and the requesting committees and Members are shown in the complete listing of all GAO reports for fiscal year 1973 in appendix 2. In addition, we provided 1,216 written reports to Members on request concerning claims by and against the United States. These claims involved such subjects as Government contracts, pay and allowances of personnel, travel, and transportation.

*Testimony at hearings*—GAO representatives testified on 38 different occasions during the year

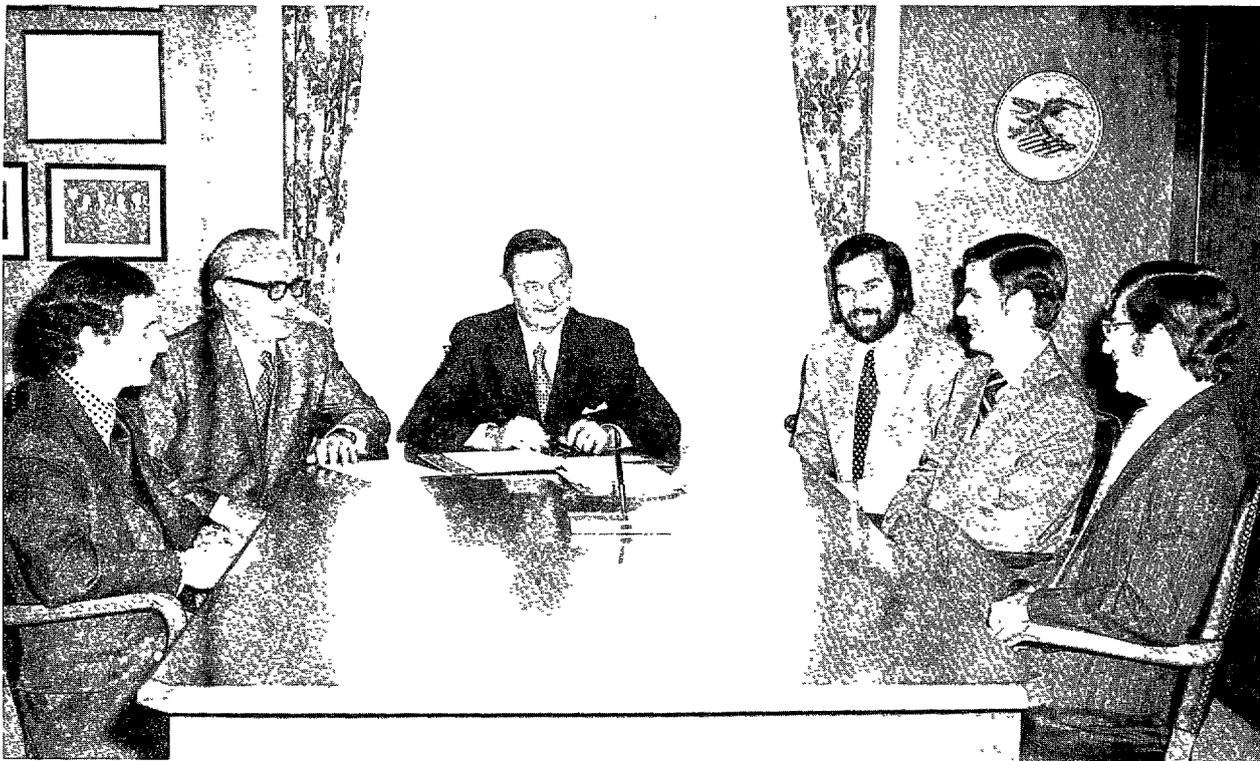
before congressional committees. A complete list of these appearances and the subject matter is included in appendix 4.

*Staff assignments to committees*—68 staff members were assigned, on request, to the staffs of 19 different committees or subcommittees. Details concerning these assignments are presented in appendix 3, as required by the Legislative Reorganization Act of 1970.

*Specific studies directed by law*—A major report directed by law which was completed during the year was our study of health facilities construction costs (B-164031(3), Nov. 20, 1972). This study was directed by the Comprehensive Health Manpower Training Act of 1971. (See p. 88 for further details.)

*Reports on pending legislation*—First-hand review and observation of agency programs and activities enable us to provide congressional committees with independent, objective advice on proposed legislation; the committees regularly call on us to comment on pending bills. During the year, 575 reports on pending bills were furnished to committees—297 to the Senate and

Office of Legislative Liaison staff members Vincent Griffith, Smith Blair, Martin Fitzgerald, Roger Sperry, and Sam Bowlin discuss congressional assistance efforts with Deputy Comptroller General Robert F. Keller (center).



278 to the House. The following table shows the committees and numbers of reports involved.

### REPORTS ON PENDING LEGISLATION

#### Senate Committees

Armed Services .....	1
Banking, Housing and Urban Affairs .....	4
Commerce .....	123
Government Operations .....	52
Judiciary .....	9
Labor and Public Welfare .....	102
Public Works .....	1
Rules and Administration .....	2
Veterans' Affairs .....	3
	<hr/>
	297

#### House Committees

Armed Services .....	1
District of Columbia .....	1
Government Operations .....	126
House Administration .....	5
Interstate and Foreign Commerce .....	20
Judiciary .....	49
Merchant Marine and Fisheries .....	28
Post Office and Civil Service .....	10
Public Works .....	3
Science and Astronautics .....	29
Standards and Official Conduct .....	4
Ways and Means .....	2
	<hr/>
	278
Total .....	<hr/> <hr/>
	575

*Legal and legislative assistance*—Committees and Members called upon us increasingly for formal and informal legal advice and assistance; views on contractual, fiscal, and administrative provisions of law; drafts of legislation; and views on administrative regulations.

*Assistance on House and Senate financial and administrative operations*—As in past years, we continued to have a professional staff at the Capitol to audit financial operations and provide advisory services. (See p. 136 for further information.)

*Liaison activities*—Our Office of Legislative Liaison is the central coordination point within GAO for providing the Congress with prompt and effective assistance. Under the direct supervision of the Deputy Comptroller General, Robert F. Keller, this office maintains continuous contact with congressional committees and Members of Congress to serve as a communications and coordination link between the Congress and the

General Accounting Office. The members of the Office of Legislative Liaison are Smith Blair, Jr., Martin J. Fitzgerald, Roger L. Sperry, and T. Vincent Griffith.

The Social Security Amendments of 1972 (86 Stat. 1329) provide an example of how our reports assist the Congress in its legislative work. Enacted in October 1972, these amendments made numerous changes designed to improve the administration of the Medicare and Medicaid programs. GAO reports to the Congress or to cognizant legislative committees had a direct or indirect impact on at least 11 of these legislative changes. In its February 1973 report on Legislative Review Activity during the 92d Congress, the Senate Committee on Finance acknowledged that our assistance in the oversight of these programs culminated in some of the reforms included in the law.

### Improving Congressional Control Over the Federal Budget

When Public Law 92-599, which temporarily increased the public debt limit, was enacted in October 1972, the Congress established the Joint Study Committee on Budget Control. The Committee was to study "the procedures which should be adopted by the Congress for the purpose of improving Congressional control of budgetary outlay and receipt totals \* \* \*."

On February 7, 1973, the Committee published an interim report containing 10 tentative recommendations for improving congressional control over the Federal budget. On March 7, 1973, during the Committee's extensive hearings on the recommendations, the Comptroller General presented his views.

On April 18, the Study Committee issued its final report which reflected many of the Comptroller General's suggestions. The cochairmen of the Study Committee informed the Comptroller General that:

We think your testimony more than any other emphasizes the need for more forward planning, the need for a new awareness of the long-term spending implications of current appropriations \* \* \*.

In the meantime numerous bills had been introduced to strengthen congressional control over the budget. The Subcommittee on Budgeting, Management, and Expenditures of the Sen-

ate Committee on Government Operations held hearings on the subject, and the Comptroller General presented his further views on May 1, 1973.

### **Standardized Budgetary and Fiscal Data System**

Sections 201 and 202 of the Legislative Reorganization Act of 1970 require the Secretary of the Treasury and the Director of the Office of Management and Budget, with GAO cooperation, to develop, establish, and maintain (1) a standardized information and data processing system for budgetary and fiscal data and (2) standard classifications of Federal programs, activities, receipts, and expenditures.

As the agent of the Congress, GAO is to insure that congressional interests are adequately considered in developing the required systems. We reported to the Congress in February 1973 on the need for more vigorous action on this work in the executive branch. In June, the Office of Management and Budget established a full-time, six-man team to develop a comprehensive plan for the required system. (See p. 28 for further details.)

### **Monthly List of GAO Reports**

As required by section 234 of the Legislative Reorganization Act of 1970, the Comptroller General sends each month to the Congress, its committees, and its Members a list of GAO reports issued or released during the previous month.

These lists help committees and Members keep informed about GAO reports and also serve as a ready reference to reports issued. Each list shows the title of each report, the date of issuance, and the file number and identifies the Government agencies or other organizations responsible for the activities reported on.

### **Federal Election Activities**

The Presidential Election Campaign Fund Act, approved December 10, 1971, and the Federal Election Campaign Act of 1971, approved Feb-

ruary 7, 1972, established new procedures concerning the financing and disclosure of campaign expenditures for Federal elections. Both laws assigned responsibilities to the Comptroller General, mainly relating to the disclosure of campaign expenditures for Presidential and Vice-Presidential candidates. During fiscal year 1972, a separate Office of Federal Elections was created in GAO to carry out these responsibilities.

As more fully described in chapter two, this office was quite active during fiscal year 1973. It received, and made available for public inspection, 13,599 reports required to be filed during the 1972 election campaigns by political committees and candidates. It prepared a summary listing showing names of about 85,000 contributors of more than \$100. This listing was released to the public in August 1973. In addition, 40 reports on audits and investigations of various committee and campaign activities were issued; 11 of these reports were referred to the Department of Justice for appropriate action on apparent violations of law.

### **Auditing**

Auditing the programs and activities of Federal departments and agencies and their contractors and grantees involves the largest expenditure of GAO resources.

The primary purposes of GAO audits are to:

- Evaluate the efficiency, economy, legality, and effectiveness with which Federal agencies carry out their financial, management, and program responsibilities.

- Provide the Congress and Federal agency officials with significant and objective information, conclusions, and recommendations that will aid them in carrying out their responsibilities.

GAO auditors operate in almost every Federal agency in the United States and in numerous foreign countries. During fiscal year 1973, we performed 1,585 audits in the United States and 53 other countries.



Civil agency programs .....	639
Defense programs .....	555
International programs .....	151
Government-wide and multiagency programs .....	240
Total .....	1,585

The results of much of the audit work performed during the year will be included in reports published during the next fiscal year.

In planning our audit work, we emphasize Federal programs and agency operations in which there are strong present or potential congressional interest and opportunities for improvement. We maintain continuous contact with committees and their staffs through briefing sessions and discussions.

In selecting Federal programs and activities for audit, we consider such factors as their importance and effectiveness, the amount of expenditures, and the investment in assets. Increasingly we are providing the Congress and agencies with information on progress made in achieving program objectives, on program deficiencies which impede operational success or increase program costs, and on possible alternative approaches to accomplishing congressional objectives.

We are making an increasing number of our audits on a multiagency basis so that the results of our work will be more useful to the Congress, its committees, and its Members. We are also performing audit work on programs and issues of great present and future significance (e.g., energy and environmental research and development).

We have been giving particular attention to international trade development, participation in international organizations, and the many elements of foreign assistance. Our current and past efforts have also concentrated on identifying ways to improve U.S. participation in the management of international organizations and financial institutions.

### Auditing Standards

On August 1, 1972, we published a new statement of standards for auditing governmental organizations, programs, activities, and functions. This project was begun in 1970 under GAO leadership with assistance from major

Federal agencies involved in grant-in-aid programs. The standards are intended for application by Federal, State, and local government auditors and public accountants engaged in the audit of governmental activities. They were developed in recognition of the need for improvement in the quality of auditing at all levels of governmental activity, particularly where Federal financial assistance is involved.

There is widespread interest in these standards and the comprehensive scope of audit work they call for. Our continuing efforts in this activity are being directed to familiarizing governmental managers and auditing authorities with these standards and assisting them in other ways in applying them where Federal funds are involved.

### Transportation and Other Audit Work

As part of our wide-ranging audit responsibilities, we:

- Make centralized audits of transportation payments.

- Audit Government corporations and other business-type activities.

- Review accounting systems in operation.

- Audit and settle accounts of accountable officers.

The largest part of this category of work stems from the Transportation Act of 1940, which requires GAO to postaudit all billings for transportation under standard Government transportation forms. This work is performed centrally in Washington.

We are working on a program to automate our transportation audits and to make our audit system compatible with agency management and fiscal systems. This program is consistent with our long-term objective of transferring the prime audit responsibility for transportation payments to the executive branch. This transfer, when accomplished, will not diminish our management and program reviews of transportation and traffic management operations because we will periodically review the adequacy of the agencies' systems for auditing the payments.

During the year, we audited \$1.4 billion in transportation charges—including \$830 million paid for 4.1 million freight shipments and \$587 million for 2 million passenger movements.

We stated a total of 74,586 claims of overcharge against carriers for \$11.9 million. Collections from carriers amounted to \$12.8 million; 16,505 claims against the United States by carriers were settled for \$3 million.

We furnished assistance to the Department of Justice in 21 suits for \$2,541,175 involving 2,120 shipments. Thirty-one suits, the subject of reports in this or prior years, were settled for \$832,952, or about \$860,015 less than claimed.

Additional information about our transportation audit and claims activities is included in chapter twelve.

Our work on the audit and settlement of accounts of accountable officers, required by the Budget and Accounting Act, 1921, is directed primarily to examinations of the adequacy of agencies' financial management systems, including their internal audits. Our objective is to assure ourselves that the agencies' systems and controls are adequate so that we can limit our work to spot checks of how those systems are actually working. We can then fulfill our responsibilities with a minimum of staff time.

The audit activities of GAO for the year relating to specific Federal programs and activities are discussed in chapters four through thirteen.

## Financial Management Improvement

Under the Budget and Accounting Procedures Act of 1950, GAO:

- Prescribes accounting principles and standards for the guidance of executive agencies.

- Cooperates with the agencies in improving their accounting and financial management systems.

- Approves agencies' principles and standards and accounting systems designs when they are determined to be adequate.

- Works with the Office of Management and Budget, the Treasury Department, and the Civil Service Commission in the Joint Financial Management Improvement Program, a Government-wide program for stimulating improvements in accounting and other financial management practices.

In fiscal year 1973, we approved 6 statements of accounting principles and standards and 13

designs of accounting systems submitted by civil and international departments and agencies. As of June 30, 1973, 146 statements of accounting principles and standards and 95 accounting systems designs had been approved out of a total of 154 systems subject to our approval.

During the year we approved 3 statements of accounting principles and standards and 2 systems designs for the Department of Defense. As of June 30, 1973, we had approved 145 statements of principles and standards and 18 systems designs of the 160 systems in this Department subject to our approval.

## Settlement of Claims

In addition to settling claims involving carriers, we settle other categories of claims by and against the Federal Government. In doing so, we provide aggrieved parties with an impartial and independent settlement of their claims at little or no expense to them, since we are completely independent of the agencies out of whose operations the claims arise. By avoiding possible litigation, it also significantly reduces the burden on the courts and the Department of Justice.

Claims against the United States referred to GAO for settlement are (1) those required by statute to be paid on settlement by GAO and (2) those involving doubtful questions of law or fact. During the year we settled 6,993 claims against the United States for \$130.6 million.

We examine and adjudicate claims made by the United States which are referred to us because of administrative doubt as to the liability of the debtor or the amount of the debt. Other claims are referred to us because debt collection efforts have been unsuccessful. During 1973, we settled 25,615 claims resulting in the collection of \$4 million. As of June 30, 1973, there were 13,577 claims under collection amounting to about \$11.8 million. There were also 1,035 claims reported to the Department of Justice for collection by suit.

## Savings

It is always difficult to determine the full effect of GAO activities in terms of improvement of the operations and the effectiveness of the

Government. Our main objective is to concern ourselves with opportunities for improving the economy and the effectiveness of Government programs irrespective of the amount of savings which we might claim from our work at the end of the year. Many actions taken in response to our recommendations cannot be readily measured in terms of dollar savings.

Although we do not believe that dollar savings is the best measure of our effectiveness, we feel that it is useful to maintain a record of readily determinable dollar savings resulting from our work, including the adoption of GAO recommendations. For fiscal year 1973 these savings amounted to \$284 million, including about \$24 million in cash collections and \$260 million of other savings.

Detailed information on these savings is shown in appendix 6. This appendix also describes financial benefits which are not fully or readily measurable in dollar terms and savings and benefits to persons or organizations not in the Government.

### **Operating Expenses**

GAO's operating expenses for fiscal year 1973 amounted to \$97.1 million. About 87 percent of the amount—\$84.3 million—was for salaries and other personnel costs.

Financial statements showing our financial position, summary of operating expenses, and sources and application of funds are included in appendix 8.

### **Staffing**

At June 30, 1973, we had 4,962 employees, 136 more than a year earlier. Of the current total, 3,358 (nearly 70 percent) were members of our professional staff. Our professional staff is marked by its growing interdisciplinary character. (See table on p. 166.)

### **Equal Employment Opportunity Program**

We improved this program during the year through intensified recruiting, new training initiatives, improved directives, and the formal rec-

ognition of significant achievements in the program.

Through an intensified college recruiting program, we were successful in employing more minority group members and females at the professional entrance level. We also increased our upper-level hires with respect to both groups. (See p. 174 for details.)

### **Upward Mobility**

We developed an Upward Mobility Program to provide avenues of advancement into our professional ranks for interested employees who lack the necessary qualifications in terms of education and experience. This program will provide such employees with the opportunity to meet qualification requirements through the completion of work-related courses at approved colleges and universities, career counseling and training in GAO, and carefully planned and supervised on-the-job work experience. Successful completion of the program will enable participants to join the professional staff as attorneys, management analysts, or claims adjudicators. A brief description of this program appears on page 173.

### **Commission on Government Procurement**

This Commission, of which the Comptroller General was a member, was established by law in 1969 to make a comprehensive study of Federal procurement statutes, policies, and practices. The Commission completed its work during fiscal year 1973 and submitted a four-volume report to the Congress on December 31, 1972. The report contains 149 recommendations for improving Government procurement.

By arrangement with the House Committee on Government Operations, the General Accounting Office will monitor and follow up on executive branch actions taken on the Commission's recommendations.

### **Recommendations for Legislation**

As required by the Budget and Accounting Act, 1921, our Office includes in reports to the

Congress recommendations "looking to greater economy and efficiency in public expenditures." Sometimes these recommendations require legislation.

A summary of such recommendations included in reports issued during the fiscal year 1973, together with open recommendations reported in prior years, is included in appendix 10.

## Access to Records

If GAO is to satisfactorily audit the programs and activities of Federal departments and agencies, it must have access to their books, documents, papers, and records. The Congress recognized this need by providing us with broad authority for such access when it enacted the Budget and Accounting Act, 1921, and it has repeated this authorization in numerous laws enacted since then.

Most executive departments and agencies cooperate with us in providing access to their records for audit purposes. During the year, however, we continued to encounter restrictions on our access to records, or unwarranted delays in providing access, on the part of certain agencies, notably the Department of Defense, the Department of State, the Treasury Department, and the Federal Deposit Insurance Corporation.

The 1972 annual report discussed this subject at some length. Although some improvement took place during the current year, the problem is still a serious one. That the Congress itself is becoming increasingly concerned about it is evidenced by the fact that, on several different occasions this year, the Comptroller General or other GAO representatives testified on the subject before congressional committees—e.g., Senate Judiciary, House Government Operations, Senate and House Appropriations Committees.

The right of generally unrestricted access to records is based not only on laws enacted by the Congress but is a necessary adjunct to the duties and responsibilities of the Comptroller General.

One of the titles of the proposed Accounting and Auditing Act of 1973 is concerned with this subject. It proposes to establish a procedure for

obtaining records to which we are entitled by law and provides a means of enforcing those rights after a Federal court has issued a declaratory judgment stating that we have a statutory right to see the specific records involved.

## Proposed Accounting and Auditing Act of 1973

In June 1973 bills were introduced in the Senate (S. 2049) and House (H.R. 9091) as the proposed Accounting and Auditing Act of 1973 which would strengthen and update the authority and functions of the General Accounting Office. These bills contain a variety of provisions, all intended to enable us to more effectively carry out our statutory responsibilities. Included are provisions:

Enabling the Comptroller General to sue in the Federal courts when his determinations differ from those of the Attorney General.

Authorizing the Comptroller General to issue subpoenas for negotiated contract and subcontract records and records of other non-Federal individuals and entities.

Directing the Comptroller General to assist the Congress in obtaining budget, fiscal, and program information.

Restating GAO's right of access to Federal agency records and records of recipients of Federal assistance and providing procedures for enforcing those rights.

Giving the Comptroller General custody and control over the GAO Building.

Directing the Comptroller General to make profit studies of Government contractors.

Authorizing the Comptroller General to prescribe limitations on the amount of individual disbursement vouchers which may be preaudited by Federal agencies under statistical sampling techniques.

Transferring responsibility for detailed audit of transportation payments to the executive branch.

Authorizing GAO audits of nonappropriated-fund activities.

Reducing frequency of audits required of Government corporations and certain other entities.

## CHAPTER TWO

# SUPERVISION OF POLITICAL CAMPAIGN FINANCING AND REPORTING

The Comptroller General's authority and responsibility with respect to political campaign financing and reporting are significantly different from GAO's traditional functions. The 92d Congress enacted two laws which set forth these new and unique functions: (1) The Presidential Election Campaign Fund Act (title VIII, Public Law 92-178, Dec. 10, 1971) and (2) the Federal Election Campaign Act of 1971 (Public Law 92-225, Feb. 7, 1972). The Office of Federal Elections was established within GAO in 1972 to perform the functions assigned by these laws.

### The Presidential Election Campaign Fund Act

This act amends the Internal Revenue Code to provide for public financing of Presidential election campaigns by a tax checkoff procedure. Originally, the act permitted a taxpayer to allocate \$1 of his tax payment (\$2 for joint returns) to either a general account or the political party of his choice. The Congress, on June 30, 1973, approved an amendment which eliminated the party option. Accordingly, funds allocated by taxpayers will now be shared by all eligible candidates.

The act requires the Comptroller General to:

Certify to the Secretary of the Treasury the payments to which eligible Presidential and Vice-Presidential candidates are entitled.

Audit candidates' campaign expenses after each Presidential election and recover any amounts used for ineligible campaign expenses.

Receive, in the weeks immediately preceding the election, periodic statements from the candidates of incurred and proposed campaign expenses and publish a summary of such statements in the Federal Register with any necessary additional information.

Report to the Congress, as soon as practicable, on operations under the law.

Instruct his attorneys and counsel to participate in judicial procedures arising under this law.

The new subtitle also establishes a Presidential Election Campaign Fund Advisory Board to counsel and assist the Comptroller General in performing the duties and functions assigned to him by the act. The Board is composed of:

The majority and minority leaders of the Senate and the Speaker and minority leader of the House of Representatives.

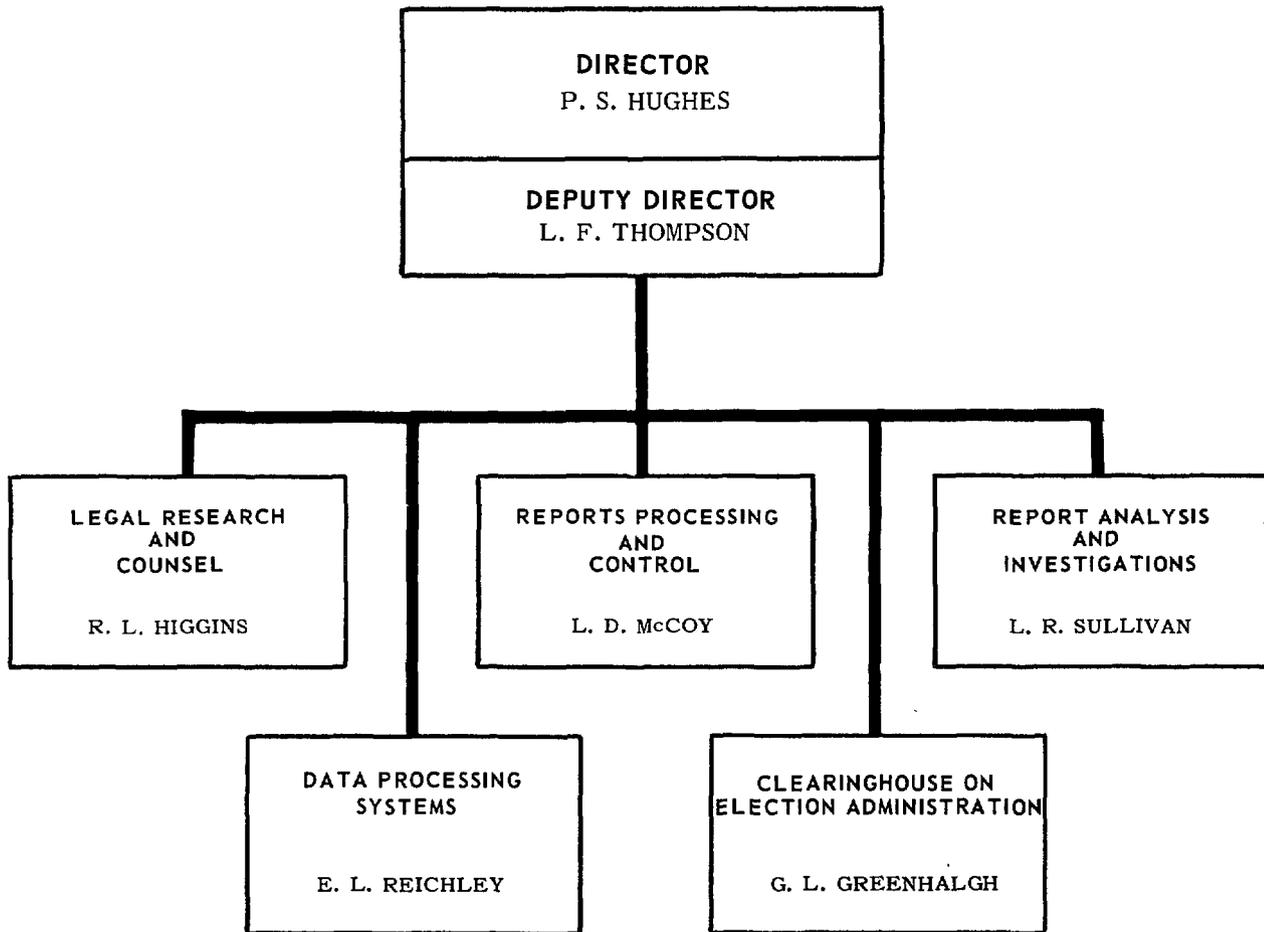
Two members representing each major political party to be appointed by the Comptroller General from recommendations submitted by the political parties.

Three members representing the general public to be selected by the members described above.

The Board has been partially established. The two members representing the Democratic Party are Robert S. Strauss and C. Peter McColough. The Republican Party representatives are George Bush and Bryce Harlow. Mike Reed has been designated to represent the Speaker of the House in connection with the work of the Board, and the Honorable Frank Valeo is to perform a similar function for the majority leader of the Senate. Robert T. Hartman will represent the minority leader of the House, and William Hildenbrand will represent the minority leader of the Senate.

Although title VIII of Public Law 92-178 became effective January 1, 1973, no substantial action is required of GAO until 1976.

OFFICE OF FEDERAL ELECTIONS



JUNE 30, 1973

**The Federal Election Campaign Act of 1971**

This act requires the Comptroller General to (1) prescribe regulations and perform related functions involving communications media usage, (2) serve as both a supervisory officer and an administrator of the law with respect to disclosure of campaign funds, contributions, and expenditures, and (3) perform a national clearinghouse function for research and information on the administration of elections.

The act specifies that the Comptroller General is supervisory officer only for Presidential and Vice-Presidential candidates. The Clerk of the House is supervisory officer for candidates for the House of Representatives and the Secretary of the Senate for candidates for the Senate. A close working relationship is necessary among the three to insure adequate coordination of forms, regulations, and administrative practices. Cooperation has been excellent.

Section 308 of title III sets forth the duties of the supervisory officers in specific detail.

## Report Processing and Control

Title III of the act requires supervisory officers to supply candidates and reporting committees with prescribed report and statement forms. During fiscal year 1973 the Office of Federal Elections received and processed approximately 4,400 requests for forms and instructions.

To fulfill the requirements of public inspection, each report and statement filed is indexed with an identification number which is used by members of the press and the general public when requesting copies. By June 30, 1973, the office had received 13,599 reports and statements from 2,585 committees and 35 candidates for a total of 98,912 pages of documentation. These reports and statements are available for public examination, and copies can be purchased for 10 cents a page. Approximately 121,000 pages have been purchased.



GAO staff members processing reports in the Office of Federal Elections: Madeline Sechiel and Sharon Kyle.

News reporters reviewing campaign finance reports in the Office of Federal Elections.



## Report Analysis and Investigation

Each report is processed to make it available for public inspection, and a preliminary desk audit is made for completeness and accuracy. Once the report is made available to the public, further audit and investigation depends upon specific circumstances.

If the report is the subject of a complaint or if allegations of irregularity have been made, an immediate audit and investigation may be undertaken to bring out the facts as soon as possible. If the case can be handled routinely, the audit of the report and the committee filing it is made under an audit program which provides for audit of all national committees, all State major-party central committees, and a significant sample of other committees by the end of calendar year 1974.

By the end of fiscal year 1973, we had completed 40 audits and investigations and 127 audits and investigations were in process. We formally referred 11 reports to the Department of Justice for appropriate action as "apparent violations" of the act.

Audits and investigations, both special and routine, are made in accordance with the provisions of section 308(a)(11) and (12) of the act. Section 308(d) requires investigation of complaints based on alleged violations of the act.

Approximately 2,000 committees were registered with and reporting to our office at the time of the general election in 1972. The 15 GAO regional offices participate extensively in conducting these audits. The audits provide collateral benefits as a training medium for Office of Federal Elections staff as well as for committee chairmen, treasurers, and accountants. We expect to develop better forms, instructions, and guidance from this experience. We have already been able to make recommendations to the Congress for legislative changes to improve and simplify reporting and recordkeeping requirements.

## Automatic Data Processing

The large number of reports and the reporting requirements set forth in section 308 have made it essential that we use automatic data

processing equipment. This equipment has been used for many activities ranging from the creation of an index of filed reports and statements to the preparation of summary information on contributions and expenditures for the annual report which GAO is required to prepare and publish. The law specifically requires the preparation and publication of a summary of contributions and expenditures by candidate and party and a listing by name of all contributors of more than \$100. This list, containing about 85,000 names, was released in August 1973.

A summary alphabetical list of contributions to Presidential candidates and committees from April 7 (the effective date of the act) through August 31, 1972, was prepared to make information available before the Presidential election and to gain experience in systems design to provide required information. The list, which was available October 21, 1972, contained more than 36,000 entries.

### **National Clearinghouse on Election Administration**

Section 308(c) of the act requires the Comptroller General to establish a clearinghouse on election administration information by issuing contracts for independent studies of election administration problems. The law specifically requires studies in voting and counting methods, registration practices, and training of election boards and personnel.

By the end of the year we had entered into the following five contracts or letters of agreement:

A study of election administration in seven specific jurisdictions to identify reasons for success or failure. A preliminary report was distributed in September 1972 to a large number of election officials throughout the country.

A survey of organizations currently engaged in election administration research.

A Commerce Clearing House agreement to assemble copies of State legislation relating to elections in all States.

A Library of Congress agreement to collect, index, and abstract the Commerce Clearing House material for compilation and distribution to election officials nationwide.

A register of State, county, and local election authorities responsible for administering Federal elections.

Contracts or letters of agreement under negotiation at the end of fiscal year 1973 included:

A study of the national registration systems in use throughout the United States to identify their range and analyze their strengths and weaknesses.

A study of election machines to evaluate their strengths and weaknesses.

A feasibility study on State and local election-administration-expenditure data.

## CHAPTER THREE

### LEGAL SERVICES

The legal work of the General Accounting Office stems from article 1, section 9, clause 7 of the U.S. Constitution, which provides that "No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by law \* \* \*." Thus, control over the public purse was placed in the hands of the Congress.

The Comptroller General has statutory responsibility for determining the propriety of public expenditures by the executive branch. The Office of the General Counsel, which is under the direction of Paul G. Dembling, General Counsel, and Milton J. Socolar, Deputy General Counsel, provides legal advice to, and on the behalf of, the Comptroller General to help carry out this responsibility. An organization chart appears on the following page.

In addition to dealing with matters covering the legality of Government expenditures, this office prepares reports to the Congress on proposed legislation, often working closely with committee staff members, and reviews all GAO audit reports to make sure that legal implications have been appropriately considered.

Because our Nation's social, political, economic, and military needs are broad and becoming more complex, we are providing legal assistance of increasingly broad scope: formal decisions, comments on proposed legislation, opinions to other GAO divisions and offices, audit report reviews, and informal advice furnished daily.

The volume of legal matters we consider continues to grow. As may be seen in the following table, the number of such matters increased by over 15 percent in the last 5 years.

	Fiscal year 1973	Fiscal year 1968
Procurement law:		
Bid protests .....	1,096	450
Other .....	580	1,112
Personnel law:		
Civilian .....	899	926
Military .....	514	572
Transportation .....	970	726
General Government matters .....	1,285	804
Total .....	5,344	4,590

Within these 5 years, our staff of attorneys remained constant; 73 lawyers were hired to replace the 72 who left.

In fiscal year 1973 we continued toward better internal management and administration to implement the 1972 realignment of our operating groups.

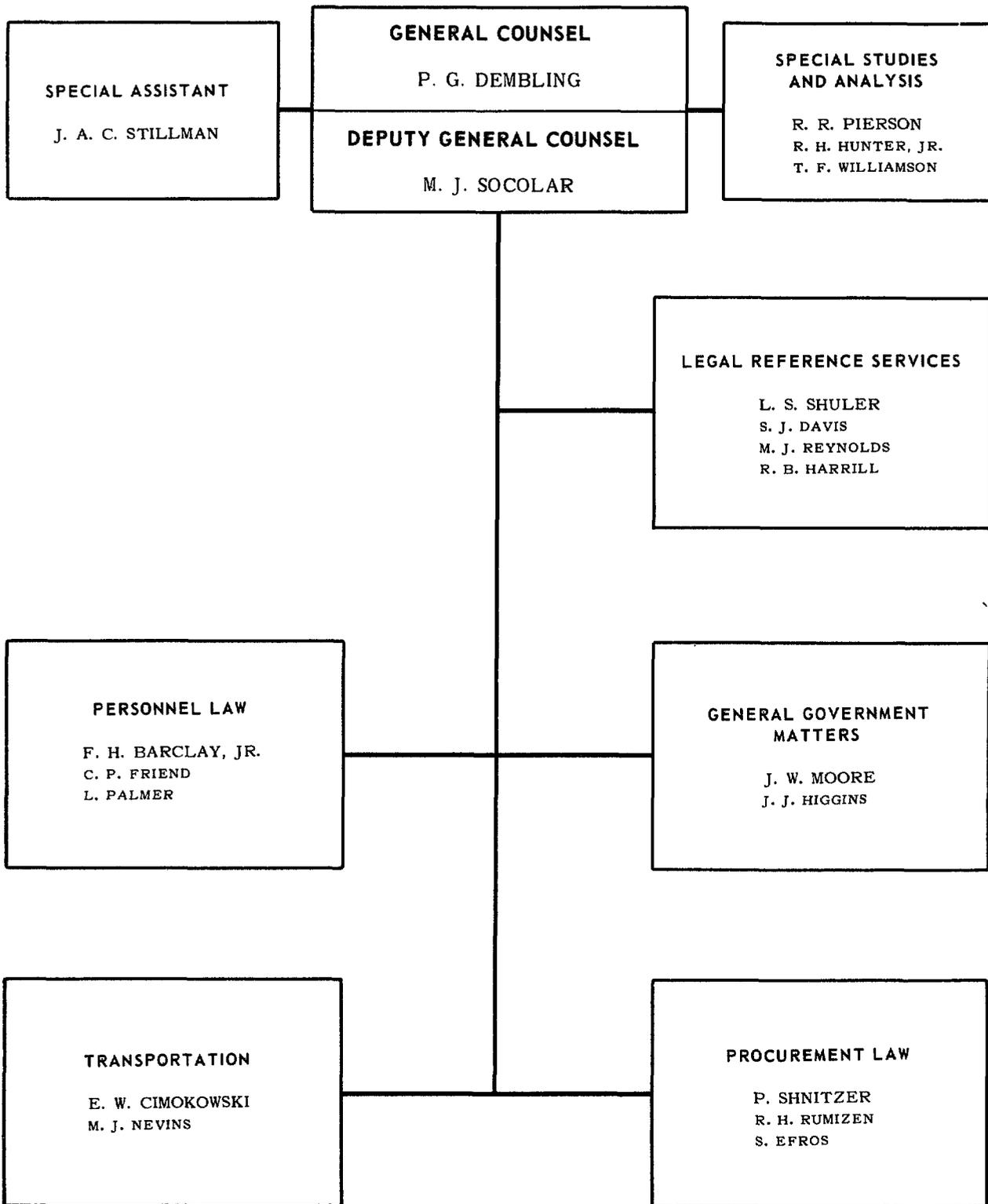
We made a further change in the organization of the Office of the General Counsel during the year by creating the Special Studies and Analysis Section. This section was created to do two things: (1) to provide an overview of GAO-created law and to consider policy questions of a legal nature which commonly do not fall within the traditional areas of responsibility of our decisionwriting groups and (2) to integrate our legal skills and experience with the talents of the audit staffs in other divisions and offices.

Although this section was only created in January 1973, it has been quite active and we feel that it is providing a needed function. The staff of seven attorneys and an assistant general counsel has handled a multitude of projects and has provided the General Counsel with the analysis he requires to help resolve GAO policy questions. Equally important, it has made progress in combining the skills of our legal staff with those of other division audit staffs to make GAO's work products better.

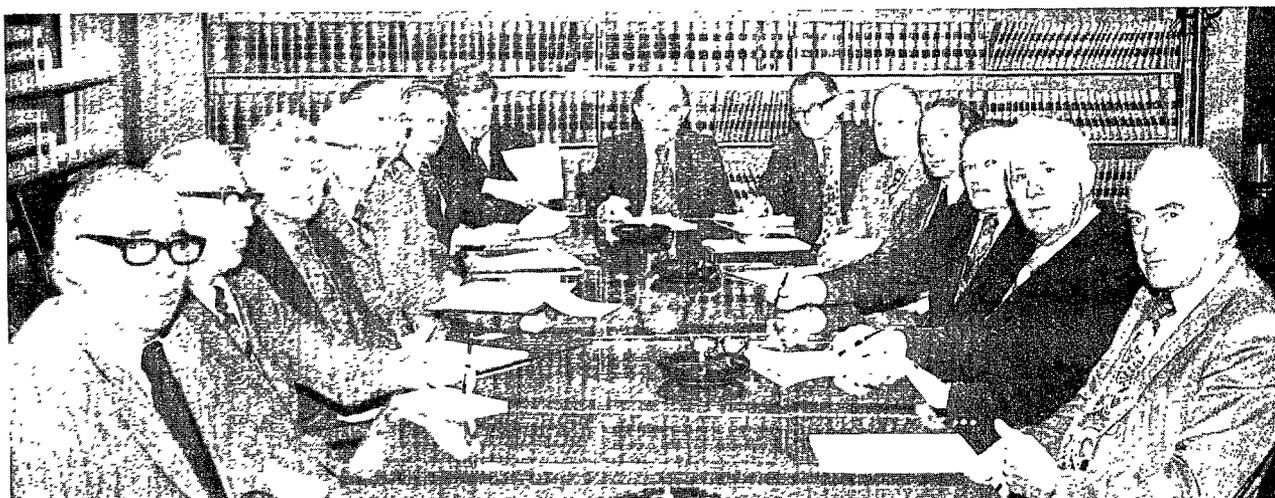
### Procurement Law

Many of our legal decisions involve Government procurements. These decisions are significant to the parties inside and outside Government who are directly involved in the

OFFICE OF THE GENERAL COUNSEL



JUNE 30, 1973



Reading clockwise from the lower left of the picture are:

James A. C. Stillman, Special Assistant to the General Counsel; Herbert F. Lock, Deputy Assistant General Counsel, Civilian Personnel; Robert H. Rumizen, Assistant General Counsel, Procurement Law; Louis Palmer, Assistant General Counsel Military Personnel; Matthew J. Nevins, Assistant General Counsel, Transportation; F. Henry Barclay, Jr., Associate General Counsel, Personnel; Milton J. Socolar, Deputy General Counsel; Paul G. Dembling, General Counsel; Edwin J. Cimokowski, Associate General Counsel, Transportation; Seymour Efros, Assistant General Counsel, Procurement Law; Richard R. Pierson, Assistant General Counsel, Special Studies and Analysis; John W. Moore, Associate General Counsel, General Government; John J. Higgins, Assistant General Counsel, General Government; and Wilbur R. Allen, Acting Assistant General Counsel, Procurement Law.

Missing when the picture was taken were: Carl P. Friend, Assistant General Counsel, Civilian Personnel; and Paul Shnitzer, Associate General Counsel, Contracts.

matters. In addition, for others who may be concerned with the Federal procurement process, these decisions are important as guides and as precedents in connection with other protests, claims, or litigation.

**Bid Protests**

Most of our decisions in procurement law deal with the propriety of proposed or actual contract awards. Under our bid protest procedure, we provide an independent forum for the consideration of complaints by interested parties against agency procurement actions. Statistics on our bid protest activities follow.

**BID PROTEST ACTIVITY—FISCAL YEAR 1973**

**Disposition of cases handled**

Protests sustained .....	40
Protests withdrawn .....	326
Protests denied .....	542
Miscellaneous actions .....	188
Total .....	<u>1,096</u>

**Formal decisions rendered**

Department of Defense .....	2
Defense Nuclear Agency .....	1
Defense Supply Agency .....	59
Department of the Air Force .....	78
Department of the Army .....	142
Department of the Navy .....	89
Marine Corps .....	7
<b>Total Defense .....</b>	<b>378</b>
Architect of the Capitol .....	1
Atomic Energy Commission .....	2
Department of Agriculture .....	11
Department of Commerce .....	11
Department of Health, Education, and Welfare .	15
Department of Housing and Urban Development.	6
Department of the Interior .....	18
Department of Justice .....	5
Department of Labor .....	1
Department of Transportation .....	22
Department of Treasury .....	5
District of Columbia Government .....	7
Environmental Protection Agency .....	5
Federal Communications Commission .....	2
General Services Administration .....	63
Government Printing Office .....	2
Library of Congress .....	1

National Aeronautics and Space Administration . . . . .	14
Small Business Administration . . . . .	1
Smithsonian Institute . . . . .	1
Veterans Administration . . . . .	11
<b>Total . . . . .</b>	<b>582</b>

Section 236 of the Legislative Reorganization Act of 1970 requires that, whenever GAO has made a report which contains recommendations to the head of any Federal agency, the agency shall report the actions taken as a result of such recommendations. During the fiscal year we had 11 bid protest cases which involved such recommendations. The following cases are representative.

A contracting agency canceled a contract after discovering that the successful bid was low only because the freight rate used in evaluating bids was erroneous. Since the contractor was not at fault, we concluded that the cancellation should be changed to a termination for the convenience of the Government so the contractor could recover costs for work performed and expenses incurred. (52 Comp. Gen. 215.)

We reviewed situations in which, after public disclosure of bids, the invitations for bids were canceled and the procurements readvertised. Recognizing that readvertising a procurement after public disclosure of bids may adversely affect competition, we concluded that the administrative actions were not supported by sufficiently compelling reasons and recommended that the original invitations for bids be reinstated and awards made to the low, responsive, responsible bidders. (B-177165, Jan. 31, 1973, and B-177245, May 7, 1973.)

However, in some instances, the mandate for full and free competition requires resolicitation. A contract was awarded after a contracting officer had solicited only those firms he knew to have a given security clearance. He did not give other possible sources an opportunity to establish eligibility. In that case we recommended termination of the contract for convenience since the procedure unduly restricted competition. (B-177412, Mar. 20, 1973, to be published in 52 Comp. Gen.) Similarly, our office concluded that proposals had not been solicited from the maximum number of qualified sources consistent with the nature and requirements of the services being procured and recommended

that any severable portions of the contract be terminated for the convenience of the Government and resolicited competitively.

Finally, a case concerned two invitations for bids that contained two widely separated provisions, one specifying the bidder's acceptance period and the other the minimum acceptance period required for the bid to be considered responsive. The minimum acceptance period was greater than the period which automatically applied if the bidder did not insert a different figure. The failure of the solicitations to clearly cross-reference the two provisions could be viewed as a trap to ensnare the average bidder into nonresponsiveness. This view was supported by the fact that 10 of the 13 bids were nonresponsive for failure to allow sufficient time for bid acceptance. Therefore, we recommended canceling the solicitations and readvertising. (B-177879, May 18, 1973, to be published in 52 Comp. Gen.)

**Advice to the Congress**

We advised congressional committees on legal aspects of procurement in several areas. In some cases we provided our views formally; in other cases orally.

At the request of the chairman of a congressional committee, we considered whether an arrangement whereby the Department of the Navy took back the stock of one of its contractors (GAP Instrument Corporation) as a means of effecting repayment of funds provided to the contractor under Public Law 85-804, 50 U.S.C. 1431-35, which authorized an outright grant to the contractor, was within the parameters of that statute. We reviewed the statute and its legislative history. Though we concluded that acquiring an interest in privately owned concerns was not one of the actions contemplated by the statute, we also recognized that grants under the statute must be exercised prudently. Since an analysis of the stock arrangement between the Navy and the contractor indicated that it was more like security for a loan than an investment in the equity of the company, we advised the committee that the arrangement was a proper exercise of administrative authority under the statute. (B-177734, Jan. 13, 1973.)

Pursuant to a congressional request, we examined a proposal involving a number of parties, for developing a liquid-metal, fast breeder reactor for producing energy. We reviewed the proposal in detail, identified the legal problems and possible ramifications of the arrangement as originally proposed, examined the arrangement terms for conformity with existing statutes, questioned agency personnel and private industry representatives, and suggested alternative language for the proposal agreements. For the benefit of committee members and staff, we participated in a detailed briefing on the proposal and on our conclusions.

We also cooperated with another congressional committee in reviewing the Department of the Army's drug abuse program. Though we primarily ruled on the legality of contracts awarded by the Army for laboratory services, we periodically briefed the committee staff, as well as other congressional staff members who expressed interest in current developments. Although we found nothing illegal in the awards, we did find an indication of several major problems regarding contract performance and referred the matter to our audit division which is planning a thorough review of this area.

## **Personnel Law**

### **Civilian Personnel**

The varied and complex array of statutes, statutory regulations, administrative regulations, and instructions governing the civilian personnel structure, including the various pay systems in the Federal Government, generate many questions about employees' rights and entitlements and the Government's corresponding obligations. Frequently these questions are resolved only by decisions of the Comptroller General and may involve such subjects as pay, including overtime, Sunday, holiday, night differential, and hazardous duty pay; reimbursement for travel, transportation, and relocation expenses; vacation and sick leave; administrative leave; benefits applicable to foreign service personnel; dual employment restrictions; waiver of certain debts due the United States; and other miscellaneous subjects in the field of personnel management.

Heads of agencies and accountable officers may obtain assurances from the Comptroller General in these areas in advance of contemplated actions or payment of obligations, thereby relieving them of the responsibility of making determinations in doubtful cases and absolving them from responsibility for actions taken in accordance with such assurances. Similarly, employees, former employees, and persons claiming through them are provided an inexpensive forum for review of administrative actions disallowing their claims for amounts they believed the United States owes them.

We rendered a wide variety of decisions in the civilian personnel area during the year. The following are illustrative.

In one case involving a Presidential recess appointee, we held that, under 5 U.S.C. 5503, an appointee whose name had not been submitted to the Senate for confirmation but who had served in his position for more than 40 days after a new session of Congress had begun was not entitled to compensation for his services after the 40 days had expired unless and until he was nominated for the office and confirmed by the Senate. (B-150847, Feb. 28, 1973, 52 Comp. Gen. 556.)

In another decision involving a Presidential appointment, it was our opinion that the Acting Administrator of the Environmental Protection Agency was legally serving in his position despite the fact that his name had not been submitted to the Senate for confirmation and that the Vacancies Act, 5 U.S.C. 3345-3349, was not applicable to independent agencies in the executive branch. (B-150136, May 24, 1973.)

We held also that the night differential authorized for prevailing rate employees by Public Law 92-392, approved August 19, 1972, should be considered basic pay for purposes of annual and sick leave and for computing overtime pay. We pointed out that one of the purposes of Public Law 92-392 was to enact into law established principles and policies for setting the pay of prevailing rate employees. (B-178084, Apr. 17, 1973, to be published in 52 Comp. Gen.)

In a case involving overseas employees, we agreed to a proposed amendment to the Foreign Affairs Manual which would recognize the Government's obligation to return to the United States members of an employee's family who had been transported overseas in connection with the

employee's overseas assignment, but who, as a result of divorce or annulment, had ceased to be members of the employee's family at the time he became eligible for return travel. (B-176759, Oct. 30, 1972, 52 Comp. Gen. 246.)

In another decision involving overseas employees, we held that, under the Overseas Differentials and Allowances Act and the Standardized Regulations (Government Civilians, Foreign Areas) issued pursuant thereto, employees separated overseas were entitled to have foreign post differential included in their lump-sum leave payments when they separated from Federal service. Before that decision, the State Department had not included the differential in such payments although the other Government agencies generally followed the opposite practice. (B-178428, June 28, 1973, to be published in 52 Comp. Gen.)

In still another case we held that when, pursuant to a divorce decree, joint custody of minor children has been vested in both parents under a modern custody concept being recognized by many courts, an employee is entitled to a separate maintenance allowance under the Standardized Regulations (Government Civilians, Foreign Areas) for the children when it is shown that the children would have resided with the employee but for the circumstances warranting the separate maintenance allowance. (B-178114, May 25, 1973.)

### **Military Personnel**

The pay and allowances of members of the U.S. Armed Forces are administered under a composite of detailed and complex statutes, regulations, and instructions. Our decisions in the military personnel area therefore involve many different fields of law. The laws relating to the pay and allowances of the Armed Forces are applicable, generally, to the U.S. Coast Guard, the commissioned officers of the Public Health Service, and the commissioned officers of the National Oceanic and Atmospheric Administration.

The Department of Defense and the military services, as well as the other agencies comprising the uniformed services, rely on our decisions in formulating the regulations and instructions designed to implement the basic intent of the

statutory entitlements and authorities enacted by the Congress and in making payments from appropriated funds.

Decisions are rendered on questions concerning pay and allowances for active and inactive duty personnel, retired pay, and travel and transportation allowances for members and their dependents and involve many related questions, such as those concerning marriage and divorce under the various domestic and foreign laws.

In a case involving the August 1971 wage-price freeze, it was held that, in light of the broad authority vested in the President by the Economic Stabilization Act of 1970, the President's action to freeze military pay during the period August 15 to November 13, 1971, was authorized by law, despite the increased rates of military pay prescribed in Public Law 92-129, September 28, 1971. After we examined the legislative history of the Economic Stabilization Act Amendments of 1971, we further held that military personnel did not come within the scope of that act for the purposes of a retroactive pay increase during the wage-price freeze. (52 Comp. Gen. 15 (1972).)

We rendered a decision in 52 Comp. Gen. 23 (1972) holding that members who were being quartered and paid subsistence allowances by the United States before entering a missing status are entitled to quarters and subsistence allowances for the period they were in a missing status.

In another case (52 Comp. Gen. 1 (1972)), we found that, due to changes in traditional dependency law, a female member of the uniformed services may receive a quarters allowance if she has a husband dependent on her for more than one-half of his support, despite the fact that he is mentally and physically capable of self-support.

Another decision held that disaster relief duty performed by Pennsylvania National Guard units may be considered as annual training duty and Federal funds may be used for their pay and allowances. (52 Comp. Gen. 35.)

In rendering a decision to the Secretary of Defense (52 Comp. Gen. 105), we answered several questions about the administration of the new enlistment bonus program which the Congress authorized in 1971 to encourage voluntary enlistments in the combat elements of the Armed Forces.

In a decision (B-178170, May 17, 1973, to be published in 52 Comp. Gen.), it was held that, although the monthly basic pay of an officer in grades zero to 10 is established by Executive order at rates exceeding \$3,000, such pay, like that of civilian employees, is limited by 5 U.S.C. 5308 to the rate of level V of the Executive schedule (\$3,000 per month); therefore, military retired pay may not be computed on monthly rates exceeding \$3,000.

Replying to a congressional inquiry concerning General Alexander M. Haig, Jr., Vice Chief of Staff of the Army simultaneously serving as Assistant to the President, a position previously held by H. R. Haldeman, GAO stated that a violation of 10 U.S.C. 973(b) was indicated. This regulation prohibits regular officers on the active list from holding civil offices and provides for the termination of their military appointments if they accept or exercise the functions of such an office. (B-150136, June 15, 1973.)

In still another decision (52 Comp. Gen. 3), we held that the activities of a retired Navy officer who was employed by a firm doing business with the Department of Defense and who was involved in "all aspects" of the procurement process came within the purview of the statute and implementing regulation prohibiting the payment of retired pay to such an officer under such circumstances. However, since the officer was placed on the retired list over 3 years before he engaged in such selling activities, it was held that he was entitled to his retired pay for the 3-year period.

## Transportation

Attorneys in the transportation group handle highly technical and complex cases relating to interpreting tariffs and rate tenders; charges for air, motor, rail, and ocean carrier services; and proceedings before regulatory agencies and the courts. These cases require a thorough knowledge of contract law, relevant statutes, and regulations.

This year a staff member of the group testified before the House Committee on Interstate and Foreign Commerce on a bill which culminated in passage of the Transportation Payment Act of 1972 (Public Law 92-550). We also helped draft the legislation which is designed to

implement certain recommendations of the Joint Agency Transportation Study issued March 6, 1970. Under standards promulgated by the Secretary of the Treasury and the Comptroller General, the legislation exempts transportation payments, at the option of the paying agencies, from 31 U.S.C. 529, which prohibits advance payments. The legislation also significantly changes section 322 of the Transportation Act of 1940, as amended (49 U.S.C. 66), to provide considerable economic benefits to the Government and to the carrier industry, such as savings in man-hours, reduced documentation, and more prompt payments to the carriers.

We continued to prepare briefs, pleadings, and other court papers for the Department of Justice to use in numerous suits filed at our request in U.S. district courts and referred by the courts to the Interstate Commerce Commission for determination. Most of the suits resulted from the motor carriers' rates exceeding those we considered just and reasonable under precedent ICC rulings.

In two of those cases, *United States v. Western Gillette, Inc.* (341 I.C.C. 889), and *United States v. Western Gillette, Inc.* (343 I.C.C. 29), ICC, in ruling in favor of the United States, applied one of its precedent rulings and found that the defendants had presented no unusual or special circumstances justifying their retaining freight charges on shipments of passenger automobiles and rocket launchers. The charges were based on exceptions ratings producing freight charges higher than those based on the classification ratings. The defendant has filed suits in those two cases in the referral district court to set aside the ICC rulings.

The approximately 900 suits instituted in the Court of Claims by so-called exempt freight forwarders of household goods continue to occupy our attention. The three leading cases now have become final, and we are working with representatives of the plaintiffs in the other suits and with the Department of Justice to attempt to settle the other cases reasonably and fairly to best preserve the interests of the United States.

In a decision requiring consideration of the two basic cargo preference statutes, we held that under certain circumstances foreign-built vessels documented under U.S. laws are eligible to carry military cargoes. (B-95832, May 17, 1973, to be published in 52 Comp. Gen.)

Common carriers by motor vehicle subject to the Interstate Commerce Act are responsible under that act for issuing accurate bills of lading. In a case involving a shipment of explosives, we held that the Government, as a shipper, cannot be required to pay double freight charges on a shipment simply because the carriers failed to issue a proper bill of lading and transported the shipment in two separate movements. (B-176436, Oct. 12, 1972, 52 Comp. Gen. 211.)

The document basic to most types of transportation is the bill of lading, or the contract of carriage. Most Government shipments move under Government bills of lading, but sometimes commercial bills of lading are used. In one such case the Government purchased furniture f.o.b. destination, freight charges to be borne by the seller. The seller shipped the furniture on a commercial bill of lading issued by the carrier and marked to show that the freight was prepaid. The bill of lading also directed that the shipment be delivered to the Government consignee without recourse on the consignor-seller and that the carrier not make delivery without payment of freight and all other lawful charges (the no-recourse clause). After attempting to collect the freight charges from the seller, now apparently bankrupt after being paid the purchase price by the Government, the carrier claimed the freight charges from the Government consignee. We affirmed the denial of the carrier's claim, holding that, when both the no-recourse and prepaid clauses are included in the bill of lading contract, the inconsistency must be reconciled, if possible; that the freight prepaid notation amounted to a representation at least that some part of the freight was paid; and that the carrier was estopped from collecting the freight charges. (B-177076, May 22, 1973, to be published in 52 Comp. Gen.)

In another unusual case, we held that it was not improper to charge appropriated funds of one Government agency to reimburse another Government agency which furnished services pursuant to 31 U.S.C. 686, even though the chargeable agency inadvertently violated its own local policy by procuring space-required Military Airlift Command airlift of commissary goods outside the United States. We based our decision on the grounds that the order by one agency

obligates its appropriations, and the broader policy of the Department of Defense, with indications of congressional approval, is not to require commissary patrons to reimburse the Government for transporting commissary goods outside the United States. (B-178574, June 22, 1973, to be published in 52 Comp. Gen.)

## General Government Matters

The scope and complexity of Government programs are ever expanding. As new approaches for meeting our social needs are developed, the Federal Government's relationship with State and local governments and with the private sector changes. As annual budgets increase, the administrative framework in which the Government functions is being restructured. These changes are founded on policies established through legislative enactments which require continual interpretation to insure that the executive authorities exercised are consistent with the congressional intent underlying them.

The range of cases we decide on general Government matters is virtually as broad and varied as the scope of Government activities. Legal questions are frequently raised by committee chairmen and Members of Congress.

Besides responding to congressional requests for legal rulings, we analyze pending legislation at the request of committee chairmen or Members. Our analyses may include advice on fiscal and administrative aspects of the legislative proposals as well as discussion of any legal inconsistencies or technical difficulties in the body of the bills. When applicable, our comments on legislative proposals might also discuss the General Accounting Office's role if the bill were enacted. Our attorneys respond informally to hundreds of questions raised by staffs of committees and Members and provide the inquirers with legal advice and drafts of legislation. Our attorneys also:

- Prepare testimony or statements for presentation during hearings before congressional committees.

- Prepare decisions to the heads of Federal agencies involving particular statutory construction and the availability of appropriated funds for various purposes.

Prepare advance decisions to certifying officers of Federal agencies on the legal propriety of certifying vouchers for payment and to claimants requesting reviews on claim settlements issued by GAO.

In rendering its legal decisions, the General Accounting Office interprets the intent of the Congress in enacting the applicable statutes. A few examples follow from the hundreds of decisions rendered last year.

Partially as a result of a legal decision to the Acting Administrator of General Services (51 Comp. Gen. 660) as well as work performed by other divisions of the General Accounting Office, the Congress was made aware that restrictive language in applicable appropriation acts was being implemented in a manner which did not give the Congress the control over acquiring space for Government use that it had apparently desired. After the Congress enacted the Public Buildings Amendments of 1972 in part to correct this situation, a decision was rendered to the Acting Administrator of General Services to assist him in interpreting the congressional intent of the new law and in implementing it. (52 Comp. Gen. 230.)

In a series of cases we reviewed the legal ramifications of the regulatory activities of the Food and Drug Administration. In an advisory opinion to the chairman of a subcommittee, we concluded that FDA had acted unlawfully in failing to immediately ban the animal drug diethylstilbestrol (DES) which is a cancer-causing substance found to leave detectable traces in meat marketed for human consumption. (B-176753, Sept. 11, 1972.)

In a somewhat related opinion to another subcommittee chairman, we advised that we were aware of no legal basis to institute an administrative program of compensation, such as that which GAO had approved a few years earlier with respect to cranberry farmers, for the benefit of feeders or farmers whose purchasing power would be diminished because of losses incurred from a proposed congressional ban on the use of DES for any animal intended for use as food or for any animal product which is intended for use as food. (B-176753, Oct. 3, 1973.)

Other advisory letters to a subcommittee chairman criticized FDA's failure to implement its

order withdrawing approval for the new drug "Serc tablets" after the agency had repudiated the only clinical study supporting the drug's efficacy and after the withdrawal order had been affirmed by a court of appeals. (B-164031(2), 61, Sept. 22 and Nov. 2, 1972.)

In May 1971, the Governor of Texas, on behalf of two Texas counties which were claiming that over \$600,000 in Federal disaster relief funds were owed to them, requested that we review the disaster relief program administered by the Office of Emergency Preparedness in the wake of Hurricane Beulah in 1967. Several Members of Congress expressed interest in the outcome of our work. At issue was the legality of the manner in which claims for disaster relief had been processed, reviewed, and paid since 1950. After an extensive review, we informed the Governor that we could find nothing legally objectionable in the way the disaster relief statutes were being implemented. (B-167790, Jan. 15, 1973.)

In connection with the public takeover of bus transit companies in the Washington, D.C., area, the Chairman of the District of Columbia City Council called upon the General Accounting Office for advice about whether it would be in the best interest of the District of Columbia Government to accept an offer from the D.C. Transit System, Inc., in compromise and full settlement of that corporation's alleged liability to pay the District of Columbia the cost of removing the remaining streetcar trackage in the District and for associated repaving. We noted that the question of liability for track removal in the District was quite complex and felt that the speculative nature of the recovery, if any, which the District might receive from adjudication of this issue could justify acceptance of a settlement. After suggesting that the City Council try to obtain an increase in the amount of the compromise, we noted that the City Council had ultimate responsibility for settling the city's claim against this corporation. (B-118638, Nov. 17, 1972.)

## Legal Reference Services

Our Legal Reference Services operating group, through its Index-Digest, Index and Files, and Legislative Digest Sections, provides

LEGAL SERVICES

the support necessary to carry out legal and other activities of the General Accounting Office.

To inform departments and agencies promptly of significant decisions, we distribute advance copies of decisions and digests. We also provide broader distribution by publishing monthly pamphlets and an annual volume of those decisions considered to be of widespread interest. We distribute information on unpublished decisions to Government agencies and libraries in quarterly digest pamphlets.

Copies of decisions are available from GAO's Public Information Desk in room 7510. We furnish all published and unpublished decisions to LITE (Legal Information Through Electronics) operated by the Staff Judge Advocate at the Air Force Accounting and Finance Center in Denver.

We keep a cumulative citation and card index for all decisions and furnish research services on request. During fiscal year 1973 our Index-Digest staff serviced 4,060 research inquiries.

The Index and Files Section recorded and analyzed 65,160 pieces of incoming correspondence and dispatched 24,390 decisions, reports, and letters. This section prepares a daily report summarizing incoming and outgoing correspondence to keep our offices and divisions informed.

The Legislative Digest Section prepared 15,050 legislative history files on all public and private bills introduced in the second session of the 92d Congress and the first session of the 93d Congress during fiscal year 1973 and processed requests for reports on 632 bills from congressional committees, Members of Congress, and the Office of Management and Budget.

**DECISIONS AND OTHER LEGAL MATTERS  
FISCAL YEAR 1973**

Assignment areas:

Civilian personnel .....	862
Procurement law .....	1,613
General Government matters .....	1,445
Military personnel .....	512
Transportation .....	970
Total .....	5,402

Legislative and legal reports furnished to committees and Members of Congress and the Office of Management and Budget (included in the above statistics on decisions and other legal matters):

To committees of the Congress:

Legislative reports .....	576
Legal matters .....	105

To Members of the Congress:

Legal matters .....	325
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To the Office of Management and Budget .....

## CHAPTER FOUR

# FINANCIAL AND GENERAL MANAGEMENT STUDIES

## Responsibilities

The Financial and General Management Studies Division has the following principal functions:

Making special studies of governmental management problems and operations.

Cooperating with the Treasury Department and the Office of Management and Budget in improving and standardizing the fiscal, budgetary, and program information systems of the Federal Government to meet the needs of all its branches.

Participating in the Joint Financial Management Improvement Program.

Helping Government agencies develop accounting systems that meet the principles and standards prescribed by the Comptroller General.

Reviewing agency accounting systems in operation for conformity with the Comptroller General's accounting principles and standards and settling the accounts of accountable officers, except for military disbursing officers.

Cooperating with other Federal agencies on Government-wide studies.

Performing continuing studies related to

developing and disseminating audit and accounting standards and methodologies.

Providing expert technical and advisory services in the fields of automatic data processing, systems analysis, actuarial science, and statistical science.

This division is under the supervision of Donald L. Scantlebury, Director, and Fred D. Layton, Deputy Director. Its organization chart appears on the following page.

## Congressional Reports

In fiscal year 1973 the division responded to 83 congressional requests—41 from congressional committees and 42 from Members of Congress—and testified before 3 congressional committees.

Examples of congressional request work follow.

### Cost Estimates for the Space Shuttle and Two Alternative Systems

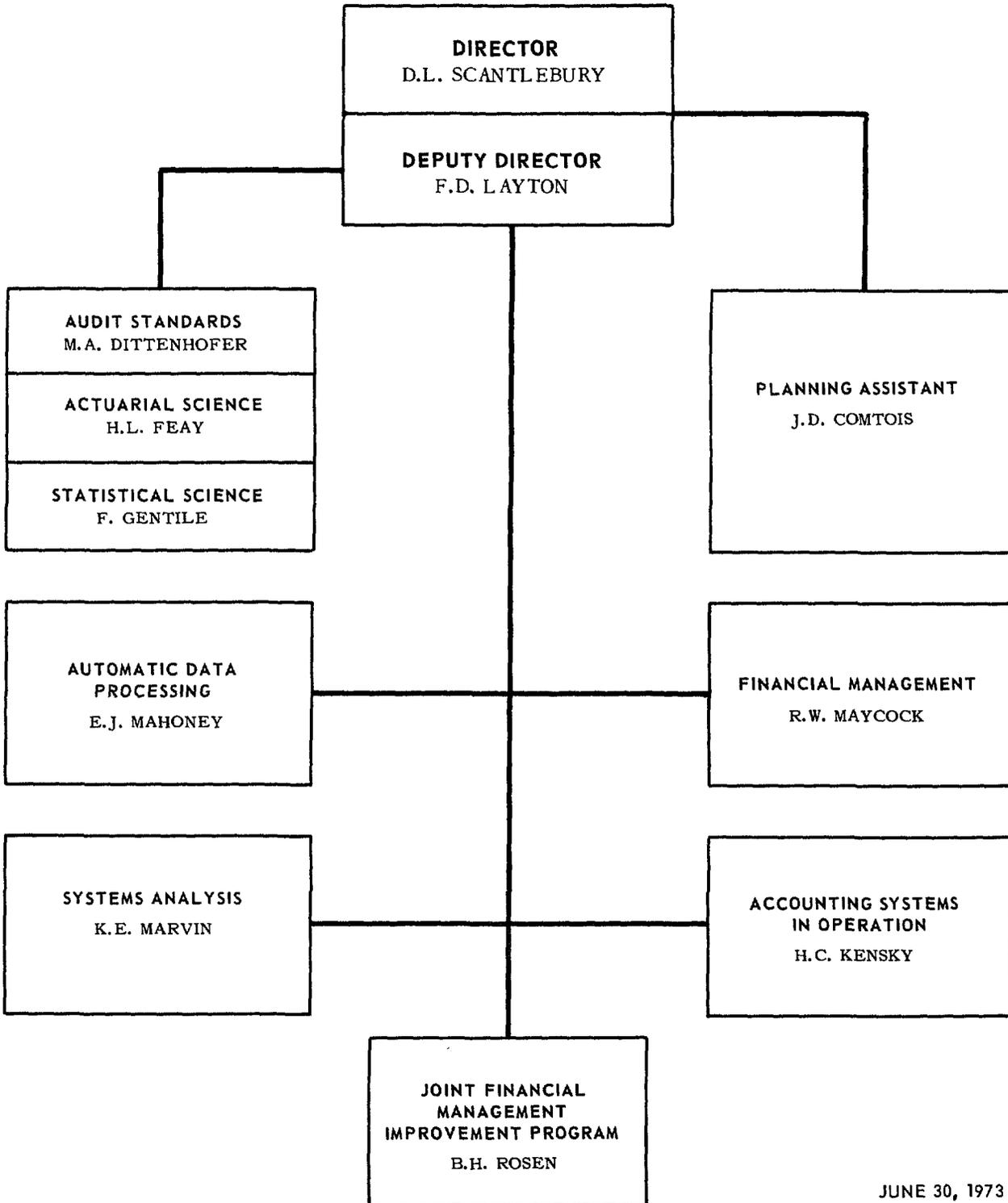
We were requested to review cost estimates released by the National Aeronautics and Space Administration on March 15, 1972. The estimates showed that the Space Shuttle would cost about \$5.2 billion less than two alternative expendable systems. The shuttle is a proposed manned space transportation system which would be sent into orbit and returned to earth to be reused on other flights. For the most part, the alternative systems are outgrowths of existing systems which have been used on other space missions.

We informed the Congress of uncertainties regarding the economic justification (lower cost when the time value of money is considered) of the shuttle even though the agency's calculations show such justification.

We based our conclusions on (1) uncertainties related to nine cost issues involving alternative systems and (2) uncertainties in the estimated costs and savings attributed to payloads in the life-cycle costs of the shuttle, particularly in the number of payloads. We did not consider it prudent for the Congress to place too much confidence in the projected cost savings.

We were also convinced that the choice of a

DIVISION OF FINANCIAL AND GENERAL MANAGEMENT STUDIES



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launch system should not be based principally on cost comparisons and cited five related issues we believe should be considered in the decision: (1) the priority the Nation places on space programs, (2) the value of new technology that might result from the shuttle, (3) the need for the unique capabilities the shuttle offers, (4) the prestige the United States might get from its development, and (5) the merits of an extensive manned space flight program.

We testified on this matter at the request of the Subcommittee on Housing and Urban Development, Space, Science, Veterans, Senate Committee on Appropriations, on June 12, 1973, and before the Subcommittee on Manned Space Flight of the House Committee on Science and Astronautics on June 26, 1973. (B-173677, June 1, 1973.)

### **Cost Reports on Apollo Program**

In a report to the Chairman of the House Committee on Science and Astronautics, we said the National Aeronautics and Space Administration had directed its Marshall Space Flight, Manned Spacecraft, and Kennedy Space Centers to include in the Apollo Program all costs for common support services although various other programs benefited from these services. Common support services consist of:

- Computer, graphics, and communications services.
- General scientific research.
- Laboratory equipment and operations.
- Test operations and support.
- Support of technical and manufacturing activities.

At the Marshall Space Flight and Manned Spacecraft Centers, the value of common services support provided to the Apollo Program was only 47 percent, or \$74.7 million, of the \$159.1 million of such costs charged to that program during fiscal year 1971 and the first 9 months of fiscal year 1972. This resulted in a substantial overstatement of Apollo Program costs and in understatements of the costs of the other benefiting programs.

The National Aeronautics and Space Administration stated that it revealed this practice in its budget justifications to the Congress. (B-158390, Mar. 9, 1973.)

### **Tariff Structure in the Air Force**

We testified on August 2, 1972, before the Subcommittee on Transportation, House Committee on Armed Services, on our January 1972 report to the Congress concerning the Air Force Military Airlift Command's tariff system. We stated that (1) available data on the cost and profitability of operating scheduled routes was not being considered when decisions were made to initiate, expand, or continue routes, (2) amounts billed to customers were not commensurate with the costs of the services because flat, worldwide rates were used instead of rates for individual routes based on the costs of operation, and (3) the Air Force planned to review its tariff structure. When a tariff system is adopted in which rates charged more closely approximate the cost of services, managers will use financial data when considering route actions. (B-133025, Jan. 5, 1972.)

### **Savings Obtainable in ADP Activities of Contractors**

At the request of the Joint Economic Committee, we examined management practices related to ADP activities of Government contractors.

Leased ADP equipment operated by contractors is often used on a combination of Government and commercial work. Generally the Government does not participate in certain benefits, even when it absorbs most of the leasing costs.

Federal procurement regulations allow the Government to participate in any purchase credits earned through rental payments for ADP only when it absorbs 100 percent of the costs under cost-type contracts. We suggested that the Office of Management and Budget explore less rigid criteria for participation in such benefits.

We informed the Committee that such rigid criteria precluded the Government's obtaining savings. We noted instances where the Government purchased equipment during the time contractors terminated leases for the same kind of equipment, even though substantial rental costs were being charged to the Government contracts. Had the Government-related purchase credits been made available, purchase prices could have been as much as 27 percent lower. (B-115369, Mar. 2, 1973.)

### Need To Improve Controls Over Use of Army Project Orders

Sponsoring activities issue project orders to performing activities within the Federal Government to specify work to be performed on a reimbursable basis. When a performing activity accepts a project order, an obligation is established against the sponsoring activity's appropriation.

We reported to the Chairman of the Senate Committee on Armed Services that, on the basis of a statistical sample taken from \$60 million of unfilled orders, about \$3.6 million was not needed to perform the work ordered and about \$6.6 million had been obligated long before it was needed. Basically excess funds were obligated because sponsoring activities authorized funds exceeding the estimated cost of the work, were not informed that the cost of work was less than the amount obligated, and did not promptly deobligate unneeded funds.

To improve controls over project orders, we proposed that the Secretary of the Army require greater adherence to existing control procedures and direct that unneeded funds be promptly identified and deobligated. The Department of Defense agreed and took action to comply with our proposals. (B-171049, Oct. 24, 1972.)

### Federally Chartered Organizations

Pursuant to an agreement with the Chairman, House Committee on the Judiciary, GAO reviews audit reports of federally chartered organizations to determine if the reports comply with the financial reporting requirements of Public Law 88-504, approved August 30, 1964 (36 U.S.C. 1101). Such organizations include the Boys' Club of America, the Military Order of the Purple Heart, the United States Olympic Committee, and the United Spanish War Veterans.

During fiscal year 1973, we reported to the Committee on reviews of audit reports of 25 federally chartered organizations.

### Improving Fiscal, Budgetary, and Program Information Systems

Sections 201 and 202 of the Legislative Reorganization Act of 1970 require the Secretary of the Treasury and the Director of the Office of Management and Budget, with GAO cooperation, to develop, establish, and maintain (1) a standardized information and data processing system for budgetary and fiscal data and (2) standard classifications of Federal programs, activities, receipts, and expenditures.



Staff members of the General Accounting Office, Office of Management and Budget, and the Department of Treasury planning the implementation of the Legislative Reorganization Act of 1970 requirements for standardization of budgetary and fiscal data systems. Seated from the left are Kenneth Hunter, Assistant Director, Financial and General Management Studies Division; Teresa Renner; Steven Virbick; Robert Harris; Thomas Hagenstad; James Pivonka; James Kirkman; Herbert White; Tony Torrice; John Ashford; and Paul Armstrong

Under these provisions, GAO is an agent of the Congress for insuring that congressional interests will be adequately represented and considered by OMB and the Treasury Department in developing the required systems. This developmental effort requires the coordination of all elements of the Federal Government in serving congressional and executive branch needs.

In November 1972 we submitted a report describing the general fiscal and budgetary needs of the Congress to the Director, OMB; the Secretary of the Treasury; agency heads; and all committees and Members of Congress. That report was based on interviews with 258 individuals representing 44 committees and 69 Members of Congress. (B-115398, Nov. 10, 1972.)

During the year we continued our liaison with congressional users of fiscal and budgetary data to refine information needs to a specific level so that the executive branch could improve related information classifications and information systems. We have defined congressional needs and developed a consistent program structure for information regarding selected activities of the Department of Housing and Urban Development. The methodology applied during this study will be used in other subject areas. In addition, the Comptroller General proposed to the Joint Study Committee on Budget Control ways GAO could assist congressional committees in their analysis of budget requests and outlined the types of information and analysis we believe the Congress will need to set budget targets and make allocations to programs and committees.

As required by section 202 of the act, we provided our comments to the Congress on the second annual report submitted to the Congress by the Secretary of the Treasury and the Director of OMB on developmental progress achieved.

We notified the Congress that the then ongoing and planned efforts of the executive branch would not fulfill the information needs of the Congress and suggested that the executive branch (1) develop and follow a comprehensive plan for a coordinated systems development for the entire effort, (2) establish a full-time technical staff to coordinate the work, and (3) conduct a preliminary assessment of existing information systems' capabilities to respond to congressional needs. (B-115398, Feb. 7, 1973.)

On June 1, 1973, the executive branch established in the Office of Management and Budget a full-time, six-man team to develop the comprehensive plan.

### **Joint Financial Management Improvement Program**

The Joint Financial Management Improvement Program is a Government-wide cooperative effort of all Federal agencies to establish and maintain systems of financial management of maximum usefulness throughout the Government. Leadership is provided by the four principals of the program—the Comptroller General, the Secretary of the Treasury, the Director of OMB, and the Chairman of the Civil Service Commission. In July 1973, the Administrator of General Services became a principal in this program.

These principals furnish broad policy guidance to the program's steering committee and receive overall progress reports. The committee, made up of a representative from each of the central financial agencies, coordinates the program. The committee meets regularly to discuss problems, direct work projects, and evaluate financial management progress throughout the Government.

More detailed information about the program's accomplishments and activities appears in separately published annual progress reports on the program.

### **Accounting Recommendations of the President's Commission on Budget Concepts**

In May 1972 the Director of OMB advised the Comptroller General that conversion of the Federal budget from a cash to an accrual basis, as recommended by the President's Commission on Budget Concepts in 1967, was being indefinitely deferred.

In October 1972 the Director of OMB, the Secretary of the Treasury, and the Comptroller General agreed to several recommendations of the Central Agency Steering Committee on implementing the Commission's recommendations. Responsibility for directing future developments on accrual accounting in the Government was

assigned to the steering committee of the Joint Financial Management Improvement Program.

## Developing Agency Accounting Systems

Each executive agency head must establish and maintain accounting systems which conform to the principles, standards, and related requirements prescribed by the Comptroller General.

These responsibilities are assigned in the Budget and Accounting Procedures Act of 1950.

We examine the accounting principles and standards used by the agency as bases for each accounting system to determine their conformity with the Comptroller General's requirements. Then we review the system's design to determine whether it conforms with the approved principles and standards.

The table below summarizes the approvals of agency accounting principles and standards and system designs during fiscal year 1973.

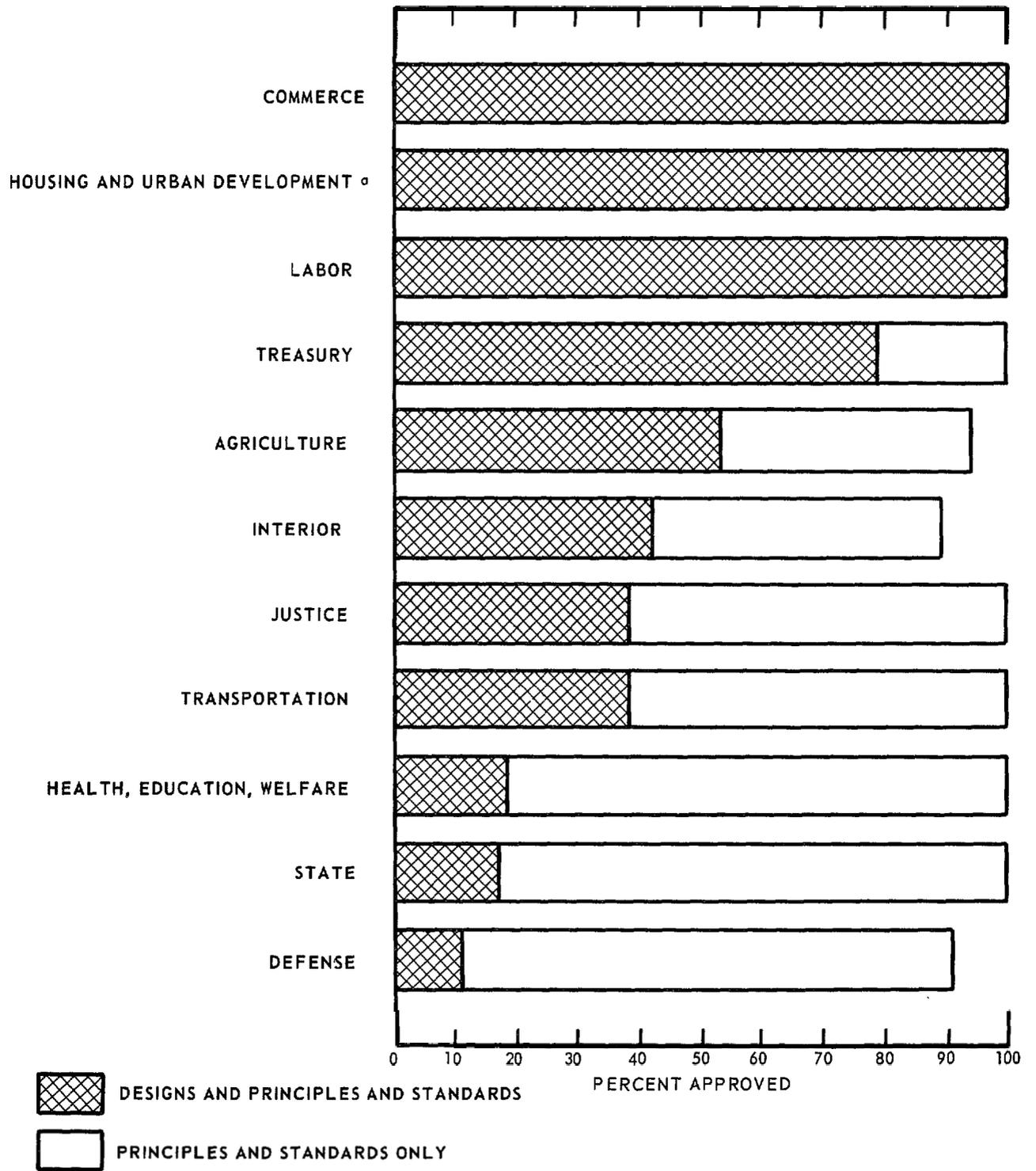
	Approval date			Approval date	
	Principles and standards	System designs		Principles and standards	System designs
<b>CIVIL DEPARTMENTS AND AGENCIES</b>			<b>INDEPENDENT AGENCIES</b>		
<b>Department of Agriculture:</b>			<b>Equal Employment Opportunity Commission</b>		2-28-73
Food and Nutrition Service	6-22-73		<b>Executive Office of the President:</b>		
<b>Department of Health, Education, and Welfare:</b>			Office of the Vice President		9-29-72
Office of the Secretary		3-20-73	<b>General Services Administration:</b>		
<b>Department of the Interior:</b>			Payroll		4-30-73
Bureau of Indian Affairs	11-28-72		<b>National Foundation on the Arts and the Humanities</b>		6-29-73
Geological Survey		12- 7-72	<b>National Science Foundation</b>		6-29-73
<b>Department of Justice:</b>			<b>Selective Service</b>		1- 9-73
Legal Activities and General Administration		2-20-73	<b>Veterans Administration:</b>		
Central Payroll		3-20-73	Agencywide		10-24-72
<b>Department of Labor</b>		10-30-72	Insurance Program		10-25-72
<b>Department of the Treasury:</b>			<b>MILITARY DEPARTMENTS</b>		
Internal Revenue Service—			<b>Department of Air Force</b>		8-22-73
Administrative Accounting		10-31-72	<b>Department of Army:</b>		6-29-73
Bureau of Customs		11-28-72	Army Materials and Mechanics Research Center		6-29-73
Internal Revenue Service—			<b>Department of Navy:</b>		3- 1-73
Revenue Accounting		12-18-72	Marine Corps—Joint Uniform Military Pay System		6-29-73
Consolidated Federal Law Enforcement Training Center		6-29-73			

## Overall Status at June 30, 1973

A chart depicting the overall status of approvals for the 11 Federal departments is shown on page 31. As the chart shows, eight departments had principles and standards approved for all their accounting systems and the remaining three had principles and standards approved for 90 percent or more of their systems.

Only the Departments of Commerce, Housing and Urban Development, and Labor had both principles and standards as well as system designs approved for all their systems. Designs of subsystems in the Department of Housing and Urban Development have not yet been completed. Of the remaining eight departments, Treasury had 80 percent of its designs approved

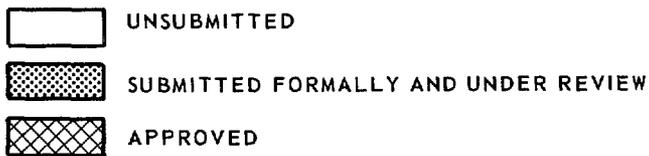
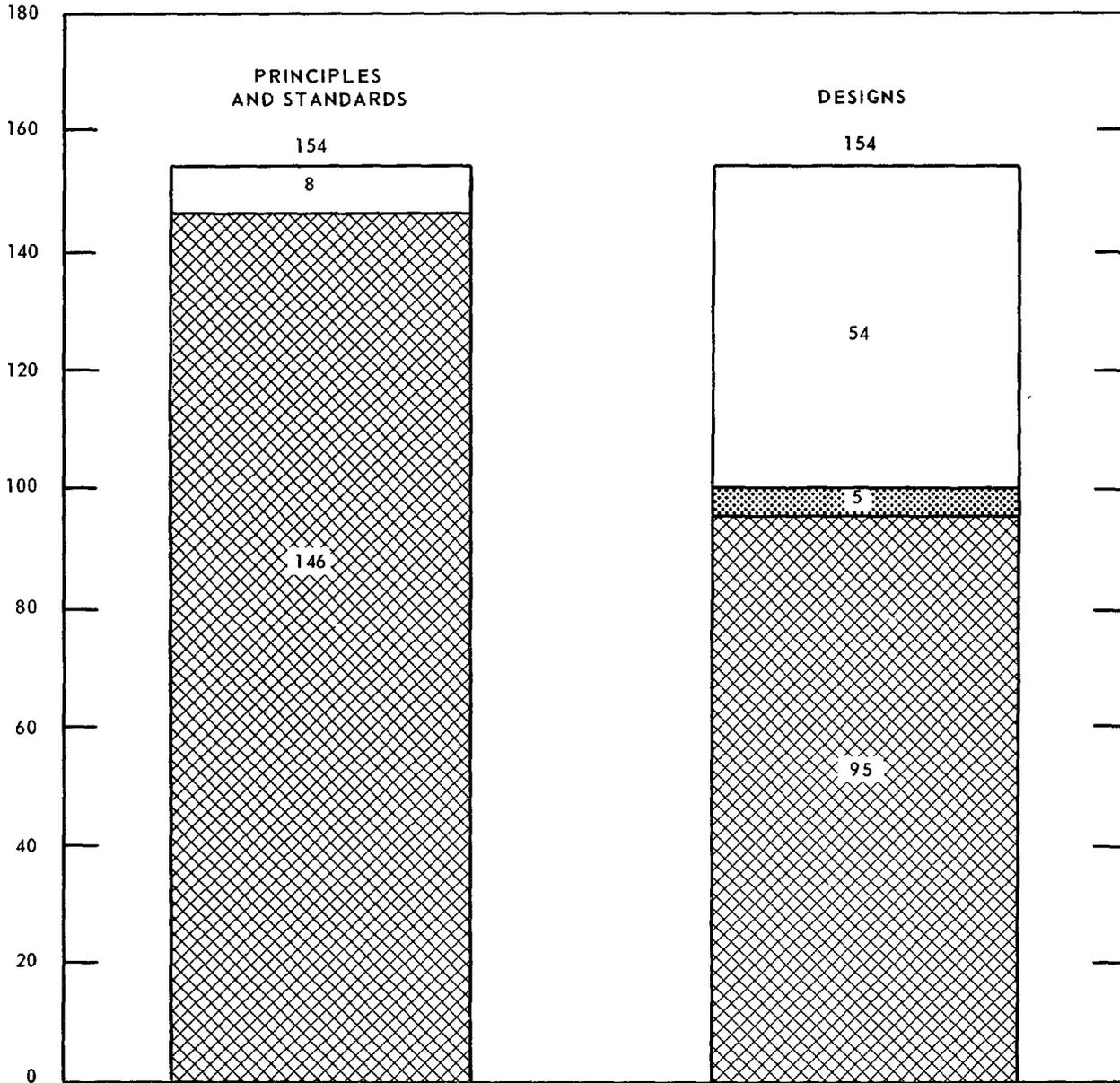
### APPROVAL STATUS BY DEPARTMENT AT JUNE 30, 1973



<sup>a</sup> Designs of subsystems have not been completed.

### APPROVAL STATUS IN CIVIL AND INTERNATIONAL DEPARTMENTS AND AGENCIES JUNE 30, 1973

APPROVALS



and Agriculture had 60 percent. Six departments had designs approved for less than 50 percent of their systems. More detailed information regarding progress being made by all Federal departments and agencies is included in our August 1973 report to the Congress (B-115398).

Of the 315 identified systems and related designs subject to approval, 154 are in the civil and international departments and agencies, 160 are in the Department of Defense, and the remaining 1 is in the District of Columbia Government. Although 95 designs, or about 62 percent, have been approved in the civil and international departments and agencies, only 18, about 11 percent, of those in the Department of Defense have been approved. However, during the past fiscal year there has been a resurgence of effort in this Department, and as of June 30, 1973, principles and standards have been approved for 90 percent of the systems. The District of Columbia Government has had its principles and standards approved, but the system design is still under development.

#### **Civil and International Departments and Agencies**

Principles and standards were approved during the fiscal year for 6 systems, making a total of 146 systems now covered by approved principles and standards. Designs were approved during the fiscal year for 13 systems, making a total of 95 approved. At June 30, 1973, five complete system designs which had been formally submitted were being reviewed.

The chart on page 32 shows progress to date and the work remaining to be done in the civil and international departments and agencies.

#### **Department of Defense**

This Department took two significant steps during the period covered by this report to improve its accounting systems.

The Army, Navy, and Air Force submitted their statements of accounting principles and standards. These 3 statements cover 145 systems, or 90 percent of the 160 system designs in the Department. All were approved. An overall statement of accounting principles and

standards for the remaining Defense agencies was submitted for review and approval in June 1973.

As a result of our formal request to the Assistant Secretary of Defense (Comptroller), an inventory of accounting systems in the Department of Defense was submitted to us in October 1972. This list is an initial inventory and is subject to refinement. The chart on page 34 shows the status of approvals based on this inventory and our analysis of prior and current efforts.

#### **Accounting Principles and Standards**

In August 1972 we revised and reissued the first three chapters of title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies. These chapters contain the accounting principles and standards to be observed by Federal agencies and the instructions for obtaining the Comptroller General's approval of Federal agency accounting systems.

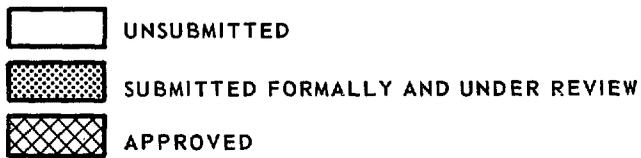
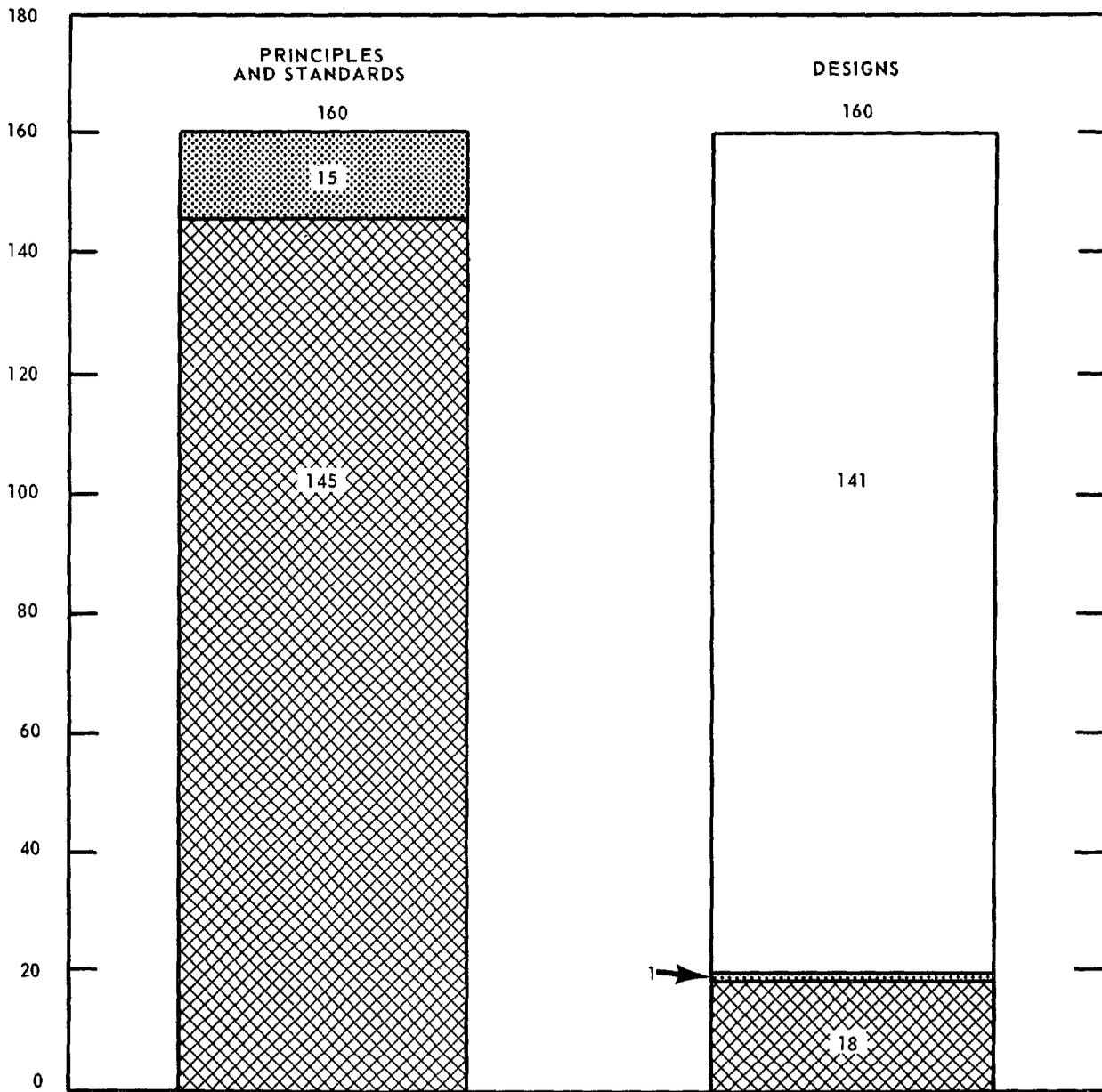
#### **Review of Accounting Systems in Operation**

GAO reviews, from time to time, Federal agency accounting systems in operation as required by the Budget and Accounting Procedures Act of 1950. The objectives of these reviews are to (1) ascertain whether accounting systems comply with the principles, standards, and related requirements prescribed by the Comptroller General, (2) identify areas needing improvement and encourage further development by the agencies, (3) identify ways to improve overall financial management, and (4) settle accounts of accountable officers.

Our concern in these reviews is to insure the usefulness of information produced in helping to meet the financial management needs of the Congress and the departments and agencies. Adequate accounting systems are among the most important tools for effective financial management. After an accounting system design is approved, we follow up on the agency's installation and operation of the system. If the system is not put into operation promptly or if it has been adversely modified, we request the agency to

# STATUS OF APPROVALS DEPARTMENT OF DEFENSE JUNE 30, 1973

## APPROVALS



take needed corrective action. If the recommended action is not taken, we withdraw approval of the design.

During fiscal year 1973 we completed 13 reports to executive agency officials on selected aspects of accounting systems operations. These reports contained recommendations on computing prices for weapons sold to foreign governments, computing reimbursements to grazing associations for range improvements, reporting Anti-Deficiency Act violations, improving controls over cash, and improving accounting operations.

Actions taken by the agencies on these reports will result in recurring annual savings of \$3,471,000. Examples from reports on our reviews of accounting systems in operation follow.

### **Charges for Weapons Sold to Foreign Governments**

During fiscal years 1967 through 1971, the Department of Defense sold over \$6.5 billion worth of weapons and related items to foreign governments. The sales are estimated to exceed \$2.8 billion per year for fiscal years 1972 and 1973. The Department's industrial activities and many of its contractors use Government-owned plants and equipment in producing weapons. Department of Defense regulations require that its industrial activities charge depreciation of plant and equipment and other unfunded costs to non-Federal customers, including foreign governments.

Two reports to the Secretary of Defense said that several DOD industrial activities were not charging foreign governments for unfunded costs. As a result, these activities failed to recover about \$800,000 of such costs during fiscal years 1969-71. We also reported that foreign governments were not being charged for the cost of Government-owned equipment used by Defense contractors.

The Department agreed to instruct its industrial activities to charge foreign governments for the use of Government-owned plants and equipment and other unfunded costs and that such costs should also be included in the prices charged for equipment produced at Government-owned, contractor-operated plants. In principle, the Department also agreed that there

should be a recoupment with respect to Government-owned equipment used rent-free by other contractors and that a study would be made to determine the best way for implementation. (B-174901, Sept. 7, 1972, and Apr. 9, 1973.)

### **Anti-Deficiency Act Violations**

We reported to the Secretary of Health, Education, and Welfare that the working capital fund in the Office of the Secretary of Health, Education, and Welfare had been overobligated for several years, in violation of the Anti-Deficiency Act (31 U.S.C. 665). At June 30, 1971, it had incurred obligations of \$7 million in excess of its obligational authority. The overobligation occurred because customers were not billed promptly and for the full amounts of the costs the fund incurred in their behalf. After the fund billed the appropriations it served, one appropriation—Departmental Management—lacked approximately \$380,000 to reimburse the fund for fiscal year 1971 billings. This also constituted a violation of the act.

We recommended that (1) reports to the Congress and the President be submitted, as required by the Anti-Deficiency Act, and (2) the agency internal audit organization determine whether planned corrective action had been effectively implemented. (B-164031, Nov. 21, 1972.)

### **Audit and Settlement of Accountable Officers' Accounts**

During fiscal year 1973, we completed 18 reports to agency officials on audits of the accounts of accountable officers. Examples of deficiencies noted include inadequate internal audit of receipts and expenditures, inadequate controls over travel advances to employees, loss of purchase discounts because of delays in paying vendors' vouchers, lack of review of vouchers by certifying officers, inadequate collections for accounts receivable, and need for improved controls over cash receipts.

### **Administration of Civilian Pay and Allowances in DOD**

Our audits of these activities included evaluations of the systems and procedures used, the

effectiveness of internal controls and internal audit work, and examinations of payroll transactions.

Because of the widespread use of ADP, we reviewed system documentation, program logic, and programed controls; tested the programed controls and pay computations by means of test transactions; and reviewed the external controls over the preparation, flow, and processing of pay actions.

We completed 32 reports to installation commanders and internal audit organizations on civilian pay matters. These reports showed a general need for improved documentation of ADP systems, increased internal controls over the processing of pay entitlement actions, and more comprehensive internal audits.

## Government-Wide Studies

### Measuring and Enhancing Federal Productivity

Substantial progress was made during the year on the Government-wide effort to expand and refine measurements of productivity and to identify ways to improve operations. The project, initiated in September 1970, consists of three interrelated phases: (1) ascertaining the extent and use of measurement systems in the Government, (2) developing productivity indexes where feasible, and (3) refining indexes and implementing improvements.

The General Accounting Office joined with the Office of Management and Budget and the Civil Service Commission in conducting the project.

The phase III summary report, "Measuring and Enhancing Productivity in the Federal Government," which was issued in June 1973, summarized this year's effort. Highlights in that report follow.

#### The Permanent Measurement System

All agencies with 200 or more employees were asked to submit output, man-year, and associated wage data for fiscal years 1967-72. Data from 187 units in 45 agencies was submitted

covering over 1.7 million man-years of employment.

The results provide, for the first time, broad perspectives on productivity changes among various Federal activities. The sample showed annual rates of productivity improvement which varied from 1.1 percent in 1969 to 2.8 percent in 1970, with an average annual gain of 1.7 percent. In terms of reduced payroll costs, including fringe benefits, the average savings resulting from productivity improvements has been \$300 million per year—accumulating to about \$1.5 billion in fiscal year 1972.

On the basis of the 2-year research effort, the joint productivity team concluded that sufficiently accurate and reliable data can be obtained. The team recommended a permanent system to track and report these matters.

#### Productivity Measures in Manpower and Budget Planning

It is estimated that 40 to 60 percent of the productivity increase achieved in the private sector can be attributed to capital investment. Results of reviewing Federal capital investment practices showed that many productivity-enhancing projects having good payback potential were going unfunded. An inventory of funded projects of 9 agencies revealed that 1,100 projects, having an investment cost of \$623 million, were funded in fiscal years 1972 and 1973. However, 392 projects with a potential annual savings of \$66 million and a 3-year payback went unfunded. To further improve productivity through capital investment, the team recommended that:

More formal procedures for identifying productivity-enhancing projects be established.

A method of financing good projects be devised.

The economic benefits of borrowing by revenue-producing activities to finance self-amortizing investments be explored.

#### Study of Computer-Output Microfilm Systems

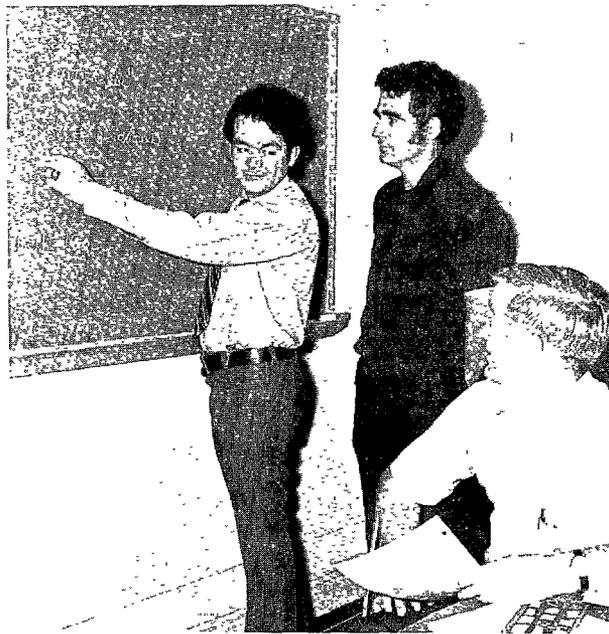
The use of computer-output microfilm techniques and systems is expanding rapidly in the Federal Government. This emerging technology, when merged with ADP systems, can increase

the effectiveness of computer operations and offer distinct opportunities for savings and increased productivity.

Because of the potential impact on Government operations, executive agencies, such as the Office of Management and Budget, the Department of Defense, and the General Services Administration, have joined GAO in a study to determine efficient and effective methods for acquiring and using the new technology. The joint project will appraise the feasibility of service centers, compare the cost effectiveness of various applications, and determine standardization requirements in order to improve its use throughout the Government. (B-115369, Oct. 18, 1972.)

### Automatic Data Processing

For many years GAO has been studying and reporting on policy matters arising from the continually expanding impact of ADP systems on Government operations. We are continuing to expand and strengthen our capabilities in this highly technical area to enable us to better serve the Congress, assist other Federal agencies, and provide technical assistance in the audit of Federal programs and operations.



A Wharton Information Systems Program staff member explains a point to GAO participants Ron Pennington, of the Cincinnati regional office, and Dick Nygaard, of the FGMS division.

### Use of Evaluation Techniques in Computer Operations

Because the Federal Government has thousands of computers, whose annual operating cost is estimated at \$4 billion to \$6 billion, it can save money by improving the efficiency of its computer operations. Where performance evaluation techniques were used, efficiency increased as much as 40 percent.

We suggested that each agency:

Consider using computer performance evaluation techniques, especially before acquiring additional computer capacity.

Make more use of techniques already developed.

Obtain more knowledge and expertise in using these techniques.

Report instances of significant improvements in computer efficiency to OMB.

Train personnel to use the techniques properly. (B-115369, Aug. 22, 1972.)

Studies in process related to ADP policies include:

Need for improved security measures over ADP systems.

Assessment of the growing impact of computers in Federal programs to assist State and local governments.

Need for better ADP documentation.

Development of a suggested comprehensive set of policies for use by managers in evaluating the productivity and efficiency of ADP operations.

Use and effectiveness of Federal ADP personnel.

Opportunities to transfer ADP technology.

Opportunities for agencies to share Government developed and purchased software.

We are also making a study of the progress and problems of standardizing computerized data codes, files, data banks, and systems.

### Computer-Based Information Systems

We are developing plans for coordinating governmental, private sector, and public interest groups concerned with computer-based information systems and to bring together experts from these sectors to help us develop guidelines for

managing, controlling, and evaluating these systems.

## Program Evaluation

In addition to the work of GAO audit staffs located in other operating divisions whose work includes evaluating the results of Federal programs and activities, we also have a systems analysis staff in the Financial and General Management Studies Division. This group provides a central capability in accordance with section 204 of the Legislative Reorganization Act of 1970 which requires us to have available employees who are expert in analyzing and conducting cost-benefit studies of Government programs.

The central group performs special studies on its own initiative, assists in ongoing audits of program results being made by other divisions, makes reviews at the request of congressional committees and Members of Congress, and provides instructors and materials for training auditors in the uses of systems analysis.

## Legislative Language

On August 11, 1973, the Comptroller General sent a letter to the Chairmen of each of the major committees of the Congress expressing a need for specific language in laws for evaluating the effectiveness or results of programs and indicating that GAO would help the committees develop such language if requested. Evaluation provisions in laws indicate to the agencies what the Congress desires concerning information on the operation of programs and activities. Attached to the letter was a comprehensive summary of evaluation language used in laws passed during the preceding 5 years.

Because there is a need for information on evaluation studies for GAO's ongoing reviews of existing programs and for the Congress in evaluating the effectiveness of Federal programs, we prepared a pamphlet entitled "Program Evaluation: Legislative Language and a User's Guide to Selected Sources" in June 1973. Copies were sent to all Members of Congress in July 1973. This document identifies major sources of specialized studies, including evalua-

tion studies, and describes retrieval systems and directories containing information on evaluation studies that are completed, planned, or in process. Also included is evaluation language in legislation enacted from 1967 to 1972.

## Audit Standards

On August 1, 1972, the Comptroller General released a new statement of standards for auditing governmental organizations, programs, activities, and functions. This project was begun in 1970 under GAO leadership and was carried out by representatives from major Federal agencies involved in grant-in-aid programs. Assistance was also obtained from representatives of State, county, and city governments and from leading professional organizations including the American Institute of Certified Public Accountants, the Institute of Internal Auditors, the Federal Government Accountants Association, the Municipal Finance Officers Association, and the American Accounting Association.

The new statement was published in booklet form and bears the title "Standards for Audit of Governmental Organizations, Programs, Activities & Functions." Since publication, 55,000 copies of the statement have been distributed to Federal, State, and local government agencies, colleges and universities, public accountants, and others.

An important objective of these standards is to stimulate State and local governments to improve the quality of their audits of Federally assisted programs so that Federal agencies can rely on State and local auditing to the maximum extent practicable to satisfy their needs.

The standards are intended to apply to audits at all levels of Government irrespective of who performs them. An important feature of these standards is the scope of audit called for. The statement provides that the full scope of an audit of a governmental program, function, activity, or organization should encompass:

An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.

A review of efficiency and economy in the use of resources.

A review to determine whether desired results are effectively achieved.

The issuance of this statement is but a beginning step in the long process of strengthening the audit of governmental programs and activities at all levels of government—an important need in view of the rapidly growing amount of Federal financial assistance being provided to State and local governments.

Several projects have been undertaken to interpret and illustrate the standards and promote their use and acceptance. One of the early projects was the organization of 11 regional conferences. This was done with the assistance of GAO regional offices. The standards were explained to about 6,500 people, including Federal, State, and local government program and audit personnel and independent public accountants.

A draft of a model audit statute for State auditors has been prepared and, when placed in final form, will be submitted as recommended legislation to the Advisory Commission for Intergovernmental Relations and the Council of State Governments. A similar model ordinance for local governments is also being developed.

A national intergovernmental audit forum was organized to provide coordination for intergovernmental auditing, resolve audit problems, improve audit operations at all government levels, and provide other benefits. This group, comprising 15 Federal audit directors, 6 State auditors, and 6 local auditors, meets quarterly in Washington, D.C. A pilot regional audit forum was also organized in the Atlanta region for the same purpose but at the grassroots level. This forum of regional audit managers and State auditors also meets regularly and will become the model for similar organizations in other Federal regions.

Other projects include (1) development of an information system that will provide financial and functional data on State audit operations and (2) an evaluation technique for assessing the reliability of audits by other audit organizations or for making a self-evaluation to determine needed improvements. In March 1973, we published a monograph entitled "What GAO Is Doing to Improve Governmental Auditing Standards," which describes in more detail our follow-on projects relating to auditing standards.

## CHAPTER FIVE

# LOGISTICS AND COMMUNICATIONS

### Responsibilities

The Logistics and Communications Division is responsible for auditing (1) logistics and communications activities in the Department of Defense and the General Services Administration, (2) activities of the Office of Telecommunications Policy, Executive Office of the President, (3) all Federal Government functions related to printing and publications, and (4) overall policies and practices of the Federal Government related to logistics and communications activities.

The division also reviews (1) requirements for, and the receipt, storage, distribution, and disposal of, materials and equipment, (2) the readiness of Active and Reserve Forces to determine supply management effectiveness, (3) the acquisition and management of facilities, (4) the repair and maintenance of equipment and components, (5) the acquisition and operation of communications and data processing systems, and (6) supporting activities, such as food service, records management, and printing and publishing operations.

In fiscal year 1973 this division was under the supervision of J. Kenneth Fasick, Director, and Fred J. Shafer, Deputy Director. On July 1, 1973, Mr. Fasick was appointed Director of the

International Division and Mr. Shafer became Director of the Logistics and Communications Division. The organization chart for this division appears in this chapter.

### Reports Issued

During fiscal year 1973, 72 reports were submitted to the Congress relating to this area of responsibility. Of this total, 57 were addressed to specific committees or Members of Congress in response to their specific requests. Nineteen congressional requests for information were satisfied by telephone conversations, by furnishing documents and other data, and by discussions with Members of Congress and their staffs. We also issued 23 reports to the heads of departments and agencies. These reports are listed in appendix 2.

Our more important audits and studies of logistics and communications are summarized in this chapter.

### Special Studies

#### Logistics Aspects of Vietnamization—1969-72

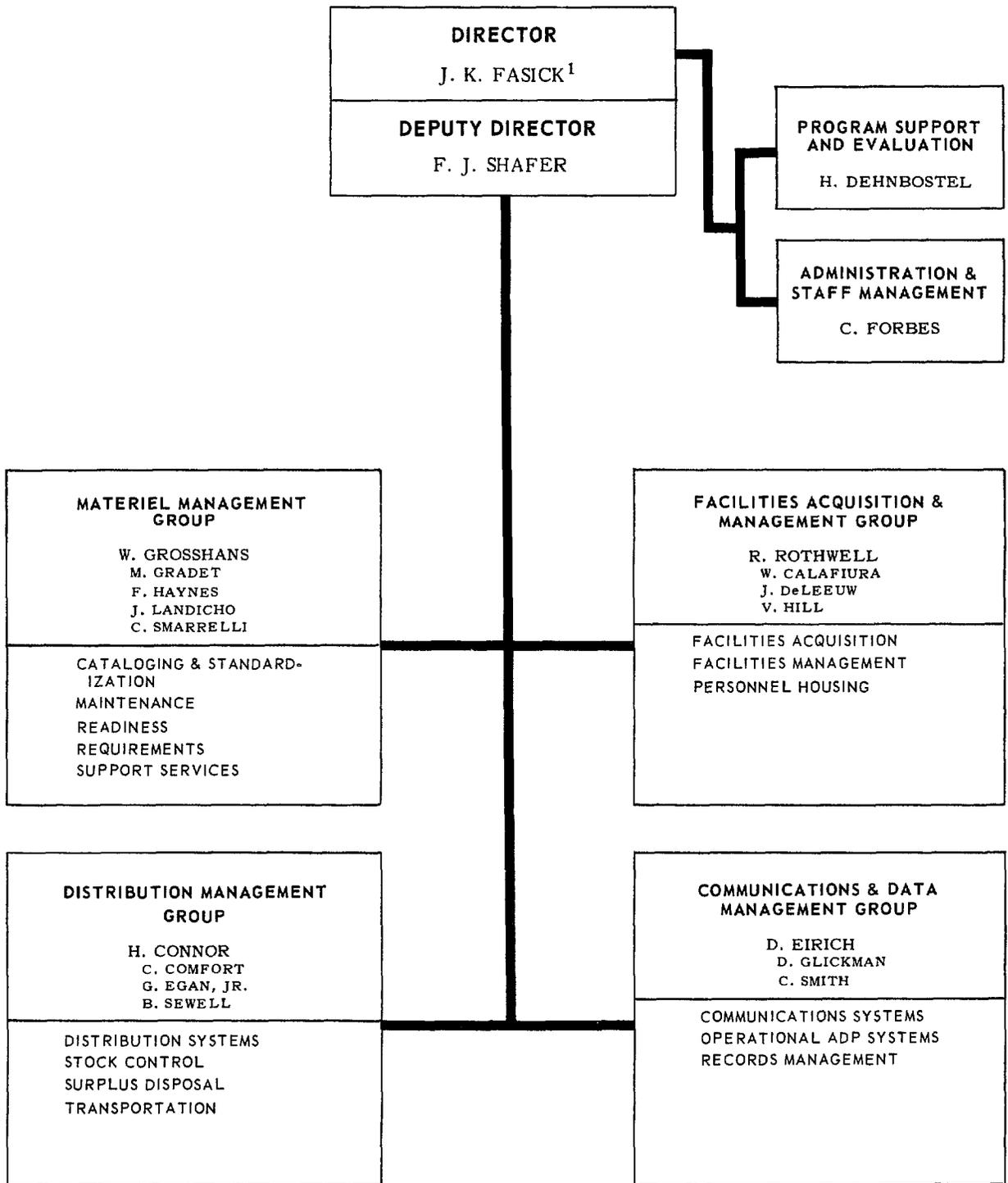
We informed the Congress, in a comprehensive report, about the capacity of the South Vietnamese to operate, manage, maintain, and control the military equipment and supplies furnished by the United States. The report also discusses future assistance which the South Vietnamese may need to maintain a viable logistics system. (B-159451, Jan. 31, 1973.)

#### Army Reorganization for the 1970s

The Army recognized the need for organizational change to (1) improve readiness and methods of developing equipment and forces, (2) increase the effectiveness of schools and training, and (3) reduce the levels of command and the size and number of headquarters.

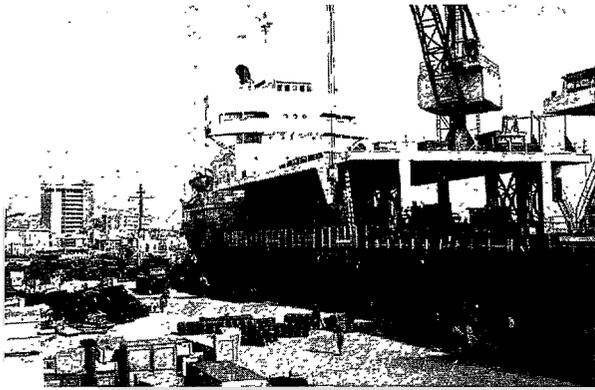
As a result of congressional interest, we began reviewing the Army reorganization. Our review showed that provisions for following up the organizational changes were weak. The Army

LOGISTICS AND COMMUNICATIONS DIVISION



JUNE 30, 1973

<sup>1</sup> On July 1, 1973, Mr. Fasick was appointed Director of the International Division and Mr. Shafer became Director of the Logistics and Communications Division.



Port operation in Saigon.

developed a program to assess the implementation of the reorganization but did not develop methods to measure its effectiveness. Unless adequate followup measures and evaluation systems are established, the Army probably will not be able to determine the success or failure of the reorganization.

The Army is starting a program to develop methods of measuring effectiveness. A report to the Congress on our findings and recommendations was issued on August 13, 1973 (B-172707).

**Navy Logistics Support of the 7th Fleet**

We undertook this review to determine the responsiveness of Navy logistics support to the 7th Fleet during a wartime situation in Southeast Asia and the impact that this logistics effort had on other fleets. The Navy was responsive in keeping 7th Fleet ships on station in Southeast Asia by giving priority resources—financial, materiel, and personnel—to the fleet’s ship and shore activities. The personnel’s extensive work effort on board and on shore also helped to keep the ships on station.

Although the Navy was responsive in promptly returning and retaining ships and aircraft at their battle stations, this effort was accomplished in the midst of Navy-wide logistic support problems which continue to reduce supply support effectiveness and, in turn, the operational capabilities of the fleets. These problems include (1) fluctuating demands, (2) supply management problems, (3) the wide range of nonstandard equipment and age of ships, (4)

funding constraints, and (5) shortages in skilled and experienced personnel. The report on our findings will be issued to the Congress in fiscal year 1974.

**Materiel Management**

**Packaging**

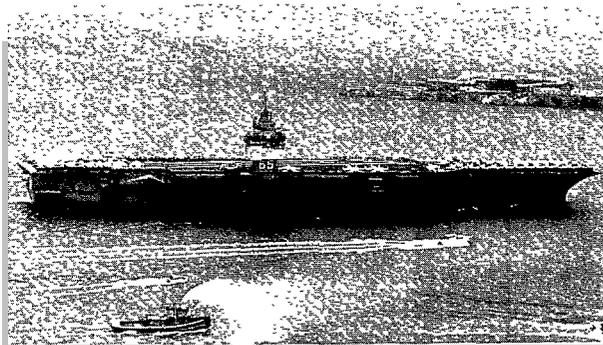
At the outset of U.S. buildup in Vietnam, fast logistical response was strained severely because facilities there were too meager to handle vast quantities of supplies. Many supplies could not survive the rigors of transportation, outdoor storage in a hostile environment, and multiple and rough handling.

Great material losses were sustained. To correct this situation, stringent and costly packaging criteria were specified across the board, regardless of destination.

Many of those stringent criteria still exist, although conditions giving rise to them have changed significantly. As a result, the Department of Defense is spending millions of dollars a year for packaging that it does not need. In addition, bidders and contractors are required to wade through voluminous standards, specifications, and guidelines which are repetitious, redundant, or not applicable.

Contractors whose own commercial packaging often equals that specified are further confronted by inconsistent methods of packaging required by different Department of Defense buyers.

U.S.S. Enterprise returning to her home port after deployment with the 7th Fleet.



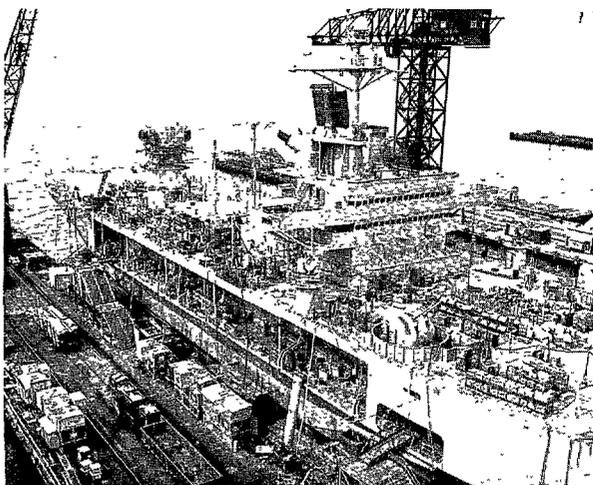
Our report to the Congress recommended that the Secretary of Defense discontinue blanket assignment of packaging levels for protection against the most severe conditions known or anticipated; determine the suitability of commercial packaging, and make greater use of it where it meets minimum Government requirements; and closely monitor the progress of the U.S. Army Materiel Command Packaging, Storage, and Containerization Center—the Department's focal point for developing and monitoring the packaging program. (B-157476, May 21, 1973.)

### **Navy Shipboard Inventories**

In fiscal year 1970 the Navy asked the Congress for \$740 million to buy repair parts and supplies to fill requirements of its 700 active and 600 inactive ships. The Defense Subcommittee, House Committee on Appropriations, expressed concern about the estimated \$1 billion inventory of such items already on board the ships.

We reported to the Congress that an estimated \$8.1 million worth of excess inventories had been accumulated during the initial outfitting of 71 Navy ships built at private shipyards over 4 years. About \$59 million of excess inventories were accumulated between 3-year overhauls on active ships of which \$20 million could, in our opinion, be used to meet the needs of other ships. We also identified \$100 million of idle inventories on inactive ships and estimated that possibly as much as \$20 million of the excesses

Initial outfitting of U.S.S. Mt. Whitney.



could be used without impairing the readiness of the inactive ships.

In response to our report, the Navy cited actions taken, or being taken, to improve the managing of shipboard inventories. (B-125057, Apr. 9, 1973.)

### **Use of Military Fuel by Commercial Air Carriers**

At the request of the Chairman of the Subcommittee on Legislative and Military Operations, House Committee on Government Operations, we reviewed the possibility of air carriers improperly using, in their commercial operations, military fuel acquired to perform contract flights for the military services. Pertinent contracts allow air carriers to purchase military fuel in performing such contract flights. We found weaknesses in the procedures established to control the sale of such fuel, making it possible for the carriers to obtain fuel for use in their commercial operations at prices substantially less than they could obtain from commercial sources.

We reported our findings to the Subcommittee and advised it that the appropriate agencies had taken or promised action which should correct the weaknesses. (B-177422, Nov. 14, 1972.)

### **Automated Screening of Excess Personal Property**

In a report to the Administrator of General Services, we stated that the Administration had not always taken advantage of the opportunity to acquire excess personal property from Government agencies for redistribution through its supply system. As a result, property was disposed of outside the Government while similar property was being procured.

The Administration was not retaining the excesses because it was not matching available excesses against needs. The volume of property to be screened inhibited effective matching. We discussed the use of automated screening procedures with Administration officials, and they stated that they would make a study of how to use automated procedures more extensively. (B-146929, Oct. 25, 1972.)

## Readiness

### Equipment Prepositioned in Europe

To maintain a credible U.S. deterrent, large quantities of U.S. military equipment—tanks, trucks, guns, and ammunition—are prepositioned in Europe for use by troops to be airlifted from the United States, thus making the stationing of large numbers of troops in Europe unnecessary.

Our report to the Congress pointed out, however, that:

Much of the authorized equipment was not prepositioned.

Much of the equipment was inoperable because more equipment had been prepositioned than could be maintained.

There were substantial shortages of ammunition and repair parts.

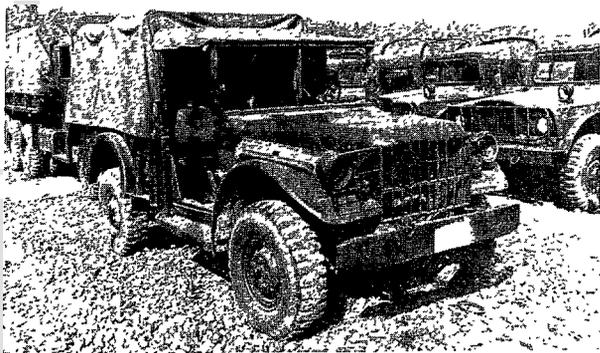
Troop units in the United States scheduled to use the equipment in Europe had manpower shortages.

The actual status of prepositioned equipment was not being reported to Army headquarters in Washington.

The Army has not maintained effective accountable control over equipment.

The Department of Defense said managing the quantity and type of prepositioned equipment was still a major area of concern and that the U.S. Army in Europe had begun to correct

Inoperable prepositioned ¾-ton truck.



identified management deficiencies. Subsequently, an Army inspection team reported that progress had been made to correct deficiencies and that asset management and reporting of prepositioned stocks had improved. (B-146896, Mar. 9, 1973.)

### Readiness of the Air Force in Europe

The U.S. Air Force, Europe, is the primary instrument of allied air defense in Europe. Our report to the Congress pointed out that the U.S. Air Force, Europe, aircraft squadrons were not fully combat ready. Generally this was attributable to factors beyond its control, such as funding limitations, Air Force-wide combat crew shortages, priorities of the war in Southeast Asia, and the forced relocation of U.S. Armed Forces from France.

Also, the readiness status of the U.S. Air Force, Europe, aircraft units was lower than reported because the criteria used to measure readiness of the units did not consider all pertinent factors and because some measurable areas, such as manpower and equipment, were not always properly reported. We said readiness reports should fully disclose to higher commands all factors which could limit the combat unit's ability to perform its missions.

The Secretary of the Air Force is concerned about the readiness of Air Force units, as well as measurement devices to determine capabilities. Steps have been taken to improve criteria, and a replacement readiness-measurement system has been developed which incorporates many of the guidelines we suggested.

The Department of the Air Force agreed that many factors, including increased air combat activity in Southeast Asia, limited the readiness of Armed Forces in Europe. Every possibility was being explored to remedy the situation within budgetary constraints. (B-146896, Apr. 25, 1973.)

### Capability of Naval Petroleum and Oil Shale Reserves To Meet Emergency Oil Needs

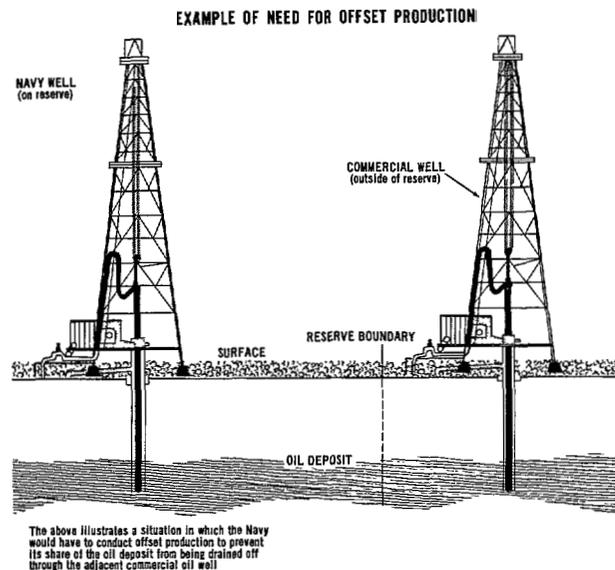
Petroleum and oil shale reserves, by law under the cognizance of the Secretary of the Navy,

have not been fully developed to produce oil for emergency defense needs. The petroleum reserves could contribute only a very small quantity of oil in an emergency, and the oil shale reserves are totally undeveloped. We believe that the present state of the reserves and the extensive production of oil required by the proposed Santa Barbara Channel legislation are not consistent with the intent of the legislation establishing the reserves.

To establish objectives specifying how the reserves can be best used for the national good, the quantity of oil required from the reserves in an emergency must be determined.

We recommended in our report to the Congress that the Secretary of the Navy, with the President's approval, determine how much oil the reserves could produce and how soon the oil could be available to meet national defense needs and that he then submit to the Congress for its consideration a plan for adequately developing and conserving reserves.

The Navy concurred with our findings and recommendations and stated that, with the President's approval, it would, within a reasonable period of time, submit to the Congress a proposal for developing the reserves. We have been advised that a proposal was submitted to the President in April 1973 for exploring and developing naval petroleum reserves further. (B-66927, Oct. 5, 1972.)



## Requirements

### Air Force Repairable Parts

The Department of the Air Force has a highly complex system for determining, by computer, requirements for repairable parts. The system furnishes data on about 150,000 inventory items valued at \$7.1 billion.

In our report to the Congress, we pointed out widespread errors in several of the key data elements:

Data is not checked for accuracy before it is used, due to managers' heavy workloads.

Good sources are not readily available for some of the data needed.

Policies and procedures are ambiguous or unclear.

Personnel are not trained thoroughly in the system's operations.

As a result of these errors, requirements for 110 of the items reviewed were misstated by \$2.5 million and availability of assets was misstated by \$2.2 million.

We recommended that the Secretary of the Air Force direct the Air Force Logistics Command to:

Strengthen procedures for finding and correcting errors.

Provide reliable sources of information for requirements so that workers can check data more easily.

Accelerate training programs.

Take action necessary to reduce the amount of invalid data transferred into the Advanced Logistics System data bank.

Consider reducing the number of items managed under this requirements system by eliminating those items rarely used.

The Air Force acknowledged errors in the system and stated that it had taken some corrective actions and was planning others. (B-146874, Sept. 13, 1972.)

### Modular Electronic Equipment for Aircraft

The Air Force has invested billions of dollars in electronic equipment used in aircraft (avionics). In our audit we found that the Air Force

does not take full advantage of the modular design concept—plug-in type components—when determining requirements for avionics spares in the A-7D and F/FB-111 aircraft. The Air Force could have substantially reduced its requirements for avionics spares for the A-7D and the F/FB-111 had its management personnel been more realistic in estimating requirements.

The estimates used did not recognize all the advantages of modular design.

We informed the Air Force of our findings so that it could take corrective actions. As a result, requirements for F/FB-111 and A-7D aircraft items were reduced by \$79 million. A report on our audit was issued to the Congress on July 3, 1973 (B-133396).

## Cataloging

### Federal Catalog Program

Our report to the Congress on the progress and problems in attaining a uniform identification system for supplies pointed out that a program to identify and eliminate unnecessary Federal stock numbers would be worthwhile and should result in (1) savings in the operation of the catalog system, (2) savings from consolidating requirements presently identified under more than one stock number, and (3) greater use of items in the system.

Although the catalog program in the Government has been improved considerably since the first cataloging act was passed 24 years ago, some of the conditions which prompted passage of the cataloging acts still exist.

Not all agencies fully use the Federal Catalog System but instead use local identification systems to identify many items which they repetitively buy, stock, or dispose of. Failing to use Federal stock numbers to identify items needed, purchased, or stocked could result in increased procurement or inventory costs because organizations are:

- Not giving sufficient consideration to filling their need from Government sources of supply before contracting with private suppliers.

- Not availing themselves of catalog informa-

- tion describing multiple manufacturers and suppliers.

About 200,000 unnecessary Federal stock numbers in the Federal catalog can be eliminated. These numbers are for items which duplicate other items. Eliminating unnecessary numbers could possibly save \$5 million annually. The Department of Defense and the General Services Administration concurred with our findings and have taken or are planning to take corrective actions. (B-146778, June 20, 1973.)

## Maintenance

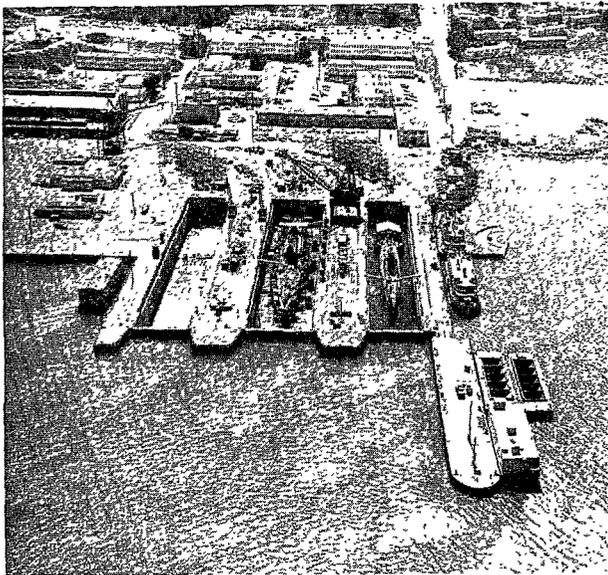
### Consolidating Maintenance Workloads

In a review of maintenance workloads in the military services, we found problems concerning the effectiveness of interservice maintenance programs. Each of the military services has overemphasized developing its own in-house depot maintenance capability instead of trying to use capabilities of the other services. Although prescribed policy calls for interservicing, the services have circumvented the spirit and intent of this policy and have extensively duplicated maintenance capacities. The Secretary of Defense has not been able to effectively control this problem because the services claim they need to maintain mission-essential equipment in their own facilities.

To realign management of depot-level maintenance, the Secretary of Defense should form a plan which considers (1) establishing an independent agency, similar to the Defense Supply Agency, to assume responsibility for depot-level maintenance of all commonly used equipment or (2) assigning a single manager to be responsible for maintaining specific classes of items. Our findings and recommendations to the Secretary of Defense were included in a report to the Congress dated July 6, 1973 (B-178736).

### Ship Overhaul and Repair

Fiscal years 1972 and 1973 were characterized by substantial changes in the Navy's ship overhaul program. The House Committee on Appropriations directed us to review the Navy's ship



Dry docks at Hunters Point Naval Shipyards.

overhaul and repair programs for 1972 and 1973 because, although the Navy received all the funds it requested in these years, it overhauled fewer ships than originally planned.

The Navy did not budget for the substantial increase in the cost of overhaul work in Navy shipyards during fiscal years 1972 and 1973. Actual ship overhaul costs were 27 percent higher in 1972 than originally estimated; as of March 1973, the overhaul costs were about 20 percent higher.

Because available funds were insufficient to pay the increased overhaul costs, the Navy had to defer overhaul work planned for 1972 and 1973. The original 1972 overhaul schedule of 139 ships was reduced to 102 ships, and the 1973 overhaul schedule of 95 ships was reduced to 84.

Budget requests for fiscal years 1972 and 1973 were based on overhaul experience in fiscal years 1969 and 1970. Cost estimates were developed from (1) forecasts of labor man-days of repair that ships would need when they entered overhaul in 1972 and 1973 and (2) projections of man-day rates and materiel costs in those years.

The procedures used to forecast the man-days needed for overhaul were not accurate because:

Generally, the man-days required for overhaul work were understated.

Some planned work was not included in the estimates.

Labor and materiel costs were allocated arbitrarily.

Prior overhaul costs, which were incomplete, were used to estimate future work.

The Navy has changed its procedures for estimating the work needed when ships are overhauled. These new procedures, which appear to be improvements, were used to prepare the 1974 overhaul program. (B-133170, June 7, 1973.)

## Support Services

### Government-Owned Plant Equipment

We examined the Department of Defense's management of Government-owned plant equipment at contractors' plants. In our report to the Congress, we pointed out several areas which needed improvements.

The Department's program to phase out Government-owned equipment in contractors' hands needs to be reemphasized.

The Armed Services Procurement Regulation definition for special test equipment should be revised to exclude furnishing contractors with general-purpose equipment.

Procedures for screening and redistributing unneeded equipment should be improved to realize its potential for reuse.

Contract administrators should identify unauthorized use of Government equipment for commercial purposes.

Computing rent for commercial use of equipment should be uniform to prevent inequities to the Government and to contractors.

The Department indicated that it had made improvements in phasing out use of Government-owned equipment and in managing the remaining equipment. It also stated that strict enforcement of existing policies will provide necessary improvements in managing this equipment. (B-140389, Aug. 29, 1972.)

### National Industrial Equipment Reserve

The Chairman of the House Committee on Appropriations requested us to study the Na-

tional Industrial Equipment Reserve, established under the National Industrial Reserve Act of 1948 (Public Law 883, 80th Cong.). The purpose of this act was to establish a reserve of machine tools and industrial manufacturing equipment for immediate use to supply the needs of the Armed Forces in a time of national emergency.

The national reserve presently contains 11,400 general-purpose tools, costing \$84 million. The tools were manufactured in the 1940s and early 1950s and have a current replacement cost between \$168 million and \$210 million.

During the Vietnam conflict, the Department of Defense and other agencies withdrew 2,051 pieces of equipment costing \$34.6 million. The program also allows lending of equipment to nonprofit educational institutions. As of December 31, 1972, 7,921 pieces of equipment were on loan to 394 schools. We also reported that there was essentially no difference between the equipment in the national reserve and the Department's general reserve. (B-125187, May 31, 1973.)

#### **Industrial Management Reviews of Government Industrial Activities**

Late in 1972 we established a staff to review Government industrial activities and to recommend actions which would improve or enhance productivity. During the year we began 3 reviews: at Puget Sound Naval Shipyard, 1 of 10 Navy shipyards; at the Bureau of Engraving and Printing, which prints the Government's currency, securities, and other financial products; and at the Philadelphia Mint, 1 of 3 U.S. coinage facilities.

#### **Government Printing**

The Joint Committee on Printing asked that we expand our management reviews to include the operations of (1) the Government Printing Office, (2) the Superintendent of Documents, and (3) individual agency printing plants. Our first review, which was nearing completion at the end of the year, examines the operation of the Government Printing Office's regional printing procurement offices.

We are expanding our audit work in this area and have gathered preliminary data on agency

printing plants and duplication centers for future reviews. We also have started to survey the Superintendent of Documents' operations and will be working closely with the special task force created by the Public Printer to improve Government Printing Office operations.

#### **Acquisition and Management of Facilities**

##### **Construction of the First Safeguard Missile Site**

The Army awarded an advertised, fixed-price contract in April 1970 for \$138 million for constructing Safeguard Antiballistic Missile System technical facilities at the first deployment site near Grand Forks Air Force Base, North Dakota.

We reported to the Secretary of Defense that the Corps of Engineers awarded this contract, even though it knew that many revisions would be needed for approved changes in design and specifications and for correcting errors, omissions, and discrepancies. As a result, more than 75 percent of the 4,500 drawings were changed. Many of the construction design changes occurred because the weapon system design was being revised concurrently with the construction.

The Corps decided that the contract had to be awarded in April 1970 to meet the target date for occupying the facilities which had been set by the Safeguard System Manager.

The Army decided to award an advertised, fixed-price contract because:

The bid package was essentially complete with respect to system delineation and was acceptable for fixed-price bidding.

The contract provided maximum incentive for the contractor to control costs and to allocate its best management talent to the job.

As of December 1972, negotiated change orders had increased the original contract price of \$138 million by about \$5.7 million. At that time, however, when the work under the contract was 98 percent complete, price proposals submitted by the contractor but unnegotiated totaled \$109 million, and price proposals for many more change orders had not yet been received. The

fact that a large part of the contract will not be priced until after the costs have been incurred has tended to transfer cost risk from the contractor to the Government and has reduced the contractor's incentive to keep costs down.

The Army said that the Corps does not intend to settle this contract on the basis of costs claimed by the contractor. Rather, the Corps intends to insist on and use pertinent cost and pricing data in negotiating change orders.

We agreed with the Corps' intended action. The effectiveness of the negotiations to settle the change orders will be covered in our future audit work. (B-164250, Feb. 27, 1973.)

### **Military Construction Program**

Because of congressional interest in the way that the Department of Defense carries out its construction programs, we studied the implementation of the fiscal year 1970 military construction program and reviewed major construction contracts, giving particular attention to cost growth, changes in scope, and delays in completing projects. Copies of our report to the Secretary of Defense were distributed to interested congressional committees.

The Congress authorized \$872 million for 804 Army, Navy, and Air Force fiscal year 1970 military construction projects. As of June 30, 1971, current working estimates of \$524 million for the 585 awarded projects showed an overall

Aerial view of nitrocellulose propellant and acid concentration areas of Radford Army Ammunition Plant, Radford, Virginia



net underrun of \$44 million, or 7.8 percent, compared with related authorizations. As of January 1973 the net underrun was 9.1 percent. Our tests showed no major changes in scope of the facilities being built compared with the scope the Congress authorized. We noted that 105 fiscal year 1970 projects authorized for \$62 million had not been awarded, chiefly because of changes in requirements, and that their authorizations had expired on September 30, 1971.

Thirty-three major contracts, awarded in 1969 or 1970 for \$410 million, had increased 5.9 percent and showed average delays in estimated completion dates of about 8 months as of August 31, 1972. Reasons for increases and delays were correction of design deficiencies, latent and unforeseen design conditions, user-requested changes, abnormal periods of inclement weather, labor strikes, and shortages of skilled labor. (B-159896, June 14, 1973.)

### **Army's Program To Modernize Ammunition Plants**

In a report requested by the Chairman, House Committee on Appropriations, we stated that \$132 million of \$200 million requested for modernization and expansion of ammunition plants by the Army in fiscal year 1974 was questionable. Although the Army asked for a substantial increase in its appropriation, it has about \$97 million from prior years' funds available for use in fiscal year 1974.

We felt the Army was seeking more funds for its fiscal year 1974 appropriation than it can effectively use. (B-172707, Apr. 9, 1973.)

### **Real Property Maintenance**

In 1968 we reported that \$3.4 million could be saved annually if real property maintenance organizations at selected locations were consolidated. Since that time the Department of Defense has made real property maintenance studies at 25 locations; but most of the studies do not seriously consider consolidation, and almost no consolidation has taken place.

In a followup report to the Congress in December 1972, we identified locations where savings could be realized through consolidation. The benefits of consolidation are also demon-

strated by Navy experience with Public Works Centers. Some of these Centers are underused, however, because individual installations are not required to use them.

We recommended that the Secretary of Defense have maintenance organizations consolidated when economical. We also recommended that the Secretary of the Navy require, when feasible, all naval activities within a reasonable distance of a Public Works Center to use the Center fully.

The Department of Defense advised us that interservice support agreements have been most effective in consolidating real property maintenance activities. Using such agreements has resulted in savings by avoiding unnecessary duplication of functions and by increasing the use of consolidated contracts. Although stressing limitations which must be overcome in complete organizational consolidation, the Department said that such consolidation was its ultimate goal. We were also advised that the Navy was improving use of the Centers.

In the future we plan to review the effectiveness of Department of Defense efforts in this area. (B-164217, Dec. 12, 1972.)

### **Housing for Military Personnel**

The Department of Defense established Housing Referral Offices at military bases to assist military personnel in locating adequate, suitable, economical, and nondiscriminatory off-base housing near their duty stations. Although required to do so, many incoming military personnel were not reporting to base Housing Referral Offices.

Although reported cases of racial discrimination in off-base housing were few, we found several instances where personnel felt they had been rejected because of race but did not lodge formal complaints for a variety of reasons. Some were not aware of procedures to follow; others thought that, since the discrimination was subtle, it would be difficult to prove. The problem therefore may not be as minor as the few reported cases seem to suggest.

The Department requires landlords to give written assurances that they will rent to all military personnel without regard to race, creed, color, or national origin. Of 17 installations

checked, only 6 had current and adequate landlord assurances on file.

In our report to the Congress, we recommended that the Secretary of Defense take steps to insure that nondiscrimination assurances are received from landlords and that maximum coordination among Housing Referral Offices in metropolitan areas is attained. The Department agreed that housing referral operations could be improved and cited action taken or planned to accomplish the objectives of our recommendations. (B-133102, June 12, 1973.)

### **Value Engineering**

We appeared before the Subcommittee on Buildings and Grounds, Senate Committee on Public Works, on June 18, 1973, to present our observations on using value engineering in constructing Federal facilities.

We supported value engineering as a proven method for economizing in construction and other activities. Savings can be measured in terms of reduced construction cost, reduced operation and maintenance cost, and a higher quality product for the same cost. Although several Federal agencies are seeking to promote value engineering, greater coordination of effort of individual agencies and intensified agency programs are desirable to realize possible savings.

### **Communications**

#### **Centralized Management of Multiplex Systems**

In a report to the Congress, we showed how savings could be achieved through centralized management and increased use of multiplex systems for both military and civil Federal agency communications.

Multiplexing is a technique in which electronic devices at each end of a single circuit simultaneously transmit and receive a number of messages. This eliminates the need for numerous individual long-distance circuits between terminal points.

Although multiplexing has been available since June 1968, Federal agencies have made little use

of the techniques in the United States. Our study of only 200 circuits showed that new multiplex systems could be established, reducing costs by about \$400,000 a year. The Department of Defense alone leases, at \$15 million annually, about 3,200 circuits of the type reviewed. There are other potential savings because systems we studied included only low-speed data and teletype circuits, whereas multiplex equipment capable of handling higher speed military and civil agency requirements is available.

We proposed that:

The Director, Office of Telecommunications Policy, establish a policy enabling departments and agencies to take advantage of the benefits of multiplexing where appropriate.

The Secretary of Defense develop specific procedures for coordinating civil and nontactical military communications which are susceptible to multiplexing.

Consideration be given to establishing a single entity to be responsible for developing and managing multiplex systems for the entire Government.

The Office of Telecommunications Policy agreed to develop a Government policy in this area and requested the Department of Defense and General Services Administration to undertake a coordinated effort to evaluate the applicability of multiplexing and to determine the feasibility and desirability of adopting compatible multiplexing techniques for civil and military use. Subsequent to our report, the Department of Defense designated the Director, Defense Communications Agency, as the centralized manager to engineer and manage multiplex systems to meet all nontactical military requirements. (B-169857, Jan. 18, 1973.)

### **Management of Local Telephone Service**

Local telephone service for Government agencies using the Federal Telecommunications System is provided over various categories of circuits. Some of the circuits are managed by the telephone companies and others by the General Services Administration.

Traffic studies made by telephone companies and the Administration were limited in their usefulness because:

Studies were not performed at all switchboard locations where the Administration managed circuits.

Studies did not include all circuits or branches managed by the Administration at each location.

Some studies did not provide reliable information because of limited sampling periods.

General Services Administration regions have generally not made the suggested changes in local-service circuits recommended by the usage studies. In our report to the Administrator of General Services, we made several proposals for improving the studies' usefulness to management.

In accordance with our recommendations, the Administration agreed to:

Develop standard methods and procedures for determining the optimum use of local-service circuits.

Negotiate with telephone companies to obtain studies at prescribed intervals and when seasoned conditions warrant and to obtain sufficient detail to permit full evaluation.

Require GSA regions to implement circuit changes as warranted by cost effectiveness and service considerations and to validate or supplement studies conducted by telephone companies as needed.

Provide for better review of regional office circuit management.

(B-146864, Mar. 19, 1973.)

### **Federal Telecommunications System**

We reported to the Congress on the economies available through increased use of the Federal Telecommunications System (FTS) by military installations. Our report concerned the possibility of extending Department of Defense use of the FTS, operated by the General Services Administration, instead of making commercial long-distance telephone calls. Extending use of the FTS would have saved an estimated \$226,000 annually at the four military installations reviewed. If 70 installations which have FTS inward-only service used FTS service instead of commercial service, several million dollars would be saved annually. The savings may be considerably greater because there are over 800 military

installations in the United States. (B-146864, Aug. 24, 1972.)

## Data Processing

### Automatic Data Processing Fund

The Congress enacted Public Law 89-306 (Brooks Bill) in 1965 to provide for economical and efficient acquisition, use, and maintenance of the Government's ADP equipment. The law made the Office of Management and Budget responsible for fiscal and policy control and the General Services Administration responsible for operations. To assist the Administration in carrying out its responsibilities, the law authorized establishment of an ADP fund. Through fiscal year 1972, fund appropriations totaled \$30 million. The fund acquires certain general-purpose ADP equipment and leases the equipment to the user agencies.

The fund's equipment lease program is an important tool for acquiring the Government's ADP equipment economically. However, certain fund management policies should be revised to comply with the intent of Public Law 89-306 and to improve the fund's image to user agencies.

In our report to the Congress, we noted that (1) the ADP fund was being augmented by capitalizing purchased equipment in excess of costs, (2) lease charges for transferred equipment were established through negotiations rather than objective criteria, and (3) Federal agencies have been required to pay an additional 10 percent of the equipment's capitalized value for anticipated losses due to early termination of equipment leases.

The Office of Management and Budget and the General Services Administration agreed with all of our recommendations for improvement except a proposed elimination of the charge for anticipated losses due to early terminations. We were advised that alternative procedures for recovering such losses were being studied. In the meantime, the charge is being reduced from 10 percent to 3 percent. (B-115369, Apr. 17, 1973.)

## Transportation

During the fiscal year we reviewed many diverse activities involving land, sea, and air

transportation. These activities included the movement of supplies, household goods, personnel, and petroleum fuels.

### Petroleum Pipeline Rates

The Department of Defense spends an estimated \$17 million annually to transport petroleum fuels by commercial pipelines. We reviewed shipments to three air bases which accounted for \$3.3 million of this amount and found that the pipeline carriers' rates were excessive compared with the rates offered private shippers for the same service.

We reported to the Congress that the Department could obtain substantially lower rates if it used commercial pipeline rates as a basis for determining the reasonableness of rates offered to the Government and if it obtained cost data from carriers to support any additional services they rendered for the Government. As a result of our review, the Department negotiated retroactive rate reductions and obtained refunds from the carriers involved. In addition, the reduced rates will save about \$748,000 annually on future fuel shipments. (B-153389, Sept. 20, 1972.)

### Administration of Stevedoring Contract

At the request of the Subcommittee on Manpower and Civil Service, House Committee on Post Office and Civil Service, we examined the extent and thoroughness of administration of the stevedoring contract at the Military Ocean Terminal, Sunny Point, North Carolina.

We reported to the Subcommittee that controls at the terminal needed to be improved. The timekeeping procedures were inadequate, procedures for confirming travel times of contractor personnel needed to be improved, and steps had to be taken to insure that the cost of contractor damage to Government equipment was recovered. We also reported on increases in extra-labor costs, the cost of Government-furnished meals, and charges for delaying railcars. (B-177404, Dec. 14, 1972.)

### Use of Foreign Air Carriers

The Chairman of the Senate Committee on Commerce requested us to report on the extent

that foreign air carriers are used for Government-supported transportation. Government agencies are required to use U.S. carriers whenever feasible. However, the use of foreign air carriers appeared justified because U.S. carrier service was infrequent or unavailable. (B-149748, June 25, 1973.)

### **Use of Military Aircraft**

At the request of Senators Lawton Chiles and William Proxmire, we made a limited review of the use of military aircraft for political purposes. We found that the Committee to Re-Elect the President had reimbursed the Government for a number of flights. However, we could not determine if all political flights by military aircraft had been paid for because the flight records necessary to make such a determination were retained by the White House staff. In response to our request for these records, the Counsel to the President informed us that the records have been traditionally considered personal to the President and not subject to inquiry by the Congress. (B-130961, Dec. 26, 1972, and Apr. 13, 1973.)

### **Moving Expenses of Government Employees**

At the request of Senator John G. Tower, we reviewed the method of reimbursing Government employees for moving expenses. Specifically, Senator Tower was concerned that Government employees (1) could falsify weight tickets and be reimbursed for more weight than they actually moved and (2) were banding together to get reduced volume rates for themselves. Falsification of weight tickets was not evident; however, the Government could have saved by arranging volume moves rather than allowing the individual employees to make their own shipping arrangements. (B-175857, Sept. 28, 1972.)

### **Shipments of Military Baggage**

We reported to the Secretary of Defense that the Department of Defense could save substantially by using surface rather than air transportation to deliver servicemen's baggage within the United States. We estimated that the Department could save over \$600,000 annually on shipments from the three Air Force bases we reviewed—McGuire, Dover, and Travis.

The Department's actions in response to our report should correct the problems at the bases we reviewed, and it agreed to look at the baggage program at other bases as we had recommended. (B-133025, July 31, 1972.)

### **Transportation Resources of Coast Guard**

In a report to the Secretary of Transportation, we cited the savings that could be achieved if the Coast Guard discontinued using its logistics ship, Kukui, and terminated its air operation on Guam. Alternative methods of transportation were available at a much lower cost to supply long-range navigation stations in the Pacific.

After being advised of the results of our review, the Commandant of the Coast Guard ordered the decommissioning of the Kukui and the elimination of the air operations at Guam. We estimate this action will save about \$1.4 million annually. (B-164497(2), Oct. 31, 1972.)

### **Shipping Small Parcels**

We reviewed shipments of small parcels from six Government depots in California to military activities in the Western Pacific to see if the depots used the most economical shipping method. We reported to the Secretary of Defense that most small parcels had been routed by regular mail, even though many could have been shipped through the Military Airlift Command system at a much lower cost. About \$900,000 could have been saved during 1972 by using the system instead of the mail system for certain shipments. (B-133025, May 10, 1973.)

## CHAPTER SIX

# PROCUREMENT AND SYSTEMS ACQUISITION

### Responsibilities

The Procurement and Systems Acquisition Division is responsible for auditing Government procurement operations and programs for such major acquisitions as weapon systems in the Department of Defense and systems of comparable complexity in the civil departments and agencies.

This division is supervised by Director, Richard W. Gutmann, and Deputy Directors, James H. Hammond, Harold H. Rubin, and Jerome H. Stolarow. An organization chart appears on the following page.

### Volume of Federal Procurement

Federal Government procurement of goods and services in fiscal year 1972 involved some 16 million transactions totaling about \$57.5 billion, including \$16 billion for research and development. The Department of Defense and the three military departments spent most of this amount.

### Magnitude of Systems Acquisition

The most costly and complex systems acquisition programs in the Federal Government are

those for research, development, and production of weapon systems. These programs call for large shares of the Federal budget and of the Nation's industrial resources. It is estimated that the 116 major weapon systems being acquired in fiscal year 1973 will cost more than \$153 billion.

### Significance of Research and Development Programs

Federal research and development operations involve programs which have a far-reaching impact not only on the Nation's security but also on the Nation's economic and sociological growth. In fiscal year 1973 the Federal Government directly funded about 53 percent of the \$30 billion spent for research and development in the United States.

### Procurement Laws

Defense procurement is subject to the Armed Services Procurement Act and the Armed Services Procurement Regulation. Civil procurement is subject to the Federal Property and Administrative Services Act and the Federal Procurement Regulations.

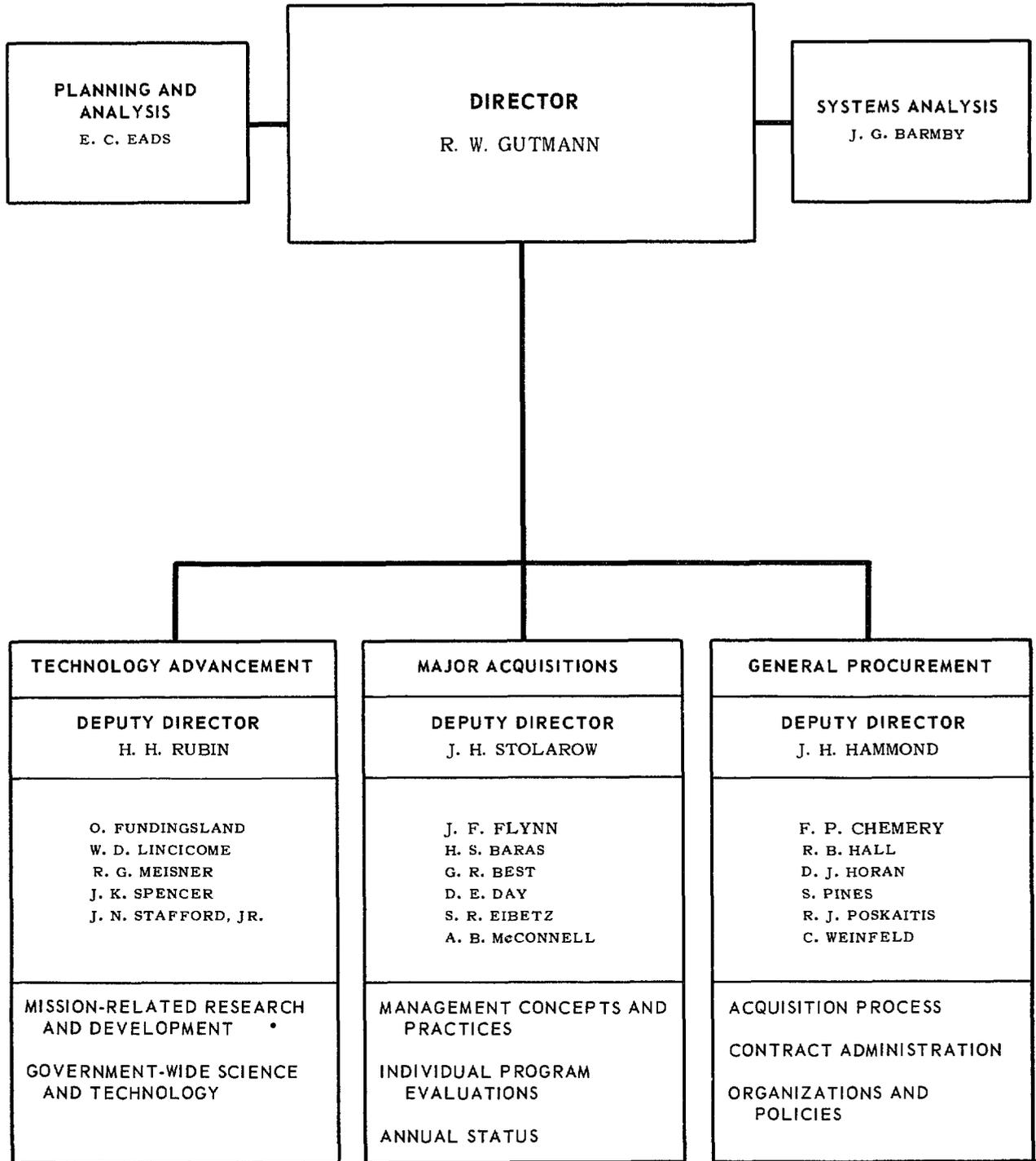
The Truth-in-Negotiations Act (Public Law 87-653) requires, with certain exceptions, that when price competition is lacking, the contractor or subcontractor submit cost or pricing data for a procurement over \$100,000 and certify that the data is accurate, complete, and current. The law also provides that the contract for such a procurement contain a clause permitting the Government to recover any significant price increase resulting from inaccurate, incomplete, or noncurrent cost or pricing data.

Although the Truth-in-Negotiations Act does not generally apply to civil departments and agencies, they have accepted its basic concepts in negotiating and awarding their contracts, and the Federal Procurement Regulations have been revised to include similar concepts.

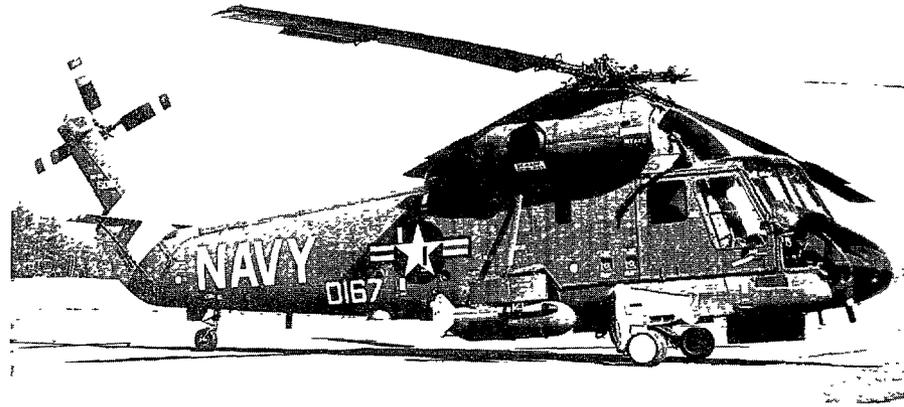
### Audit Reports Issued

During fiscal year 1973, 20 reports were submitted to the Congress relating to Federal

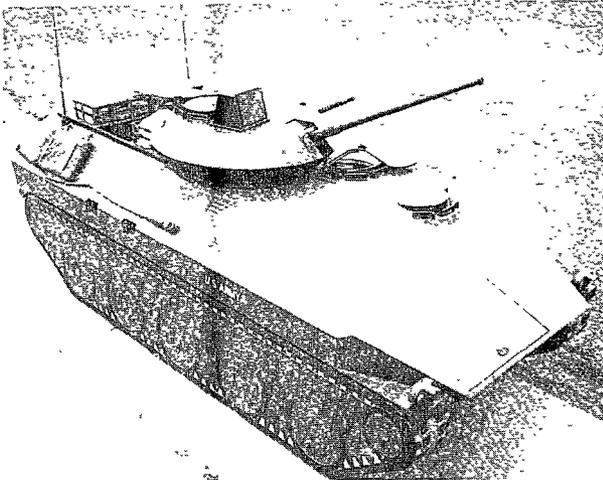
PROCUREMENT AND SYSTEMS ACQUISITION DIVISION



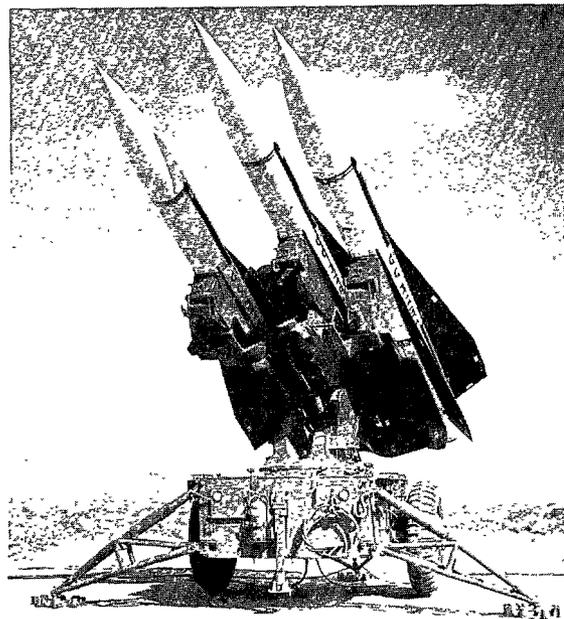
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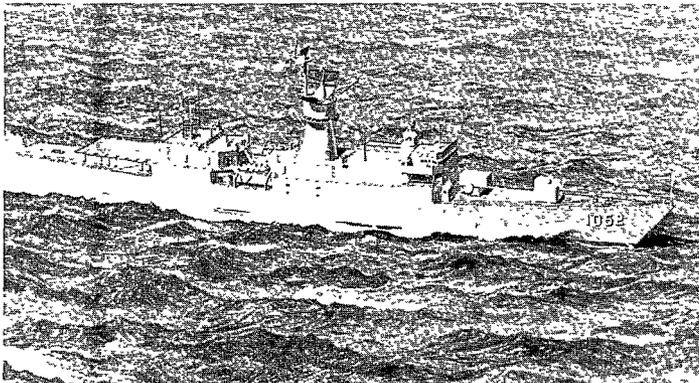
LAMPS helicopter



MICV tank



Improved HAWK missile



DE-1052(destroyer escort)

procurement and systems acquisition and 39 reports were submitted to specific committees and Members of Congress on special reviews made at their request. The special reviews dealt with such matters as (1) cost growth of major weapon systems and current cost estimates of systems being acquired, (2) elements of aircraft programs, such as the Army's evaluation of the Cheyenne, Blackhawk, and KingCobra helicopters; the Air Force's award of a development contract for the A-X aircraft; and various actions of the contractor producing the C-5A aircraft, (3) payments to contractors for independent research and development costs and for bid and proposal costs, (4) incremental programming of research, development, test, and evaluation projects, (5) executive branch response to recommendations of the Commission on Government Procurement, and (6) practices in procuring specific goods or services and administering specific contracts.

We also submitted 26 reports to agency officials on procurement, contract administration, and related matters.

A list of reports on procurement and systems acquisition is included in appendix 2.

In addition to preparing these reports, we prepared reports on the status of 66 major weapon systems and 3 major civil systems being acquired. Early in calendar year 1973, we sent them to the committees of both Houses for use in their authorization and appropriation hearings for fiscal year 1974.

Each report contained our assessment of the system's current status as to cost; schedule for development, production, and deployment; and technical performance. Many of the reports included our observations on the procedures followed for estimating costs, making cost-effectiveness studies, managing program changes, making tests, and measuring performance.

A listing of the systems reported on follows.

Army (18 systems):

Aircraft:

HLH helicopter  
UTTAS helicopter

Missiles:

Safeguard  
SAM-D  
Dragon  
TOW

Improved HAWK  
Lance

Vehicles—ordnance:

Scout  
MICV (mechanized infantry combat vehicle)  
Bushmaster  
XM-198 howitzer  
M60A1 tank  
M60A2 tank  
Gama Goat  
Main battle tank

Other:

Tacfire control support system  
Site defense system

Navy (35 systems):

Aircraft:

Light airborne multipurpose system (LAMPS)  
S-3A  
Harrier  
CH-53E  
F-14 Phoenix

A-7D/E  
EA-6B  
E-2C  
P-3C

Sonar systems:

AN/SQS-23  
AN/BQQ-5

Missiles:

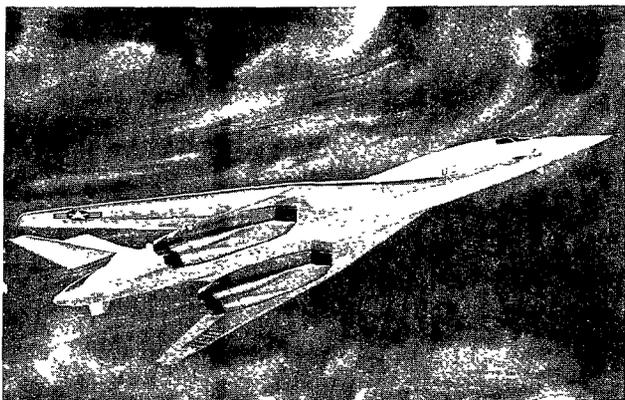
Poseidon  
Aegis  
Sidewinder  
Condor  
Harpoon  
Standard  
AIM-7E/F

Ordnance:

Mark-48 torpedo

Ships:

SSN-688 submarine  
SSN-637 submarine  
Trident submarine  
DD-963 destroyer  
DLGN-38 destroyer  
DE-1052 destroyer escort  
General purpose amphibious assault ship (LHA)  
CVAN 68/69/70 aircraft carrier  
Guided missile frigate modernization



B-1

Patrol frigate  
 Patrol hydrofoil  
 Sea control ship  
 Surface effects ship

Other:

Amphibious assault vehicle  
 Submarine detection device  
 Avionic test systems

Air Force (11 systems):

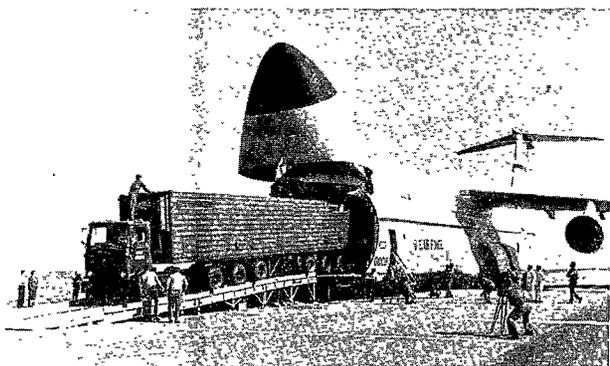
Aircraft:

F-111  
 F-15  
 B-1  
 F-5  
 C-5A

Missiles:

Minuteman II/III  
 Maverick  
 Subsonic cruise armed decoy (SCAD)  
 Short range attack missile (SRAM)

C-5A aircraft



Other:

Over-the-horizon backscatter radar (OTH-B)  
 Airborne warning and control system (AWACS)

Defense Communications Agency (1 system):  
 Defense satellite communications system

Atomic Energy Commission (1 system):  
 Sprint/Spartan missile program

National Aeronautics and Space Administration (2 systems):

Applications technology satellite  
 Viking

Department of Transportation (1 system):

Federal Aviation Agency:  
 Automation of terminal control

### Acquisition of Major Weapon Systems

We submitted five reports to the Congress on various aspects of the acquisition of major weapon systems: a summary appraisal of the acquisition process as a whole; appraisals of the procedures for making cost-effectiveness studies of proposed systems, for estimating their costs, and for testing the systems and evaluations of test results; and the status of technical problems in the production of the F-14 weapon system.

At the request of the House Committee on Armed Services, we also made a special review of the cost growth of major weapon systems.

### Summary Appraisal of Weapon System Acquisition Process

We continually review this process to provide the Congress and the Department of Defense with independent appraisals of those factors most closely related to effectively procuring major weapons. In our July 1972 report to the Congress on such an appraisal, we considered the programs the Office of the Secretary of Defense and the military services had instituted to improve management of the acquisition process. Our overall assessment was that, since our prior report in March 1971, meaningful improvements had been made. The report stated:

Weapon system development programs had changed considerably because of early requirements planning and inconsistent program direction due to internal and external influences.

The cumbersome organizational structure often aggravated weapon system acquisition problems. Managers differed significantly in how they organized and operated their projects.

Considerable cost growth in weapon system acquisition was attributable to unrealistic 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.

The then-current estimated cost of 77 weapon systems was about \$28.7 billion (31 percent) more than the original estimate.

We recommended that the Secretary of Defense:

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 on the plans for 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 need.

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 Department-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 Department-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 systems.

The Department stated that it agreed with our findings, conclusions, and recommendations and that it was taking corrective actions. (B-163058, July 17, 1972.)

### **Cost-Effectiveness Studies of Proposed Systems**

We made a detailed review of cost-effectiveness studies on 16 major weapon systems—5 Army systems, 6 Navy systems, and 5 Air Force systems. We submitted a report on this work to the Congress in August 1972.

Notwithstanding weaknesses found in many of these studies, the cost-effectiveness technique is an essential tool in decisionmaking. It forces advocates of a proposed weapon system to examine and record the real need, the alternatives, the costs, and the assumptions considered in making a proposal. It provides the decision-maker with a substantial amount of information which is helpful in reaching a decision at a very early phase of acquisition.

Under the directives in force when the cost-effectiveness studies were prepared for the 16 weapon systems, the studies were required just once, in the early conceptual phase. Only a few of the studies were updated. Cost-effectiveness studies should be made as early in the acquisition process as practical and should be updated as important developments occur. Studies for some weapons were not updated to consider such changes as:

Changes in actual performance data compared with that predicted.

Major cost or quantity changes.

Important changes in initial study assumptions.

Cost-effectiveness studies can be strengthened if the services are more objective in their analyses and if impartial parties participate in the studies. Having impartial parties participate is particularly necessary when common mission areas generate excessive interservice rivalry which, if unchecked, could result in costly duplication of weapons. Many of the cost-effectiveness studies in the 16 weapon systems appeared

to be designed to support the position of the advocating service in that:

Known alternatives were excluded.

Stated assumptions were too restrictive or were not completely valid.

Available data on alternatives had not been considered, and as a result, incomplete studies with misleading information were furnished for decisionmaking.

We recommended that the Secretary of Defense:

Emphasize the need for cost-effectiveness studies and clarify their role as formal documents which support development concept papers at each stage of decisionmaking.

Attain objectivity in cost-effectiveness determinations, particularly in mission areas in which two or more services are competing for a weapon system. This could require that the Secretary of Defense arrange for independent cost-effectiveness studies or identify an impartial party to review the studies. In particular mission areas, it may require joint participation with the service in planning and/or making the study.

Make sure that the services, in implementing Department of Defense Directive 5000.1, make cost-effectiveness studies at the earliest practical time and update them throughout acquisition as major changes occur.

The Department of Defense commented on these recommendations as follows:

It would issue guidance which would require that cost-effectiveness analyses support the findings summarized in development concept papers and be presented to the Defense Systems Acquisition Review Council.

It agreed that objectivity in cost-effectiveness determinations was needed, particularly in mission areas in which two or more services were competing. It planned to insure that, when such a situation arose, an impartial cost-effectiveness study would be prepared and reviewed by (1) the Office of the Secretary of Defense, (2) a multiservice review group, or (3) a Federal contract research center.

The procedures for updating studies established by the development concept papers and the Defense Systems Acquisition Review Council and those needed to support the objectives of Directive 5000.1 necessitated the

preparation of cost-effectiveness studies to support the three major decision milestones: (1) program initiation, (2) full-scale development, and (3) full-scale production. (B-163058, Aug. 21, 1972.)

### Cost Estimates of Systems

Realistic cost estimating is indispensable to decisionmaking by both the Congress and the military services' management when acquiring a new weapon system. Data on 47 weapon systems showed cost increases of \$15.6 billion from early development estimates. The Department of Defense attributed 43 percent of this amount, or \$6.7 billion, to estimating changes. In a report to the Congress in July 1972, we attempted to identify those cost-estimating factors that were causing the problem and to suggest how the problem might be solved or abated.

The services lacked uniform guidance on cost-estimating practices and procedures for formulating valid, consistent, and comparable estimates. Each service issued its own guidance which ranged from a detailed estimating manual to a few general statements. Estimators often ignored guidance.

Cost estimates for a specific system frequently were a succession of revisions. To accurately revise both the original and the updated cost estimates, documentation must show data sources, assumptions, methods, and decisions basic to the estimates. For virtually every system we reviewed, such documentation was inaccurate or was lacking. Among the resulting difficulties were:

Known costs had been excluded without adequate or valid justifications.

Historical cost data used as a basis for computing estimates was sometimes invalid, unreliable, or unrepresentative.

Inflation was not always included or uniformly treated.

Understanding and proper use of the estimates was hindered.

Readily retrievable cost data which could serve as a base for computing cost estimates for new weapon systems generally was lacking. According to officials in the Office of the Secretary of Defense, the services made little organized effort

to gather actual cost data, so they could not insure consistent treatment of costs for various weapon systems or see whether the cost data the contractors reported was accurate and consistent.

Without realism and objectivity in cost estimating, estimates prepared by advocates of weapon systems tend to be low. Therefore, persons who are not influenced by the military organization's determination to acquire a weapon system or by the contractor's desire to produce the system should review every weapon system at major decision points in the acquisition cycle.

We recommended that the Secretary of Defense develop and implement guidance for consistent and effective cost-estimating procedures and practices and that, in developing this guidance, he consider the criteria for cost estimating we set forth in our report, particularly:

An adequate data base of readily retrievable cost data.

Treatment of inflation.

An effective, independent review of cost estimates, including top officials' judgments on the realism of the estimates.

More complete documentation of cost estimates, coupled with a requirement for adequate feedback of results, to provide a basis for comparing costs incurred with those estimated.

The Department stated that it agreed with our conclusions and that it planned:

\* \* \* to provide the necessary guidance to the DOD components. This would include criteria to guide those charged with making estimates and would establish procedures to have cost estimates, which were prepared within this guidance, available for use by the Services and the Secretary of Defense. In addition, it would provide guidance necessary for the creation and maintenance of data systems for cost estimates.

The military departments, according to the Department, had taken steps to improve cost estimating. (B-163058, July 24, 1972.)

### **Testing of Systems and Evaluation of Test Results**

The Department of Defense has three basic categories of testing and evaluation of major weapon systems.

*Engineering testing* to demonstrate physically, before a weapon system is accepted for production, that it will perform as intended.

*Acceptance testing* to demonstrate that the state and quality of the system can fulfill the legal and/or commercial requirements agreed to by the seller and the buyer.

*Operational suitability testing* to demonstrate that the weapon system, the operating personnel, and the tactical operations can work together to accomplish an established combat mission.

We reviewed 13 weapon systems, with estimated costs of more than \$46 billion, for which substantial testing history was available. We submitted our report to the Congress in August 1972.

Immediately before our review, the Department was changing its acquisition policies. The new policies, which are basically sound and in various stages of implementation, were being applied primarily to new systems entering the acquisition process. Test cases cited in our report therefore were not fully representative of current policies. We found that:

Practices used to establish testing objectives generally were adequate.

Most weapon systems did not have adequate plans for conducting tests.

Most weapon systems were not tested and evaluated on time.

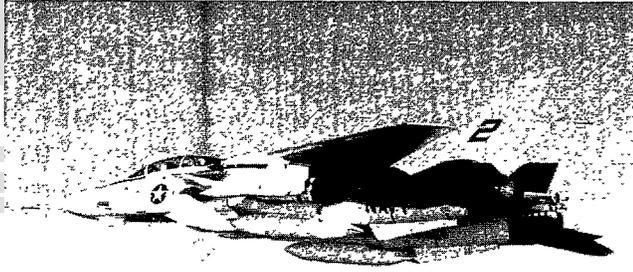
Most test reports were adequate, but their value was diminished because of inadequate test planning and actual testing.

Complete and valid test and evaluation data was not available before decision points in the acquisition cycle.

Each of the three services has a longstanding policy that engineering testing should be completed before production begins. The policy has been waived frequently. For instance, the Army waives it and begins limited production when the need is urgent, when the risk is low, and when no other system satisfies the requirement. The Army has recently procured most, if not all, of its major weapons under this waiver. Similarly, the Mark 48, the F-111, and a number of other weapon systems for the Navy and Air Force have entered production under waivers.

We recommended that, in implementing the new testing and evaluation policies, the Secretary of Defense continue to emphasize the need for:

Completion of appropriate testing and eval-



F-14

uation before key decision points in the acquisition cycle.

Adequate controls over waivers.

Succinct summary reports prepared by the testing agency for all management levels. (Interested management levels may wish to comment on these summary reports; however, they should not be permitted to change them.)

According to the Director of Defense Research and Engineering, the implementation of policies issued by the Office of the Secretary of Defense since May 1970 would correct the deficiencies in testing and evaluation discussed in our report. The Director stated that these policies were being implemented but cautioned that change takes time. He also mentioned that many programs were well advanced and could not yet be completely transferred to the new testing policies due to contracts or other binding agreements; however, these programs were being modified to the extent practical. (B-163058, Aug. 7, 1972.)

### **Status of Procurement of the F-14 Weapon System**

The F-14 is a Navy carrier-based, fighter aircraft. Its effectiveness depends on the successful development, production, and integration of the aircraft, the engines, the Phoenix missile, and the airborne weapon control system. We reviewed the procurement status of the F-14 weapon system as of June 1, 1972. Following is an unclassified summary of the classified (confidential) report we submitted to the Congress in February 1973.

Each of the F-14's subsystems passed critical tests or milestones, and a number of performance capabilities were demonstrated. Although

the F-14 has elements of a superior weapon system, a number of problems were uncovered during development. They included:

Engine stalls during flight tests.

Reliability problems in the central air data computer and maintenance problems.

Considerable concurrency in production and development, which reduced the amount of flight-test data available when production decisions had to be made.

Development problems with the advanced-technology engine, which caused the Navy to defer indefinitely its purchase of the F-14B aircraft.

The airborne weapon control system in certain situations not meeting specifications for detecting and tracking multiple targets.

Transmitter problems in the airborne weapon control system.

Phoenix missile committed to production before its capabilities had been fully demonstrated.

The Navy and the contractor believed such problems were not unusual in developing a major weapon system, and they were satisfied that progress was being made in resolving the problems. It is important to note that at the time of our review the major portion of the integrated F-14 weapon system testing was unfinished.

At that time it was difficult to assess the significance of the problems and their impact on the program. The contractors' success in resolving problems must await future testing, including Navy preliminary evaluation tests and Navy Board of Inspection and Survey trials. During the Navy Board trials, the weapon system will be tested to establish a legal basis for specification compliance and a recommendation on its suitability for deployment will be made. (B-168664, Feb. 26, 1973.)

### **Cost Growth of Major Weapon Systems**

At the request of the House Committee on Armed Services, we reviewed the cost growth of major weapon systems. Our March 1973 report pointed out that most new weapon systems are intended to replace obsolete systems performing the same type of missions. The military services, however, constantly demand that the performance and capabilities of new systems exceed those of the systems to be replaced. This, of

course, increases their cost. A comparison of the latest eight weapons—such as military and transport aircraft, helicopters, missiles, tanks, and torpedoes—showed that the cost of a successor system was two to six times greater than that of its predecessor.

Other significant factors contributing to cost growth were (1) optimistically low initial estimates of costs on the part of competing contractors and the military services, (2) revisions in the contract specifications for quantities, scope, time schedules, and engineering, and (3) inflation. (B-163058, Mar. 26, 1973.)

On March 28, 1973, the Comptroller General appeared before the House Committee on Armed Services to discuss the report and to present our views on cost growth of weapons and closely related problems.

## Research and Development

We submitted five reports to the Congress on research and development activities. In addition, we submitted a report to the Senate Committee on Armed Services, at its request, on payments for independent research and development and bid and proposal costs.

### Full-Scale Development of Minor Weapon Systems

In recent years congressional attention has focused on problems in meeting cost, schedule, and performance targets for *major* weapons. The Department of Defense has responded by emphasizing the importance of testing hardware and other controls during development. As noted by the Blue Ribbon Defense Panel in 1970, more money is committed to the far more numerous *minor* weapon systems. (Minor systems are those which involve less than \$50 million of research and development funds or less than \$200 million of procurement funds.)

We were particularly interested in how well the Department was managing decisions to start full-scale, or engineering, development of minor systems. The decision to enter such development is crucial because it is the final step before a system enters production and inevitably leads to large commitments of money. We reviewed 15 Navy programs which had passed through the crucial decision points and which were in vary-

ing stages of development, production, or use and reported our findings to the Congress in October 1972.

For most of the 15 programs, the experimental work before full-scale development was insufficient. As a result, serious technical problems frequently occurred during full-scale development and caused cost growth, schedule slippage, or shortfalls in performance. This forced the Navy to compromise its plans for meeting its equipment needs.

Although premature full-scale development was not the only cause of later problems, it appeared to be the most prevalent cause and the one having the most far-reaching effect. It had the following impact on cost, schedule, and performance targets.

Development costs increased 16 to 213 percent. For 6 of 10 programs, they increased 50 percent or more.

In 9 of 12 programs, completion of full-scale development had to be extended more than 1 year. Program slippage for these systems ranged from 4 to 51 months.

Serious technical problems were evident in 9 of 15 programs. Redesign or modifications had taken place or were planned for six of the nine because of technical problems in areas which had not been proved feasible through experimental testing.

When cost or schedule limits were exceeded or when performance was significantly below expectations, decisionmakers often were forced into undesirable compromises—e.g., redesigning or modifying equipment at additional cost, diverting funds from lower priority programs, taking risky shortcuts, or canceling or cutting back development programs.

Risky shortcuts—e.g., starting production while development is in process—are sometimes taken to bring completion dates back in line. Often, these shortcuts not only fail to speed up the program but also add to the development-production cost. If technical problems were exposed through experimental work before full-scale development began, there would be less pressure to resort to shortcuts.

We recommended that the Secretary of Defense require key decisionmakers to (1) verify and certify that experimental work was sufficient

before they approved full-scale development of minor systems or (2) justify in writing any exceptions. We also recommended that he use spot checks and other techniques to insure that the principles specifically applicable to major systems are applied to the far more numerous and, in total, more costly minor systems.

Recent legislation requires the Secretary of Defense to annually report, beginning in 1973, on operational testing and evaluation for each weapon system for which procurement funds are requested. This should assist in identifying new systems which enter production prematurely.

We suggested that the Congress require from the Secretary of Defense—along with his initial request for full-scale development funds for *new* systems—a statement that (1) all necessary experimental work has been done and the proposed system is ready for full-scale development or (2) authorization of full-scale development is essential even though all prescribed conditions have not been met. If the latter is the case, the statement should give the reasons for the decision and identify the areas where experimental work has not been completed.

Subsequently the Chairman, Armed Services Investigating Subcommittee, House Committee on Armed Services, requested that we make spot checks to determine whether similar problems

existed in the Army and the Air Force. We found that similar problems did exist. (B-163058, Oct. 6, 1972.)

**Development of the SAM-D Surface-to-Air Missile**

The Chairman, Research and Development Subcommittee, Senate Committee on Armed Services, asked us to review the SAM-D surface-to-air missile system which was being developed. Our report to the Congress in May 1973 was classified (secret), but the following summary is unclassified.

The Army is developing the SAM-D to replace the Improved HAWK and Nike Hercules systems. The Department of Defense justifies the replacement on the basis that the SAM-D will be more cost effective. A comparison of the SAM-D with the Improved HAWK shows that:

An Improved HAWK radar can scan a greater area than a SAM-D radar. The Army is studying ways to increase the SAM-D radar coverage and radar survivability against enemy antiradiation missiles.

Reloading times for the SAM-D are significantly longer than for the Improved HAWK. However, an Improved HAWK battery is easier to overwhelm than a SAM-D fire section, since the Improved HAWK can engage fewer targets concurrently than the SAM-D.

The SAM-D can track many more targets than the Improved HAWK.

The SAM-D has a longer range, a higher altitude capability, and a faster firing rate than the Improved HAWK.

The Army expects to use fewer personnel to deploy the SAM-D than the Improved HAWK.

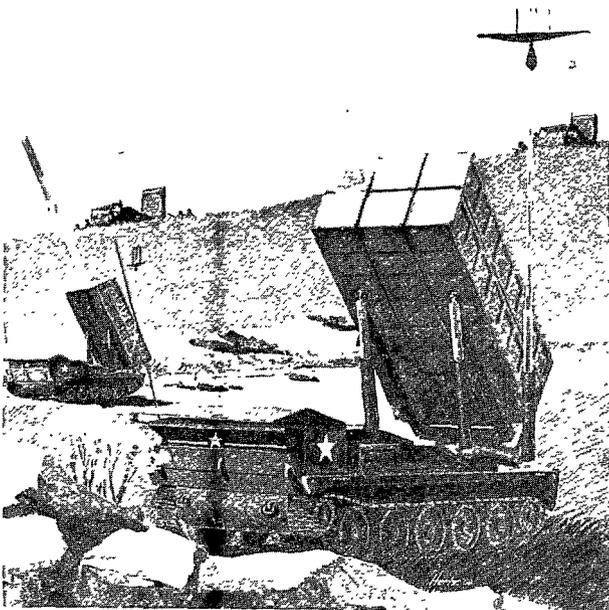
We suggested that the Congress consider:

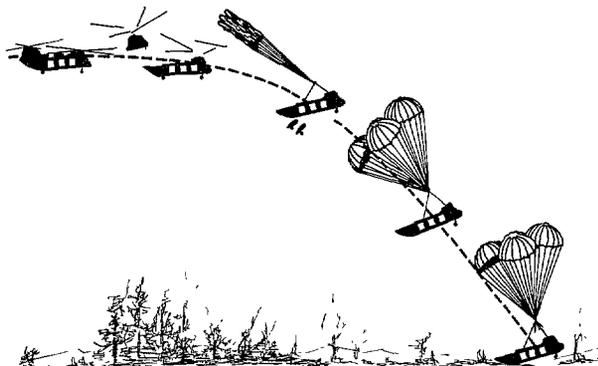
What assumptions were made to justify that the SAM-D's greater engagement capability would offset its slower reloading time.

Why the Army used its own assessment of enemy threat rather than that of the Defense Intelligence Agency and whether a new analysis should be made that would consider all available support and systems, including ground and air, to counter the threat beyond 1980.

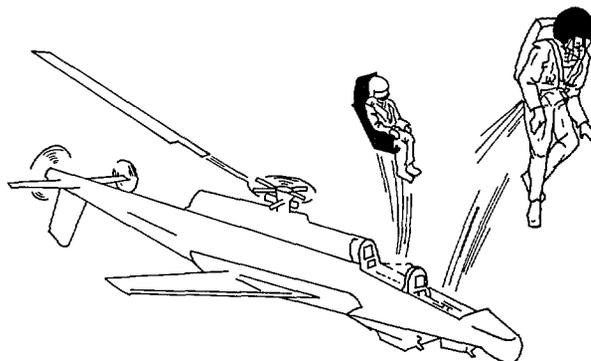
Whether the Army has left its forces, and

SAM-D





CH-46 recovery sequence



Extraction, ejection seat system

the assets it is to protect, vulnerable to attack by developing a system that has limited radar coverage.

Whether the SAM-D, or any other air defense system, can survive or be effective in an environment where antiradiation missiles are used.

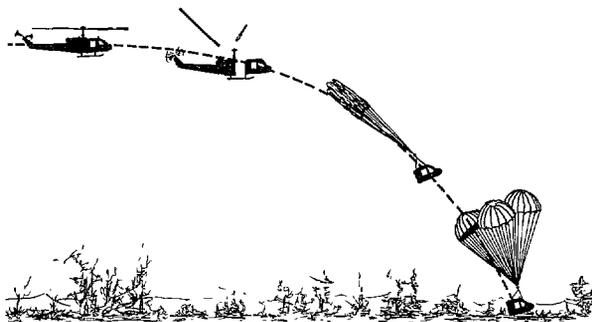
Whether the Army is still sure that the SAM-D can operate with fewer personnel and attain simplified maintenance in view of changes in quantities to be acquired and changes in performance characteristics.

Whether the decisions to defer testing of critical components, i.e., the warhead-fuzing and guidance subsystems, until considerable funds have been expended are justified in the light of past experience.

Whether the current trend of rising costs for the SAM-D program can be curtailed and whether continued rising costs would affect the capabilities and quantities of fire sections acquired.

Whether a new cost-effectiveness study is

UH-1E recovery sequence



warranted in view of the changes made to the SAM-D performance characteristics and quantities, the additional changes contemplated, and the product improvement program for the Improved HAWK.

Another matter that the Congress may wish to examine relates to the Mutual and Balanced Force Reduction program presently being negotiated. Since the need for the SAM-D is predicated, in part, on the Army's assumption that its forces in Europe will be increased, reduction in the size of these forces and the Warsaw Pact Forces could significantly affect the quantities of SAM-D fire sections needed in that area. (B-163058, May 7, 1973.)

#### Development of In-Flight Escape Systems for Helicopters

Navy-sponsored studies show that most helicopter fatalities are caused by uncontrolled descents which result in crashes causing structural failures and fires. The studies show also that in-flight escape systems could prevent over 40 percent of these fatalities. Other proposed survivability features could further reduce fatalities.

The Navy has studied such escape systems since 1962. The Army, which uses helicopters the most, has concentrated on reducing injuries and fatalities by developing and installing energy-absorbing seats to reduce impact forces and crashworthy fuel tanks to prevent fires. Although the Army system is important, it protects crew members and passengers only when impact forces are low.

From September 1967 to September 1972, 210 Army and 10 Marine Corps Cobra pilots were killed in Vietnam. A Navy analysis indicated that

in-flight escape systems could have prevented 6 of every 10 of those deaths.

In March 1972 the Navy obtained \$500,000 to begin developing individual-type escape systems for Cobra helicopters. Although the Army, which is helping to fund this development, agrees that such systems are desirable for its new advanced-attack helicopters, its current design requirements do not provide for them. We believe that the development of in-flight escape systems should be emphasized to insure their availability for these helicopters.

The Navy has deemphasized developing and testing capsule-type, in-flight escape systems for larger troop-carrying helicopters, primarily because of their additional weight.

We recognize that development of in-flight escape systems for cargo-passenger helicopters may pose severe problems and constraints regarding weight and complexity. But, because the technology for capsule-type, in-flight escape systems is available, we believe effort to develop such systems for the troop-carrying helicopters should be continued.

In a report to the Congress in June 1973, we recommended that the Secretary of the Army:

Emphasize developing in-flight escape systems for advanced-attack helicopters.

Monitor the current development of the escape systems for Cobra helicopters, to determine whether the concept could be applied to advanced-attack helicopters.

Reevaluate the design requirements for advanced-attack helicopters to insure that they will be capable of accepting in-flight escape systems.

Continue to develop feasible in-flight escape systems for the larger cargo-passenger helicopters.

The Department of Defense said it would continue efforts to increase the effectiveness of escape systems but disagreed that the systems should be included in helicopters now being developed or planned for development. It contended that the systems had not been "demonstrated to be the most effective method of improving flight safety, considering both human life values and dollar costs."

We believe that the Department is not adequately considering the following costs of *not* having the systems.

Experienced aviators and other trained military personnel are killed. Army and Navy estimates of the initial cost of training each helicopter pilot range from \$20,000 to \$100,000.

Death benefits must be paid.

New pilots must be trained.

Helicopter pilot and crew morale—as well as military readiness—is adversely affected.

We recognize that it may be expensive to develop, install, and maintain in-flight escape systems but believe that the potential decrease in the number of fatalities and severe injuries warrants further consideration. (B-177166, June 12, 1973.)

### **Use of Computer Models in Operations Research and Systems Analysis**

Much of the cost of conducting computer simulations, war games, and analytical studies is for developing and operating models. A model is a documented set of rules, methodologies, techniques, procedures, mathematical formulas, and logic designed to simulate or approximate selected elements and/or functions of reality that are deemed essential to the particular situation or system being studied.

Modeling is one of the principal tools the operations research and systems analysis community uses to simulate, "game," or study complex problems or situations involving (1) technical performance of equipment or systems, (2) policies, strategies, and tactics, and (3) force structures, including the determination of optimum size and appropriate mixes of personnel and weapons. Its purpose is to provide decision-makers with objective and statistically reliable results that should be bases for decisions.

We submitted a report to the Congress in May 1973 on the development and use of computer models in the Department of Defense.

The Department has developed numerous models over the last 10 years to cover a broad spectrum of simulated war, defense, and military problems. We analyzed data on 132 models, which represented a fairly complete picture, and found:

Development of models was about equally divided between contractor and in-house activities.

Reported costs of developing 104 models totaled \$28,805,500.

The model costs ranged from about \$1,200 to \$3 million, and the average cost was about \$276,900.

Developing a model is generally a lengthy undertaking. The average reported time was 18 months, and some models took as long as 7 years.

Many models were related to previously developed ones and formed the basis for follow-on models.

Independent checks were not made to insure the accuracy, timeliness, consistency, and overall quality of the data used in about one-third of the models.

Technical, doctrinal, and force-structure evaluations were the principal stated purposes for developing models. Models were then used to answer specific questions and to study operational problems in logistics operations, ground combat, nuclear exchange, air warfare, and naval warfare.

The studies using computer models may not adequately consider uncertainties, and decision-makers frequently may not be aware of the uncertainties in the study results. To properly use study results, the qualifications reflecting the uncertainties, along with the results, must be presented to the decisionmakers. They should be fully informed of how the limitations and uncertainties were treated, the range of assumptions that were made, and other qualifying factors that influenced the study results.

Although we recognized the Department's efforts to improve the use of computer modeling and simulation techniques in studies and analyses programs, additional emphasis was needed. Accordingly, we recommended that the Secretary of Defense:

Formally adopt, as Department policy, guidelines for reporting study results similar to those of the Operations Research Society of America.

Establish a requirement for periodic, independent, technical reviews of computer models to insure continued improvement in their development and use as well as in the studies in which they are used.

The Department agreed that the use of large-

scale computer modeling to assist decisionmakers must be accompanied by continued review of these models and that principles, such as those of the Operations Research Society of America, should be followed. But the Department believed that existing directives and manuals provide adequate guidelines and that the extension of reporting requirements was unnecessary. (B-163074, May 3, 1973.)

### **Application of Defense Technology to Urgent Public Problems**

We tried to identify ways by which the Department of Defense and civil agencies could share the Government's technological resources to solve massive sociological problems in such areas as transportation, law enforcement, environmental protection, education, housing, and urban development. The contribution the Department can make becomes clear when one realizes that it spends about \$8 billion a year—nearly half the Federal research and development budget—on research and development involving virtually every scientific and technical field.

This sharing is called technology transfer; technology developed for a particular purpose may be adapted and applied to a different purpose. Transfer methods may be called:

*Passive:* collecting, processing, and distributing technical documents and data on request.

*Active:* maintaining a liaison between developers of technology and its potential users, frequently aided by a third-party.

The transfer process is complex, particularly if the developer and potential user do not have similar technical backgrounds and the commonality of problems is not obvious.

In a report to the Congress in December 1972, we pointed out that the Department's participation is primarily passive. Active participation has been inhibited by the lack of policy guidance and the question of whether the Department's funds may be expended for other than mission-related research. Because no national policy clearly defines the responsibilities of all agencies to encourage technology transfer, civil agencies differ widely in the extent that they seek and use Department of Defense technology.

We recommended that the Secretary of De-

fense establish policies and procedures to encourage active transfer of the Department's technology to civil agencies. We also recommended that the Director, Office of Management and Budget:

Establish a Government-wide policy for technology transfer and issue guidelines for active transfers.

Provide for a small technology transfer team to initially assist Federal agencies in matching technological resources with their needs for solving national problems.

The Secretary of Defense has issued a policy endorsing nondefense work in the Department's laboratories, subject to certain restrictions. The policy is an essential first step, but guidelines to put it into effect are still needed.

The Office of Management and Budget said that it had long been the Government's policy to encourage technology transfer and cited steps being taken, but it did not agree to provide written guidelines on active transfers. (B-175132, Dec. 29, 1972.)

### **Payments for Independent Research and Development and Bid and Proposal Costs**

Section 203 of Public Law 91-441 places certain restrictions and requirements on the Department's payments of contractors' independent research and development and bid and proposal costs after December 31, 1970. Section 203 provides that payments of such costs be based on (1) the Secretary of Defense's determination that the work has a potential relationship to a military function and (2) advance agreements negotiated with contractors establishing ceilings on such costs. The advance agreements must be based on plans submitted by contractors and technically evaluated by the Department.

We reviewed the implementation of section 203 at the request of the Senate Committee on Armed Services. In our report to the Committee, we pointed out that the military relationship provision of section 203 was vague and that the Department had inconsistently applied it. As interpreted and applied by the Department, it had no measurable effect on independent research and development or bid and proposal payments or the ceilings on such payments.

We made recommendations to the Secretary of Defense to improve implementation of section 203 but recommended that the Congress hold off changing it until it has considered several ongoing studies. We plan to evaluate these studies and continue our own examination, considering—among other things—the recommendations of the Commission on Government Procurement, alternative means of insuring equitable allocation of these costs, upward trends in contractors' bid and proposal costs and corresponding reductions in innovative independent research and development costs, and possible inequitable treatment of smaller companies. (B-167034, Apr. 16, 1973.)

### **General Procurement**

Our general procurement audits covered (1) the administration of the production contract for the C-5A aircraft and the propriety of payments to the contractor, (2) audits of borrowers under the Emergency Loan Guarantee Act, (3) renegotiation of contractors' profits, (4) life-cycle costing, (5) impact of inflation on cost estimates of proposed programs, (6) studies done under contracts, (7) contractors' industrial operations, and (8) contracting officers' use of Defense Contract Audit Agency reports.

### **Contract Administration**

Public Laws 91-441, 92-156, and 92-436, which authorized funding for the C-5A aircraft program for fiscal years 1971, 1972, and 1973, provided that payments be made to the contractor—Lockheed Aircraft Corporation—through a special bank account. The laws also restricted the payments which could be made from the special bank account and required GAO to audit the payments and submit quarterly reports to the Congress.

We audited payments, totaling \$530 million, made from June 1971 when the special bank account was set up through March 31, 1973, and submitted eight quarterly reports to the Congress, including four reports submitted in fiscal year 1973. We found no payments contrary to the laws. However, we questioned the propriety of payments to the contractor for contributions

to employees' retirement funds well before the contractor needed them.

Although costs incurred but not yet paid are reimbursable if otherwise valid, the contractor held the payments received from the Government for an average of about 14 months before paying the retirement fund trustees. In response to our recommendation to the Secretary of Defense, the Armed Services Procurement Regulation Committee is revising the regulation to avoid making such payments before they are needed. (B-162578, Aug. 11, 1972; Nov. 29, 1972; Mar. 9, 1973; and May 17, 1973.)

### **Guarantee of Contractors' Loans**

The Emergency Loan Guarantee Act, approved August 9, 1971, created the Emergency Loan Guarantee Board. The Board was authorized to provide lenders with Government guarantees to repay loans up to \$250 million made to major business enterprises. The Board is to provide such a guarantee when it finds that (1) a loan is needed and that failure to meet the need would adversely and seriously affect the economy, (2) credit is not otherwise available to the applicant, and (3) the prospective earning power of the applicant and the value of security pledged reasonably protect the United States.

Lockheed has been the only business enterprise to apply for a loan guarantee under the act. The Board's authority to enter into new commitments will end on December 31, 1973.

The act provides that GAO audit and report to the Congress and the Board on all accounts, books, records, and transactions of any borrower under the act. We submitted our first such report to the Congress in December 1972. We intend to issue annual reports until the guaranteed loans are repaid or the Government's obligations are otherwise terminated.

We found that Lockheed and the lending banks had complied with the requirements of the act and that, barring unforeseen circumstances, Lockheed should earn sufficient funds during the next several years to repay the Government-guaranteed portion of the loan. However, unless Lockheed obtains additional orders for its L-1011 TriStar commercial airliner, losses on that program could impair its financial condition. Lockheed estimated that it

needed to sell about 275 TriStars to recover all program costs. As of October 31, 1972, Lockheed had firm orders for 117 and customers had taken options for an additional 67.

At the outset of this audit, we were denied access to records of the Board. The Board through its Chairman, the Secretary of the Treasury, took the position that it was not the intent of the Congress to grant GAO authority to review the Board's activities. We did not agree.

The records were subsequently made available to us, but only because of intervention of the House and Senate Banking and Currency Committees. In making the records available, the Executive Director of the Board stated that "we continue to believe that the GAO does not have the statutory authority to review the Board's internal records relating to its decisionmaking process." The Board also took this position in its first annual report of July 31, 1972. (B-169300, Dec. 6, 1972.)

### **Renegotiation of Contractors' Profits**

The Renegotiation Board is an independent agency created by the Renegotiation Act of 1951 to eliminate contractors' excessive profits on defense and space contracts and related subcontracts. The Board requires contractors to refund to the Government those portions of profits which it determines to be excessive. Each contractor whose total renegotiable sales in a fiscal year exceed \$1 million must file a report.

We submitted a report to the Congress in May 1973 on the operations of the Renegotiation Board. We found that the objectives of the Renegotiation Act could be more fully attained by strengthening procedures of the Board and certain provisions of the act.

We recommended that the Board:

Develop guidelines showing specifically how the statutory factors to be used in excessive profit determinations are to be applied and weighted and include in its files adequate documentation of the rationale for decisions.

Give greater consideration, in making excessive profit determinations, to the rate of return on capital employed in generating renegotiable sales and use industry averages

to provide for more objective and broader based analyses.

Selectively assign contractors' filings which show seemingly reasonable profits (especially in borderline cases) to the regional boards to insure that contractors are not escaping excessive profit determinations because of inaccurate data.

Establish liaison with the Armed Services Board of Contract Appeals and other claims settlement review groups to insure that contractors are reporting accurate data on pending and paid claims.

Consider forwarding to procurement offices data on excessive price determinations and on the Board's analyses of such determinations.

The Board stated that it was making improvements, including (1) preparing guidelines for screening contractors' filings and (2) developing an automatic data processing system to provide a basis for more broadly based analyses of cases in both screening and full-scale renegotiation.

We recommended that the Congress:

Require that the Board obtain and analyze profit and cost data on standard commercial articles and services, to determine whether significant amounts of profits are escaping renegotiation.

Determine whether the new, durable, productive equipment exemption is valid since the rationale for the exemption—the release of the Government stockpile of such equipment—has not occurred.

Amend the act to penalize contractors for failing to file on time. The penalty could be patterned after that of the Internal Revenue Service; that is, the Board could charge interest on the excessive profits for the period the filing was late or, if no excessive profit determination was made, could charge a fixed amount.

Revise the penalty provision to hold contractors responsible for furnishing all data required by the Board and to have the contractors show reasonable cause why they did not furnish the data.

Consider whether the minimum amounts of excessive profits below which the Board does not require refunds (\$80,000 for contractors and \$20,000 for manufacturers' agents and brokers) are appropriate and, if so, whether

the Board has clearly stated its objectives for establishing minimums and whether these objectives are being attained. (B-163520, May 9, 1973.)

### **Life-Cycle Costing: A Procurement Technique**

Life-cycle costing is a procurement technique which takes into account not only the price of an item but also its useful life and the cost of maintaining it during that life. When competitive prices are evaluated, this technique often reveals that a lower price is not necessarily more advantageous in terms of overall cost.

In 1965 the Department of Defense began to test this concept and in 1970 issued implementing guidelines. Although the Department's engineering and procurement managers have accepted the concept, it has been successful at only five or six procurement activities which have used it aggressively. We evaluated the life-cycle costing technique to determine its potential for broader application in awarding defense procurement contracts, and we submitted a report on the evaluation to the Congress in May 1973.

From inception of the test program in 1965 to the time of our review, contracts were awarded on the basis of life-cycle costing for only 64 procurements—43 of which were awarded by the Air Force. The Air Force reported that the 43 procurements, costing about \$20 million, had saved about \$25 million.

The limited application of the concept was attributable to insufficient emphasis by the Department. Neither the Armed Services Procurement Regulation nor the Defense Procurement Circulars—the primary means of disseminating policy and direction to procurement personnel and contractors—have provided guidance on the concept. It is unlikely that the lessons learned from the test program can be widely used in the Department unless high-level interest is expressed and coordination, communication, and training are improved.

We recommended that the Secretary of Defense:

Emphasize more vigorously the importance of an effective test program for life-cycle

costing and provide coverage in the Armed Services Procurement Regulation.

Expand the test program to provide that, when appropriate, the competition for prime contracts include consideration of contractors' plans to use life-cycle costing in awarding subcontracts.

Expand the test program to include, when appropriate, noncompetitive procurements by requiring the submission of proposals offering different levels of reliability and maintainability and by providing for evaluations on a life-cycle-costing basis.

Place the primary responsibility for life-cycle costing on the engineering and requirements personnel and provide for coordination with the procurement personnel.

Establish goals for systematically reviewing items scheduled for procurement to identify those to which life-cycle costing could be applied.

The Office of the Secretary of Defense generally agreed with our findings, conclusions, and recommendations and informed us of the specific steps it was taking to implement the recommendations. (B-178214, May 21, 1973.)

### **Impact of Inflation on Cost Estimates of Proposed Programs**

"Inflation" is defined as a persistent and appreciable rise in the general level or average prices for labor and material. When an agency requests the Congress to authorize and appropriate funds for a program, the Congress needs realistic cost estimates, including those for inflation, in deliberations on the program's merits. The Office of Management and Budget has a long-established policy that allowances for future price increases be excluded from budget requests presented to the Congress. Inflation has little effect on programs for which funds are budgeted and obligated for a single year. However, OMB's policy may cause the Congress to approve long-term programs on the basis of incomplete information.

We examined, and reported to the Congress in December 1972, the methods by which Government agencies consider inflation in estimating costs of long-term programs and disclose them to the Congress.

Some agencies included allowances for inflation in their budget requests despite the OMB policy. However, because the allowances were not so identified, the Congress did not receive consistently prepared budget estimates. Also, agencies frequently prepared cost estimates for internal use—in contrast to the cost estimates submitted to the Congress—which included expected cost increases due to inflation.

In 1969 the Department of Defense requested authority from OMB to provide for inflation in its cost estimates for major weapon systems and other large projects. The request was denied. The Department then instructed the military services to prepare two estimates—one excluding inflation for OMB's use and one including inflation for the Department's use. In response to the Department's later request, OMB modified its policy for fiscal years 1972 and 1973 budget estimates for major weapon systems and major construction.

We suggested to the Director, OMB, that cost estimates for long-term programs include estimates for inflation and that agencies present the estimates for inflation to the Congress as supplemental data. OMB did not agree; it said that including inflation in cost estimates, even on the suggested supplementary basis, would tend to increase Government procurement costs.

OMB has sound reasons for not desiring to include inflation in the formal Federal budget. However, to assess and authorize long-term programs, the Congress should have information showing, as realistically as possible, the total expected costs of the programs. Agencies should have estimates for inflation available to submit to appropriate congressional committees for their use when considering the programs. (B-176873, Dec. 14, 1972.)

### **Studies Performed Under Contracts**

The Department of Defense and the military services contract with public and private organizations to make studies that will assist them in reaching decisions or solving problems. We reviewed 17 Army contract studies to determine the adequacy of the Army's control over its contract study program, and we submitted a report on the review to the Congress in December 1972.

We found that 8 of the 17 studies, costing about \$1.4 million, either were of limited usefulness or were not used. We were unable to determine whether the remaining nine studies, costing about \$4.1 million, met their objectives satisfactorily or were used as intended.

The Army evaluated the contractor's performance after completing or terminating each contract; however, it did not similarly evaluate its own performance in planning or monitoring the studies. Because of this, the intangible nature of the studies, content, and the high turnover of personnel involved in contract administration, we were unable to determine the effectiveness of the Army's control over the studies or to positively determine causes of unsatisfactory study results.

Some factors contributing to unsuccessful study results were the Army's failures to (1) review the lessons learned from previous studies, (2) state the study assumptions used to guide the contractual work, (3) clearly prescribe duties and responsibilities of the study advisory group assigned to provide technical advice and assistance, and (4) provide the technical expertise to plan and monitor the study. In addition, directives and regulations requiring distribution of study information and results conflicted.

We recommended to the Secretary of the Army that existing regulations be revised and new procedures be established to require:

An evaluation of management's performance after each study contract is completed or terminated.

A meeting of the advisory group early enough to (1) assist in meeting all prescribed requirements for planning a contract study and (2) determine whether the group is capable of monitoring the contractor's performance in accordance with the plan.

The distribution of contract studies to the Defense Documentation Center regardless of their outcome or funding. For unsatisfactory or incomplete studies, a summary of lessons learned should be prepared and disseminated with the results of the study.

We also recommended that the Secretary of Defense consider, in conjunction with the Secretary of the Army, phasing out the Army's data bank of studies and analyses as the Defense Documentation Center obtains the data needed

to function as the central repository for such information.

The Department of Defense generally concurred in our recommendations and reported that the Army was considering revising its regulations along the lines we recommended. (B-177372, Dec. 11, 1972.)

### **Contractors' Industrial Operations**

We reviewed industrial operations at the plants of three aircraft engine manufacturers doing a substantial amount of work for the Department of Defense. We applied industrial engineering and financial management principles to identify conditions which could be unnecessarily increasing the cost of contract performance. Our report was submitted to the Congress in June 1973.

At each of the contractors' plants, we found that operations could be improved and costs could be reduced through (1) effective programs for establishing, maintaining, and using labor standards for measuring labor efficiency, (2) strengthened production control systems for scheduling, coordinating, and controlling manufacturing operations, (3) review of inspection criteria and revision of quality assurance programs to eliminate excessive inspection and testing of material, parts, and assembled products, (4) greater efficiency in plant layout and plant utilization, (5) improved programs for maintenance, modernization, and replacement of equipment, and (6) relaxation of the military services' stringent packaging requirements for spare parts and assembled products destined for domestic delivery and use.

We brought our findings and suggestions at each plant to the attention of the Department of Defense procurement and contract administration organizations and contractors. We believe our findings will be especially useful to the Government's procurement and contract administration personnel who will be dealing with these contractors in the future.

Some of our suggested improvements will require time to implement, and many of our suggestions will require further study by the contractors to determine the most feasible approach for changing their operations. Consequently, we were unable to quantify the savings

which could result from our suggestions. But we believe that the savings would significantly exceed the cost to implement the improvements. (B-159896, June 26, 1973.)

### **Contracting Officers' Use of Defense Contract Audit Agency Reports**

We made a review to find out (1) whether Defense Contract Audit Agency reports were providing contracting officers the information needed to reduce contract prices when such prices had been increased because defective data had been submitted, (2) why the officers had determined in some instances that they did not have a basis to reduce contract prices in the amounts proposed by the Audit Agency, and (3) whether they were acting promptly on the Audit Agency's reports. In March 1973 we submitted our report to the Secretary of Defense, and we recommended that he:

Insure that contracting officers provide adequate documentation of the cost or pricing data submitted and certified by contractors.

Require higher level approval when the contracting officer does not accept the Audit Agency's recommendations because either pertinent cost or pricing data had been disclosed to him during contract negotiations or he was aware of the correct cost or pricing data at that time.

Establish time standards for procurement offices in reviewing Audit Agency reports, evaluating the recommendations, and taking appropriate actions.

Require the Audit Agency to review its proposed reports more closely before it issues them to contracting officers. (B-159724, Mar. 22, 1973.)

### **Recommendations of the Commission on Government Procurement**

The Commission on Government Procurement, established by Public Law 91-129 to make

a comprehensive study of Federal procurement statutes, policies, and practices, submitted a report to the Congress in December 1972. The report included 149 recommendations for improving Government procurement.

On March 19, 1973, the Office of Management and Budget began to implement the Commission's recommendations by releasing a memorandum which:

Identified the lead and participating agencies responsible for executive branch action on each recommendation.

Categorized each of the recommendations as to the extent of study and policy formulation required.

Provided for lead agencies to formulate action plans and for OMB to monitor them and outlined basic operating steps for all recommendations.

During the year, the President initiated actions to strengthen Federal Government management, including procurement operations. The President signed Executive Order 11717 on May 9, 1973, and amplified it by a Presidential statement on May 22, 1973. This order establishes the General Services Administration as the President's "principal instrument" for developing better management systems in financial, procurement, contracting, property, and data processing areas—under the broad policy oversight of OMB.

At the request of the Chairman, House Committee on Government Operations, the General Accounting Office will monitor executive branch actions on the Commission's recommendations. We plan to prepare periodic reports which will (1) update the operating plans for responding to the Commission's recommendations, (2) compare accomplishments with those plans, (3) identify potential problems, and (4) describe approved policy decisions and implementing actions, including any recommendations on which no actions will be taken and the reasons why.

## CHAPTER SEVEN

# FEDERAL PERSONNEL AND COMPENSATION

## Responsibilities

The Federal Personnel and Compensation Division is responsible for making audits and special studies of the programs, activities, and practices of the Government for managing and compensating Federal workers. These include, but are not limited to:

- Personnel requirements and filling those requirements.

- Staff development through training, education, and career management programs.

- Use and retention of the workers.

- Federal pay, fringe benefits, and retirement.

- Employee relations, including equal employment opportunity programs, labor-management relations, and rehabilitation of physically and mentally handicapped employees.

The division is under the supervision of Forrest R. Browne, Director. An organization chart appears on the following page.

## Size and Cost of the Federal Work Force

In June 1973, the Federal Government employed an estimated 5.1 million persons: over

2.7 million civilian employees and over 2.3 million military personnel on active duty. The Government paid about \$60 billion in direct costs for compensation and personnel benefits for this work force during the fiscal year and over \$1.5 billion for compensation to members of the Reserve Forces and the National Guard.

Payments totaling an estimated \$8.7 billion were made to Federal retirees and their survivors. About \$4.3 billion of annuity payments were made from the Civil Service Retirement Fund, and over \$4.4 billion was paid from appropriated funds to retired military personnel and their survivors.

## Audit Reports

During fiscal year 1973, 22 reports on Federal personnel and compensation were issued: 6 to the Congress, 4 to specific committees or Members of Congress on investigations they requested, and 12 to heads of departments or agencies.

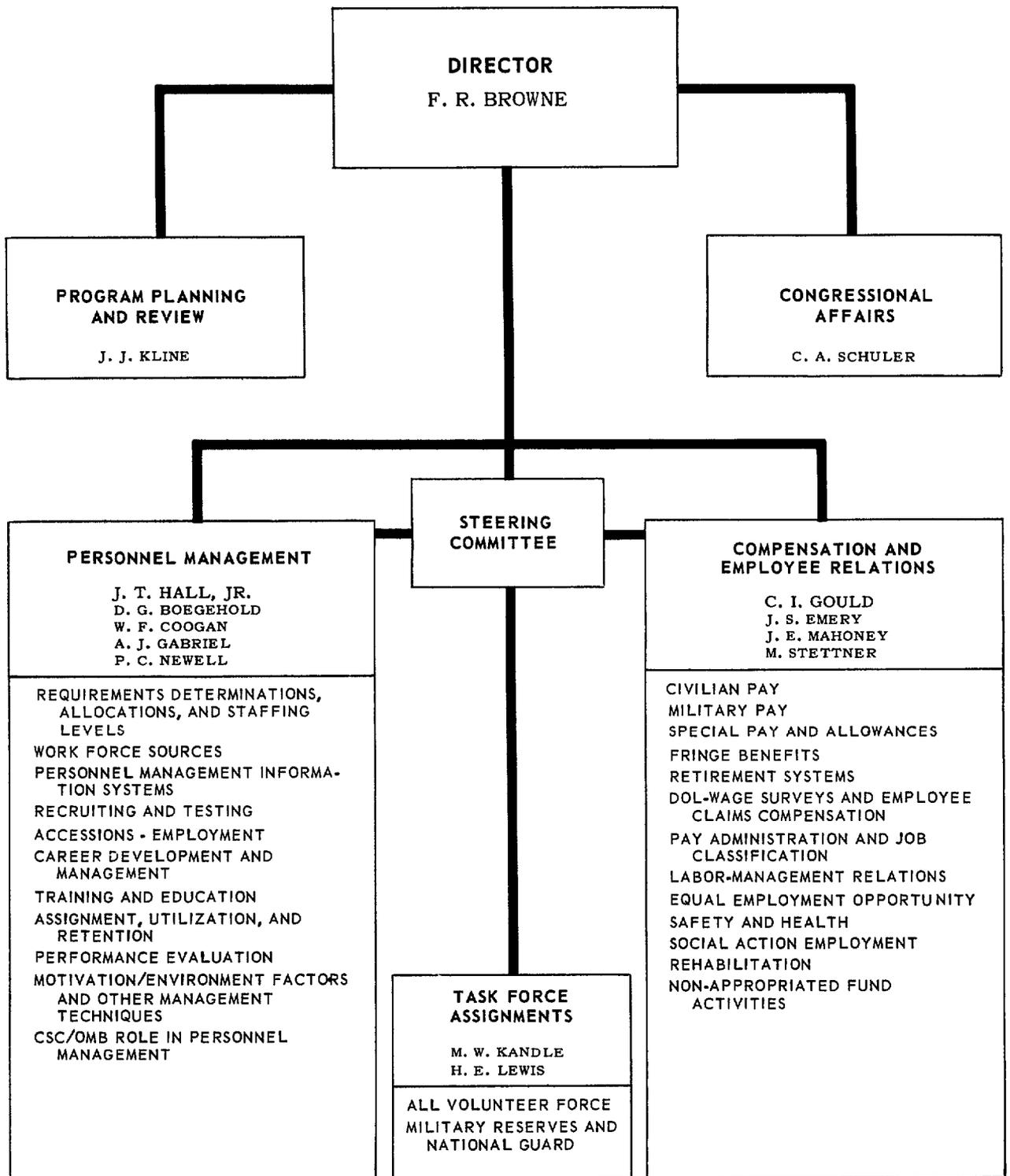
Most of the reports contained recommendations for improving personnel management and controls. Agency officials were generally responsive to our reports, indicating agreement with our findings and intention to take corrective action. As is our normal practice, after sufficient time has elapsed, we will evaluate the effectiveness of the actions taken.

Because of their significance, three of the reports issued during the year warrant special mention. They relate to (1) the progress made in achieving an all-volunteer force, (2) programs for controlling and reducing drug abuse by military personnel, and (3) the annual survey of private enterprise salaries used as a basis for adjusting Federal white-collar salaries.

## Meeting Military Manpower Needs in the All-Volunteer Force

As July 1, 1973, drew near, the Congress was faced essentially with three choices in legislating the future method of obtaining men and women to serve in the Armed Forces: (1) let the existing draft authority expire and rely entirely on volunteers, (2) extend the existing draft system, or (3) rely on an all-volunteer force but enact

FEDERAL PERSONNEL AND COMPENSATION DIVISION



JUNE 30, 1973



New staff members meet with Division Director. Seated from the left are Charles P. Finley, Jr., Thomas A. Repash, Jr., Director Forrest T. Browne, Susan Weston, and Kenneth Kurz.

Our report indicated the importance of obtaining the desired quality of enlistees by showing that the services had imbalances in skills resulting from insufficient men of required aptitude and school preference and inadequate retention of men in desired skills. We reported that over one-half of the skill categories in the Army and Marine Corps were either overmanned or undermanned by more than 20 percent at June 30, 1972, and that filling schools for technical occupations would be difficult because true volunteers tended to have less education and lower test scores than draft-motivated volunteers. We also reported that a 20-percent shortfall would occur in the Army's combat arms enlistments in fiscal year 1974 and that the Office of the Secretary of Defense had forecast that, without special incentive pay, there would be physician shortages beginning in fiscal year 1975 and perhaps sooner.

Our report identified several alternatives to using male volunteers to fill military requirements. These included increasing the use of military women and converting military positions to civilian positions. In addition, recruiting men and women with civilian-acquired skills directly into upper enlisted grades could help to alleviate the problem of skill imbalances.

We pointed out that the Department of De-



• Air Force sergeant greets recruits and assigns them to living quarters at Lackland Air Force Base, Texas

fense was predicting that by June 30, 1974, the Reserve and National Guard, which would be the initial and primary sources for increasing the Active Forces in any future emergency, would be 97,000 below their mobilization objective level of 971,000.

We reported that Department of Defense programs for the all-volunteer force accounted for 23 percent of the increased manpower costs since 1968. The Office of the Secretary of Defense's Project Volunteer costs budgeted for fiscal year 1974 were about \$3.2 billion. We estimated that as much as \$1 billion of additional costs related to the all-volunteer force were incurred annually but were not specifically identified for all-volunteer purposes. We believe that, if force levels need to be increased in the future, the cost of volunteers may increase sharply.

We raised several questions we believed the Congress and/or its committees might wish to explore with the Department of Defense.

What are realistic minimum quality standards for each service, both for Active and Reserve Forces?

What is the probable force level of minimum quality that could be supported without using the draft? Would increased employment

rates for young men make it more difficult to attract qualified personnel?

Should some form of standby induction authority be enacted?

Will some type of draft be required for physicians after fiscal year 1974?

Will some type of draft be required if deficits in the Reserve components cannot be overcome?

Will the Uniformed Services Special Pay Act overcome the above problems?

On May 2, 1973, during hearings on fiscal year 1974 Department of Defense authorizations, GAO officials testified before Subcommittee Number 2, House Committee on Armed Services, on the results of our review of the progress being made by the Department of Defense and the military services to achieve an all-volunteer force.

### **Drug Abuse Control Activities Affecting Military Personnel**

The Congress and the President have identified drug abuse as one of the most serious problems facing both the civilian and military segments of American society. In June 1971 the Secretary of Defense directed that a major effort

be made to combat drug abuse in the military services. Recognizing the great concern of the Government and the American people, we reviewed the initial steps taken in response to the Secretary's directive and reported the results of our review to the Congress (B-164031(2), Aug. 11, 1972).

We stated that the Department had actively cooperated with other Federal and local Government agencies having primary responsibility for enforcing laws against illegal traffic and use of drugs in the United States and abroad. Intensified enforcement activities, however, may have contributed significantly to the replacement of marijuana use by use of more dangerous drugs which are not as easily detected. On the other hand, unannounced urinalyses at randomly selected military units were considered to be a significant deterrent to drug users.

We reported that the military services were conducting a wide variety of educational activities to combat drug abuse. In discussions with

Sandie, a Marine Corps marijuana detector dog, picks up the scent of a hidden cache of marijuana



key personnel, we learned that (1) formal classes and briefings for lower enlisted ranks had more disadvantages than advantages, (2) there were not enough experts to mount an adequate educational program; accordingly, priority attention had been given to training such personnel, (3) few, if any, additional funds had been made available overseas to support educational programs, and (4) the troops considered the most effective information sources to be former addicts, physicians, and chaplains.

We also pointed out that, without a good definition of the nature and extent of the problem and a means of measuring the benefits accruing from specific educational activities, the Department of Defense could not be sure which, if any, of these programs were effective.

Many military personnel voluntarily identified themselves as drug abusers when seeking help; others were identified involuntarily by law-enforcement officials and by a urinalysis program. Urinalysis has been highly successful in identifying users of heroin, barbiturates, and amphetamines. However, because of the technological limitations of tests used, the incidence rates reported were not an accurate indicator of the overall extent of drug use.

Implementation of Department of Defense exemption programs offering assistance to servicemen who volunteered for treatment of their drug problems was relatively complex and confusing. Frequent changes in the programs contributed to this confusion, engendered considerable distrust, and hurt the programs' credibility. The consensus of those attending an Army-sponsored drug abuse conference was that the Army lacked the sincere concern necessary to help drug abusers. Further, many officers believed that many enlisted personnel were subverting the objectives of exemption programs by attempting to use the programs to obtain early release from the military services.

There were indications that the Department had greater success in medical detoxification and treatment of drug abusers than in their rehabilitation. Rehabilitation programs had very limited success, if the number of servicemen returned to normal duty is used as a criterion. Problems resulted from the unwillingness of some drug users to remain in service for rehabilitation and the lack of adequate facilities and rehabilitative personnel.

We also reported that the Overseas Dependent School System had long been aware of a drug problem among school-aged dependents. Several educational programs had been developed and introduced to deter students from drug abuse.

We recommended that the Department of Defense develop a system for evaluating its educational, treatment, and rehabilitation activities for the drug abuse control program. The Department generally agreed with our observations and recommendation.

### **Survey of Non-Federal Salaries Used to Adjust Federal White-Collar Salaries**

The principle that salaries paid Federal white-collar employees should be comparable with salaries paid in private enterprise for the same levels of work is established by law. We are reviewing the process for adjusting Federal white-collar salaries because of the need for an independent assessment and because each 1-percent pay increase costs about \$420 million a year. In view of the broad scope and complexity of this subject, our review is multiphased. The first phase dealt with the design and conduct of the annual survey of non-Federal salaries, which is used as the basis for assessing and adjusting Federal white-collar salaries. This phase of our work was the subject of a report to the Congress (B-167266, May 11, 1973).

We reported that the comparability principle and the annual review and adjustment have generally advanced the evolution of Federal white-collar salary determination. The resultant pay adjustments have, on the whole, significantly narrowed the spread between Government and private sector average salaries determined by the annual survey. However, the design and data-gathering process of the annual survey needs to be supplemented and strengthened to better accomplish the basic purposes for which the principle of comparability was adopted. Further, compensation evaluation and research should be emphasized more so that timely changes in the comparability process can be made.

In the annual survey, it would not be feasible to survey every Government job to determine its average salary in the private sector. Instead, a select group of positions at various work levels is surveyed. An arithmetic mean of the private

enterprise rate for each work level is computed. These means are the bases used to assess and adjust Federal rates.

We found that the occupational composition of the jobs selected for survey was not sufficiently representative of the variety of Federal jobs at the GS-5, GS-7, GS-9, and GS-15 levels. The job mixes at certain of these levels contained disproportionate numbers of jobs which were highly paid in the private sector, and this caused an upward bias of the average work level rates.

Although the annual survey is designed to estimate the national salary rates in the private sector for selected jobs comparable to those in the Federal sector, it includes only the salaries of about 25 percent of non-Federal, white-collar employees. Employees of State and local governments, nonprofit organizations, and some industries are excluded. The rationale for many of the exclusions no longer seems valid. Including a more representative cross section of the non-Federal sector would allow the survey to reflect, proportionately, employment and pay for each of the major non-Federal segments.

We observed a need in the survey for the comparability process to include a means of measuring nonsampling errors to determine the degree of data reliability. Further, there is a need to:

- Clarify certain job definitions.

- Reevaluate certain survey jobs to see if they are susceptible to the job-matching technique.

- Provide additional guidance and training to data collectors.

Our report contained a number of recommendations to the Director, Office of Management and Budget; the Chairman, Civil Service Commission; and the Secretary of Labor. Agency officials generally agreed with the message of our report.

Major findings and recommendations included in other reports completed during the year are summarized below.

### **Training and Education**

#### **Training and Equipping the Army National Guard To Maintain Order During Civil Disturbances**

Between January 1965 and October 1971, Army National Guard units were used in 260



National Guardsman equipped for civil disturbance training

instances to assist local and State police in maintaining order during urban riots and campus demonstrations. Two Presidential commissions established during this period criticized the Guard's performance during certain disorders and recommended that riot control training for guardsmen be improved and expanded. We reviewed the training program for civil disturbance control given to guardsmen to determine the effectiveness of changes made in response to lessons learned from the disorders and from suggestions of the Kerner and Scranton Commissions.

We reported to the Congress that since the Detroit riot of 1967 the Army and the Guard had improved civil disturbance control training and more adequately equipped personnel. The amount of training compared favorably with that given local police civil disturbance units. Guard officials and most guardsmen we questioned believed themselves to be adequately trained. A policy change, however, discontinued mandatory refresher training and permitted unit command-

ers to determine how much refresher training, if any, would be given their guardsmen. Consequently, some units might not receive adequate training. Guardsmen had better physical protection than before, but equipment was needed to bridge the gap between riot batons and rifles.

We recommended that the Secretary of Defense (1) require appropriate refresher training for all National Guard units responsible for civil disturbance control, (2) establish an evaluation system to insure that units maintain disorder control capabilities, and (3) require the Army to continue research on and provide field training in the use of special equipment and munitions. Department of Defense and National Guard Bureau officials indicated they would consider our recommendations.

Effective April 1, 1973, the Army reinstated the requirement for National Guard units to conduct annual refresher training in civil disturbance control. Although the training subjects and time devoted to them are at the discretion of the unit commander, units will be evaluated annually by National Guard Headquarters to determine their civil disturbance readiness. (B-160779, Sept. 8, 1972.)

#### **Department of Defense Use of Closed-Circuit Television for Training and Education**

At the end of the fiscal year 1972, closed-circuit television equipment costing about \$27.3 million was being used by the Army, Navy, and Air Force for education and training. The personnel costs for operating and maintaining the equipment were estimated to be about \$8.1 million. Our report to the Secretary of Defense highlighted the importance of effective coordinated or centralized management of those highly specialized, costly resources. We reported that:

Most studios we visited did not have catalogs of television video tapes produced by other services, and tapes usable by several services generally were produced independently by each service.

The services were individually testing different types of new audiovisual equipment for similar education and training applications although it appeared likely that joint testing of new equipment would reduce costs.

Each military service had incurred significant investment and operating costs for its

own closed-circuit television studios, although some studios were close to one another and were not being fully used and the skilled operating personnel were in short supply.

We made several recommendations directed at having the Department of Defense provide more aggressive centralized direction over the services' use of television equipment for training. Officials of the Department generally agreed with the facts presented in our report and with our recommendations. (B-177350, Nov. 29, 1972.)

#### **Correspondence Training Programs of the Military Services**

Each military service operates correspondence training programs. During fiscal year 1972, these programs cost about \$19.4 million and had about 786,500 enrollees. In our report to the Secretary of Defense, summarizing the results of our study of these programs, we identified several matters that, in our opinion, warranted attention to improve overall program performance. These included the need to establish completion goals and to monitor student performance when substituting correspondence training for resident training.

We also reported that the services duplicated correspondence courses and should exchange instructional materials on common subjects and review each others' courses before developing new ones; that management was not receiving needed, reliable data on the cost of correspondence training; and that the organization of the Army correspondence program resulted in duplication of administrative functions. (B-175773, May 31, 1973.)

#### **Tuition Charge at Overseas Dependent School, Bahrain Island**

A report to the Secretary of Defense dealt with tuition charged outside students (children of private U.S. citizens, local nationals, and third-country nationals) who attended the Overseas Dependent School operated by the Department of Defense on Bahrain Island in the Persian Gulf. At August 31, 1972, 388 of the 532 students enrolled in the school were outside students.

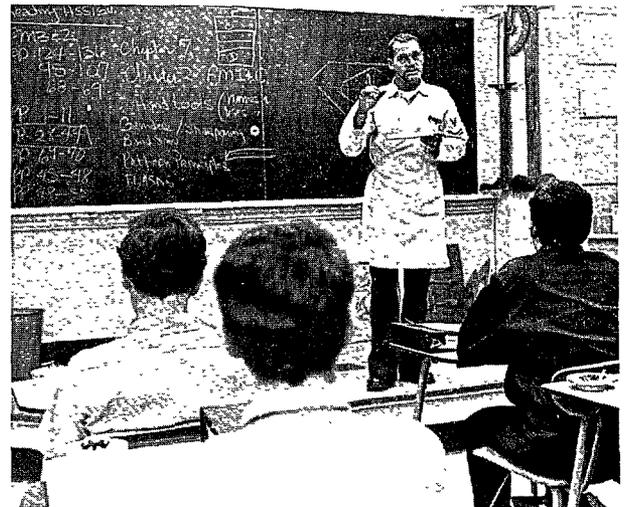
We reported that the Government might lose about \$280,000 during the 1972-73 school year because outside students attending the school

were not charged sufficient tuition. Although the per-student cost of operating that school during the year was \$1,733, each outside student was charged a tuition of \$982. The \$982 rate was the average cost per student for all Overseas Dependent Schools operated in the European area and was about \$750 less than necessary to recover the full per-student cost. We recommended that the Secretary of Defense direct the school system to charge a tuition rate sufficient to recover the entire cost of providing education and other services to outside students enrolled at Bahrain Island. (B-131587, Feb. 28, 1973.)

#### **Administration and Management of Naval Technical Training**

A report to the Secretary of the Navy discussed the findings of a review we made at selected naval facilities to assess the Navy's administration and management of technical training. During fiscal year 1973, the Navy spent about \$550 million on technical training. We reported that differences in the interpretation of instructions governing instructor requirements, as well as the lack of management review at the training locations visited, resulted in both overstatements and understatements in Navy instructor requirements. We also found that the Navy had not established a formal system for collecting, assessing, and disseminating information needed to insure the adequacy of technical training. In the absence of a standardized in-

A Navy technical training class in San Diego, California.



structor-training policy, instructors could spend as much as 30 percent of their tours of duty observing the classroom presentations of experienced teachers, thereby increasing the overall requirements for instructors. After being apprised of our findings, Navy officials initiated action to deal with most of the problems discussed in our report. (B-175773, June 14, 1973.)

## **Acquiring Military Manpower**

### **Management of Selective Service System**

Our review of the Selective Service System, performed at the national headquarters, various service centers, State headquarters, and local boards, concentrated on management weaknesses applicable to either an active or standby system. In our report to the Director, Selective Service System, we stated that many weaknesses we noted were being corrected. For example, staff and budget reductions planned by December 31, 1973, were cutting surplus staff at many sites and at all organizational levels. However, we reported that continuing management weaknesses in registration and organization need attention.

Our report highlighted the need for the System to establish procedures to determine whether people who were required to register had done so. Tests we made in two States indicated that 12 percent of the young men who should have registered had not done so. In other States, our tests indicated nonregistrant rates of from 5 to 9 percent. We also reported that failure of the System's Registrant Processing Manual to identify late registration as a violation had resulted in inconsistency among the States in processing late registrants, and we suggested that additional guidelines from national headquarters be provided.

Further, we were concerned that the System's organizational plans did not suit its change of purpose from active (with inductions) to standby (without inductions) beginning July 1, 1973. Accordingly, we proposed that alternative standby draft systems and procedures be thoroughly explored with recommendations for required legislation. (B-160672, June 26, 1973.)

### **Management of Reserve Officers Training Corps Program**

We reported to the Secretary of Defense the results of our review of the management of the Reserve Officers Training Corps program administered by each of the military services. The senior ROTC program, which enrolled 72,500 students during the 1972-73 school year and which prepares selected college students for commissions in the military services, cost an estimated \$155 million during fiscal year 1973. The junior ROTC program, which enrolled 140,000 high school students during the school year and which provides these students with a knowledge of military subjects, cost about \$16 million during the fiscal year.

We reported that increased coordination among the services was needed in the following areas of ROTC program administration.

- Retention of senior ROTC units which did not meet the Department of Defense's prescribed officer production requirements.

- Failure to uniformly apply statutory restrictions for establishing and maintaining junior ROTC units.

- Declining enrollments in the senior ROTC program.

- Variances in ratios of staff to enrolled students among the individual services' senior program because the services have separate staffing criteria.

- Some applicants for ROTC scholarships receiving physical examinations by more than one service.

- Loss of investment in students because of program dropouts.

- Lack of complete and uniform program cost reporting.

Agency officials generally agreed with our findings and advised us that remedial action would be taken. (B-146947, Feb. 28, 1973.)

## **Retirement**

### **Military Disability Retirements**

After making a review of military disability retirements, we reported to the Secretary of Defense that inconsistent policies and practices of the military departments might be resulting in undue costs to the Government as well as

inequitable treatment of disabled service members. We noted that excessive time was elapsing between the date Army and Air Force members were declared medically unfit for active service and the effective date of their retirements. For the 2-month period sampled, we estimated that the Army and Air Force could have saved between \$825,000 and \$1,845,000 by processing disability retirements as expeditiously as the Navy and Marine Corps. We therefore made recommendations directed at overcoming this problem.

We also noted that (1) the services varied significantly in the ratios of permanent to temporary disability retirements and (2) apparently consolidating the disability processing functions of the four military departments would eliminate some of the inconsistencies discussed above. We suggested that the Department of Defense consider these two matters in its study of military disability retirement that was then underway.

The Department agreed generally with our findings and indicated that it was implementing our recommendations. The actions taken on our recommendations to expedite the processing of disability retirements should save the Government about \$8 million annually. (B-168308, Mar. 19, 1973.)

#### **Unclaimed Benefits in Civil Service Retirement Fund**

We reported to the Congress that approximately 338,000 people aged 62 or over had not applied to the Civil Service Retirement Fund for annuities or refunds of contributions totaling about \$26 million. These unclaimed funds create a large recordkeeping problem for the Civil Service Commission since, under existing law, retirement funds are due in perpetuity to the employees who paid them and to their heirs; therefore, if they are unclaimed the Commission must maintain the records forever.

With the assistance of the Federal Records Center, the Internal Revenue Service, and the Social Security Administration, we reviewed the records of about 100 people and found that about one-half had apparent current addresses and could be located. Letters were sent to them, and within 2 months, 20 responded and were paid more than \$18,700 in refunds, annuities, and death benefits.

We recommended that the Commission seek

approval from the Office of Management and Budget and the Congress to finance, through the retirement fund, a program to return unclaimed retirement funds, and we outlined a plan of action for the program. The Commission agreed that our plan appeared feasible and advised us that it would be implemented as soon as funds were available. In our report we also suggested, and the Commission concurred, that the Congress should consider enacting a statute of limitations to permit the Commission to destroy retirement records when it is statistically sound to conclude that no claims will be made. (B-130150, Dec. 20, 1972.)

#### **Administration of the Civil Service Retirement and Disability Program**

The Chairman, Civil Service Commission, was provided a report on our review of the administration of the Civil Service Retirement and Disability Program by the Commission's Bureau of Retirement, Insurance, and Occupational Health. We had directed the review primarily toward determining whether claims for refunds, death benefits, and annuities were being processed accurately and promptly.

We reported that, with few exceptions, the amounts of annuity payments were correct. A random sample of newly adjudicated retirement and refund cases indicated that, while an individual must wait 8 weeks for a refund, 11 weeks for a regular annuity, and 17 weeks for a disability annuity, the employing agencies rather than the Bureau often were responsible for the

Headquarters, Civil Service Commission, Washington, D. C.



delays. There were a variety of causes for the delays in these agencies, such as lost records, erroneous data reported by the agencies, and low priority assigned to the retirement function.

We recommended that, to reduce delays at the employing agency, the Commission develop a systematic method of evaluating total agency performance on retirement matters, and Commission officials concurred. (B-130150, Apr. 13, 1973.)

### **Enlisted Aide Program of the Military Services**

We reviewed the enlisted aide program of the military services at the request of Senator William Proxmire. We reported to the Congress that, as of December 1972, 1,722 enlisted men were assigned as aides to 860 admirals and generals and 110 Navy captains. The remaining 457 admirals and generals were not assigned enlisted aides. Tasks performed by enlisted aides were generally those performed by domestic servants. Personnel costs of the enlisted aide program for fiscal year 1973 were about \$21.3 million; training costs were about \$360,000. The review included Senator Proxmire's requests that we clarify the statutory and budgetary justification for the program and determine the nature and propriety of tasks assigned to enlisted aides.

The Secretary of Defense informed us that our report resulted in several changes in the program. Major changes included a 28-percent reduction in the number of enlisted aides and the closing of training schools for aides. These two changes should result in annual savings of more than \$6.2 million. (B-177516, Apr. 18, 1973.)

### **Status of Equal Opportunity in the Military Departments**

We reported to the Secretary of Defense the results of our review of the actions taken by the Department of Defense to achieve equal opportunity for civilian and military personnel. Most of the 20 military commands and installations we visited had some form or elements of equal opportunity programs but most did not have formal plans of action. Also, their programs appeared too broad in scope, were vaguely

implemented, lacked sufficient definition, and were not coordinated among the Department's components. Statistics obtained at the 20 review locations showed that:

From zero to 3.5 percent of officers and from 6.8 to 18.7 percent of enlisted men were minority members.

Women comprised from 1 to 10.7 percent of officers and from 3.2 to 8.2 percent of enlisted military personnel.

Available data indicated that minority participation in the National Guard and military reserve forces was below that of the regular military services and that, at May 31, 1972, minorities made up 16.8 percent of the total civilian employment of the Department of Defense.

Although a number of steps had been taken to increase minority participation in the military and civilian work forces, there were indications that the hiring of minorities for civilian positions had been hampered by (1) preferential treatment of employees affected by reductions in force, (2) lack of minorities on employment registers, and (3) generally low rating of minorities on registers. We found no evidence that minorities were being treated unfairly in the application of military justice.

Defense officials generally agreed with our findings and advised us of additional actions being taken in the areas we reviewed. They did not agree with our proposal to establish equal opportunity officers with direct access to organizational commanders, since they believed that equal opportunity efforts should be an integral part of the commander's responsibilities with maximum use of the command chain. (B-178300, June 19, 1973.)

### **Civilian Manpower Authorizations in the Army Materiel Command**

A report to the Secretary of the Army dealt with our review of the effect of workload changes on civilian manpower authorizations at the major commodity commands of the Army Materiel Command. The commodity commands employed, at June 30, 1972, 64,400 civilians who received about \$951 million in pay and benefits during fiscal year 1972.

In our review of three commodity commands,



Staff meeting to discuss an ongoing audit. Seated from the left are Robert G. Finney, John E. Minnich, Donald G. Goodyear, Marion T. Pitts, and Thomas G. Dowdal.

we found that the methods and bases they used to determine manpower requirements could be improved. For example, the preferred method for ascertaining manpower needs is the use of reliable performance standards and projected workload. Our review showed that this method was not used because appropriate performance standards generally were not available. Moreover, workload data was inadequate and the alternative methods used to compute manpower needs were questionable.

The Deputy Assistant Secretary of the Army (Manpower and Reserve Affairs) generally agreed with our findings and most of our recommendations for corrective action. (B-178238, Apr. 12, 1973.)

### **Audits in Process**

At the close of fiscal year 1973 numerous audits were in process including the following:

Adverse action and appeal systems—a review to determine whether these systems are fair to both management and employees and whether they are being operated efficiently.

Military compensation system—a review of this system which cost over \$23 billion in fiscal year 1973, including an evaluation of the

structure of the system and the methods used to periodically adjust military pay rates.

Military reenlistment bonuses and shortage specialty pay—an examination of (1) how well the Department of Defense and the services are managing the reenlistment bonus and shortage specialty proficiency pay programs and (2) the effectiveness of bonuses in attracting reenlistments.

Military discharges for drug abuse—at the request of a Member of Congress, a review of the Department of Defense's special efforts to reconsider administrative discharges under other than honorable conditions and punitive discharges and dismissals resulting from courts-martial, when those actions were taken solely because a serviceman used or possessed drugs for personal use.

Reductions-in-force—an evaluation of the policies established and the practices applied in reducing the civilian positions and employment by 5 percent by June 30, 1972, as directed by the President, and determining the impact of the reductions on 15 civilian and military installations.

Labor-management relations—a review of selected aspects of Federal labor-management relations, with particular attention to the scope of bargaining, i.e., what is negotiable; how bargaining units are determined; and the effectiveness of third party processes.

programs administered by the Department of Health, Education, and Welfare; the Department of Labor; the National Science Foundation; the Office of Economic Opportunity; and the Veterans Administration. Gregory J. Ahart is the Division Director and Dean K. Crowther and David P. Sorando are the Deputy Directors. An organization chart of this division appears on the following page.

## CHAPTER EIGHT

# MANPOWER AND WELFARE

### Responsibilities

The Manpower and Welfare Division is responsible for auditing manpower, health, education, and income security operations and

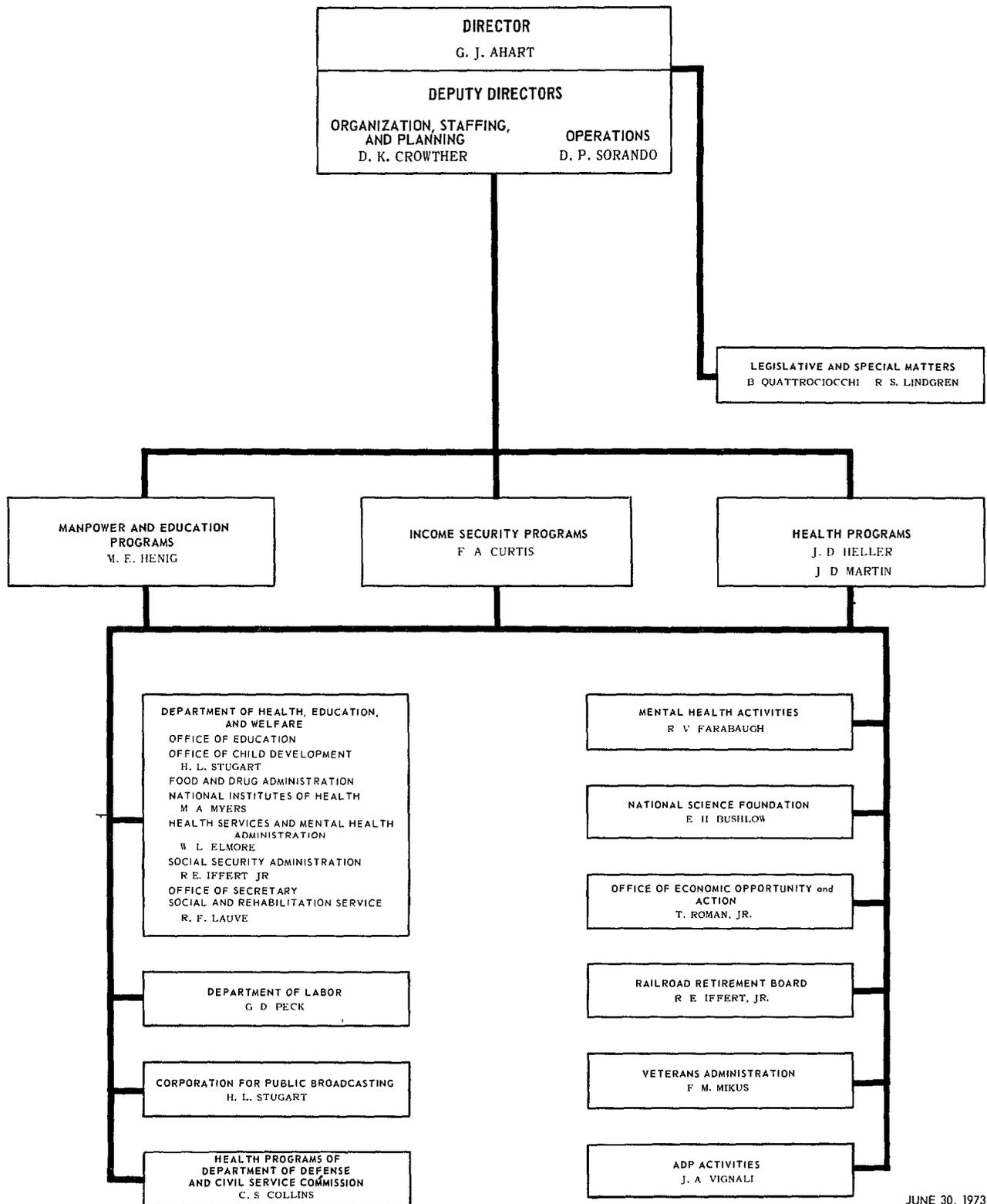
### Audit Reports

During fiscal year 1973, 24 reports in this area of responsibility were submitted to the Congress and 62 reports were submitted to specific committees or Members of Congress on reviews made at their request. In addition, 25 reports were issued to department or agency officials. A list of these reports is included in appendix 2. The number and types of reports completed are shown in the following tabulation.

The rest of this chapter summarizes, under departmental or agency headings, the principal audit work completed during the year and in process at the end of the year on manpower, health, education, and income security programs.

	Reports submitted to				Totals
	Congress	Congressional committees	Members of Congress	Agency officials	
<b>Departments:</b>					
Health, Education, and Welfare .....	16	18	15	6	55
Labor .....	2	6	4	8	20
Defense (medical programs) .....	...	...	1	2	3
Others .....	...	1	...	2	3
<b>Independent agencies:</b>					
Corporation for Public Broadcasting .....	...	1	...	...	1
National Labor Relations Board .....	...	...	1	...	1
National Science Foundation .....	1	...	1	...	2
Office of Economic Opportunity .....	4	...	11	...	15
Veterans Administration .....	1	2	1	4	8
Others .....	...	...	...	2	2
<b>Legislative branch:</b>					
Government Printing Office .....	...	...	...	1	1
Total .....	24	28	34	25	111

**MANPOWER AND WELFARE DIVISION**



JUNE 30, 1973

## Department of Health, Education, and Welfare

At the Department of Health, Education, and Welfare we continued to direct our audit work primarily to such areas as rising medical and welfare costs, consumer protection, and educational opportunities.

### Health Services and Mental Health Administration

#### Study of Health Facilities Construction Costs

As directed by the Comprehensive Health Manpower Training Act of 1971 (85 Stat. 462), we made a comprehensive study of the costs of constructing and operating health facilities and reported to the Congress on ways to reduce these costs at facilities built with assistance provided under the Public Health Service Act. We also examined ways to reduce or eliminate the demand for facilities.

We identified many possibilities for improvement. The planning, construction, and operation of health facilities could be improved by analyzing specific health care needs in advance, identifying alternative sources of funds, reusing building designs, and using different construction techniques.

Hospital planners generally do not evaluate the life-cycle costs of alternative construction techniques, material, designs, and operating systems. Many hospital administrators and architects search for obvious savings in initial construction which often preclude greater savings in operations and maintenance.

To demonstrate the impact that certain alternatives would have had on initial construction and life-cycle costs, we selected a recently opened hospital for detailed study. The demonstration showed that (1) initial construction costs of the redesigned facility would have been as much as 8.6 percent lower than those of the facility that was built and (2) life-cycle costs of as much as \$10.4 million could have been saved by incorporating the improvements into the redesigned hospital.

We also identified how health facility construction could be avoided by either reducing the demand for such facilities or increasing the

productivity of existing facilities. The study showed that the demand for hospitals and, to a lesser extent, other health care facilities could be reduced and that, by more efficiently using existing facilities, millions of dollars in construction costs could be avoided. These results are attainable by (1) placing greater emphasis on preventive medicine, (2) using various types of health care facilities more appropriately, (3) increasing the use of more efficient and economical medical care delivery systems, (4) using more effective utilization review techniques, (5) changing health insurance incentives that emphasize inpatient care, (6) sharing more hospital services, (7) organizing more efficient and economical health care systems, and (8) strengthening the role and increasing the capabilities of areawide health planning agencies.

Our report contained recommendations to the Secretary of HEW for reducing the costs of constructing and operating health facilities and reducing or eliminating the demand for such facilities. HEW, 5 other Federal agencies, and 17 private organizations which were requested to review all or parts of the study generally concurred with the report.

Some providers have changed traditional health care demand and utilization patterns, thus decreasing the need to construct acute-care and other types of health facilities. Because the Congress should be particularly interested in the economic benefits of these changes and the means by which such changes have been effected, we recommended that the Congress consider these matters in its legislative health care proposals, such as those providing for the reorganization of the existing health care delivery system and for programs on national health insurance. (B-164031(3), Nov. 20, 1972.)

#### Treating and Rehabilitating Narcotic Addicts

At the request of the Chairman, Subcommittee No. 4, House Committee on the Judiciary, we reported on the treatment and rehabilitation of narcotic addicts in Los Angeles, San Francisco, and Alameda Counties, California; Chicago, Illinois; and New York, New York. The four reports we issued on these subjects covered such matters as the amount of money being spent by Government agencies on narcotic treatment and rehabilitation, program goals, methods and costs

of treatment, number of patients treated, criteria used to select patients, efforts made to assess program performance, and lessons learned from the assessment.

During fiscal year 1973 we testified three times before the Subcommittee on various aspects of the programs, including the criminal justice system in New York City and elsewhere and its relation to treatment programs for narcotic addicts. (B-166217, July 21 and 24 and Nov. 16, 1972, and Apr. 11, 1973.)

#### **Implementing a Policy of Self-Support by Neighborhood Health Centers**

At the request of the Subcommittee on Health, Senate Committee on Labor and Public Welfare, we reported on actions taken or planned by HEW to replace direct Federal support of Neighborhood Health Centers—funded under section 314(e) of the Public Health Service Act—with increased third-party and other reimbursements.

We concluded that some of the services—such as nutrition, optometry, speech therapy, and mental health activities—being offered by the centers would have to be reduced or eliminated if the centers placed greater reliance on third-party reimbursement programs. The centers could become increasingly self-supporting by eliminating inefficient operating practices and by obtaining recognition as providers of services eligible under Federal and federally assisted programs.

In June 1973 we testified before the Subcommittee on both Community Mental Health Centers and Neighborhood Health Centers. (B-164031(2), May 2, 1973.)

#### **Implementing Nondiscrimination Requirements in Grants for Construction of Health Facilities**

At the request of the Chairman, House Committee on the Judiciary, we reported on the Hill-Burton program's implementation of the Civil Rights Act of 1964 in selected minority areas in Texas and Pennsylvania. This program provides financial assistance for the construction and modernization of health facilities.

Although we observed no discrimination by the State agencies in administering the Hill-Burton program, we recommended and HEW agreed that (1) HEW should require State agen-

cies to verify the legitimacy of the determination of need and actively pursue ways to meet the need by examining service areas which have had the greatest continuing need for health facilities but which had not received assistance, (2) Hill-Burton State plans should identify service areas with substantial minority or low-income populations, and (3) State agencies should be required to periodically determine whether health facility needs of such populations are being adequately met. (B-164031(3), Dec. 13, 1972.)

#### **Audit Work in Process**

Audit work in process at June 30, 1973, included audits of community mental health centers, family planning services, and physicians' assistants programs.

#### **Food and Drug Administration**

We examined the adequacy of the Food and Drug Administration's authority and its effectiveness in enforcing certain Federal laws designed to protect the consumer from harmful and potentially harmful commercial products. In our reports on these examinations, we suggested that the Congress consider (1) providing FDA with the authority needed to enforce certain laws and (2) enacting legislation regulating imported shellfish. Also, we recommended ways HEW could improve its monitoring and enforcement activities for certain products.

#### **FDA's Lack of Authority Limits Consumer Protection**

FDA is responsible for enforcing the Federal Food, Drug, and Cosmetic Act and the Federal Hazardous Substances Act. However, FDA's authority to enforce these laws is inadequate.

Except for prescription drugs, the law does not require firms to provide FDA access to manufacturers' records needed to identify, examine, and remove products suspected or known to be defective. FDA also lacks the authority to temporarily detain suspected defective products from reaching the market. Once products suspected or known to be defective are on the market, FDA's methods of removing them--seizures and voluntary recalls--are often ineffective.

Our report to the Congress suggested that the Congress consider amending the Federal Food,

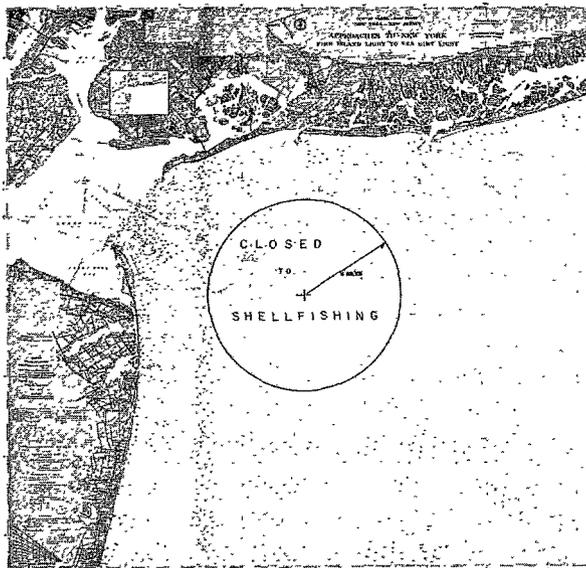
Drug, and Cosmetic Act and the Federal Hazardous Substances Act to provide FDA with authority to (1) examine production and distribution records, (2) detain products suspected or known to violate these laws, and (3) recall products. (B-164031(2), Sept. 14, 1972.)

**Protecting the Consumer from Potentially Harmful Shellfish**

FDA is required by law to insure that food products—including shellfish—shipped across State borders are safe, pure, wholesome, and processed under sanitary conditions. FDA generally relies on its participation in the National Shellfish Sanitation Program—a voluntary, tripartite cooperative program of Federal, State, and shellfish industry representatives—to achieve this goal for shellfish. We reviewed activities of four shellfish-producing States—Maryland, Massachusetts, New York, and Washington—which accounted for about 53 percent of the dollar value of the national shellfish production in 1971.

In these four States, shellfish not meeting the program's bacteriological standards were reaching the consumer in quantities sufficient for us to question the program's effectiveness. FDA was not adequately monitoring the States to insure that shellfish reaching the consumer were pure,

Atlantic Ocean area off the coast of New York showing site (center of circle) where huge quantities of sewage sludge are dumped throughout the year.



safe, and wholesome, and the four States were not insuring that shellfish were harvested from safe waters and processed under sanitary conditions. Of the 15.8 million pounds of shellfish imported in 1971, 12.4 million pounds were harvested from waters uncertified under the program's standards.

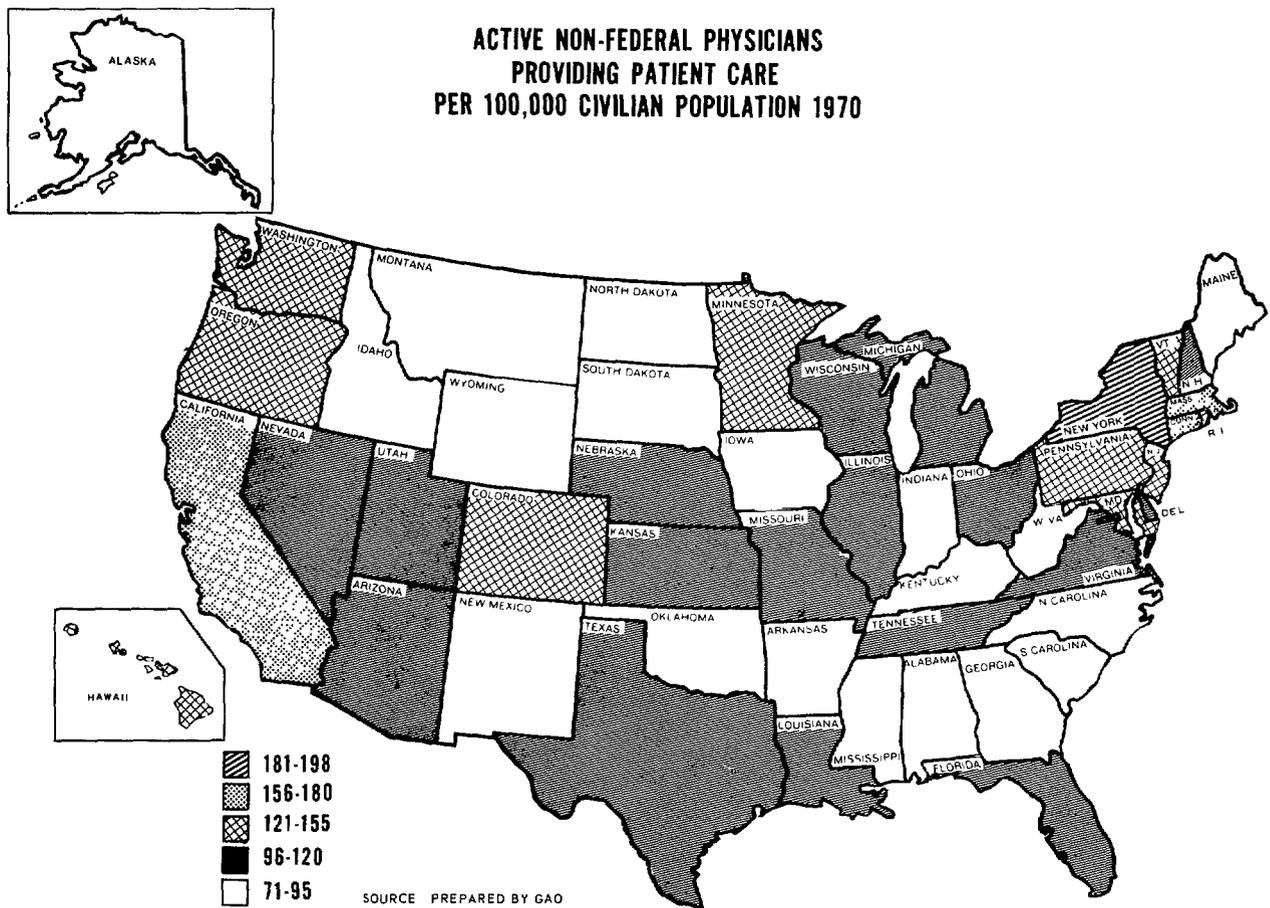
In our report to the Congress, we made recommendations to HEW to strengthen the program and recommended that the Congress consider enacting legislation which permits importing shellfish from only those countries that harvest and process shellfish under conditions which are at least equal to domestic standards. HEW concurred in our recommendations and advised us that it had taken or would take a number of corrective actions. (B-164031(2), Mar. 29, 1973.)

**Compliance With Good Manufacturing Practices for Drugs**

FDA is required by law to insure that adulterated drugs do not reach the market. The law defines an "adulterated drug" as one which, among other things, has not been produced in conformity with good manufacturing practices. The law requires FDA to inspect drug manufacturers and producers at least once every 2 years. FDA inspections have shown that a large number of the Nation's 6,400 drug producers deviate from good manufacturing practices.

We cited several factors which have hindered FDA in insuring the drug producers' compliance with good manufacturing practices. FDA did not always aggressively enforce drug producers' compliance with good manufacturing practices, and its efforts to obtain voluntary compliance were often ineffective. Its followup inspections were not usually made on time, if made at all, and were often ineffective when firms were found to have taken no action. FDA lacks an effective means to insure biennial inspection of all drug producers and does not have a complete and accurate list of drug producers required to be registered and inspected.

HEW concurred in our recommendations and advised us that several corrective actions had been, or would be, taken. (B-164031(2), Mar. 29, 1973.)



**Audit Work in Process**

Audit work in process at June 30, 1973, included reviews of FDA's adverse drug reaction reporting system, FDA's implementation of the Fair Packaging and Labeling Act, FDA and Department of Agriculture programs to control salmonella in raw meat and poultry, and FDA's supervision over selected investigational new drugs.

**National Institutes of Health**

**Problems in Regulating Selected Vaccines**

We reported to the Chairman, Subcommittee on Executive Reorganization and Government Research, Senate Committee on Government Operations, that three vaccine manufacturers did not meet potency requirements for any of three adenovirus vaccine licenses and for one of two adenovirus-influenza vaccine licenses issued by

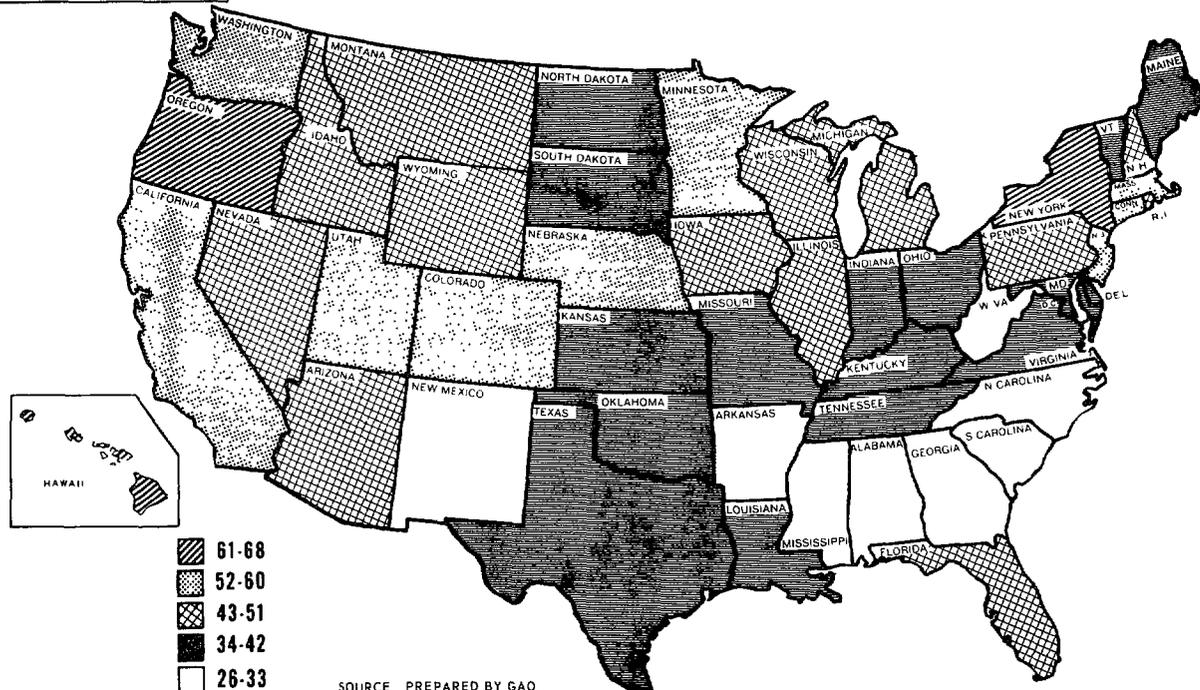
NIH. Test results for lots of vaccines released between 1957 and 1964 showed that about 50 percent of the lots failed to meet potency requirements.

We recommended that HEW revoke the production licenses because (1) four of the five licenses had been issued on the basis of vaccine samples which did not meet requirements and (2) after the licenses were issued, certain vaccine ingredients had been shown to cause tumors in hamsters. This raised significant questions of the vaccine's safety. We also made a recommendation designed to preclude marketing subpotent biological products.

We advised the Subcommittee that our recommendations should be brought to the attention of HEW for action. On February 16, 1973, the Subcommittee brought our recommendations to the attention of HEW and requested that they be acted upon. (B-164031(2), Feb. 7, 1973.)



**ACTIVE NON-FEDERAL DENTISTS  
PER 100,000 CIVILIAN POPULATION 1970**



**Increasing Graduates and Improving Quality of Education at Health Professions Schools**

The shortage of physicians and dentists in the United States is estimated at 50,000 and 20,000, respectively. Grants awarded under NIH's Health Professions Educational Improvement Program—about \$373 million between July 1, 1965, and June 30, 1971—have assisted medical and dental schools to increase enrollments and have provided assistance which could improve educational quality.

However, HEW and NIH had not established the annual enrollment increases needed to eliminate the shortages. In fact, there were no specific estimates of what the supply of health professionals should be.

HEW stated that a coordinated approach to determining manpower requirements and establishing a plan for meeting the requirements was underway. (B-164031(2), Oct. 3, 1972.)

**Unauthorized Use of Funds for Alteration of Public Buildings**

Between November 1967 and August 1971, NIH awarded 98 contracts totaling about \$4.8 million—primarily for alterations and improvements to two newly constructed buildings—and financed about \$4.6 million of the amount from funds appropriated for operating expenses.

We reviewed the 12 largest contracts, totaling about \$4.1 million, and reported to the Congress that NIH did not have legal authority to spend operating funds of \$1.6 million for certain alterations and improvements to the buildings.

HEW did not agree with our conclusion. However, it advised us that NIH was reviewing its procedures, examining procedures of other Federal agencies, and submitting certain projects to the Secretary of HEW for review and clearance. (B-164031(2), Nov. 24, 1972.)

### Audit Work in Process

At June 30, 1973, audit work in process included reviews of the kidney disease and the student loan and scholarship programs.

### Office of Education

#### Assessment of the Teacher Corps Program

We reported to the Congress that the Teacher Corps program strengthened educational opportunities for children in low-income area schools and broadened teacher preparation programs. Among other things, corps members provided individualized instruction and introduced several innovative teaching methods. A majority of the corps members who graduated from the program remained in the field of education, and most of them taught in low-income-area schools.

The program would have been more effective if local educational agencies had continued more of the Teacher Corps approaches and if participating colleges had identified successful teaching approaches and had incorporated them into their regular teacher preparation programs. State departments of education and the Office of Education need to accumulate and disseminate information on successful Teacher Corps features.

HEW concurred with our recommendations and stated that actions were being taken or planned to implement them. (B-164031(1), July 14, 1972.)

GAO auditors review of federally funded library programs included visit to bookmobile in Appalachian Ohio.



### Coordination of Student Assistance

The Office of Education administers 4 student assistance programs that provided about \$1.7 billion to approximately 2.3 million college students in fiscal year 1971.

Our report to the Congress stated that seven of eight institutions we visited awarded aid to needy students under Office of Education programs. The students were required to show a need for the aid, but in evaluating this need, the agency did not consider whether the students had also obtained or requested loans from lending institutions under the Guaranteed Student Loan program. As a result, an estimated 900, or 14 percent, of the 6,500 students enrolled at the institutions had received at least \$761,000 in excess of their indicated financial needs. Some students borrowed under two loan programs and incurred large debts that could be difficult to repay.

HEW concurred with our recommendations requiring institutions to coordinate Federal student aid. However, before implementing the recommendations, HEW planned to determine the magnitude of the coordination problem nationwide. We suggested that the Congress consider establishing an overall limit on the amount a student may borrow when he participates in more than one loan program. (B-164031(1), Aug. 2, 1972.)

### Audit Work in Process

At June 30, 1973, we were examining (1) reading projects funded under title I of the Elementary and Secondary Education Act of 1965, (2) educational research by regional educational laboratories and research and development centers, (3) the Upward Bound program, (4) the Follow Through program, (5) supply and demand conditions for elementary and secondary school teachers, and (6) federally funded library programs.

### Medicaid

Many of our fiscal year 1973 Medicaid audits were made at the request of congressional committees and Members. Medicaid is a grant-in-aid program under which the Federal Government helps the States pay for providing medical care to individuals who are unable to pay for it.

We assisted the Senate Committee on Finance in its consideration of Medicare and Medicaid matters contained in House bill 1, which became the Social Security Amendments of 1972, and we reported on matters specifically requested.

#### **States' Reviews of Medicaid-Financed Medical Services**

At the request of the Chairman, House Committee on Ways and Means, we reported on the methods Florida, Maryland, Massachusetts, and Missouri used to review Medicaid-financed medical services. These reviews were conducted to safeguard against unnecessary medical care and services and to determine that Medicaid payments are reasonable.

Each of the State systems identified some program deficiencies but did not accumulate data (1) showing reductions in Medicaid costs or other benefits resulting from the reviews or (2) comparing review costs with the results achieved.

Our reports to the Committee recommended that HEW monitor the States' actions to improve their reviews of Medicaid-financed medical services. (B-164031(3), Mar. 27, June 9, Nov. 24, and Dec. 21, 1972.)

#### **Audit Work in Process**

At the end of the fiscal year, we were reviewing the (1) implementation of the early periodic screening, diagnosis, and treatment program under Medicaid, (2) implementation of the health maintenance organization concept in California, (3) problems in providing care to nursing home patients, (4) problems related to enrolling welfare recipients in the Medicare supplementary insurance program, and (5) effectiveness of home health care as an alternative to institutional care.

#### **Medicare**

During fiscal year 1973, we identified and reported on various administrative and operational problems in the Medicare program. We recommended that HEW improve (1) the hospital reimbursement system, (2) review systems used to monitor payments for physicians' services, and (3) ways to minimize and recoup overpayments made to institutions no longer

participating in the program. This last recommendation was incorporated in the Social Security Amendments of 1972.

#### **Problems in Reimbursing Hospitals Under Medicare**

Hospitals received about 70 percent of the \$7.5 billion paid in Medicare benefits in 1971. We reviewed the federally prescribed systems and procedures used by 14 hospitals in 5 States to find out whether they insured that Medicare payments complied with the law and regulations.

We reported to the Congress that, although most of the \$20 million of claims we reviewed were correct, we noted several problems in the administration of the present Medicare hospital reimbursement system. We questioned net charges to Medicare of about \$622,300 involving payments to 12 of the 14 hospitals.

HEW generally agreed with our recommendations which called for (1) informing those responsible for Medicare hospital payments of the problems we identified, (2) improved audits, (3) adjustments in cost reports, and (4) recovery of overpayments. (B-164031(4), Aug. 3, 1972.)

#### **Unnecessary Physicians' Services Paid by Medicare and Medicaid**

Medicare and Medicaid paid more than \$2 billion for physicians' services during 1971. We reviewed what HEW had done to detect and prevent payments for unnecessary physicians' services for patients qualifying for Medicare and Medicaid benefits.

Our report to the Congress stated that HEW and paying agents have tried, with some success, to devise review systems for identifying and preventing these payments. However, more needs to be done because (1) the paying agents' systems for reviewing the necessity for physicians' services are based on widely varying methods, (2) paying agents investigated relatively few unusual patterns of services, and (3) paying agents for Medicare and Medicaid had not exchanged useful information.

HEW agreed with our recommendations for improving these systems and outlined several actions which it had taken, or proposed to take, to improve the systems. (B-164031(4), Aug. 2, 1972.)

### **Amounts Due Government by Former Medicare Institutions**

By December 1971 about 5,000 health care institutions stopped participating in Medicare, which made it difficult to recover millions of dollars of overpayments for the services they had provided. Many overpayments could have been avoided by adhering to requirements, and others could have been offset while the institutions were still participating in Medicare. The Social Security Administration had not established accounting controls to effectively manage the outstanding debts.

HEW essentially agreed with our recommendations for alleviating these deficiencies. In line with our recommendation to the Congress, the Medicaid law was amended to authorize withholding Federal Medicaid payments to institutions which no longer participate in Medicare but refuse to refund Medicare overpayments. (B-164031(4), Aug. 4, 1972.)

### **Audit Work in Process**

A number of proposals were introduced in the 92d Congress to encourage the establishment and development of health maintenance organizations. Because of this interest, as of June 30, 1973, we were reviewing the effectiveness of previous HEW and Office of Economic Opportunity programs for health maintenance organizations.

### **Welfare Programs**

The Federal Government, with State and local governments and private groups, sponsors a comprehensive program of public assistance benefits and other services to eligible individuals and families. The benefits and services include income support, social services, and vocational rehabilitation.

These services command considerable attention from the Congress, the press, and the public. During fiscal year 1973, we submitted several reports to the Congress, its committees, and its Members and otherwise assisted the Congress in these matters.

### **Effectiveness of Vocational Rehabilitation in Helping the Handicapped**

Because of the large and increasing costs and the number of persons affected, we reviewed

programs under the Vocational Rehabilitation Act to determine the programs' ability to meet the needs of handicapped persons. We reviewed programs in Michigan, North Carolina, and Oklahoma.

The vocational rehabilitation program has not been able to help all handicapped persons—possibly 7 million—who need and would benefit from the program. Although the number of persons rehabilitated annually is increasing, it is still not as large as the number of persons becoming eligible each year, according to Rehabilitation Services Administration estimates.

The Administration projected that in a few years more persons would become rehabilitated than would become eligible. Then the number of persons needing services would begin to decrease. Whether this happens could be affected by many factors, such as new legislation making more groups eligible for services.

We reported that some clients received only intangible benefits but that there were other measurable benefits. Often the accomplishments were limited, although some clients may have improved or progressed to their capacity. Others who had been helped considerably still needed additional services. Many persons reported as successfully rehabilitated did not become self-sufficient or competitive with nonhandicapped persons.

We made several recommendations to improve the program. HEW and the State agencies generally agreed and began to implement them. (B-164031(3), Apr. 3, 1973.)

### **Social Services: Do They Help Welfare Recipients Achieve Self-Support or Reduced Dependency?**

Federal expenditures for social services have increased greatly in recent years, especially in the aid to families with dependent children program which increased from \$625 million in fiscal year 1970 to an estimated \$1.9 billion in fiscal year 1973. The goals of social service programs are to help recipients get off welfare, to prevent or reduce illegitimate births, to strengthen family life, to attain or retain personal independence, and to protect children.

Our report to the Congress stated that social services had only a minor impact on helping recipients to develop and use the skills necessary to become more independent or self-supporting.

Therefore, one of the basic goals for the services has not been achieved.

Considering the nature of services provided, the method for determining who should receive certain services, and present economic constraints, it is unrealistic to expect social services to play a major role in helping recipients become more independent or self-supporting. Still, the social services program has positive aspects. Developmental services helped some recipients obtain employment and maintenance services helped many recipients cope with and overcome specific day-to-day problems, strengthen their family life, and increase their self-confidence. In the long run, these benefits are necessary if recipients are to ultimately become self-supporting.

HEW generally agreed with our recommendations to improve program administration. (B-164031(3), June 27, 1973.)

#### **Distribution of Public Welfare Benefits**

The Chairman, Subcommittee on Fiscal Policy, Joint Economic Committee, requested that we study the distribution of public welfare benefits to assist the Subcommittee in obtaining comprehensive impact data relating to its study of the country's system of welfare programs.

We obtained and analyzed information on the nature and extent of benefits received by household members in low-income areas. The results of our work were used in preparing a Subcommittee staff study, published on March 26, 1973. The Chairman stated that this was the first study to actually document the flow of all of these benefits to specific households and was a valuable addition to the Subcommittee's understanding of this very complex set of programs.

#### **Expenditures for Social Services Under the Social Security Act**

The Chairman, Senate Committee on Finance, requested information on (1) the types of State social service programs financed with Federal funds, (2) which States account for most of the recent increases in service expenditures, and (3) how proposed revisions to Federal social service regulations might affect the States' social service programs. (B-164031(3), May 2, 1973.)

#### **Other Reports**

Other reports covered matters such as (1) problems in contracting for federally assisted child-care services and (2) problems encountered in Pennsylvania in attaining integrity in its welfare programs.

Partly as a result of our work in Pennsylvania, HEW has emphasized the quality control system used by the States to assist in attaining integrity in welfare programs and has taken steps to better administer the welfare program nationwide. Under new HEW regulations issued in 1973, each State welfare agency is to refine its quality control system while conducting an intensive 6-month base period eligibility review.

#### **Audit Work in Process**

By June 30, 1973, we were completing a review of programs operated by the Administration on Aging to determine (1) the impact of community projects in meeting the elderly's priority needs, (2) how the Administration coordinated and advocated Federal programs for the elderly, and (3) the benefits from research and demonstration projects.

#### **Other Government Health Programs**

During the fiscal year we reviewed the Department of Defense health programs and the Federal Employees Health Benefits Program administered by the Civil Service Commission.

#### **Length of Stay of Active Duty Personnel in Military Hospitals**

We reported to the Secretary of Defense that the Department of Defense had not established uniform policies and procedures for admitting and discharging patients and granting leave to active duty personnel in hospitals.

Active duty personnel at the six hospitals we reviewed remained in the hospital longer than necessary which increased the cost of providing medical care.

The Department concurred in our recommendations and stated that action had been taken to eliminate administrative procedures that unnecessarily extend hospitalization. (B-133142, Mar. 22, 1973.)

### Processing Claims Under the Civilian Health and Medical Program of the Uniformed Services

The Civilian Health and Medical Program of the Uniformed Services provides civilian medical-care benefits to dependents of service members. Our report to the Secretary of Defense on the management of the program in California stated that a number of claims had been overpaid because of weaknesses in the controls over the fiscal agent's computer system. In addition, payments to physicians and reports of such payments for income tax purposes were often incorrect.

The Department of the Army and the fiscal agent involved agreed with our proposals and stated that corrections had been made. (B-133142, Sept. 14, 1972.)

### Assistance to the Congress

During fiscal year 1973 we continued to provide data to the Subcommittee on Retirement and Employee Benefits, House Committee on Post Office and Civil Service, on the Federal Employees' Health Benefits Program. We provided data on administrative costs and unit cost of medical procedures which the Subcommittee used in hearings. After the hearings, the Civil Service Commission negotiated substantial reductions in premium rates for the Blue Cross/Blue Shield Service Benefit Plan.

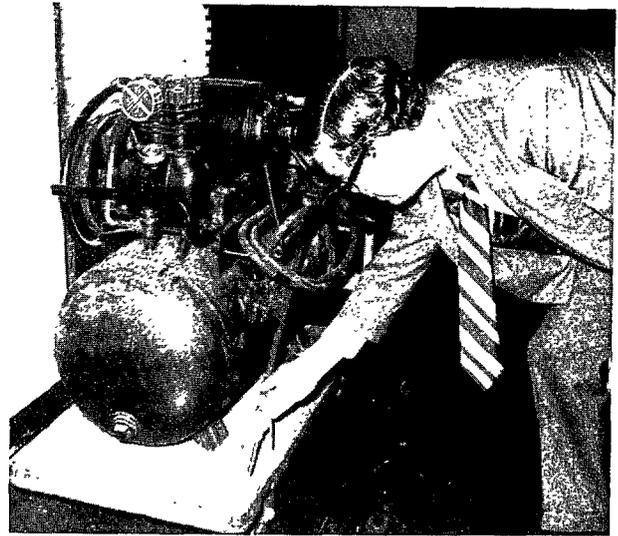
In August 1972, we testified before the Subcommittee on the risk charges and reserves of the Indemnity Benefit Plan administered by the Aetna Life Insurance Company.

### Other Reports

Other reports to congressional committees or Members dealt with conditions and operations of the U.S. Naval Hospital in Philadelphia and the Brooke Army Medical Center in San Antonio.

### Department of Labor

At this Department, our audit work was directed primarily to major Federal manpower training programs and Manpower Administration activities. We reviewed the Neighborhood Youth Corps Program, the Concentrated Employment Program, and the Job Corps Program,



GAO auditor points out unguarded U-belt and excessive air line pressure of an air compressor.

all authorized by the Economic Opportunity Act of 1964, as amended, and administered under authority delegated by the Office of Economic Opportunity. Also, at the request of congressional committees, we reported on, and are making ongoing reviews of, the Occupational Safety and Health Act of 1970 and the public employment program authorized by the Emergency Employment Act of 1971. Our reports on some of these matters are summarized below.

### More Concerted Federal Effort Needed on Occupational Safety and Health Programs for Federal Employees

At the request of the Chairman, Senate Committee on Labor and Public Welfare, we reported on aspects of the Occupational Safety and Health Act of 1970. This report is the first of a series on Federal safety and health programs and the Occupational Safety and Health Administration's coordination and review of such programs.

Federal safety program requirements apply to about 3 million civilian employees in 5,000 occupations in approximately 120 Federal departments and agencies. In 1971 about 37,000 Federal employees were disabled and 255 were killed in accidents; the estimated cost for compensation and medical expense was \$118 million. Related property damage costs are estimated

between a quarter and a half billion dollars annually.

Enforcement and inspection practices differ significantly between private businesses and Federal agencies. The Department of Labor inspects private businesses and can penalize violators of health and safety standards. However, the 1970 law states that Federal agencies can be inspected only if they consent. We inspected workplaces of four Federal agencies in the Washington, D.C., area and found about 200 violations of safety and health standards.

Violations included mechanical, electrical, fire, and housekeeping hazards which could seriously injure employees. Other instances related to hazards, such as toxic substances, in the air and work environment. About 50 instances were severe enough that, had they occurred in private businesses, the businesses would have been subject to fines.

The Department generally concurred in our recommendations to achieve a more concerted effort by the Federal Government to insure safe and healthful workplaces for Federal employees and advised us that it had taken or planned actions along the lines we suggested. Because of the number and severity of the violations, we recommended that the Committee consider amending the Occupational Safety and Health Act of 1970 to include Federal workplaces under the inspection responsibility of the Occupational Safety and Health Administration. (B-163375, Mar. 15, 1973.)

### **Public Employment Programs of the Emergency Employment Act of 1971**

At the request of the Chairman, Subcommittee on Employment, Poverty, and Migratory Labor, Senate Committee on Labor and Public Welfare, we prepared four reports on, and continued with an ongoing review of, the programs undertaken by the Department of Labor to implement the Emergency Employment Act.

The reports concerned the (1) selection and enrollment of participants, (2) types of jobs offered unemployed persons, (3) impact of grants to Indian tribes, and (4) public service benefits from jobs under the act. As of June 30, 1973, we had submitted seven reports to the Subcommittee on this subject.

As of June 1972, 168,700 persons had obtained local and State government jobs funded under the act. Of these, 17,000 had been previously employed by State or local governments but had been laid off, generally because of budgetary problems.

Our analysis did not establish any direct correlation between program agents' (States, counties, and cities) efforts to hire participants or the number of unemployed persons and the number of job applicants. However, these factors undoubtedly affected the number of applicants. Applicants were matched with the jobs mostly through existing administrative units of government.

Unanticipated obstacles somewhat hindered rapid hiring of unemployed persons, but other obstacles could have been avoided by better planning and program information. Most program agents' procedures gave preference to hiring significant segments of the unemployed, such as veterans, disadvantaged persons, and welfare recipients. However, we could not determine whether these groups were properly represented among those hired because there was no local unemployment data on these groups.

A wide variety of public service jobs were established, mostly in education, law enforcement, and public works and transportation. The types of jobs established most depended on the area's unmet public needs and the unemployed population's needs and skills.

Overall, program agents were able to use Emergency Employment Act funds to establish public service jobs which would employ a substantial number of persons. Program agents, however, could not always establish jobs to meet their highest public service needs because they lacked funds for equipment and supplies or for training.

Implementation was less than uniform because certain local conditions, such as established civil service rules and limited opportunities for advancement within existing job structures, differed among the program agents. In some cases, agents were precluded from complying with all of the act's requirements. Nevertheless, most agents genuinely tried to meet the act's requirements and to provide advantageous job opportunities to participants.

About \$9.8 million of Emergency Employment

Act funds—\$8.4 million from the Federal Government and \$1.4 million from State, city, and county governments—were allocated to Indian tribes on 122 Federal and State reservations administered by 23 tribal organizations. In addition, about \$1.4 million was allocated to tribes by State, city, and county program agents.

The program has created additional jobs for unemployed Indians and alleviated some of the tribes' public service needs. Overall, program agents serving Indian tribes were more effective than other program agents in placing participants in permanent nonsubsidized jobs on or near reservations. As presently funded, however, the program cannot be expected to have a major impact on the chronic shortage of jobs on or near most reservations.

One of the objectives of the Emergency Employment Act was to provide jobs in accordance with local and State governments' unmet public needs. It appears that this objective is being met. The program agents used Emergency Employment Act funds to establish jobs which (1) provided new public services, (2) improved existing services, or (3) continued services which otherwise would have been either eliminated or substantially reduced as a result of local and State budgetary cuts. (B-163922, Oct. 12 and Nov. 27, 1972, and Mar. 14 and June 8, 1973.)

#### **Neighborhood Youth Corps In-School Program and its Management Problems**

A part of the Neighborhood Youth Corps program, called the in-school program, provides part-time employment and support services to economically disadvantaged youths to help them stay in school. The Department of Labor allocated about \$59.1 million for about 95,000 youths to participate in the program in fiscal year 1971. Community sponsors—public or private nonprofit agencies—plan, administer, coordinate, and evaluate the program.

Our earlier reviews indicated that the in-school program did not significantly affect whether a youth stayed in school. This situation has not changed. Also, many enrollees did not have meaningful jobs. Sponsors need to develop useful and diversified work assignments, consistent with the enrollees' goals or interests.

The Department of Labor concurred in our

recommendations for corrective action and advised us that new guidelines would soon be implemented to eliminate or diminish these problems. (B-130515, Feb. 20, 1973.)

#### **Concentrated Employment Program in New York City Had Not Met Its Employment Objectives**

The Concentrated Employment Program is designed to combine all manpower services necessary to help unemployed and low-income persons obtain and hold regular jobs. We wanted to determine how well this was being done in New York City.

The program was established in the South Bronx, East Harlem, and Central Harlem areas of New York City. Our evaluation mainly covered South Bronx because the program was just getting underway in East and Central Harlem when we started our fieldwork.

Our report to the Congress stated that, although many thousands of residents in the three areas needed assistance, the program fell considerably short of its goals in all three areas.

The Department of Labor agreed that program accomplishments in New York City had been unsatisfactory and that the improvements we recommended must be implemented if satisfactory performance is to be attained. (B-130515, Sept. 7, 1972.)

#### **Audit Work in Process**

As of June 30, 1973, we were reviewing the (1) determinations made under the Service Contract Act of 1965, (2) administration of Unemployment Insurance Service extended benefits and the sole-source contracting of that service, (3) revised Work Incentive Program, and (4) employment services to Vietnam era veterans.

#### **National Science Foundation**

Our audit work at the National Science Foundation was concerned primarily with the Ocean Sediment Coring program, the atmospheric science program, and internal audit activities. The latter two reviews were in process at June 30, 1973.

### **Achievements, Cost, and Administration of the Ocean Sediment Coring Program**

Through scientific studies of sedimentary core samples from the ocean floor, the program seeks to expand knowledge about the history, age, and structure of ocean basins and the evolution of marine life. Under a 10-year contract with the National Science Foundation ending June 1976, with estimated costs of \$68 million, the Scripps Institution of Oceanography of the University of California obtains and distributes core samples for detailed study. Scientists can finance core studies through National Science Foundation research grants.

Our report to the Congress described program activities and accomplishments and identified opportunities for improving program administration. The National Science Foundation responded that it had acted to minimize time required to publish core descriptions and to distribute core materials for study, to improve contract management including cost control, and to insure scientific community access to all core study results. (B-171989, Nov. 1, 1972.)

### **Office of Economic Opportunity**

Our audits at the Office of Economic Opportunity during fiscal year 1973 identified (1) ways to improve Federal efforts aimed at bettering migrant workers' living conditions and providing legal representation to benefit the poor, (2) ways to improve audits of antipoverty agencies, and (3) shortcomings in OEO's educational experiment under performance contracting. We also prepared a number of reports at the request of Members of Congress on the effectiveness and management of certain antipoverty operations.

### **Federal Programs for Migrant and Other Seasonal Farmworkers**

Programs funded by the Departments of Agriculture, HEW, Labor, and OEO provided services for many of the estimated 199,000 migrant and other seasonal farmworkers and their dependents in agricultural areas of California, Florida, Michigan, New York, Texas, and Washington. Funds were spent primarily for man-



Houses used by migrant and other seasonal workers. Water pipes are outside the houses.

power services, education, housing assistance, health services, and child day care.

We reported to the Congress that the amount of funds made available in relation to the total target population—estimated by OEO at 5 million—and the magnitude of these farmworkers' problems have limited the programs' effectiveness. Budgetary constraints will almost certainly continue to limit progress.

Administrators need to improve program operations to better aid participants. Federal assistance to migrant and other seasonal farmworkers is administered by four executive agencies on a splintered basis through numerous programs, each having separate legislative authority and intent.

Federal agencies operating the programs generally agreed with our recommendations and said action had been, or would be, taken accordingly. In response to our recommendation, the Office of Management and Budget said that it was working with the agencies to determine the necessary coordination to develop an overall plan and a common direction of effort. (B-177486, Feb. 6, 1973.)

### **Accomplishments of and Problems Faced by Legal Services Program Grantees**

The goals of the Legal Services program are to provide representation to the poor and to

help alleviate their problems. We reviewed seven standard program grantees which employed attorneys in New York, Puerto Rico, California, Montana, Colorado, and Minnesota and the Wisconsin Judicare project, which paid private attorneys from project funds.

The standard program grantees provided services to persons to whom such services otherwise might not have been available. Most grantees had achieved little in economic development and law reform areas. We found it difficult to interpret and analyze reported results because objectives were not defined in operational terms and records were inadequate and because of the confidentiality of the attorney-client relationship.

Although Wisconsin Judicare was established in 1966 as an alternative method of providing legal services to the rural poor, it was not designed to test its own effectiveness and had not been evaluated in depth. Private attorneys were not very involved in law reform and economic development and handled no appeal cases.

Management and administration of both standard programs and Wisconsin Judicare needed improvement.

OEO generally concurred in our recommendations to improve grantee operations and stated that it would give top priority to remedying the deficiencies. (B-130515, Mar. 21, 1973.)

### **Audits of Antipoverty Agencies**

OEO requires its grantees to arrange with qualified accountants—generally certified public accountants—to audit their activities. About 60 percent of more than 1,000 audit reports on grantee operations issued in fiscal year 1970 reported no major accounting system or internal control deficiencies. We reported to the Congress that 17 of 27 reports we reviewed from this group failed to disclose significant deficiencies in the financial operations of the grantees.

In 10 cases the public accountants were performing services, including functions normally performed by a grantee's employees—such as day-to-day and/or periodic bookkeeping functions—which could affect the grantees' independence. In four OEO regions, audit reports had been closed without the regional offices' verifying whether the grantees had taken prom-

ised corrective actions. Followup reviews disclosed that the grantees did not always take corrective actions.

OEO generally agreed with our recommendations but said its implementation may, in some cases, require additional staff. (B-130515, Apr. 4, 1973.)

### **Performance Contracting in Education**

OEO conducted an educational experiment in performance contracting during the 1970-71 school year at an estimated cost of about \$6 million. The experiment was designed to assess the overall impact of private educational firms' remedial reading and mathematics programs upon students who were performing well below average in these subjects. OEO's report released in June 1972 stated that the experiment clearly indicated that the firms operating under performance contracts did not perform significantly better than the more traditional school systems.

We evaluated the experiment because of its potential impact on education. We reported to the Congress that, because of shortcomings in both the design and implementation of the experiment, the question of the merits of performance contracting versus traditional educational methods remains unanswered.

OEO stated that it believes its report provides a useful perspective within which the overall performance contracting experiment may be judged. (B-130515, May 8, 1973.)

### **Other Reports**

Other reports to Members of Congress covered such matters as (1) financial, program, and related activities of various community action agencies, (2) charges of improper practices regarding certain OEO contracts, and (3) activities of the California State Economic Opportunity Office.

### **Audit Work in Process**

The President's fiscal year 1974 budget contained no request for direct appropriations to OEO and provided for transferring certain OEO programs to other Federal agencies. Funds are provided in the fiscal year 1974 budgets of these

Federal agencies for continuing these programs. Consequently, we have scaled down our audit work at OEO.

Audit work in process at the end of fiscal year 1973 did include reviews of activities of specific community action agencies made pursuant to requests of congressional committees or Members; the utilization of physicians and dentists in OEO's and HEW's comprehensive health services projects; and economic development projects under OEO's special impact program.

## **Veterans Administration**

Our fiscal year 1973 audits at the Veterans Administration were directed primarily to (1) identifying ways to improve VA outpatient services, (2) assisting a congressional subcommittee, and (3) conducting reviews concerning health, education, and services provided recently discharged veterans.

### **Medical Care**

VA spent about \$311 million to operate outpatient clinics in fiscal year 1971. We reported to the Congress that, at 6 hospitals we visited, about 146,000, or 15 percent, of the 1 million hospital days furnished patients during fiscal year 1971 could have been avoided through better use of outpatient services. Productivity and efficiency of dental clinic operations could also have been improved.

Less than 10 percent of the patients admitted to the hospitals received outpatient care for diagnostic testing before hospitalization; many patients could have been discharged earlier if

greater use was made of outpatient facilities or if nursing care bed facilities had been available. Poor planning and coordination of hospital admissions with available surgical facilities unnecessarily lengthened the hospitalization.

Dental clinics would have been more productive if more parodontal personnel and more than one chair per dentist were used where possible. The number of veterans referred to private dentists could also be reduced if dental resources among neighboring VA stations were better coordinated.

VA agreed generally with our recommendations for improving out-patient services and advised us that it had taken or would take the corrective actions needed. (B-167656, Apr. 11, 1973.)

### **Assistance to Congressional Subcommittee**

At the Subcommittee on Housing and Urban Development, Space, Science, Veterans of the Senate Appropriations Committee's request, we provided the Subcommittee with an in-depth review of certain areas of VA's budget during hearings on VA's fiscal year 1974 budget.

### **Audit Work in Process**

At the close of the fiscal year, we were reviewing VA's use of selected specialized medical service units, its recruitment and retention of professional staff, its hospital communications systems, its laboratory program, its educational assistance programs, and Federal efforts to assist recently discharged veterans.

neers (civil functions); the Atomic Energy Commission; the Environmental Protection Agency; the Tennessee Valley Authority; and various commissions, boards, and councils. It is also responsible for our audit activities involving interrelationships among all Federal departments, agencies, and programs concerned with natural resources, the environment, energy, and economic development.

The division is under the supervision of Henry Eschwege, Director, and Philip Charam and Max Hirschhorn, Deputy Directors. An organization chart appears on the following page.

## CHAPTER NINE

# RESOURCES AND ECONOMIC DEVELOPMENT

## Responsibilities

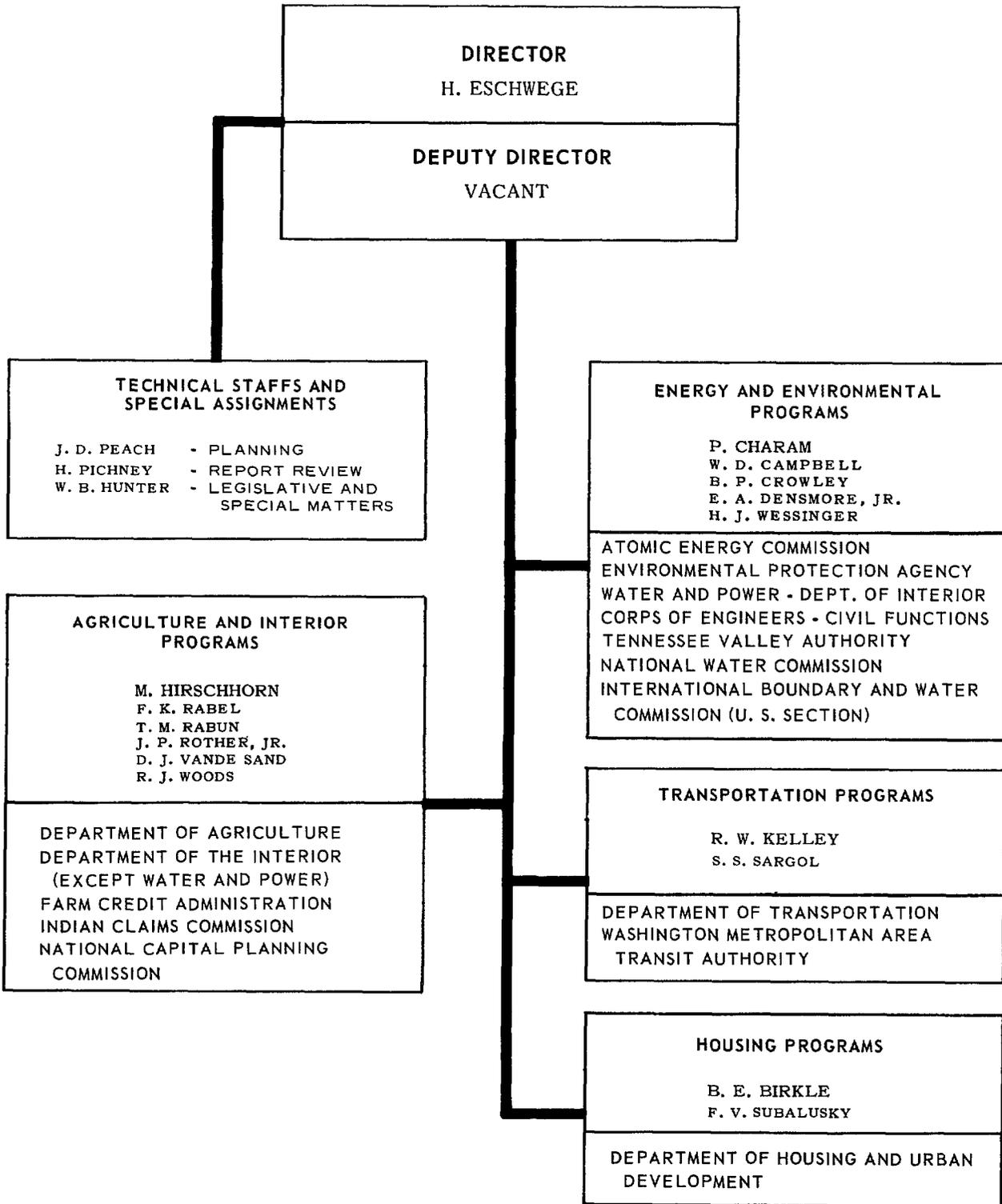
The Resources and Economic Development Division carries out our audit work at the Departments of Agriculture, Housing and Urban Development, the Interior, and Transportation; the Department of the Army, Corps of Engi-

## Audit Reports

During fiscal year 1973, 31 reports relating to this area of responsibility were submitted to the Congress and 82 reports to specific committees or Members of the Congress on reviews made in response to their requests. We also submitted 38 reports to department or agency officials. A list of these reports is included in appendix 2. The numbers and types of reports relating to each department and agency are shown in the following tabulation.

	Reports submitted to				Totals
	Congress	Congressional committees	Members of Congress	Agency officials	
<b>Departments:</b>					
Government-wide and multiagency .....	2	3	...	...	5
Agriculture .....	8	3	3	5	19
Army (Corps of Engineers) .....	...	1	4	6	11
Housing and Urban Development .....	10	3	6	12	31
Interior .....	5	26	6	5	42
Transportation .....	2	4	7	6	19
<b>Independent agencies:</b>					
American Revolution Bicentennial Commission .....	...	1	...	...	1
Atomic Energy Commission .....	1	6	...	2	9
Environmental Protection Agency .....	3	2	2	2	9
Tennessee Valley Authority .....	...	1	1	...	2
<b>Organization outside the Federal Government:</b>					
National Railroad Passenger Corporation .....	...	2	1	...	3
<b>Total .....</b>	<b>31</b>	<b>52</b>	<b>30</b>	<b>38</b>	<b>151</b>

RESOURCES AND ECONOMIC DEVELOPMENT DIVISION



JUNE 30, 1973

## Government-Wide and Multiagency Activities

Although many of our fiscal year 1973 audits involved activities common to a number of Federal agencies, most of them are included in the discussions of work relating to the agencies having the principal responsibilities for the activities involved. The findings in five reports on Government-wide or multiagency activities are summarized below.

### Federal Participation in Activities Affecting Energy Resources

The Federal effort in the energy field has evolved over the years without the benefit of a formal national energy policy and without centralized direction or coordination. Many Federal departments and agencies have programs which affect or could affect the Nation's energy resources.

During the past 5 years, we issued about 50 reports to the Congress and committees and Members of the Congress relating to these programs. In most instances, our reports dealt with individual programs and they resulted from audit work by several different divisions of GAO. To increase the effectiveness of our future efforts in the energy areas, the primary responsibility for planning and coordinating our reviews of energy programs has been assigned to a newly established energy projects staff in the Resources and Economic Development Division.

In response to the request of the Chairman, Senate Committee on Interior and Insular Affairs, for assistance in studying a national fuel and energy policy, we reported on the Federal funds and personnel committed to fuel- and energy-related activities for fiscal years 1972 and 1973. (B-140579, July 25, 1972.)

We later reported to the Congress on the total resources—dollars and man-years—committed by 23 Federal agencies to energy-related programs. We classified our data according to energy sources: oil and natural gas, coal, water, and nuclear energy (primary sources); electricity (the secondary source); and geothermal, oil shale, solar, and thermonuclear fusion (advanced sources). (B-178205, Apr. 6, 1973.)

## Need for Federal Agencies to Improve Solid Waste Management Practices

Federal regulations generally prohibit Federal agencies from burning wastes in open fires and from using open dumps. However, open burning and open dumping was widespread on Federal lands administered by the Bureau of Land Management, the Forest Service, and the National Park Service. The Army was disposing of its unsalvageable wastes satisfactorily. Although the General Services Administration and the Army had recovered some wastes for reuse or recycling, they could have recovered much more. Generally the Army was recovering wastes only when economically advantageous; it gave little consideration to salvaging and recycling primarily for environmental benefits.

We reported to the Congress that the agencies needed:

- More effective responsibility centers.

- Improved policy guidance from headquarters and policy implementation by regional offices.

- More effective inspection procedures.

Also, GSA and the Army needed to be aware of and emphasize the environmental benefits they could obtain by using more reusable or recyclable materials, containers, and packaging. The agencies generally agreed with our findings and conclusions. (B-166506, Oct. 26, 1972.)

### Differences in Administration of Relocation Assistance Program

The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 provides for uniform and equitable treatment of persons displaced from their homes, businesses, or farms by Federal and federally assisted programs. At the request of the Chairman, Subcommittee on Intergovernmental Relations, Senate Committee on Government Operations, we reviewed Federal, State, and local agencies' progress in implementing the act in Missouri, California, Wisconsin, and Pennsylvania.

We reported to the Subcommittee that the Office of Management and Budget, Corps of Engineers, Department of Housing and Urban

Development, and Federal Highway Administration had (1) assisted the States in enacting legislation authorizing their participation in the program and (2) made progress in identifying and resolving agencies' differences in providing relocation payments and services. Opportunities existed, however, to improve program administration and to make payments more uniform. Although relocation payments generally had been computed according to OMB guidelines, displacees with similar housing needs had not received similar payments because local offices could and did use more than one method of computation.

OMB generally agreed with our findings and said it would pay special attention to resolving the payment differences. (B-148044, June 7, 1973.)

### **Adequacy of Selected Environmental Impact Statements**

Section 102 of the National Environmental Policy Act of 1969 requires Federal agencies proposing legislation or similarly important actions that will affect the quality of man's environment to prepare environmental impact statements and obtain the comments of other Federal agencies on them. These statements detail such matters as the environmental impact of the proposed actions, alternatives to the proposed actions, and the relationship between local short-term uses of man's environment and the maintenance and enhancement of long-term productivity.

At the request of the Chairman, Subcommittee on Fisheries and Wildlife Conservation, House Committee on Merchant Marine and Fisheries, we reviewed the environmental impact statements that the Corps of Engineers and five other Federal agencies had prepared for selected projects. The usefulness of these statements had been impaired because they did not adequately (1) discuss or support the environmental impacts, (2) deal with reviewing agencies' comments on environmental impacts, or (3) consider alternatives and their environmental impacts. In addition, about half of the statements had specific shortcomings. (B-170186, Nov. 27, 1972.)

## **Department of Agriculture**

### **Farm Program and Commodity Activities**

#### **Legislation Needed to Reduce Government Losses on Peanut Price-Support Program**

We reported to the Congress, as we had 5 years earlier, that the Commodity Credit Corporation was incurring substantial losses under the peanut price-support program and that such losses would continue to mount unless the program was changed.

The Secretary of Agriculture is required by law to control peanut production on the basis of demand, but he cannot authorize less than 1,610,000 acres annually for growing peanuts. Each year since 1955 fewer than 1,610,000 acres have been needed to satisfy demand because advances in farm technology have increased yields per acre. Under the peanut price-support program, the Commodity Credit Corporation has to buy and store surplus peanuts, and it has been selling them at a loss. From 1967 through 1971 the Corporation lost \$279 million on the program. Projections show that losses from 1973 through 1977 will total \$537 million unless the program is changed.

We recommended that the Congress amend the Agricultural Adjustment Act of 1938 to rescind the minimum acreage provision to give the Secretary of Agriculture more flexibility to adjust production.

The Department agreed that the recommended change would help bring production more in line with demand but said that it was still studying our recommendation and possible alternatives. However, more immediate action—rescinding the minimum acreage provision—is needed because losses are expected to exceed \$100 million annually. (B-163484, Apr. 13, 1973.)

#### **Beekeeper Indemnity Payment Program**

We reported to the Chairman, Subcommittee on Agriculture—Environmental and Consumer Protection, House Committee on Appropriations, that, although the regulations and instructions for implementing the beekeeper indemnity payment program were generally adequate, the

instructions were unclear in several areas. The Agricultural Act of 1970 authorizes indemnity payments to beekeepers who, through no fault of their own, lost honeybees after January 1, 1967, because of the use of pesticides registered and approved for use by the Federal Government.

Acting on our recommendations, the Agricultural Stabilization and Conservation Service revised its instructions to (1) provide guidelines for establishing reasonable time limits within which beekeepers must report their bee losses and the related inspections must be made, (2) provide that county offices make sure inspections are made within the prescribed time limits, and (3) provide more specific guidance to county offices on evidence they can accept as proof of damage.

We reported also that inspectors appeared to be adequately trained; indemnity payment rates were generally sufficient to cover replacement costs and some loss of income; and future program payments were expected to decline in some of the States we reviewed and to increase in other States. (B-176563, Feb. 13, 1973.)

## **Marketing and Consumer Services**

### **Sanitation Conditions at Fruit and Vegetable Plants Receiving Federal Grading Service**

During a 15-month period beginning in 1970, the Agricultural Marketing Service identified 39 million pounds of processed fruits and vegetables that did not meet U.S. grade standards because the products contained excessive foreign materials or were packed under unsanitary conditions. The Food and Drug Administration, Department of Health, Education, and Welfare, is responsible for insuring that unwholesome food does not enter interstate commerce.

We reported to the Congress that the Service had not notified FDA of either (1) potentially adulterated food uncovered during grading or (2) plants where, because of sanitation deficiencies, grading service was withdrawn or suspended.

The Service agreed to cooperate with FDA by providing the information necessary to prevent adulterated food from reaching consumers and by reporting plants which were denied grading service because of unsanitary conditions. (B-164031(2), Feb. 21, 1973.)

## **Participation in the School Lunch Program**

Although the number of schools participating in the Department's school lunch program and the number of needy children receiving free and reduced-price lunches has increased in recent years, 24,900 eligible schools did not participate in the program in the 1971-72 school year and 1.5 million needy children did not eat free and reduced-price lunches.

We reported to the Congress that some of the reasons the schools cited for not participating were not subject to Federal persuasion but that other reasons, such as lack of adequate facilities for preparing or serving food and local school officials' lack of interest, could be resolved. Some of the reasons cited by needy children (or members of their families) for not eating free or reduced-price lunches appeared to be related to schools' administrative practices which did not comply with Federal regulations. Also, the Department lacked accurate data on the number and needs of schools not participating and on the schools' lunch costs.

The Department generally agreed with our conclusions and said that, in line with our recommendations, it was updating data on non-participating schools and their needs, had begun a nationwide drive to promote the program, and was taking steps to obtain accurate lunch cost data. (B-178564, June 29, 1973.)

## **Forestry and Conservation Activities**

### **Planning Timber Harvest and Road Construction Projects**

In reporting to the Congress on how the Forest Service and the Department of the Interior's Bureau of Land Management planned timber sale and road construction projects, we found that, in many instances when such projects seriously damaged forest resources and the environment, project planners either had not obtained or had not followed the advice of resource specialists.

We therefore recommended that the agencies (1) require project planners to use the expertise of resource specialists or document why they did not, (2) include the specialists' views and recommendations in the project files, and (3) identify and analyze where and why needed assistance

could not be obtained and explore ways to provide such assistance.

The Forest Service changed several procedures to implement our recommendations. The Bureau of Land Management had already established procedures in line with some of our recommendations, but it had not fully implemented them at the field level. The Bureau needed to do more to strengthen its procedures and to require project planners to document their use or nonuse of resource specialists. (B-125053, Mar. 20, 1973.)

**Great Plains Conservation Program**

The Great Plains Conservation Program, administered by the Soil Conservation Service, provides technical assistance and direct cost sharing to help Great Plains landowners and operators voluntarily carry out planned soil and water conservation practices. We reported to the



Effects of an earth slide on road construction project at the time of the slide and after the debris was removed.



Congress that progress under the program had been less than might have been expected in view of the program's legislative history.

If greater progress is to be made before the program expires in 1981, the fund allocation system should be revised to insure that highest priority work is done first and the \$25,000 administrative limit on the total amount of the Federal share under any one contract should be increased. Giving consideration to the conflict between the program's objectives and Federal commodity price-support programs, cognizant congressional committees should explore with the Department the feasibility and desirability of enacting legislation to give Great Plains farmers more incentives to convert unsuitable cropland to permanent vegetative cover.

The Service stated that it was evaluating the \$25,000 limitation and that it would continue to study the feasibility of revising the fund allocation system, giving due consideration to priorities. (B-114833, June 28, 1973.)

**Rural Development Activities**

**Ways To Improve Effectiveness of Rural Business Loan Programs**

The Economic Opportunity Act of 1964, as amended, authorized several special programs to combat poverty in rural areas. One of them—the Economic Opportunity Cooperative Loan Program, administered by the Farmers Home Administration—provided loans to cooperative associations in rural areas.

We reported to the Congress that many of the cooperatives had encountered problems, such as weak management and adverse market conditions, and therefore had failed to stay in business or had become delinquent in repaying their loans. Not all problems could have been foreseen but many of them could have been identified and corrected had FHA (1) required adequate determinations of the economic soundness and feasibility of cooperative projects and (2) improved its policies and procedures for supervising and evaluating cooperatives' activities.

Although no new loans were made under the program after June 30, 1971, our findings could be helpful to FHA in administering new rural

business loan programs authorized by the Rural Development Act of 1972.

In line with our recommendations, FHA drafted regulations requiring feasibility studies, marketing agreements, management evaluations, detailed analyses of the adequacy of working capital, and feasibility analyses to be made by FHA State directors. FHA also said that it planned to (1) increase the staff to insure that it had either the experience or training necessary to implement the regulations and supervise loan activities and (2) evaluate specific program goals for loan programs implemented in fiscal year 1974. (B-114873, May 2, 1973.)

### **Audit Work in Process**

Audit work in process at June 30, 1973, included a review of intrastate meat plant inspection programs, a review to determine whether policies, procedures, and practices of the Forest Service and the Bureau of Land Management are adequate to make sure that dead or damaged trees are promptly salvaged, and a review of the procedures and practices involved in distributing food stamps and food commodities to certain Indians.

## **Department of the Army Corps of Engineers (Civil Functions)**

### **Computation of Flood Control Benefits for the Cascadia Reservoir Project in Oregon Not Adequately Supported**

At the request of Senator Bob Packwood, we reviewed the Corps of Engineers' computation of flood control benefits for the Cascadia Dam and Reservoir, a multiple-purpose project to be located on the South Santiam River in the Willamette River Basin in Oregon.

The Corps did not support its computation in three key areas: the project's ability to control floods up to the level claimed, the determination of flood damages that might take place, and the basis for projecting future growth in the flood plain area.

Although the Corps had used both the incremental and system approaches in developing the benefit-cost ratio, the Corps had reported to the Congress only the more favorable system ap-

proach ratio in its request for construction funds. We favor the incremental approach because it compares the benefits directly attributable to the project with the costs of providing the benefits.

Further, contrary to Corps regulations, construction funds had been requested before the Office of the Chief of Engineers had formally approved the Portland District's postauthorization studies for the project.

We recommended that the Secretary of the Army require that additional studies be made to verify the flood control benefits claimed for Cascadia and that both the incremental and system benefit-cost ratios be reported to the Congress when requests for authorization or appropriations are made. The Corps' Portland District agreed that additional studies were needed and began to reevaluate the flood control benefits. (B-136280, Sept. 19, 1972.)

### **Extension of the Navigation Season on the Great Lakes and St. Lawrence Seaway**

We reported to Congressman Philip E. Ruppe on the status of a demonstration program to extend the navigation season on the Great Lakes and St. Lawrence Seaway.

The work groups implementing the program during its first year—fiscal year 1972—generally achieved their objectives. However, extension of the season during the first year caused several problems in the St. Mary's River area in Michigan and Canada. For example, ferry service to one island was interrupted and boat docks and piers were damaged by ice jams and ice movement.

Although required by the National Environmental Policy Act of 1969, an environmental impact statement had not been prepared for the demonstration program. The Council on Environmental Quality has indicated that the required impact statement will be prepared and issued in the summer of 1974. (B-175460, Feb. 22, 1973.)

### **Land Acquisition and Relocation Practices**

Senator Hugh Scott asked us to review the Corps' land acquisition activities for the Rays-

town Lake project near Huntingdon, Pennsylvania. Although the Corps' land acquisition activities were in accordance with the provisions of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, the Corps had not promptly given landowners their relocation benefits and payments; it had not made sure that adequate, comparable replacement housing would be available for displaced persons; housing it selected as comparable was not always available for displacees to purchase; and it did not have enough staff to effectively administer the relocation program.

The Corps generally agreed that changes were needed and made certain improvements in the program. (B-176577, Apr. 12, 1973.)

### Audit Work in Process

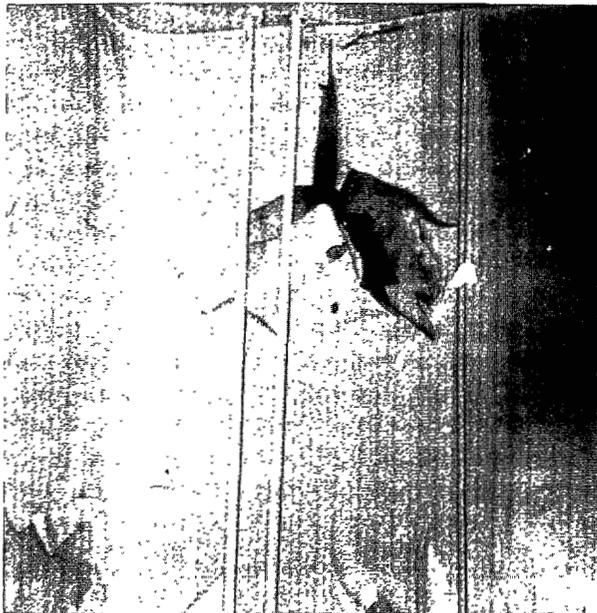
Our work in process at the end of fiscal year 1973 included reviews of the methodology used by the Corps and other selected Federal agencies in computing benefit-cost ratios for water resources projects; Corps and other Federal agency implementation of a unified national program for reducing flood losses; and the progress and problems involved in protecting beaches and shorelines.

## Department of Housing and Urban Development

### Improving Effectiveness and Reducing Costs of Homeownership Assistance Programs

We reported to the Congress that HUD and Agriculture (1) had not allocated program resources so as to insure that all eligible families had the same opportunity to participate, (2) had approved for mortgage insurance or loans housing with significant defects which could affect occupants' health and safety, (3) had not provided their field offices with adequate guidelines for the types of housing eligible under homeownership assistance programs, and (4) had not determined what caused mortgage defaults or ways of reducing the default rate.

Because the Government can borrow money at rates lower than those available in the private mortgage money market, the Government could



Examples of defects in houses provided under the section 235 Homeownership Assistance Program, Department of Housing and Urban Development.

Above: Paint peeling on kitchen walls and exposed pipes, Washington, D.C.

Below: Badly weathered wood siding with metal patches and washing machine installed outdoors, Garland, Texas



greatly reduce its cost if the two agencies' programs were financed directly by the Government rather than by private lenders. For example, if Treasury borrowings financed HUD loans planned for fiscal years 1973 through 1978, the

present value of the savings to the Government would be about \$1 billion.

HUD and Agriculture have increasingly considered need in allocating program resources, but we believe that both agencies should identify true needs and allocate resources accordingly. Both HUD and Agriculture acted to clarify the types of program housing to be provided and both mentioned procedures for finding out what caused defaults. However, they should emphasize analyzing causes of defaults and minimizing future defaults.

HUD, the Treasury Department, and the Office of Management and Budget agreed that the cost of Government financing would be lower than the cost of financing through private lenders but said that factors other than cost must be considered. (B-171630, Dec. 29, 1972.)

### **Improving Effectiveness and Reducing Costs of Rental Assistance Housing Program**

We reported to the Congress that HUD had not made sure that all eligible families had the same opportunity to participate in the rental assistance program regardless of where they lived. Also, HUD had not adequately identified the need for subsidized housing and had not used need as the primary basis for allocating the limited program resources.

HUD could save about \$1.2 billion in program costs if mortgage loans for fiscal years 1973-78 could be financed directly through Government borrowings, rather than through private lenders, because of the lower interest rate at which the Government can borrow.

We questioned whether existing incentives, such as low capital investment and income tax shelters, would be sufficient to make sure that private investors gave high-quality management services over the lives of the projects.

HUD said it had been considering a more intensive effort to stimulate housing production where it was most needed. HUD, the Treasury Department, and the Office of Management and Budget agreed that direct Government financing would result in cost savings, but they favored the present method of private financing because of other factors. Treasury questioned whether the existing tax shelters encouraged investors to sell or neglect properties after the shelters expired.

HUD believed that, rather than changing existing incentives, new incentives were needed and said it planned to explore the matter in depth. (B-171630, Jan. 10, 1973.)

### **Consumer Protection in Interstate Land Sales**

We reported to the Congress that, because HUD's Office of Interstate Land Sales Registration had a small headquarters staff and no field support, it could not identify all unregistered land developers, effectively coordinate consumer protection activities with the States, or adequately verify land developers' registration information. Also, the Office could not investigate all significant violations of the law or take prompt enforcement action against developers.

HUD is considering assigning some responsibility to HUD field office personnel and is striving to eliminate its complaint backlog and act more effectively against violators. It disagreed that subdivisions should be inspected before registration, however, because it believed the States could do this better. We believe that, until HUD is reasonably satisfied that the States' inspection programs are adequate, the Federal Government should take the initiative in making such inspections. (B-118754, June 13, 1973.)

### **Opportunity for Reducing Interest Costs**

As authorized by sections 235 and 236 of the National Housing Act, HUD makes monthly assistance payments to mortgagees so that low income families may purchase or rent housing. HUD insures that the mortgage loans will be paid and charges the mortgagees for the insurance premiums. HUD's payments include the monthly amounts of the mortgage insurance premiums; the mortgagees annually pay the accumulated premiums to HUD in the anniversary month of each mortgage.

We reported to the Congress that, because HUD's payments include the mortgage insurance premiums, HUD is paying out funds which it must collect from the mortgagees, so the Government cannot use such funds for an average of 6 months each year. We estimated that the interest costs applicable to the insurance premiums for the sections 235 and 236 mortgage

balances of about \$11 billion would be at least \$1.6 million during fiscal year 1973. We proposed that HUD save such interest costs by deducting the premiums from the monthly assistance payments.

HUD did not agree with our proposal, citing certain reasons with which we did not agree. We therefore recommended that the Congress authorize HUD to waive the mortgage insurance premiums for the section 235 and 236 housing programs. Such a waiver would be similar to the waiver of premiums provided for mortgages insured under the low- and moderate-income rental housing program authorized by section 221(d)(3) of the National Housing Act. (B-171630, Nov. 22, 1972.)

### Improving the Model Cities Program

We reported to the Congress that Kansas City and St. Louis, Missouri, and New Orleans, Louisiana, had varying degrees of success in attaining the annual goals of their Model Cities projects in the manpower, economic development, and health areas. In education, all three cities reached their annual project goals. The following weaknesses in HUD's and city demonstration agencies' administration of the program

may have affected the attainment of project goals.

The cities developed plans using data on neighborhood conditions that was, in many cases, neither current nor complete.

The cities used HUD supplemental funds to expand existing programs instead of to develop new and innovative projects.

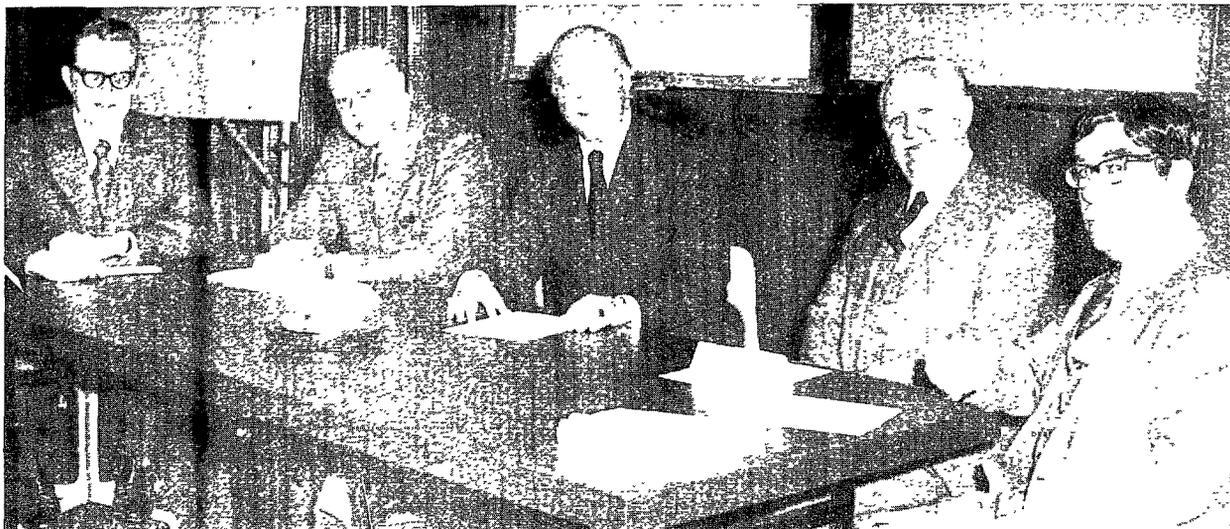
The cities generally were not successful in obtaining Federal grant-in-aid funds or State and local funds to support the programs.

The cities did not develop suitable evaluation plans to measure progress.

Although HUD generally agreed with our findings and recommendations, it said that city demonstration agencies' administrative capabilities and economic conditions, rather than insufficient data, were the more salient causes of difficulties in the manpower and economic development areas. It said also that neither the statute nor HUD's guidelines required innovation within each project or as an essential approach to the cities' longstanding problems. We believe that the legislative history of the Model Cities Act clearly shows that the Congress anticipated that emphasis would be placed on new and innovative projects and that supple-

Participants at GAO's Housing Symposium "The Urban Challenge" conducted by the Resources and Economic Development Division in March 1973.

From left to right: Henry Eschwege, Director, Resources and Economic Development Division; Robert C Weaver, former Secretary of HUD and now a GAO consultant; Elmer B Staats, Comptroller General, A T Samuelson, Assistant Comptroller General; and Charles J Stokes, Assistant Director of the division.



mental funds would be used for such projects. (B-171500, Jan. 16, 1973.)

### **Reducing Costs in Acquiring Properties Resulting From Defaults on Home Loans**

In a report to the Congress, we stated that the Government could reduce foreclosure costs on HUD-insured, VA-guaranteed, and VA-financed loans by using the "power of sale" method of foreclosure more widely. Costs could further be reduced if HUD and VA placed more emphasis on the "voluntary deed" method of terminating such loans; if VA paid mortgage claims on defaulted loans as HUD does; and if HUD relied on mortgagees' title evidence for foreclosed properties.

HUD and VA generally agreed with our recommendation that the Congress establish a Federal power-of-sale foreclosure law for all federally financed, insured, or guaranteed home mortgages. HUD supported new initiatives to encourage mortgagees to accept voluntary deeds but VA said its existing policy was adequate.

VA objected to adopting HUD's policy of paying mortgagee claims on the basis that its existing policies make VA loans attractive investments and encourage mortgagees to be lenient with defaulting mortgagors. We believe HUD's policy also encourages leniency.

HUD objected to discontinuing the purchase of title evidence for foreclosed properties because many foreclosures are faulty. We believe HUD's risk of title defects is minimal and that the costs it incurs for additional title evidence are unnecessary. (B-114860, Oct. 20, 1972.)

### **Acquiring Existing Structures for Low-Rent Public Housing**

We reported to the Congress that, although HUD's assistance to local housing authorities in acquiring privately owned standard housing had increased the supply of low-rent housing, it had not alleviated the shortage of standard housing. Also, it had not substantially reduced the number of people living in substandard housing, because many occupants of the acquired housing previously lived in standard dwellings. In addition, some displaced occupants had not been assisted in relocating and HUD's procedures did

not adequately insure that the purchase prices of acquired properties were reasonable.

HUD said our recommendations for limiting financial assistance to local housing authorities to acquire standard housing in specific locations where the supply of such housing exceeded the demand and for terminating projects in the planning or early development stages would be too restrictive. It said that a more reasonable guideline for using the direct acquisition method would be the method's effect on the private rental market. We agree that, if standard housing has a high vacancy rate and can be purchased at an acceptable price, acquiring the housing would be beneficial.

HUD said it had no authority to establish admission policies for low-rent public housing. However, those most in need should be given preference, and we suggested that the Congress require local housing authorities to give preference to occupants of private substandard housing.

HUD is taking steps to insure compliance with its relocation requirements and agrees that more adequate appraisal requirements for the direct acquisition of properties should be established. (B-114863, Sept. 7, 1972.)

### **Testimony at Hearings**

We testified in December 1972 before the Subcommittee on Priorities and Economy in Government, Joint Economic Committee, on the results of two reviews of the way HUD and Agriculture had carried out housing subsidy programs. (B-171630, Dec. 29, 1972, and Jan. 10, 1973.)

We also testified in April 1973 before the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking, Housing, and Urban Affairs, on our work in housing subsidy and community development programs. Our testimony related to findings on homeownership assistance, rental assistance, code enforcement, open space land, neighborhood facilities grants, and Model Cities programs.

### **Audit Work in Process**

As of June 30, 1973, we were reviewing HUD's programs for new communities, leased

housing, and operating subsidies, and the experimental program to provide housing allowances to low-income families.

## Department of the Interior

### Water and Power Activities

Our audits of water and power activities related principally to (1) the appropriateness of a statutory acreage limitation on irrigation benefits, (2) the proper amount of interest to be included in the Government's construction costs which are to be recovered from municipal and industrial water users, (3) the financial progress and problems of the Southwestern Federal Power System, and (4) the financial statements of the Federal Columbia River Power System for fiscal year 1972.

#### Acreage Limitation on Irrigation Benefits

The Reclamation Act of 1902 limits to 160 acres the land on which any one owner can receive irrigation benefits from a federally subsidized water resources project. This limitation was intended to promote the family-size farm as a desirable form of rural life and to spread the benefits of the subsidized irrigation program to the maximum number of people.

At the Central Valley project in California—the largest subsidized irrigation project administered by the Bureau of Reclamation—the limitation had not prevented large landowners and farm operators from benefiting under the program or beneficiaries from acquiring or retaining large landholdings. Beneficiaries had leased land from individual owners or had retained or controlled land by establishing corporations, partnerships, and trusts.

We recommended that the Congress reevaluate the 160-acre limitation and either (1) enact legislation to prevent large landowners and operators from benefiting through their control of numerous 160-acre tracts by organizing corporations, partnerships, and trusts and/or by leasing 160-acre tracts or (2) establish a new acreage limit for family farms eligible to receive Federal project water at subsidized rates and require owners and/or operators of farms of greater

acres to pay the full costs of Federal project water provided. (B-125045, Nov. 30, 1972.)

#### Computation of Interest To Be Included in the Financing Costs of Water Resources Projects

Our report to the Congress stated that the costs of financing multipurpose water resources projects have been understated because the interest costs capitalized as part of the Government's investment in such projects do not represent the cost of funds borrowed by the Treasury during the construction period.

For example, for three Bureau of Reclamation and two Corps of Engineers multipurpose projects in the Southwestern United States which were constructed at a cost of about \$170 million, interest rates were determined on the basis of the criteria prescribed in the Water Supply Act of 1958 rather than on the Treasury's borrowing costs. As a result, the Government's investment in the projects' municipal and industrial water supply features was understated by about \$5 million and the total annual interest payments to the Treasury on the Government's unrepaid investment will be reduced by about \$80 million during the repayment period.

We recommended that the Congress amend legislation to provide that the interest rates for financing water resources projects be based on an interest rate prescribed annually by the Secretary of the Treasury and that such a rate be representative of the Treasury's cost of borrowing money to finance construction of the projects. (B-167712, Aug. 11, 1972.)

#### Financial Progress and Problems in the Southwestern Federal Power System

The Southwestern Power Administration, the marketing agency for power generated at Federal water resources projects in the Southwestern United States, is required to recover the Federal investment in such projects through rates charged power users and to make repayments to the Treasury within 50 years from the date each project is placed in service.

At the end of fiscal year 1970, after 25 years into the repayment period, the Administration had not repaid any portion of the Federal investment in the system and was about \$29.7 million in arrears in meeting other costs. It had, however, prepared rate and repayment studies

showing that the repayment requirements would be met. Our report to the Congress questioned the validity of the study because of (1) weaknesses inherent in developing the study as a result of the speculative nature of the long-range cost and revenue projections and (2) deficiencies in projecting system costs and revenues.

The Department agreed that a revised rate and repayment study should be prepared and that tentative cost allocations should be firmed up. The Department did not agree that it was necessary to compare actual repayments of the Federal investment with annually scheduled repayments established on an orderly basis. We believe such information would be useful to the Congress and the Southwestern Power Administration. (B-125031, Nov. 22, 1972.)

### **Mineral Resources**

Our work on mineral resources, which we did at the request of the Conservation and Natural Resources Subcommittee, House Committee on Government Operations, covered the regulation of surface mining, the implementation of the Federal Coal Mine Health and Safety Act of 1969, and the administration of oil and gas operations on the Outer Continental Shelf with respect to preventing oil spills.

#### **Regulation of Surface Mining**

We reported to the Subcommittee that the Department's regulations for surface exploration and mining and reclamation of public and Indian coal lands, although in effect for more than 3 years, had not been effectively enforced in several areas. For example, required technical examinations to determine environmental effects and to establish reclamation requirements had not been made for many permits and leases. Some permittees had been operating without approved exploration plans, and some plans had been approved without technical examinations.

We reported also that the Bureau of Land Management had not complied with the Council on Environmental Quality's guidelines for preparing environmental impact statements and that the Bureau of Indian Affairs had not developed procedures for preparing such statements.

We recommended that the Secretary of the Interior clarify the Department's regulations and adopt procedures for preparing environmental impact statements properly. (B-148623, Aug. 10, 1972.)

At the request of the Subcommittee Chairman, we later evaluated the Department's comments on our report. (B-148623, Jan. 31, 1973.)

#### **Assessment and Collection of Penalties for Violation of Coal Mine Health and Safety Standards**

We reported to the Subcommittee on the Bureau of Mines' implementation of the civil penalty provisions of the Federal Coal Mine Health and Safety Act of 1969.

The Bureau delayed a long time in (1) assessing penalties after Bureau inspectors had cited mine operators for health or safety violations, (2) referring cases for hearings, and (3) holding hearings on cases disputed by mine operators. In addition, the Bureau had not tried to collect on an estimated 60 percent of the assessments and its collection was not prompt on the remaining 40 percent.

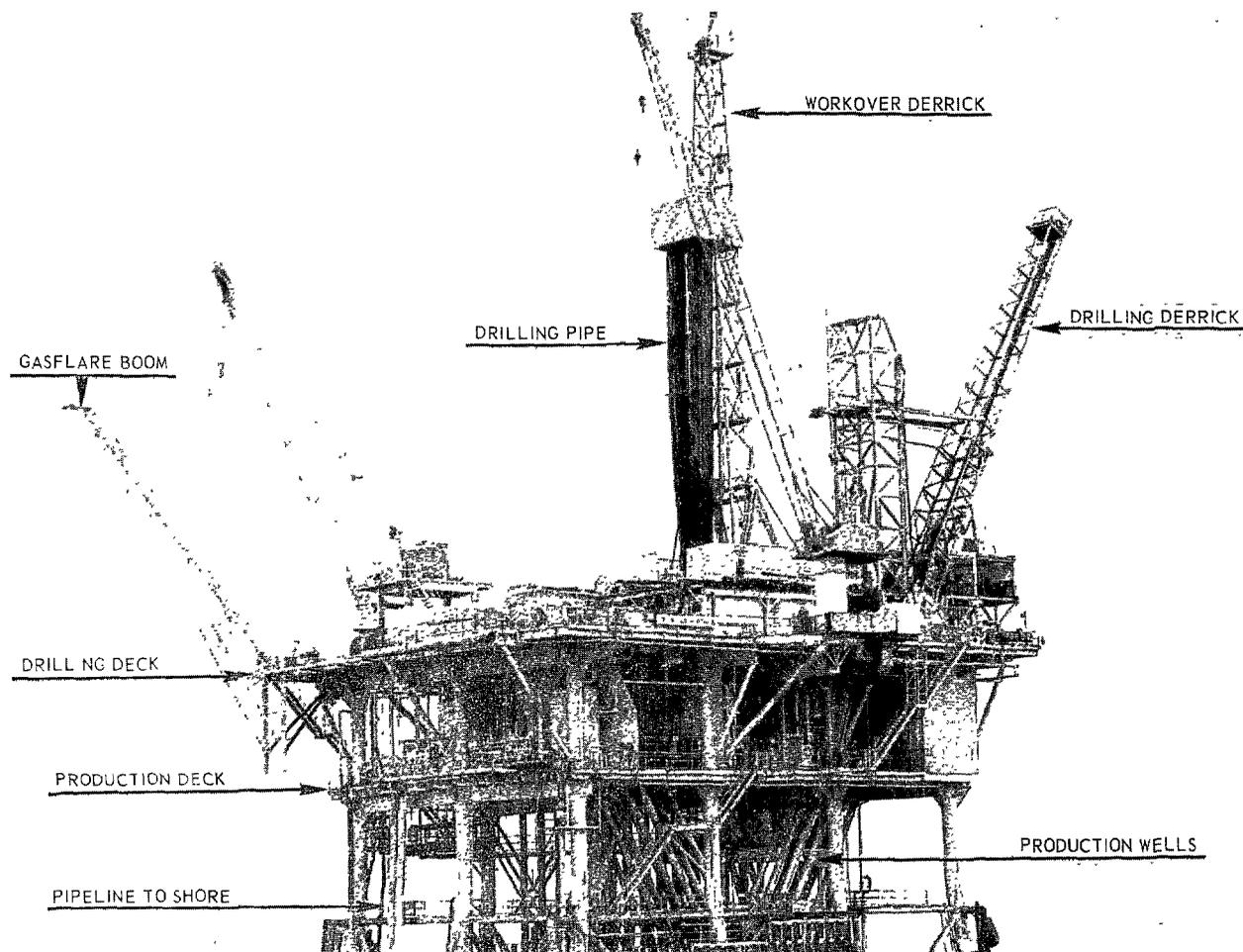
The act established six factors to be considered in making assessments, but the Bureau did not develop written guidelines to aid the assessors in considering these factors; the consideration given to each factor was not documented, nor did the Bureau require such documentation.

The Bureau later improved its procedures for assessing penalties and holding hearings on disputed cases. It also acted on our recommendations that it issue guidelines for considering the six statutory factors and give the same priority to collecting penalties as it gave to assessing them. (B-170686, July 5, 1972.)

Later in the year we testified before the Subcommittee on Labor, Senate Committee on Labor and Public Welfare, providing more information on each of the matters discussed in our report to the Conservation and Natural Resources Subcommittee.

#### **Administration of Oil and Gas Operations on the Outer Continental Shelf**

The Subcommittee asked us to find out if the Department's inspection and regulation of oil and gas operations on Federal leaseholds on the



Structure with equipment for drilling and production operations in the Outer Continental Shelf.

Outer Continental Shelf was adequate to prevent oil spills.

We reported to the Subcommittee that the Department's Geological Survey could improve its supervision of these operations by (1) strengthening enforcement actions against operators violating Survey regulations, (2) establishing a realistic policy on the frequency of inspections of various types of offshore operations, considering the resources available and the risks of oil spills, and (3) regulating certain operations which were not regulated at the time of our review but which had pollution potential.

Department officials informed us that actions underway would be responsive to most of our recommendations. Also, the Survey was implementing numerous recommendations made by

recent studies to improve Federal safety and pollution controls. (B-146333, June 29, 1973.)

## Recreation

### Outdoor Recreation Grants

HUD and the Department of the Interior's Bureau of Outdoor Recreation provide grants to State and local governments for recreation projects on non-Federal lands. We reported to the Congress that these projects had met some of the Nation's recreation needs, but many were located in rural and suburban areas where residents already had access to recreation opportunities. Greater benefits could have been achieved if more projects had been located in

densely populated, low-income areas whose residents could not easily travel.

We identified several reasons why the grant programs had not been more successful in meeting urban recreation needs: (1) the absence of a nationwide recreation plan or inventory of recreation needs and resources, (2) statutory requirements for apportioning grant funds among the States, (3) lack of the required 50-percent local matching funds, (4) inadequacies of State recreational plans, and (5) restrictions imposed by the States.

We made several recommendations to Interior and HUD and the two departments generally agreed with them. We also recommended that the Congress authorize the Department of the Interior to increase its grant allocations to the more densely populated States and provide a flexible matching formula for both Interior and HUD grant programs. (B-176823, Oct. 5, 1972.)

### **Indian Affairs**

In response to requests by committees or Members of the Congress, we reviewed and issued a number of reports on aspects of Federal programs for Indians. These reports provided:

Information on federally owned submarginal land proposed for conveyance to certain Indian tribes or groups. (B-147652 and B-147655, with various issue dates.)

Information on selected contracts, purchase orders, and grants awarded to Indian tribes and organizations. (B-114868, July 7, 1972, and Jan. 2, 1973.)

An analysis of Federal spending for Indian programs during the last several years. (B-114868, May 7, 1973.)

### **Audit Work in Process**

At the end of the fiscal year, we were reviewing the Hydro-Thermal Power Program in the Pacific Northwest, the coordination between the Bureau of Reclamation and Agriculture in implementing Federal irrigation programs, the progress made in the Office of Saline Water's research program, and the effectiveness of the Mining Law of 1872 in controlling the exploration and development of mineral resources on public lands.

## **Department of Transportation**

### **Enforcement of Federal Motor Vehicle Safety Standards**

We reported to the Congress that the National Highway Traffic Safety Administration's testing program—its major activity for determining manufacturers' compliance with Federal motor vehicle safety standards—provided little assurance that motor vehicles complied with the standards and provided the safety benefits intended—protection against unreasonable risk of accidents, injury, or death.

The testing program had not systematically focused on problem areas having a high potential for reducing highway accidents, deaths, and injuries. Also, the Safety Administration had not used manufacturers' certification data to supplement and refine its limited testing program and had not acted promptly to resolve test failure cases.

The Department said it was doing as well as could be expected with available resources. The Department and automobile industry representatives cautioned that use of accident data should involve meaningful evaluation of its relationship to specific vehicle safety standards. The representatives agreed, however, that results of accident investigations could help determine priorities for compliance checking and enforcement. (B-164497(3), Apr. 24, 1973.)

### **Identifying and Correcting Safety Defects on Light Aircraft**

We reported to the Chairman, Government Activities Subcommittee, House Committee on Government Operations, that the Federal Aviation Administration should more actively participate in the design and flight testing leading to type certification of new and modified aircraft.

FAA had not implemented a program to independently flight test major inservice light aircraft for the adverse flight characteristics identified in the Government's 1967 and 1969 studies of pilot errors induced by aircraft design. A number of aircraft which the Government certified as airworthy were later found to have design weaknesses. Although the Government certified some of these aircraft after it had

participated directly in developing and testing the aircraft design, most of them were certified by manufacturers which had been delegated authority to determine whether the aircraft complied with Government regulations. Although it became known that aircraft had been manufactured with design weaknesses, FAA and the manufacturers usually did not promptly modify the designs to correct the weaknesses.

GAO representatives testified at hearings before the Subcommittee on June 12, 1973, concerning matters discussed in our report. (B-164497(1), June 8, 1973.)

### **Regulating the Transportation of Hazardous Materials**

Hazardous material shipments present an increasing danger to public safety. Hundreds of new materials are developed each year and thousands of shipments are made daily; the annual volume is estimated to reach 1.5 billion tons by 1980.

We reported to the Congress that the Department needs to work toward a more effective program to insure compliance with regulations for safely transporting hazardous materials. The Department's program has been handicapped by (1) lack of data on hazardous material shipments, (2) insufficient and unsystematic inspections, and (3) inadequate enforcement. Also, because a Federal agency can directly assess civil penalties without the delays of processing criminal cases, effective enforcement would be promoted if authority to impose civil fines were extended to the Federal Railroad Administration and the Federal Highway Administration. The Coast Guard and the Federal Aviation Administration already have such authority.

The Department said that it found our recommendations valuable for improving the program and that it planned to initiate several actions similar to those we suggested. (B-164497, May 1, 1973.)

### **Testimony at Hearings**

On March 7, 1973, GAO representatives testified at hearings before the Subcommittee on Transportation, House Committee on Public Works, on problems in implementing the high-

way safety program administered by the Federal Highway Administration.

### **Audit Work in Process**

At June 30, 1973, we were reviewing the Department's efforts to improve cargo security; the status of the planning, construction, and cost growth of the Washington metropolitan area rapid transit system; the extent to which public takeover of bus systems through Federal grants has fostered needed improvements; the Coast Guard's practices for obtaining marine traffic control systems; and the effectiveness of the automobile safety program administered by the National Highway Traffic Safety Administration.

### **American Revolution Bicentennial Commission**

The Commission was established in 1966 to prepare an overall program for commemorating the bicentennial of the American Revolution and to plan, encourage, develop, and coordinate observances and activities focusing on the national and international significance of the American Revolution and its implications for present and future generations.

Pursuant to the requests of the Chairman, House Committee on the Judiciary, and of Senator Charles McC. Mathias, Jr., we reported that, although the Commission had made some progress toward a bicentennial celebration, it was too early to judge whether the celebration would be successful. Several factors had hindered the Commission from making greater progress: (1) the Commission's retention of operational authority over bicentennial programs and (2) the lack of sufficient staff in the three program areas. Some personnel practices adversely affected staff morale and may have contributed to delays.

The House Judiciary Committee used our report when it was considering legislation to reorganize the Commission. (B-166850, Dec. 21, 1972.)

### **Atomic Energy Commission**

We mainly reviewed the Atomic Energy Commission's efforts in (1) protecting the public

from the hazards of radiation and (2) helping to solve the Nation's energy problems. Copies of reports issued during the year were forwarded to the Joint Committee on Atomic Energy, which used them in its considerations of actions proposed by AEC to revise operating policies and practices and in its oversight review of AEC programs.

### **Problems in Regulating Users of Radioactive Materials**

AEC issues licenses to industrial, commercial, medical, and educational users to insure that they possess, use, and dispose of radioactive materials so as to protect public health and safety.

However, as we reported to the Congress, AEC had not been successful in having some licensees promptly correct questionable or potentially hazardous operating practices. It had no written criteria as to when strong enforcement actions should be taken and had taken such actions infrequently. AEC suspended licensees' operations only when the threat to the public was immediate or when a significant accident occurred.

Medical licensees and AEC inspectors did not have to report accidental overexposures of patients to radiation. Further, suppliers of radioactive materials had no specific requirement for how they were to verify that customers were authorized to receive the quantities or types of material shipped.

AEC generally agreed with our recommendations and stated that it had begun improving its regulation of users of radioactive materials. It said, however, that our recommendation on reporting wrong doses or overdoses was under study and would be reviewed by its Advisory Committee on the Medical Uses of Isotopes. (B-164105, Aug. 18, 1972.)

### **States Regulating Users of Radioactive Materials**

Under the Atomic Energy Act, AEC may, by formal agreement, relinquish to a State certain of its regulatory authority over radioactive materials when it determines that the State's program is compatible with AEC's program for regulating

these materials and is adequate to protect public health and safety.

In our report, prepared at the request of the Chairman, Joint Committee on Atomic Energy, we said that the States were making concerted efforts to exercise strong radiation control programs and that AEC was providing assistance to, and cooperating with, the States in these efforts. However, AEC needed to strengthen its administration of the State programs in a number of areas. AEC agreed with our recommendations and took or agreed to take actions to develop and implement an on-the-job training program for State personnel, provide more guidance to the States and AEC's State program reviewers, and improve its assistance to the States. (B-155352, June 11, 1973.)

### **Management of the Controlled Thermonuclear Research Program**

At the request of the Vice Chairman, Joint Committee on Atomic Energy, we reviewed AEC's management of the controlled thermonuclear research program. The objective of the program is to develop a major source of energy from controlled thermonuclear fusion to help solve the Nation's energy problem.

AEC had various mechanisms to control and coordinate the efforts of contractors conducting controlled thermonuclear research. However, AEC had not formally defined or told the contractors about its rule on controlled thermonuclear devices requiring AEC's review and approval before fabrication, nor had it required that any proposed devices which were revisions or modifications of previously disapproved devices be subject to AEC's review and approval before fabrication.

AEC established written procedures to implement our recommendations. (B-159687, Dec. 8, 1972.)

### **Nuclear Power Reactor Inspection Program**

We reported to the Chairman, AEC, on AEC's management of the inspection program for nuclear power reactors. AEC needed to (1) improve its guidance to its inspectors, (2) develop a well-defined, minimum inspection program, (3) require operating reactor licensees to

upgrade their quality assurance plans, and (4) require its inspectors to systematically and consistently review and evaluate licensees' quality assurance audits. AEC agreed to implement our recommendations. (B-164105, Jan. 19, 1973.)

### Liquid Metal Fast Breeder Reactor Demonstration Project

AEC was planning to enter into a cooperative agreement with certain electric utilities and other organizations for the design, construction, and operation of the Nation's first liquid metal fast breeder reactor demonstration plant.

On August 11, 1972, AEC submitted to the Joint Committee on Atomic Energy a Memorandum of Understanding describing the basis of the cooperative agreement. The memorandum showed that, of the estimated \$699 million cost of the demonstration plant, AEC would contribute about \$92 million in direct assistance and about \$330 million in research and development, services, facilities, equipment, and special nuclear materials; utility companies would contribute about \$254 million; and reactor manufacturers would contribute from \$20 to \$40 million.

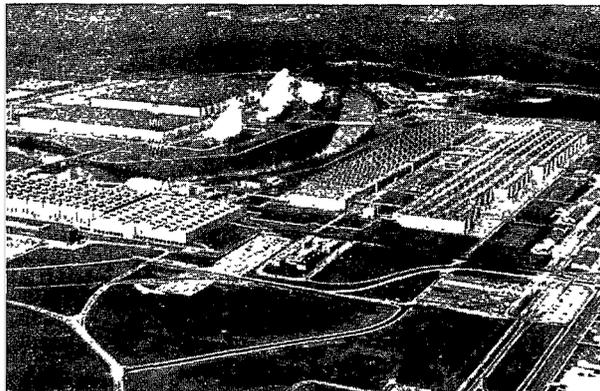
On January 26, 1973, AEC submitted to the Joint Committee an amendment to the memorandum and drafts of two related contracts.

As requested by the Chairman, Joint Committee on Atomic Energy, we issued two reports which analyzed certain provisions of the revised memorandum and the proposed contracts. These reports served as the basis for certain questions by the Joint Committee during hearings on this subject on February 28 and May 4, 1973. (B-164105, Feb. 27 and Apr. 30, 1973.)

### Uranium Enrichment Services

At the request of the Chairman, Joint Committee on Atomic Energy, we reviewed AEC's proposed revisions to its criteria and contracts for uranium enrichment services. The revisions would change the terms and conditions under which AEC offers to provide uranium enrichment services and would require customers to assume a greater share of the financial risks in supplying these services.

AEC and industry generally agree that more



Uranium Enrichment Complex, Oak Ridge, Tennessee.

enrichment plants will be needed to meet the future demand for enrichment services. There are uncertainties, however, as to when the demand will exceed the supply and who will provide the services—the Government or industry.

The objectives of AEC's proposed revisions were to help remove these uncertainties by (1) firming up future demand for enrichment services and (2) helping private industry enter the uranium enrichment services business, still a Government activity.

Our report served as a basis for certain questions raised by the Committee during hearings held on March 7 and 8 and April 18, 1973. (B-159687, Mar. 5, 1973.)

### Audit Work in Process

Audit work in process included reviews of AEC's (1) water reactor safety research program, (2) program for protecting special nuclear material held by licensees, and (3) management controls over the design, fabrication, and use of containers for transporting radioactive materials.

### Environmental Protection Agency

#### Administration of Water Pollution Research, Development, and Demonstration Program

We reported to the Congress that, although the Federal Water Pollution Control Act authorizes grants primarily for demonstrating new or

improved methods of controlling water pollution, including industrial waste treatment methods, EPA had awarded many grants for constructing and operating full-scale waste treatment projects which used mainly conventional methods of water pollution control. We attributed this condition to the lack of clear guidelines for reviewing and evaluating grant applications under the demonstration program.

Also, EPA took considerable time to review and approve applications, so new projects and extensions of ongoing projects were delayed; it inadequately monitored ongoing research projects; and it did not promptly obtain the results of completed research projects from grantees and contractors and distribute them to potential users.

In addition, EPA underused its laboratories for in-house research; they were not fully staffed; and the research staffs spent considerable time on other duties. We identified laboratory equipment that was underused or excess to EPA's needs, and thus available for sharing or pooling.

EPA agreed to implement our recommendations. (B-166506, Nov. 21, 1972.)

#### **Need to Control Discharges from Sewers Carrying Both Sewage and Storm Runoff**

Untreated or inadequately treated sewage discharged from sewers carrying both sewage and storm runoff (combined sewers) is a major pollution problem and has prevented many areas, primarily in the Northeast and Midwest, from attaining Federal and State water quality goals. We reported to the Congress that, although some communities had tried to abate such discharges, Federal and State water pollution control agencies had placed little emphasis on correcting the problem, primarily because of the high cost which, as of October 1972, EPA estimated would amount to \$70 billion.

Limited Federal and State funds have been available for projects to control such discharges. Many municipalities could, however, achieve substantial benefits through a program of phased construction.

The Federal Water Pollution Control Act Amendments of 1972 (Public Law 92-500) provide additional funding and authority which

should enable EPA to deal more effectively with the combined sewer problem.

In line with our recommendations, EPA agreed to require (1) States to identify all municipalities having combined sewer discharges, (2) States and municipalities to study their combined sewer problems and the alternatives available on a municipality-by-municipality basis, and (3) States and municipalities to develop and submit to EPA plans, including phased construction programs, for controlling and abating the polluting discharges. EPA agreed also to consider awarding construction grants for phased construction projects. (B-166506, Mar. 28, 1973.)

#### **Efforts to Remove Hazardous Pesticides From the Channels of Trade**

In a report to the Congress we stated that EPA's suspensions and cancellations of the registrations of certain hazardous pesticides had been only partly effective because EPA allowed other pesticides containing the same ingredients and registered for the same uses to remain on the market. For example, although EPA suspended certain 2, 4, 5-T registrations because of a highly toxic contaminant—dioxin—it did not suspend other pesticides containing dioxin. EPA said the factors affecting suspension were too complex to permit uniform criteria and that the question of dioxin safety was being researched.

Registrants who appealed EPA decisions to cancel registrations were allowed to continue marketing the pesticides for all registered uses until the appeals were resolved. We recommended, and EPA agreed, that the pesticides be marketed only for the specific uses that were appealed.

Also, EPA had not consistently applied its policy of requesting manufacturers to recall hazardous pesticides whose registrations were suspended. EPA stated that recalling some pesticides would be more hazardous than using them according to label directions. We believe that recall would create no hazards other than those encountered in distributing the pesticides and would insure proper disposal. (B-133192, Apr. 26, 1973.)

### **Testimony Before Congressional Committees**

On March 28, 1973, we testified before the Subcommittee on Air and Water Pollution, Senate Committee on Public Works, concerning EPA's allocations of funds and personnel to implement programs under the Clean Air Act, the Solid Waste Disposal Act, the Federal Water Pollution Control Act, and the Noise Control Act. The testimony was based primarily on information in our February 12, 1973, report (B-166506) to the Chairman, Senate Committee on Public Works.

On May 31, 1973, we testified before the Subcommittee on the Environment, Senate Committee on Commerce, concerning our review of Federal and State programs for insuring that drinking water is pure and safe.

### **Audit Work in Process**

As required by the Federal Water Pollution Control Act Amendments of 1972, we were reviewing all federally assisted or supported research, pilot, and demonstration programs related to preventing and controlling water pollution to assess conflicts between, and the coordination and efficacy of, such programs.

### **Tennessee Valley Authority**

#### **Reclaiming Strip-Mined Lands**

We reported to Congressman Ken Hechler that the land reclamation requirements in coal purchase contracts awarded by TVA before December 1971 did not provide sufficiently precise standards to insure that strip-mined lands were adequately restored. These requirements did, however, represent a significant step toward reducing environmental damages to the land caused by strip-mining.

Although the requirements in TVA's later coal purchase contracts were more specific and were an improvement in the approach to reclaiming strip-mined lands, we identified opportunities for TVA to improve its requirements and its enforcement of them. For example, TVA should consider further limiting mining on steep slopes

requiring grading to conform more closely to the original contours of the land. Also, TVA should give careful attention to the problem of excess soil acidity before including an area in an approved mining plan and stockpiling topsoil and using it to increase vegetation. (B-114850, Aug. 9, 1972.)

#### **Alternative to the Requirement for Repayment of Federal Investment**

At the request of the Chairman, Subcommittee on Public Works Appropriations, House Committee on Appropriations, we reported on an alternative to the present requirements for repaying the Federal investment in TVA's electric power system. This alternative would tend to reduce or postpone future power rate increases. TVA would continue to make annual payments to the Treasury as a return on the investment but would no longer have to make annual repayments of the principal. TVA's rate of return would always be equal to the Treasury's current interest costs; thus there would be no net interest cost to the Treasury as a result of the alternative method.

We estimated that, for fiscal year 1974 through the end of the repayment period (fiscal year 2014), using the alternative method could result in TVA power customers realizing savings of about \$287 million.

On May 2, 1973, we testified on this report at public hearings held by the Subcommittee. (B-114850, Apr. 27, 1973.)

#### **National Railroad Passenger Corporation (AMTRAK)**

AMTRAK—a private, for-profit corporation created by the Congress to operate and revitalize intercity rail passenger service—uses the facilities of 13 railroads to provide service and reimburses the railroads for operating costs exceeding revenues. AMTRAK receives Federal financial assistance through grants from the Department of Transportation. AMTRAK began operating on May 1, 1971, and lost \$155 million during the first 14 months of operations.

The Chairman, Subcommittee on Transportation and Aeronautics, House Committee on

Interstate and Foreign Commerce, asked us for a full evaluation of railroad passenger service under the Rail Passenger Service Act of 1970. We finished reviewing some of AMTRAK's activities and were reviewing others at the end of the fiscal year.

### **Need to Improve Condition of AMTRAK Trains**

We inspected AMTRAK's trains and reviewed their repair and maintenance in 1972. Our report to the Subcommittee Chairman stated that the general cleanliness of passenger cars and the condition of onboard equipment, such as air conditioning, was unsatisfactory on many trains.

AMTRAK has not (1) carried out the congressional directive to take direct control over maintenance and repair, (2) been able to keep its trains in good operating condition because its contracts with the railroads do not provide for an effective maintenance program, and (3) adequately monitored the railroads' activities. AMTRAK has lost revenue and incurred additional costs by renting cars because one-third of its fleet was out of service during much of 1972 for maintenance, repair, or refurbishment.

AMTRAK, the Department of Transportation, and the Interstate Commerce Commission generally agreed with our conclusions and recommendations. AMTRAK said that it was taking actions, similar to those we recommended, to improve the condition and operation of its trains. (B-175155, June 21, 1973.)

### **Analysis of Railroad Passenger Service Train Scheduling and Operations**

We hired a firm of transportation consultants to study intercity passenger train scheduling and operations to determine how well passenger rail

service matched passenger demands and desires. The consultant firm's report was furnished to the Subcommittee Chairman.

On the basis of its study, the consultant firm said that:

AMTRAK should better match train make-ups to traffic requirements to obtain better use of equipment.

Because many passengers ride coaches only, coaches should be used as much as possible; parlor cars, sleeper cars, and separate dining cars, which are costly to operate, should be used as little as possible, except where profitable.

Given the low loadings on many AMTRAK routes, particularly the shorter haul routes, alternate equipment, especially the rail diesel car, should be considered.

To reduce variations in traffic, AMTRAK should experiment with differential fares, i.e., charging lower fares on days when traffic is light and premium fares in peak periods.

Because terminal costs are substantial and AMTRAK makes many train stops at low-revenue-producing cities, AMTRAK should study the location and frequency of its stops and the costs associated with them.

Because passenger rail service is generally a leisure-time transportation mode, AMTRAK should study how it can tap the growing market of recreational travel.

AMTRAK should establish and finance an adequate program to collect and analyze market data as a basis for planning operations.

AMTRAK said that it recognized the validity of the consultant's observations but that it had found many institutional railroad practices which inhibited instant and dramatic change. AMTRAK said that it was striving to overcome these practices and expected continued improvement. (B-175155, Feb. 22, 1973.)

ministration; the United States Postal Service; certain regulatory agencies; the legislative and judicial branches; and various other agencies and commissions. It is also responsible for audit work related to Federal, State, and local inter-governmental relations. This division is under the supervision of Victor L. Lowe, Director. Its organization chart appears on the following page.

## CHAPTER TEN

# GENERAL GOVERNMENT OPERATIONS

## Responsibilities

The General Government Division is responsible for audit work at the Departments of Commerce, Justice, and the Treasury; the District of Columbia Government; the Small Business Ad-

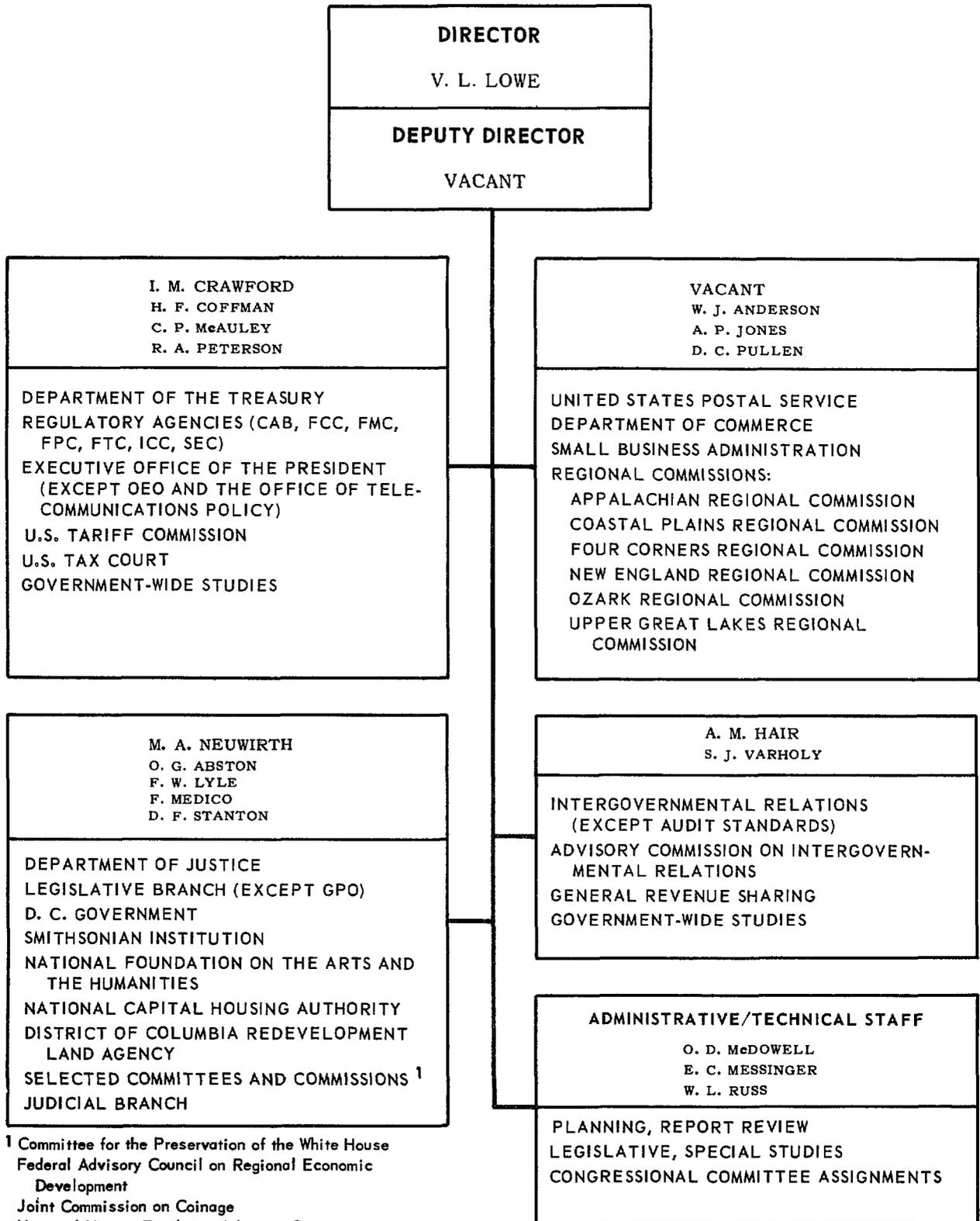
## Audit Reports

During fiscal year 1973, 71 reports relating to this area of responsibility were submitted to the Congress—14 to the Congress, 26 to congressional committees, 22 to Members, and 9 to officers of the Congress on activities of the legislative branch. We also issued 29 reports to department or agency officials. A list of these reports is included in appendix 2. The numbers and types of reports completed are shown in the following tabulation.

The rest of this chapter summarizes the principal audit work completed in these departments and agencies during the year and in process at the end of the year.

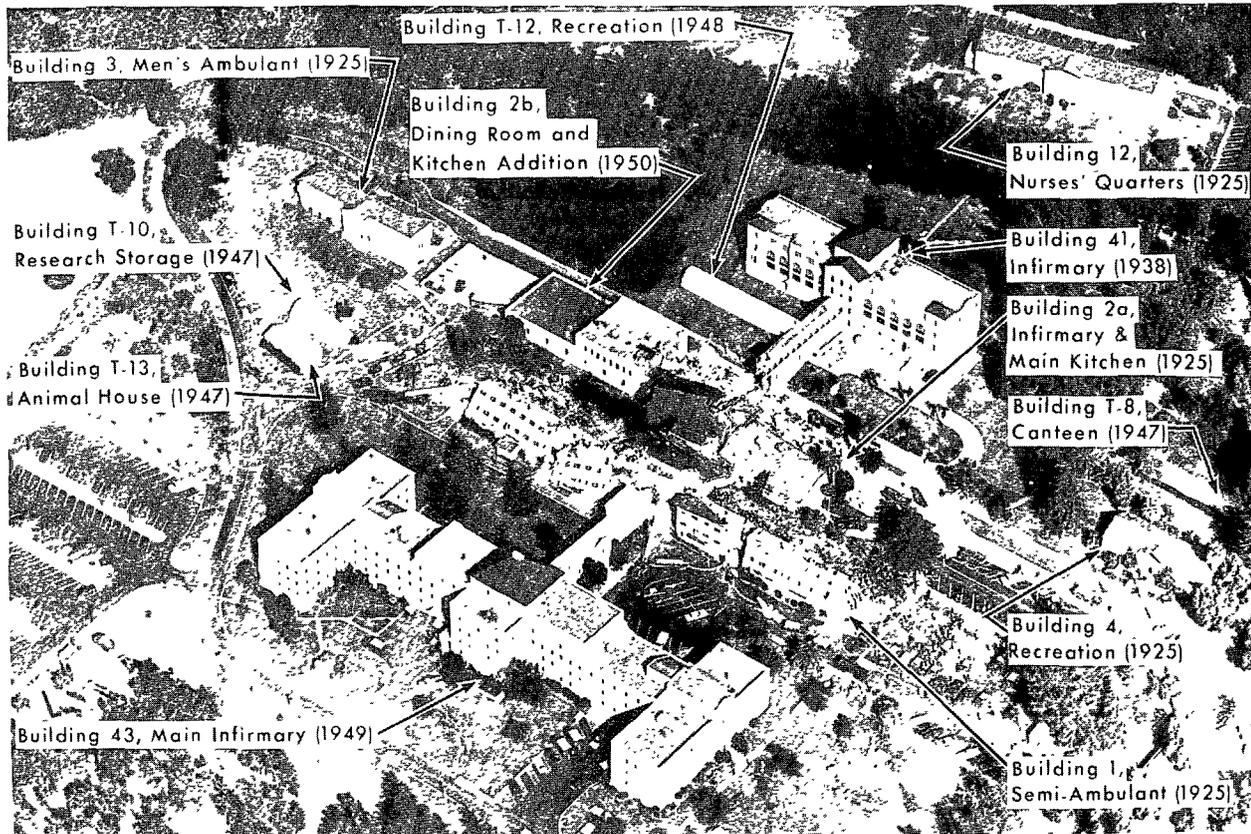
	Reports submitted to					Totals
	Congress	Congressional committees	Members of Congress	Officers of Congress	Agency officials	
Departments:						
Commerce .....	2	4	1	...	10	17
Justice .....	3	3	7	...	3	16
Treasury .....	1	5	...	...	3	9
Independent agencies:						
District of Columbia Government .....	3	8	1	...	1	13
Executive Office of the President .....	...	1	2	...	...	3
Federal Communications Commission .....	1	...	...	...	1	2
Small Business Administration .....	...	...	...	...	1	1
Smithsonian Institution .....	...	1	...	...	...	1
United States Postal Service .....	1	3	11	...	10	25
Legislative branch:						
Architect of the Capitol .....	...	...	...	1	...	1
House of Representatives .....	2	1	...	7	...	10
Senate .....	...	...	...	1	...	1
United States Capitol Historical Society .....	1	...	...	...	...	1
Total .....	14	26	22	9	29	100

GENERAL GOVERNMENT DIVISION



<sup>1</sup> Committee for the Preservation of the White House  
Federal Advisory Council on Regional Economic  
Development  
Joint Commission on Coinage  
National Visitor Facilities Advisory Commission  
Permanent Committee for the Oliver Wendell Holmes Devise

JUNE 30, 1973



Aerial view of the San Fernando Veterans Administration Hospital where 46 patients and hospital workers were killed during the San Fernando, California, earthquake of February 9, 1971.

## Department of Commerce

During the year we continued our audits of Department of Commerce activities, emphasizing economic development, marine and earth sciences, and maritime programs.

### National Earthquake Research Program

Our report to the Congress stated that the responsibility for earthquake research was divided among several Federal agencies and that national goals had not been established. Because agencies generally had not coordinated their earthquake research activities, research overlapped.

We recommended that the Office of Management and Budget define Federal earthquake research program goals and Federal agencies' responsibilities for achieving these goals. OMB agreed with our recommendations and stated it

would define agency responsibilities, develop criteria for evaluating the effectiveness of the agencies' programs, and monitor agency earthquake research activities with the assistance of the Office of Science and Technology. OMB said it may want to establish an independent group to evaluate agencies' effectiveness and to advise the Executive Office of the President. (B-176621, Sept. 11, 1972.)

### Assistance Program for U.S. Fishing Vessel Operators

The National Marine Fisheries Service of the National Oceanic and Atmospheric Administration administers three financial assistance programs to help make the U.S. fishing fleet more efficient and more competitive with other nations.

We reported to the Congress that these programs have had limited success. Instead of

improving vessels and equipment for more efficient and profitable fishing, many loans made under the programs allowed continued use of inefficient vessels. The Administration generally agreed that a relatively small portion of loan funds had been directed solely to modernize fishing vessels, although improvement of vessels and equipment probably was the principal objective of the Fish and Wildlife Act.

We recommended that the Administration (1) establish criteria for determining vessel efficiency and (2) publish guidelines for determining whether financial assistance will upgrade a vessel. The Administration agreed and stated it would immediately follow up on our recommendations. (B-177024, Feb. 22, 1973.)

### **U.S. Metric Study**

At the request of Congressman H. R. Gross, we evaluated the Department of Commerce U.S. Metric Study report to the Congress. The study concluded that the Nation was already becoming metric and that the question was whether the change should be made under a planned national program.

We reported that (1) in its comparative analysis of costs to manufacturers, the study omitted the amount of interest on the time value of money needed to change to metric, (2) contrary to what the study showed, the 10-year planned changeover would cost more than the 50-year, no-plan changeover, (3) in discussing a potential increase in exports, the study did not report on a potential offset through substantially increased imports, and (4) with respect to small business, the study did not fulfill the intent of the Congress. (B-140339, Mar. 27, 1973.)

Because the Subcommittee on Science, Research, and Development, House Committee on Science and Astronautics, had scheduled hearings on proposed legislation to adopt the metric system, we obtained Congressman Gross' permission to give a copy of our evaluation to the Subcommittee for the hearings. (B-140339, Mar. 28, 1973.)

### **Fish Protein Concentrate Program**

At the request of the Chairman, Subcommittee on Fisheries and Wildlife Conservation, House

Committee on Merchant Marine and Fisheries, we reviewed the fish protein concentrate program administered by the National Marine Fisheries Service of the National Oceanic and Atmospheric Administration. Under this program an experimental plant was established to demonstrate the economic feasibility of commercially producing fish protein concentrate.

We concluded that, although the experimental plant had not achieved its purpose, it had been useful in developing a process for producing the concentrate. However, the Government would realize only limited benefits if it continued operating the plant.

We suggested that, if the program were extended, the Subcommittee should consider instructing the Fisheries Service to (1) identify potential fish protein concentrate markets, (2) determine available fish resources, (3) evaluate sites for relocating the experimental plant closer to the source of fish supply, and (4) complete research into fish storage methods. (B-157927, May 25, 1973.)

### **Audit Work in Process**

Audit work in process at June 30, 1973, included reviews of the Maritime construction differential subsidy, the effectiveness of regional economic development commissions, and oceanographic research.

### **Department of Justice**

Our audits at the Department of Justice were concerned principally with the areas of narcotics and dangerous drugs, law enforcement assistance, and entry and deportation of aliens. A large part of our work was done in response to congressional requests.

### **Nationwide Criminal Data Exchange System**

A nationwide computerized criminal history exchange system will enable law enforcement agencies, courts, and correctional institutions to determine, in seconds, whether an individual has a criminal record. The Law Enforcement Assistance Administration awarded grants totaling

about \$4 million for developing a prototype of such a system.

We reported to the Congress that, according to Administration and State officials, an exchange system for the 50 States could cost at least \$100 million but the cost to develop a fully operational system had not been determined. Therefore, Federal, State, and local governments cannot determine whether they will be able, or willing, to meet the financial requirements of developing and operating the system. Also, law enforcement agencies, courts, and correctional institutions had not reported all arrest and disposition data to the States for entry into the system. Until they do, system users have no assurance that the data they receive is complete or accurate.

The Department of Justice stated that it was taking actions to provide cost data and improve the reporting of arrest and disposition data. (B-171019, Jan. 16, 1973.)

### Port-of-Entry Inspections

By 1978, 274 million persons are expected to enter the United States annually. This would be an increase of 44 million since 1970. Air arrivals alone are expected to increase from 14 million in 1970 to 33 million in 1978.

We reported to the Congress that inspection resources of responsible Federal agencies—Immigration and Naturalization Service, Department of Justice; Bureau of Customs, Department of the Treasury; Public Health Service, Department of Health, Education, and Welfare; and Department of Agriculture—are strained by the increased number of arrivals, particularly at international airports. This situation is further aggravated by the uneven distribution of arrivals during the day and year. The increases in and concentration of air arrivals and the present four-way division of inspections contribute to management problems. At Kennedy airport in New York, the agencies:

- Must staff and supervise inspection operations at four different locations.

- Have different policies and procedures for establishing work shifts and billing airlines for services rendered.

- Have different pay scales for overtime work



Baggage examination at Kennedy airport



which results in wide disparities in pay for inspectors performing similar work.

At peak traffic periods, the pressure to quickly process arrivals dilutes the quality of inspections.

The four agencies have recognized that a fragmented approach to inspections will not develop a more efficient and effective inspection system. Difficulties in multiagency cooperation have made it hard to improve the system.

We recommended that the Office of Management and Budget cooperate with the four agencies to implement single-agency management of port-of-entry inspections.

On March 28, 1973, the President transmitted to the Congress a reorganization plan which included a proposal to transfer Immigration's inspections to Customs. This would be a significant first step in eliminating fragmented inspection management. Although the plan was approved, the transfer was not carried out. The Office of Management and Budget advised us in June 1973 that it agreed with the decision not to transfer Immigration's inspections to Customs because the reorganization plan was not appro-



STRAW COVERED WINE BOTTLES IS LIME OF HEROIN WITH A SMALL AMOUNT OF WINE ON TOP SEPARATED BY A LAYER OF GLASS. DISCOVERED IN BY AN AIR PASSENGER FROM ARGENTINA. THESE BOTTLES ARE SIMILAR TO ONES CONTAINING COCAINE SEIZED BY NEW YORK CITY POLICE

Straw-covered wine bottles containing heroin. A small amount of wine in the top of the bottle was separated from the bottom of the jug by a layer of glass

priate for such a transfer; however, it had no objection to our conclusion and recommendations.

Immigration, Customs, and Agriculture agreed with our recommendation. The Department of Health, Education, and Welfare did not agree and emphasized that only experienced inspectors understanding disease epidemiology could adequately carry out their inspections. We said that single-agency management would not eliminate expertise in a particular inspection function. (B-114898, May 30, 1973.)

**Drug Abuse Programs**

At the request of Congressman Charles B. Rangel, we looked into the progress being made in controlling illicit narcotics traffic in Europe and the Near East (sources of most heroin reaching the United States). We reported that the Bureau of Narcotics and Dangerous Drugs and U.S. Embassy officials have succeeded in getting foreign governments to better control

illicit narcotics traffic; however, the following obstacles must be overcome.

National police forces lack reliable means of exchanging intelligence and make little effort to recruit and use informers.

National laws prevent police forces from performing undercover work.

National laws in some countries do not permit law enforcement authorities to grant immunity or to bargain for reduced sentences.

Bureau agents assigned overseas do not speak or write fluently in the language of countries where they operate.

The Bureau does not have a policy encouraging agents with special interests and skills to accept long-term overseas assignments.

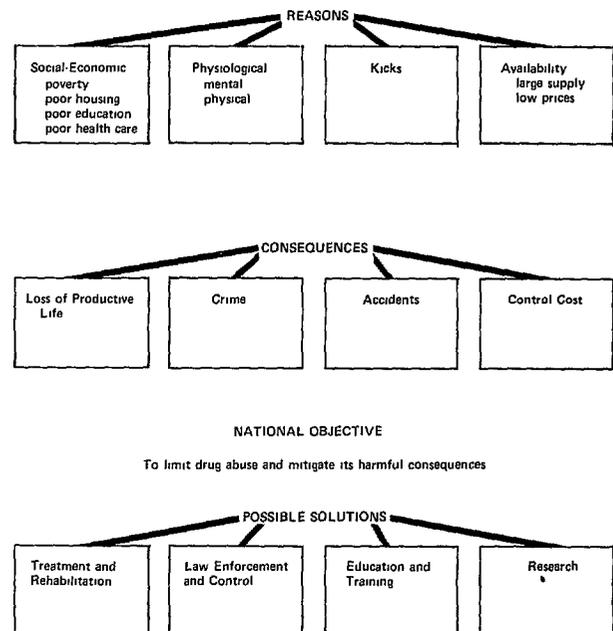
We recommended that the Attorney General take necessary actions to:

Insure that all special agents assigned to foreign posts are proficient in the host country language.

Establish a policy which would encourage agents with special interests and skills to accept long-term overseas assignments.

The Bureau agreed with our findings and

**DRUG ABUSE**



conclusions and told us that actions had been or would be taken to implement our recommendations. (B-164031(2), Oct. 20, 1972.)

Congressman Rangel also requested that we examine efforts being made to intercept heroin entering Harlem in New York City through the Port of New York and Kennedy International Airport. Our report concluded that the nature and magnitude of heroin smuggling and the Bureau of Customs' mission, workload, and manpower make it unrealistic to expect Customs inspections to prevent most heroin from being smuggled into the United States. Also, a conflict existed between Customs and the Bureau of Narcotics and Dangerous Drugs on the question of jurisdiction over the control of narcotics smuggling. Reorganization Plan No. 2 of 1973 eliminated the conflict by creating the Drug Enforcement Administration as an agency in the Department of Justice.

We recommended that the Secretary of the Treasury:

Establish, on a test basis, a mobile blitz force to make intensive searches of cargo which, on the basis of supplied intelligence, is a suspected means of smuggling.

Develop a management information system to provide continuing data on the effectiveness of inspectors.

Obtain intelligence from the National Intelligence Office established by the President in the Department of Justice and from the international narcotics data bank being established by the Bureau of Narcotics and Dangerous Drugs.

We also recommended that the Attorney General take necessary actions to furnish Customs with intelligence on smuggling methods and routes and, when available, on ships and cargoes which should be searched. Customs and the Bureau of Narcotics and Dangerous Drugs agreed with our findings and conclusions. (B-164031(2), Dec. 7, 1972.)

Our report to the Congress on drug abuse was the result of our Government-wide survey to identify and determine the extent of Federal agencies' involvement in drug abuse programs. We did not evaluate individual programs but observed some major problems and overall efforts. We concluded that—although Federal

agencies had increased their funding for treatment and rehabilitation, law enforcement and control, education and training, and research—they were not effective in curbing drug abuse. The President has emphasized a need for a national strategy to coordinate the various solutions. (B-164031(2), Aug. 14, 1972.)

### **Grants to States for Correctional Programs**

Law Enforcement Assistance Administration funds can be used for corrections projects to improve and strengthen law enforcement.

In response to a request from the Chairman, Subcommittee No. 3, House Committee on the Judiciary, we reported that the Omnibus Crime Control and Safe Streets Act of 1968, which established the Administration, does not define the term "corrections," nor does the Administration. Therefore corrections projects are reported under various categories, as determined by each State, and the Administration is unable to readily provide information to the Congress on the types of corrections projects funded or the amount of expenditures incurred. (B-171019, Apr. 4, 1973.)

### **Audit Work in Process**

Audit work in process at the Administration at the year end included reviews of (1) comprehensive law enforcement planning under the Omnibus Crime Control and Safe Streets Act, (2) discretionary grant programs, (3) grants to improve court systems, and (4) the effectiveness of selected action grant projects. Also, an audit of the Minnesota Governor's Commission on Crime Prevention and Control is being conducted in cooperation with the Minnesota Public Examiner and the Administration's Office of Audit.

At the Drug Enforcement Administration, audit work in process included reviews of legal opium imports into the United States, efforts to immobilize major narcotics traffickers, efforts to identify and eliminate illegal sources of dangerous drugs, and measures being taken to stop the flow of narcotics from and through Mexico and Central America.

## Department of the Treasury

Our audit work at the Department of the Treasury during the year emphasized the areas of taxes and duty payments. Other matters summarized below included the reprogramming of Internal Revenue funds.

### Appropriations Committees Not Advised on Reprogramming of Funds by the Internal Revenue Service

During fiscal years 1970, 1971, and 1972, the Internal Revenue Service reprogrammed \$10.1 million, \$13.7 million, and \$18.9 million, respectively, between categories of expenses without the Appropriations Committees' approval. In fiscal years 1971 and 1972 most of the reprogrammed funds became available because IRS (1) did not use all the man-years which the Appropriations Committees had approved for data processing operations and (2) requested and received supplemental appropriations for pay increases which were not fully used to finance personnel costs.

In our report to the Chairmen of the Senate and House Appropriations Committees, we recommended that IRS consult with the Appropriations Committees about limiting the amount of reprogramming activity allowed without the Committees' approval and advise the Committees of any proposed reprogramming of funds exceeding this limitation. The Commissioner of IRS agreed with our recommendations. (B-133373, May 1, 1973.)

### Duty Payments Delayed on Lead and Zinc Imported into Bonded Warehouses

During 1971 American smelting and refining companies imported about 128 million pounds of lead and about 455 million pounds of zinc into bonded warehouses. Duties on these imports totaled about \$4 million.

The Tariff Act of 1930 permits deferring payments of duties on lead and zinc until the metal enters domestic commerce, or until 3 years elapse, whichever happens first. If metals are exported, charges are canceled. Importers submit monthly reports to the Bureau of Customs showing the inventories of lead and zinc in their

bonded warehouses. If the quantities of lead or zinc on which the duty payments have been deferred exceed the inventories, the importer is required to pay the duty on the excess quantities.

In our report to the Chairmen, Senate Committee on Finance and House Ways and Means Committee, we stated that some importers delayed the payment of duties by including in their reported inventories wastage metal, which is not dutiable, and slag metal, which was accumulated more than 30 years ago, and by transferring liabilities for duty payments from one company to another.

We recommended that the Committees consider amending the Tariff Act of 1930 to (1) prohibit the inclusion of lead and zinc wastage and slag in inventories and (2) delete the provision permitting transfer of liability for duty payments from one company to another without a transfer of the metal. (B-114898, Jan. 18, 1973.)

### Duty Refunds on Products Exported Under Programs of the Agency for International Development

The Tariff Act of 1930 provides for refunding duty (drawbacks) on exports manufactured from duty-paid imported material or from similar domestic material substituted for the duty-paid imported material. This provision is designed to encourage exports by recovering duties on exports which compete with foreign-made goods.

In our report to the Chairmen, Senate Committee on Finance and House Ways and Means Committee, we concluded that paying drawback on exports under Agency for International Development programs is not necessary to encourage foreign commerce because the terms of the agreements preclude foreign competition. Accordingly, we recommended that the Committees consider legislation to amend the Tariff Act of 1930 to prohibit drawback for products exported under AID programs. (B-114898, June 25, 1973.)

### Audit Work in Process

Reports on collecting delinquent taxes and on reviewing overtime payments to employees of four Federal agencies at ports-of-entry were in process at the end of the year.

### District of Columbia

Our more significant reviews at the District of Columbia related to manpower training, correctional facilities, and regulatory fees.

#### Manpower Training Services for the Disadvantaged

We reported to the Congress that a maze of individual and uncoordinated local delivery systems existed in the District of Columbia for providing similar job training and employment services to the same group of District residents under 17 Federal manpower programs. Such systems resulted in a complex, confusing, and ineffective effort to assist persons in becoming gainfully employed.

The Commissioner of the District of Columbia agreed with our findings and directed his Manpower Advisory Committee to develop a comprehensive plan for providing manpower services.

Congressional action is needed to achieve a comprehensive manpower services delivery system for the District and the Nation. We recom-

mended to the Congress that it consider legislation to reorganize the federally assisted manpower programs, through consolidation or through some other appropriate means, to streamline the program for effectively coordinating efforts for training the disadvantaged to become employed.

We made audiovisual presentations to congressional staff members to demonstrate the seriousness of the problems associated with the Federal manpower programs in the District. Our report was used to support a bill later introduced in the Congress to consolidate manpower training programs. (B-146879, Jan. 30, 1973.)

#### Building and Staffing New Correctional Facilities

In fiscal year 1972, the Congress authorized \$65.2 million for the District of Columbia to construct 4 new correctional facilities to house 2,000 additional inmates. The District expected some of the facilities to be operational in fiscal year 1974.

In response to a request from the Chairman, Subcommittee on the District of Columbia, Senate Committee on Appropriations, we reported that the proposed facilities and related personnel staff requirements were not needed. The District's estimate of future inmate population, used to justify the construction program, was overstated, and the anticipated increase in inmates had not materialized.

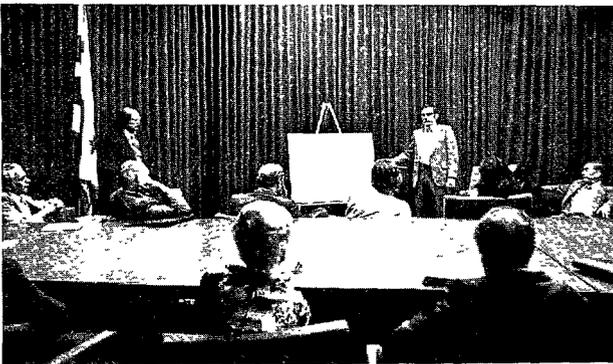
Subsequently, the Commissioner of the District of Columbia canceled plans to construct additional facilities. (B-118638, Mar. 7, 1973.)

#### Policy for Establishing Regulatory Fees

In fiscal year 1971, revenues collected by the District of Columbia from regulatory fees amounted to about \$2.9 million. The District is required by law to charge fees that generally recover costs of regulatory services provided, such as issuing permits and performing inspections.

We reported to the Congress that the District had not developed an adequate policy for establishing regulatory fees. Fees were revised only once in the 14 years before 1970. In 1970 fees were increased by about 32 percent; however,

Pictured are Robert F. Derkits and John S. Kalmar of the District audit staff making an audiovisual presentation of the GAO findings in manpower programs to the Mayor's Manpower Advisory Committee and its subcommittee on September 19, 1972, in the Mayor's Cabinet room in the District Building.



available cost data showed that fee increases averaging 200 percent were necessary to recover costs.

The Commissioner of the District of Columbia stated that he had directed the development of a defined policy for establishing regulatory fees and that the policy would be consistent with the full recovery, where authorized, of all costs related to issuing specific types of permits, certificates, and licenses, consistent with the public interest. (B-118638, July 12, 1972.)

### **Audit Work in Process**

Audit work in process at the end of the year included a review of the deployment of police officers, a study of seven Federal programs and one District program for delivering health services in outpatient health centers, and a review of the feasibility of using productivity and effectiveness measurements as management tools for improving personnel management in the District.

### **Small Business Administration**

During the year we continued our audits of Small Business Administration activities, emphasizing (1) programs to benefit minority business enterprises, (2) assistance to disaster victims, and (3) the feasibility of establishing a consistent Government-wide interest rate policy. These reviews were in process at June 30, 1973. We issued one report to the agency on our examination of the lease-guarantee program.

### **Assistance to Disaster Victims**

In response to the requests of the Senate Appropriations and House Public Works Committees, we reviewed various programs for providing financial and housing assistance to disaster victims. We covered five major disasters and presented our findings and observations during oral briefings to congressional committee staffs and agency officials.

## **Regulatory Activities**

### **Enforcement of Communications Regulations**

To achieve maximum use of the radio spectrum—the vital, natural resource on which radio communications is conducted—the Federal Communications Commission has prescribed regulations for radio users.

We reported to the Congress that the Commission's enforcement program had been ineffective in achieving compliance with its regulations; therefore, use of the spectrum had been impaired.

The Commission did not possess the mobile monitoring capability needed to effectively monitor use of the spectrum. A substantial amount of technical personnel time was spent on tasks that contributed little toward maximizing the use of the radio spectrum, and forceful action had not been taken against violators of its regulations. The Commission had not reevaluated (1) its enforcement problems and objectives, (2) the relative importance of, or the need for, existing enforcement activities, or (3) the role and program of its field offices.

We made several recommendations to the Commission on these matters. The Chairman of the Commission cited actions taken, or planned, to improve its overall management.

We also recommended that the Congress amend the Communications Act of 1934 to transfer to the Department of Transportation responsibility for inspecting radios on compulsory equipped ships. The Department of Transportation is responsible for developing national transportation policies and programs, including safety programs for all modes of transportation. (B-159895, Nov. 3, 1972.)

### **U.S. Postal Service**

Most of our audits at the U.S. Postal Service during the fiscal year concerned the quality of mail service in various parts of the United States and nationwide. Other aspects of postal operations reviewed included (1) the Postal Service's revenue and cost analysis system, (2) the letter mail code sort system, and (3) various aspects of

postal facility acquisition. Much of our work was done in response to requests from committees and Members of Congress.

### **Review of Quality of Mail Service in Florida**

In a report prepared at the request of Congressman Paul G. Rogers, we concluded that mail service in Florida had deteriorated and that the problems affecting it were part of a nationwide pattern.

Mail volume in some areas, including Florida, increased at a faster rate than the Postal Service anticipated during calendar year 1972. Also, changes in the mail distribution system increased the workload at certain facilities, including the Miami, Orlando, and Tampa Post Offices. At the same time, the number of postal employees decreased. Thus, many facilities did not have enough employees to cope with increased workloads.

Letter-sorting machines scheduled for installation in the Miami and Orlando Post Offices before Christmas 1972 were not delivered until January 1973. Use of existing letter-sorting machines in Florida post offices resulted in much misdirected mail because of machine and operator errors.

Postal Service management acknowledged that the Service did have problems. Regarding Florida, the following actions were taken to improve service.

Local postal facilities were given the authority and funds to hire additional personnel.

Additional letter-sorting machines were installed.

A new mechanized postal facility was scheduled to open in March 1973 to reduce the workload at other facilities.

Postal Service headquarters is closely monitoring Florida operations. (B-114874, May 2, 1973.)

In response to requests from other Members of Congress, we are conducting similar reviews in 14 other States.

### **Improvements Needed in Collection of Data for the Revenue and Cost Analysis System**

Under its revenue and cost analysis system, the Postal Service allocates total postal revenues

and in-office labor costs to the various classes of mail and types of service. This is done on the basis of a statistical sampling of revenue and cost data at selected post offices. The allocated revenues and costs are used in assessing the adequacy of postal rates and fees. The allocations are also used in determining appropriations needed to cover costs of congressionally declared free and reduced-rate mail.

We reported to the Congress that participating post offices were not properly following the Postal Service's prescribed procedures for collecting revenue and cost data and, as a result, were submitting erroneous data. The Postal Service believes that the net effect of these errors may be minimal because of compensating errors. We recognize this possibility; on the other hand, the important uses being made of this data call for a high level of system integrity which can be achieved only by collecting sampling data as accurately as possible.

The Postal Service said that, in anticipation of our recommendations, it had:

Increased the number of inspection visits to participating post offices.

Developed additional training programs.

Made further reviews relating to the reliability of its estimates. (B-114874, Feb. 20, 1973.)

### **Evaluation of the Letter Mail Code Sort System Prototype in Cincinnati**

The letter mail code sort system is designed to sort letters automatically by means of a machine-readable code imprinted on the envelopes. The Postal Service plans to install this system in 179 strategically located, large-volume postal facilities by 1978, at a cost of about \$7 million for each facility. The Postal Service believes that using the system will reduce mail-processing costs by about \$1 billion a year.

We reviewed the operating and testing of a prototype system at the Cincinnati Post Office. In a report to the Postmaster General, copies of which we sent to cognizant congressional committees, we noted that:

A complete system had not been installed or tested.

The partial system was not meeting Postal Service performance standards.

The partial system cost more than the existing letter mail sorting system.

A Postal Service official advised us that the Postal Service recognized the need for demonstrating system equipment satisfactorily before making a major capital investment and that expanding the system had been delayed pending this demonstration. (B-114874, Nov. 8, 1972.)

#### **Analysis of Lease v. Purchase of South Boston Postal Annex Addition**

In response to a request by Congressman James A. Burke, we reviewed the economics of a decision by the Postal Service to abrogate an existing lease arrangement and acquire by eminent domain the South Boston Postal Annex Addition in Boston.

In our report we stated that the Postal Service, in determining that purchasing would be more economical than leasing, did not consider real estate taxes foregone as a cost of ownership in the city of Boston. If the Postal Service had included real estate taxes foregone, the cost comparison would have shown that continuing to lease was less costly than purchasing. Our analysis showed a purchasing advantage of about \$8.4 million if real estate taxes were not included as a cost of ownership, and a leasing advantage of about \$3.6 million if they were included.

The Postal Service subsequently changed its policy and now considers the effect of removing property from local tax rolls, so that its policy is consistent with that of other Federal agencies. (B-145650, Dec. 29, 1972.)

#### **Audit Work in Process**

Audit work in process at the end of the fiscal year included reviews of the airmail improvement program; the bulk-mail-processing system, which is being implemented; and the preferential mail processing system, which is still under study. Both systems will use highly mechanized, strategically located mail-processing facilities costing about \$5 billion.

#### **Revenue Sharing**

The State and Local Fiscal Assistance Act of 1972, commonly called the Revenue Sharing

Act, provides for distributing about \$30.2 billion of Federal funds to State and local governments over a 5-year period beginning January 1, 1972. The act directs the Department of the Treasury to consult with the Comptroller General in developing fiscal, accounting, and audit guidelines that are to be followed by State and local governments that receive revenue sharing funds. The act also provides that the Comptroller General review the work done by the Department of the Treasury and the State and local governments to enable the Congress to evaluate compliance and operations under the act.

We met with Treasury officials on numerous occasions to discuss various provisions they were considering for inclusion in the revenue sharing regulations that were published in the *Federal Register* on April 10, 1973.

As of June 30, 1973, we had nearly completed a review of the use of \$1.7 billion revenue sharing funds received by the 50 State governments and the District of Columbia for calendar year 1972. (The report to the Congress on this work was submitted August 2, 1973—B-146285.) We had also started a similar review at selected county and municipal governments.

#### **Intergovernmental Relations**

The General Government Division, through its Intergovernmental Relations Group, is the focal point in the General Accounting Office for liaison on intergovernmental matters with public interest groups, State and local governments, and other Federal agencies (such as the Office of Management and Budget and the Advisory Commission on Intergovernmental Relations). In addition to providing for the exchange of information, we have undertaken a series of broad studies dealing with the system of aid to State and local governments. Rather than assessing individual programs, we are studying the system of providing Federal aid and the problems recipients experience with the system.

#### **Federal Statistical Activities**

Reviews of Federal statistical activities are centralized in the General Government Division.

The initial work in this area will assess the accuracy and appropriateness of statistics that are compiled by Federal agencies. We recently started a review of statistics relating to exports and imports to evaluate their appropriateness for determining the U.S. balance of trade with other countries.

## Legislative Branch

We maintain a professional staff at the Capitol to audit the various revolving funds, other activities of the House and Senate, and private organizations doing business on the Capitol grounds. Our audits of private organizations, which conduct activities on Capitol Hill, are carried out pursuant to section 451 of the Legislative Reorganization Act of 1970.

Our staff also assists with management, financial, and administrative problems when requested by officers of the Congress. These requests, which are received virtually everyday, require close cooperation with these officials on their immediate problems and on the development of long-range improvements in their operations.

Audit work in the legislative branch included examinations of the following activities:

The Senate:

Senate Recording Studio

The House of Representatives:

The Sergeant at Arms  
House Finance Office  
House Recording Studio  
House Office Supply Service  
House Office Equipment Service  
House Restaurant  
House Beauty Shop  
Majority Printing Clerk  
Minority Printing Clerk

Architect of the Capitol:

U.S. Senate Restaurants

Private organizations:

United States Capitol Historical Society

The expenditures for salaries, mileage, and expense allowances of Senators; salaries of officers and employees of the Senate; clerk hire of Senators; and other expenses of the Senate are audited on the basis of documents submitted to us.

We prepared 13 reports on audits of legislative branch activities during the year. These reports related to activities of the Senate, House, Architect of the Capitol, and the United States Capitol Historical Society.

On the basis of audits made pursuant to section 451 of the Legislative Reorganization Act of 1970, we reported to the Congress on the financial statements of the Majority Printing Clerk and the Minority Printing Clerk of the House of Representatives and the Capitol Historical Society for fiscal year 1972.

<u>Area</u>	<u>Number of countries</u>
European Branch (Europe, Africa, Near East, and South Asia) .....	30
Far East Branch (Southeast Asia and Pacific) .....	12
Latin America and other foreign areas .....	11
Total .....	53

## CHAPTER ELEVEN

# INTERNATIONAL OPERATIONS

## Responsibilities

The International Division audits international programs and the related activities of departments and agencies responsible for administering them.

During fiscal year 1973 the division was under the supervision of Oye V. Stovall, Director, and Charles D. Hylander, Deputy Director. In July 1973 J. Kenneth Fasick, former Director of the Logistics and Communications Division, was designated Director of the International Division, succeeding Mr. Stovall who retired from Federal service. During the year the New Delhi office of the European Branch was closed; the audit and review work in the area will be taken over by the Bangkok and Frankfurt offices. An organization chart for the division is shown on the following page.

## Audit Reports

During fiscal year 1973 we issued 72 reports on international programs—27 to the Congress, 21 to specific committees or Members of Congress at their request, and 24 to agency officials.

We made audits in 53 countries outside the United States.

## Assistance to the Congress

About one-fourth of our audit effort during the year was in response to congressional requests. In addition to issuing the 21 reports to committees or Members of Congress, we responded informally to numerous requests for information and provided such assistance as briefings, staff papers, statistics, and background data.

Several of our reports contained proposals for legislative consideration. (See app. 10.) As of June 30, 1973, legislative proposals to accomplish some of these objectives were in process.

We testified before congressional committees on two significant international matters: (1) the U.S. system for appraising and evaluating Inter-American Development Bank projects and activities and (2) the Foreign Assistance and Related Program Appropriations Bill for fiscal year 1974.

## International Trade and Monetary Affairs

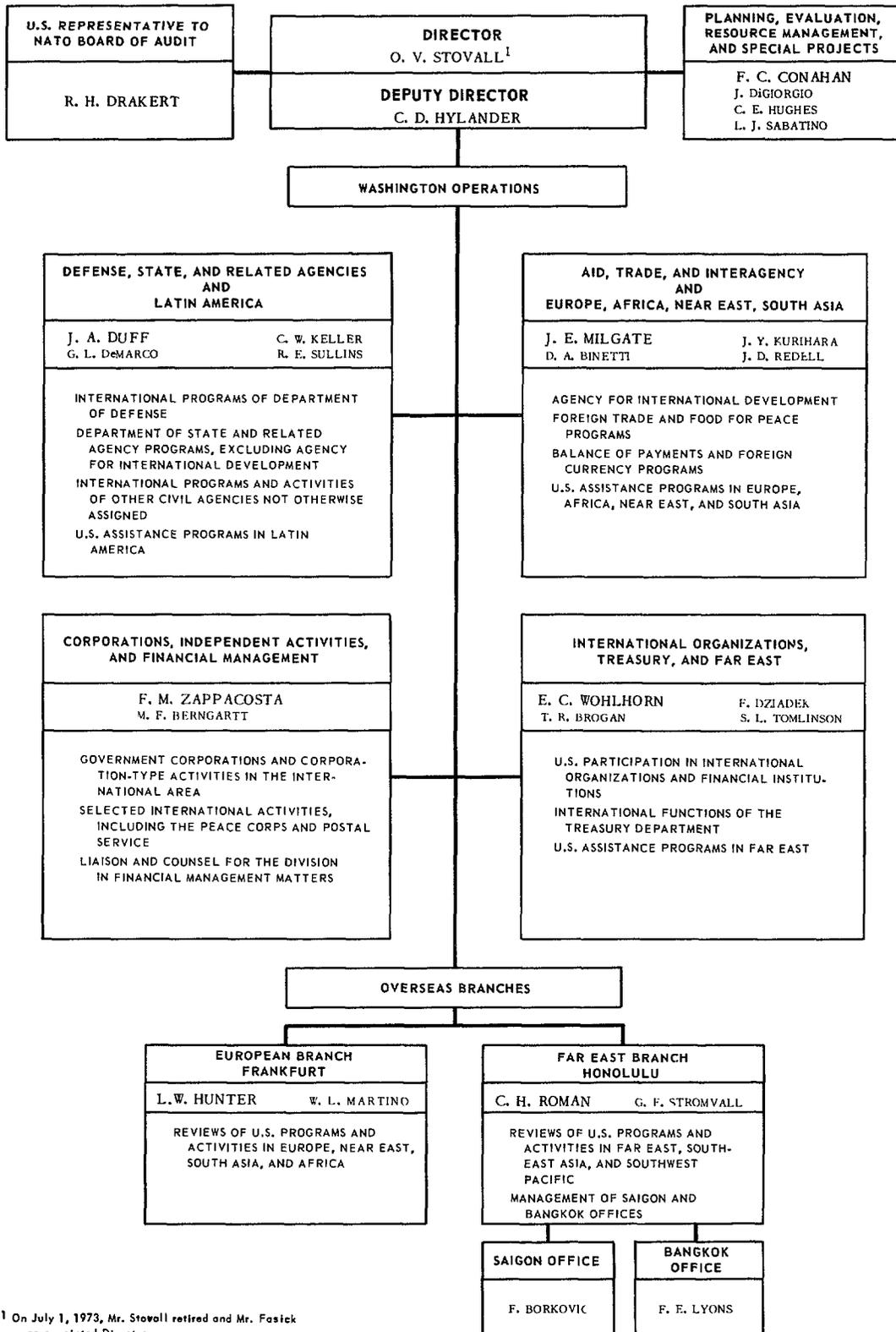
### International Trade

We reviewed and reported on a number of trade promotion and selected functional trade activities of the Departments of State, Commerce, and Agriculture and on the export financing activities of the Export-Import Bank of the United States (Eximbank). At the request of the Senate Committee on Finance, we studied the International Coffee Agreement.

We prepared 13 reports on these programs—5 to the Congress, 5 to committees or Members of Congress, and 3 to agency officials.

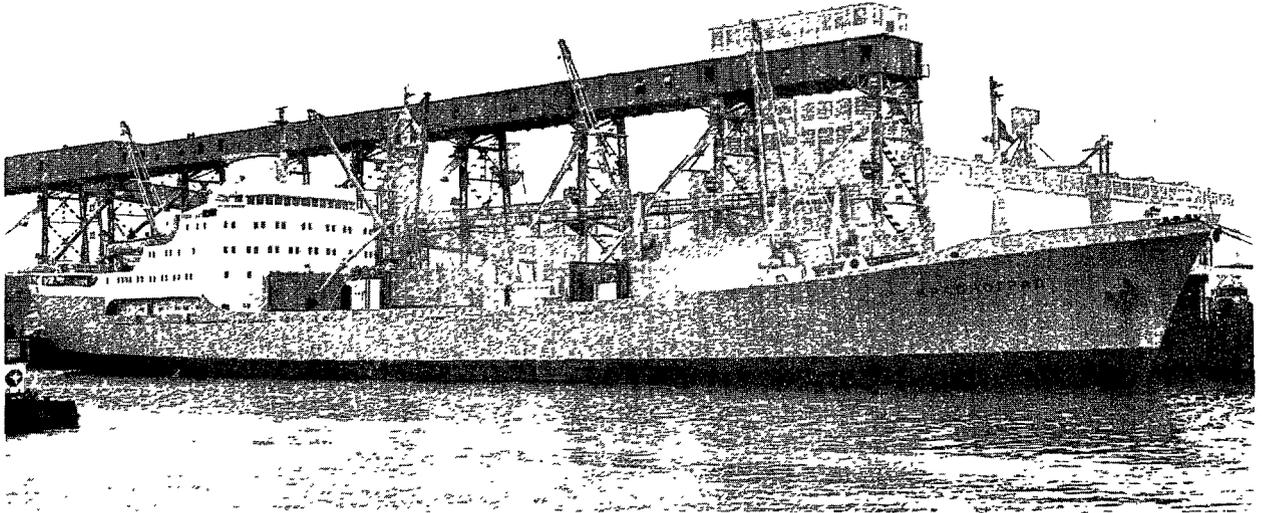
The Comptroller General appeared before the Senate Committee on Agriculture and Forestry in March 1973 to present findings from our examination of the 1972 sales of grains to Russia

INTERNATIONAL DIVISION



<sup>1</sup> On July 1, 1973, Mr. Stovall retired and Mr. Fasick was appointed Director.

JUNE 30, 1973



Russian ship loading wheat sold to Russia as part of the historic sale of grain in 1972.

and Agriculture's management of its export programs.

At the end of the fiscal year we were examining the (1) Government's system for identifying, analyzing, and acting on nontariff barriers to trade because of their importance to the trade environment, (2) U.S. travel service programs for encouraging people of other nations to visit the United States, (3) planning for commercial activities in foreign countries, and (4) expansion of exports through export trade associations.

#### **Russian Wheat Sales and Weaknesses in Agriculture's Management of Wheat Export Subsidy Program**

The sale of over \$700 million of heavily subsidized U.S. wheat to Russia and other exports in the summer of 1972 caused a dramatic rise in the price of U.S. wheat. The Department of Agriculture estimated that these sales resulted in net savings to the U.S. Treasury of \$457 million.

Agriculture is committed to pay over \$300 million in subsidies on these export sales. We believe a significant part of these sales would have been made even with reduced subsidies and that Agriculture should have responded more rapidly to available information on U.S. dominance as a world wheat supplier and reduced or eliminated the subsidies sooner.

We found that:

The program lacked appropriate controls to minimize the possibility of unusual profits accruing to exporters who speculate on subsidy registrations.

Agriculture had data on general crop conditions and significant changes in worldwide supply and demand but was unable generally to give farmers information needed for sound marketing decisions.

Despite annual subsidy outlays of millions of dollars, Agriculture has not comprehensively evaluated the program.

Our report to the Congress contained several recommendations to the Secretary of Agriculture for improving its management of the program. (B-176943, July 9, 1973.)

#### **Improved Foreign Market Analyses Can Increase U.S. Exports**

We identified factors that business must deal with to increase its sales of U.S. goods in other countries and concluded that improved foreign market analyses by the Commerce Department could assist in alleviating present U.S. balance-of-trade problems.

Our report to the Congress focuses on the system of collecting and reporting commercial information by the Foreign Service and states

that present methods do not develop the underlying reasons affecting the U.S. share of foreign country markets. Government and business officials we contacted agreed that existing reports lacked the details and analyses necessary to U.S. exporters. (B-172255, July 6, 1972.)

#### **Commercial Offices Abroad Need Substantial Improvements to Assist U.S. Export Objectives**

Our report to the Congress examined the effectiveness of U.S. commercial offices in other countries in assisting American business to increase export sales. Our examination of qualifications of 16 commercial officers assigned to 4 European countries showed a need for better qualified personnel.

We studied 13 commercial intelligence reports submitted voluntarily to the Commerce Department. Commerce took inadequate or no action on 8 of these reports.

Commercial office activities can be improved by better coordination between State and Commerce in establishing long-range objectives and strategies and a system of priorities to assist posts in attending to their more important duties. (B-172255, Oct. 24, 1972.)

#### **Ways to Increase Field Office Contributions to Commerce's Export Expansion Efforts**

With the U.S. trade surplus eroding, from an excess of \$7 billion in 1964 to a deficit of \$2 billion in 1971, we examined the effectiveness of the Department of Commerce field offices in helping achieve U.S. export goals.

Field offices were assigned 305 persons for fiscal year 1971 and were directed to devote 80 percent of their work to promoting exports, but as of June 30, 1972, the number of persons had dropped to 283. Field office efforts to provide international trade information and services to U.S. business firms have contributed modestly to Commerce export expansion goals.

We concluded that field offices could have done better and reached a greater number of firms with export potential. The export expansion program needed (1) realistic goals, (2) program priorities, (3) consideration of staff sufficiency when assigning programs, and (4) a measurement system compatible with program goals.

Commerce action to correct these weaknesses

has been limited despite similar findings by other groups that have studied the effectiveness of Commerce efforts. A recent study cited in our report showed that only 15 percent of field office manpower resources were devoted to programs containing objectives, priorities, or targets for export expansion.

Our report to the Congress contained recommendations to the Secretary of Commerce to increase field office contributions in expanding exports. (B-172225, Nov. 14, 1972.)

#### **Eximbank's Relending Programs Could Be Made More Effective in Promoting U.S. Exports**

Under relending programs, Eximbank extends 6-percent loans to banks or financial institutions in developing countries for relending (subloans) to local firms to finance purchases of U.S. goods or services.

Eximbank's basic policy is to provide financing without which U.S. export sales would not be made. After interviewing officials of 31 firms receiving \$6.3 million in subloans, we found that few sales of U.S. products were made under the program which would not have been made by some other means.

Although Eximbank's relationships with foreign financial institutions were expanded, many subloan repayment periods exceeded those customary in international trade, thus delaying both favorable impact on U.S. balance of payments and new opportunities to finance U.S. exports.

Our report to the Congress included recommendations to Eximbank for improving the program. (B-114823, Jan. 23, 1973.)

#### **Improved Management Information System Needed for Eximbank's Capital Loan Program**

Eximbank capital loans are a principal means of providing dollar credits to foreign borrowers to enable them to buy U.S. products. We examined the information on which Eximbank based its capital loans and found little documentation that Eximbank assessed such essential sale factors as price, delivery, competition, availability of private financing, or the effect these factors could have on the necessity for Eximbank financing to secure sales for U.S. suppliers.

Eximbank strongly disagreed with our implication that its financial assistance might not have been necessary to consummate export sales.

Improved management procedures recommended in our report to the Congress are intended to assist Eximbank in making loan decisions on the basis of more complete and documented information. (B-114823, Feb. 12, 1973.)

#### **The International Coffee Agreement and the Price of Coffee**

We made our study to determine whether the International Coffee Agreement, in its impact on coffee prices, has protected the American consumer. The focus was on prices of green coffee (unroasted coffee beans) because most of the coffee imported by the United States is in this form and these prices are under the direct influence of the agreement.

The basic question was whether the agreement had brought about higher prices than would have occurred without it. We concluded in our report to the Senate Committee on Finance that the agreement raised coffee prices during the 1963-72 period. We also found it enhanced the price rises following the 1963 and 1969 Brazilian frosts and the so-called Geneva Agreement in 1972. (B-175530, Apr. 30, 1973.)

#### **International Monetary Affairs**

##### **International Activities of the Department of the Treasury**

We made a survey of the organization and management of the international activities of the Department of the Treasury. In addition to providing background information for future audits of these activities, the survey was designed to assist us in our initial audit of the administrative expenses of the Exchange Stabilization Fund for fiscal year 1972. GAO audits of these expenses are required by Public Law 91-599, approved in December 1970. This audit was started during the year.

Our survey was designed to explore the nature of the Exchange Stabilization Fund and its relationship to other Treasury international activities. In our report addressed to the Secretary of the Treasury, we pointed out that, from the available information, we believed there was a need for him to evaluate the extent to which activities unrelated or remotely related to the

fund had been financed from the fund. We also pointed out the need for substantive audits of the international activities, consistent with Treasury's stated internal audit policy. (B-154506, May 22, 1973.)

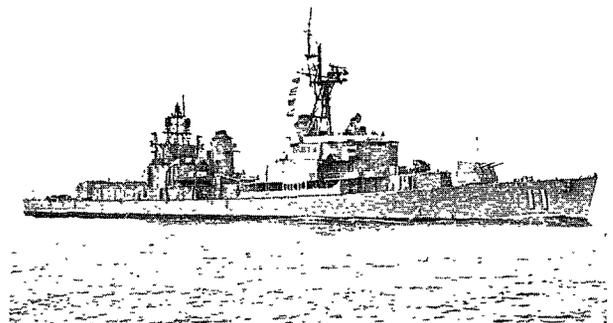
#### **National Defense International Security Programs**

##### **Military Assistance and Support of Other Nations**

International security programs are increasingly influenced by the objective, under the Nixon Doctrine, to seek greater self-reliance on the part of U.S. allies while continuing to provide substantial amounts of military assistance to certain countries. Concomitantly, individual Members and committees of Congress have expressed growing interest in reduced military assistance, international agreements as the basis of U.S. assistance, and the various forms and methods of financing military assistance to foreign countries and international organizations.

Thus our reviews of international security programs have focused on identifying U.S. security commitments and military assistance objectives while emphasizing programs which (1) continue at relatively high levels and (2) reflect a shift from the more traditional forms of funded aid to military sales and less visible programs, such as grants of excess defense articles, loans,

U.S. ship transferred to the ~~Republic of China~~ Republic of China.



and leases. This is shown in our reports issued during the past year and in our on-going work.

During fiscal year 1973, we completed 17 reports on international security programs—5 to the Congress, 5 to committees or Members of Congress, and 7 to agency officials. We have also assisted the Congress through oral presentations and the submission of factual data.

We are making reviews of the relationship between U.S. security commitments and military assistance objectives in Korea and Turkey, which continue to receive large amounts of military assistance. We are also continuing reviews of military sales, ship transfers, and certain concessionary procurement practices abroad.

#### **Excess Defense Articles and Other Resources to Supplement the Military Assistance Program**

At the request of the Chairman, Senate Committee on Foreign Relations, we reviewed certain aspects of the use of excess or surplus property under the Military Assistance Program and other ways the United States assists countries. We found that the magnitude of U.S. military assistance to foreign countries is not readily apparent because some assistance flows through pipelines, such as the use of excess defense articles, outside regular funded programs approved by the Congress.

Congressional presentation documents did not always disclose the magnitude of military assistance programs. For example, the acquisition cost of excess items actually provided in fiscal years 1964–69 was \$690 million greater than initially shown.

Since 1968 the Department of Defense has expanded the use of excess defense articles in MAP to compensate for reduced military assistance appropriations. This expansion led to the delivery of these articles to other countries on the basis of their availability rather than the countries' needs.

To preclude providing defense articles to other countries under existing legislation, without congressional approval, we recommended that the Committee consider legislation to authorize military assistance by grant, lease, loan, or other transfer only under the Foreign Assistance Act or successor legislation, except when another law expressly authorizes the transfer. Our report to the Committee was specifically

cited by the Committee Chairman as the basis for proposed legislative changes for more effective use of excesses and improved control over the transfer of naval vessels to foreign countries. We were also asked to assist the Committee in preparing legislative language to implement the report's recommendation. (B-163742, Mar. 21, 1973.)

#### **Military Assistance and Commitments in the Philippines**

U.S. military assistance has been directed toward providing advice and equipment to assist the Philippine Armed Forces in assuming a greater share of responsibility for their self-defense. Military assistance and related programs for the Philippine Armed Forces amounted to about \$777 million through fiscal year 1972.

We found that the Department of Defense has continued to provide military assistance even though the Philippine Government has not provided adequate financial support for its own forces nor furnished resources to use U.S. assistance effectively.

The situation concerning the limited Philippine budget support was similar to that brought to the attention of the Department in a 1965 GAO report. (B-133359, Apr. 12, 1973.)

#### **How the United States Finances Its Share of Contributions to NATO**

The U.S. contributions to the NATO budgets for 1972 were about \$85 million. However, we estimated that the United States spent at least an additional \$40 million incidental to NATO membership, including the cost of paying for U.S. Forces committed to NATO, unrecovered costs for prefinanced construction in Europe, and the cost of moving from France.

We believe appropriate congressional committees need consolidated information on the cost of U.S. participation in NATO and other international military organizations, a type of information not provided to the Congress by the executive branch.

In response to congressional requests based on our report, we have recommended legislative language to Members of the House and Senate to improve congressional oversight of the U.S.

contributions to NATO. (B-156489, Feb. 23, 1973.)

#### **U.S. Agreements With and Assistance to Free World Forces in Southeast Asia**

In recent years the Congress has been concerned over the number and scope of agreements by the executive branch committing the U.S. to provide substantial assistance to foreign countries.

The Department of Defense reported that, as of September 30, 1972, approximately \$12.6 billion of defense funds had been used to support the military forces of Vietnam, Korea, Thailand, Laos, and the Philippines.

We found that assistance provided under the agreements was often funded from multiple sources and not always fully identified or reported to the Congress. From this we concluded that the executive branch needed to exercise more coordinated control and management over the execution of such agreements.

We also found no evidence that the Congress is notified or advised before the executive branch enters into specific agreements or commitments obligating the United States to incur substantial expenditures. (B-159451, Apr. 24, 1973.)

#### **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.

CORDS is not an independent agency but an administrative device operating with resources and personnel from several agencies. CORDS receives funding from the individual appropriations of the Department of Defense, the Agency for International Development, 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.

We suggested that the Congress reexamine the need for continuing the funding of the major portion of the pacification and development programs from regular Department of Defense appropriations and consider appropriating funds for such activities in Vietnam as military assistance under the Foreign Assistance Act. (B-159451, July 18, 1972.)

#### **Multilateral Development Assistance**

The United States participates in multilateral development assistance primarily through programs managed by the international financial institutions and the United Nations system. The multilateral approach allows for sharing the aid burden with other industrialized countries, but it reduces the amount of control the donor has over the use of the contributions. While the executive branch favors continued expansion of the multilateral approach to aid, the Congress has expressed concern over the level of U.S. participation in the international organizations and the management of funds by these organizations.

During the fiscal year we completed three reports to the Congress and one to a committee on U.S. participation in multilateral programs. We also appeared before the Subcommittee on Inter-American Affairs, House Committee on Foreign Affairs, in September 1972 and presented the results of our review of the management of U.S. participation in the Inter-American Development Bank.

In view of congressional concern over the level of U.S. participation in international organizations, we are studying the method used for determining the size of the U.S. contribution to the United Nations and to its development program. At the request of the Chairman of the Subcommittee on Inter-American Affairs, we are evaluating the accomplishments of the Social Progress Trust Fund and the adequacy of current procedures and practices for using the fund's resources, administered for the United States by the Inter-American Development Bank.

### **U.S. Participation in the Inter-American Development Bank**

The United States has contributed 95 percent of the Bank's hard currencies which cumulatively amounts to \$3.5 billion with another \$1.8 billion commitment in the current replenishment.

We reported to the Congress that the U.S. management of its participation in the administration and operation of Bank projects and activities showed that the executive branch has followed a soft line or low-profile approach in dealing with the Bank and its members. Consequently, the Bank has acquired a reputation as a "borrower's bank," as the 22 Latin American member-clients shape its policies and generally dictate the terms and conditions under which they borrow. We also noted that the executive branch does not have an adequately functioning system for appraising proposed activities, following through on their implementation, or evaluating the results nor is it in a position to reliably assure the Congress that U.S. funding is effectively and economically used.

We recommended that the Secretary of the Treasury (1) support and pursue implementation of appropriate recommendations made by the Bank's review and evaluation group, (2) develop criteria and procedures to guide U.S. officials in appraising projects, following implementation, and evaluating results, and (3) develop and obtain Bank adoption of firm, sustainable lending criteria.

The Department of the Treasury strongly objected to our discussions of the foreign economic policy issues confronting the executive branch in managing U.S. participation in the Bank. We believe these issues are appropriate for disclosure so that the Congress may be better informed in exercising its oversight role concerning U.S. support. The Department also rejected our suggestion to furnish information on the actions taken to correct management problems observed during internal reviews of Bank operations. Such information would assist the Congress in its oversight function.

We suggested that the Congress, in future deliberations on authorization and appropriation requests for the Bank, may want to consider whether the executive branch's low-profile approach in dealing with the Bank and its refusal

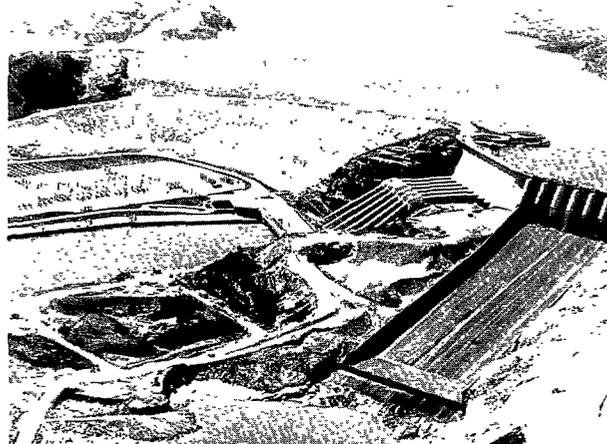
to provide data on Bank problems and operations is compatible with the magnitude of financial support the Congress is asked to approve for Bank contributions. (B-161470, Aug. 22, 1972.)

### **U.S. Participation in the World Bank and International Development Association**

The United States is the largest financial contributor to these institutions; as of June 30, 1972, it had contributed 26 percent and 33 percent of the total amounts paid to the World Bank and the Association, respectively, by their members. We reported to the Congress that the Treasury did not yet have an adequate system for managing U.S. participation in the Bank. We also reported that (1) although the Bank had increased loan commitments substantially during the past several years, loan disbursements continued to lag and (2) because of the slowness in getting projects underway—as measured by gross disbursements—and the rapid growth in principal and interest payments, the Bank has not been a significant factor in the net transfer of resources to developing countries in recent years.

We made several recommendations to the Secretary of the Treasury for improving the system for managing U.S. participation in the Bank. We also recommended that the Secretary should seek establishment of a review body to effectively evaluate Bank and Association activities. (B-161470, Feb. 14, 1973.)

A World Bank assisted hydroelectric plant in Brazil.



### **U.S. Participation in the Asian Development Bank**

The U.S. role in the Asian Development Bank's lending activities involves reviewing projects for Bank financing and suggesting needed changes in the projects.

We reported to the Congress that, although improvements have been noted, the Treasury was not in a position to assure the Congress that funds contributed were being used effectively to accomplish the objectives.

We made several recommendations to the Secretary of the Treasury for improving the U.S. management system. We also recommended that the Congress consider having the U.S. representative to the Bank propose a program of continuing independent reviews of Bank development activities.

With our assistance, a legislative proposal to accomplish these objectives in the World Bank, the Asian Development Bank, and the United Nations system was introduced in June 1973 as an amendment to the Foreign Assistance Act. (B-173240, May 8, 1973.)

### **Bilateral Development Assistance**

Many U.S. departments and agencies participate in development assistance to foreign countries. Primary among these agencies is the Agency for International Development, which administers U.S. economic assistance programs under the Foreign Assistance Act. Other agencies include the Peace Corps, Eximbank, and the Overseas Private Investment Corporation.

During the fiscal year we completed 29 reports on bilateral assistance programs—13 to the Congress, 9 to committees or Members of Congress, and 7 to agency officials. Our reports covered a range of foreign assistance activities, such as family planning, control of drug traffic, impact of developing countries' debt burden, and broad reviews of U.S. programs in individual countries.

Direct assistance to committees and Members of Congress continued to be a significant part of our work in foreign assistance. We worked with the Subcommittee on Foreign Operations, Sen-

ate Committee on Appropriations; Subcommittee on Multinational Corporations, Senate Committee on Foreign Relations; Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations; and Subcommittee on the Near East and South Asia, House Committee on Foreign Affairs.

We also appeared before the Senate Subcommittee on Foreign Operations to discuss our work on foreign assistance as part of the hearings on the Foreign Assistance and Related Program Appropriations Bill for fiscal year 1974.

At the end of the fiscal year, we were working on reviews of U.S. programs in Brazil, Ghana, Jordan, and Korea; a study of unliquidated obligations in the foreign assistance pipeline; and a review of the underwriting and claims payment policies and practices of the Overseas Private Investment Corporation.

### **U.S. Programs in the Republic of Zaire**

Our report to the Congress provided information on the results of the programs administered by various U.S. agencies, identified factors significantly affecting achievement of objectives, and offered observations for improving effectiveness of U.S. programs.

From 1960 to 1971 the United States provided about \$630 million of the \$1.1 billion in external assistance to Zaire. Since 1967 and the passing of the emergency phase of Zaire's development, U.S. bilateral assistance has averaged \$18.4 million annually.

We recommended that the AID Administrator reconsider the potential value of an overall Zairian plan for developing the agriculture sector and encourage and assist Zaire in developing such a plan. We also made recommendations to the Secretary of State for enhancing U.S. trade opportunities in Zaire. (B-177109, Dec. 8, 1972.)

### **Development Assistance to Ecuador**

We reported to the Congress on the administration and effectiveness of U.S. economic and military aid to Ecuador—a country where political instability has affected U.S. policy decisions and continuity of operations. We noted that:

Short-term U.S. program objectives, goals,

and priorities in Ecuador have shifted frequently and that long-term U.S. objectives remain uncertain.

U.S. assistance has helped to (1) construct or modernize transportation and power production facilities, health accommodations, and schools, (2) feed people, (3) transfer skills, (4) change attitudes, (5) cement relations, and (6) protect certain U.S. economic interests. Some accomplishments were small, measured against the aggregate need.

U.S. assistance has not helped Ecuador achieve increased political stability or accelerate progress in economic productivity, social reform, educational opportunity, housing, health, or employment availabilities—the basic and ultimate purpose of U.S. developmental assistance.

We recommended legislative action which would provide guidance for foreign assistance program implementation. (B-146998, Feb. 27, 1973.)

### **U.S. Assistance and Other Support to the Philippines**

We reported to the Congress that, although the United States has achieved its primary military objective in the Philippines, the economic and social growth programs have been plagued with serious problems. From 1965 through 1971, direct U.S. economic and military assistance averaged \$68 million annually, although the total U.S. dollar inflow averaged \$388 million annually due to sugar premium payments, tariff agreements, and U.S. military spending which are less visible. These latter amounts stem from U.S. Government programs serving specific U.S. interests and are not necessarily directed to the orderly development of the Philippine economy.

In view of the magnitude of the indirect assistance provided through sugar premiums and the great interest of the United States in assisting with Philippine economic and social development, we recommended that the Secretaries of State and Agriculture develop methods to direct at least part of the sugar premium payments to economic and social reform programs. (B-133359, Mar. 2, 1973.)

### **U.S. Interests and Activities in Nepal**

The United States has no vested interests in Nepal. Trade between the two countries averages \$3 million annually. There is one private American investment of about \$250,000.

The AID program is consistent with U.S. interests in Nepal. It helps to develop technical skills and the economic and administrative machinery necessary for Nepal to absorb capital assistance from other donors.

A unique feature has been the use of U.S.-owned excess Indian rupees for program financing, which in fiscal year 1971 financed over 80 percent of AID's \$15.4 million program in Nepal.

India has been unwilling thus far to extend its longstanding agreement for this use of rupees beyond fiscal year 1973. Our report to the Congress pointed out that, unless rupee support is continued, dollar financing would need to be increased if U.S. assistance to Nepal is to continue at its present level. (B-177681, Mar. 16, 1973.)

Technicians trained at an AID-assisted project in Nepal.



## International Control of Drug Traffic

Intensive activity is taking place to limit international traffic in drugs. Nearly \$50 million is included in the 1973 Federal budget for overseas drug control measures, and cooperative drug control plans have been approved for over 50 countries.

Multilateral actions through United Nations bodies have introduced programs of crop substitution in some countries and strengthened law enforcement capabilities in others.

A private study observed that:

Past reliance on law enforcement measures has not stopped an epidemic growth of heroin addicts.

U.S. policy of resorting to criminal sanctions to eliminate addiction has bred a thriving illegal market, sustained by criminal activity.

Profits in domestic drug distribution are so great that it is unlikely the risks can be raised high enough to force pushers out of business.

The illegality of heroin is the sole reason for its high cost in this country; in England the pharmacy cost of heroin is 4 cents a grain compared with a U.S. street price of \$30 to \$90 a grain.

We concluded in our report to the Congress that greater effort and resources must be spent to curb the demand for heroin. (B-176625, Oct. 4, 1972.)

## Developing Countries' External Debt and U.S. Foreign Assistance: A Case Study

In a growing number of developing countries, external public debt has become a heavy burden on further economic growth. By December 1970, 80 developing countries had accumulated over \$66 billion in external debts.

Debt service (interest and amortization) payments on these debts increased by about 18 percent in 1970, reaching nearly \$6 billion.

Such payments, which are expected to continue rising, represent a significant-to-critical drain on resources and underscore the developing countries' debt burden. In our report, we noted that the Congress may wish to consider:

Playing a larger role in determining U.S. policy concerning debt relief to developing

nations and in related program oversight concerning the terms and conditions under which assistance in the form of debt relief may be granted.

Requiring comprehensive annual reporting by the Secretary of State, to be submitted in January of each year so as to be available to the committees of the Congress when considering authorizations and appropriations proposals.

(B-177988, May 11, 1973.)

## Assistance to Family Planning Programs in Southeast Asia

Our review of the family planning programs funded by AID in Indonesia, Laos, Thailand, and the Philippines showed that these programs are definitely needed to reduce population growth rates in all but sparsely populated Laos.

We reported to the Congress that AID funds available for the programs were more than needed and that during the last month of the fiscal year AID obligated large amounts for undefined program requirements so funds would not be lost to the program. The countries' inadequate administrative and logistics systems contributed to problems of defining program requirements, making proper distribution, and maintaining accountability for the commodities.

We made several recommendations to the Administrator of AID for improving control over program funds.

In view of AID's using Foreign Assistance Act title X funds (for programs relating to population growth) for health and nutrition programs not directly related to reducing population growth rates, we suggested in our report that the Congress may wish to consider expanding the purposes of title X to provide for a coordinated program of family planning, health, and nutrition. (B-173240, May 23, 1973.)

## A \$20 Million Grant Supporting India's Family Planning Program

In 1970 AID announced a grant of \$20 million to India to help expand its population control program. AID said the grant, under title X of the Foreign Assistance Act, provided for funds to be spent in the United States for goods



AID-sponsored family planning counseling in Thailand.

and services normally imported by India and financed by development loans.

In light of the background of title X and the substantial amounts of U.S.-owned excess currency in India, the grant seemed unusual. Although its stated purpose was to further objectives of the family planning program, it appeared to have the attributes of general economic assistance.

With population growth of 14 million a year nullifying about two-thirds of investments in economic growth and social progress in India, the Congress has expressed concern about the harmful impact of this situation on the U.S. foreign aid program. The Congress also has criticized AID for doing too little in population planning.

The report to the Administrator of AID contained our opinion that conditions in India were not conducive to increasing India's family

planning program or improving management of the program by making this dollar grant to India which has only resulted in additional general development assistance. (B-161854, Jan. 12, 1973.)

#### **Assessing the Performance of AID-Financed Projects in India**

From 1951 through 1970 AID made dollar loans totaling \$712.3 million and local currency loans equivalent to \$394.9 million for capital projects in India—concentrated in electric power, manufacturing, and railways.

We reviewed capital projects involving AID assistance of \$5 million or more which had been completed at least 1 year but not more than 10 years, to try to determine the success of these projects, achievements of project goals, and AID's actions when goals and objectives were not met. There were 19 such projects having loans



An AID-assisted hydroelectric project in India.

totaling \$687.4 million—\$418.1 million in dollars and the equivalent of \$269.3 million in local currency.

Our report to the Congress showed that AID was limited in its ability to assess the effectiveness of its assistance and lacked information on which to propose and to negotiate corrective action with appropriate Indian agencies.

AID recently established a system for obtaining production and other data necessary to ascertain whether anticipated levels of production and use are being achieved and to identify and analyze reasons for shortfalls. The system is directed only to projects to be completed in the future. (B-146749, Aug. 3, 1972.)

### **Standardizing Maintenance Allowances for Foreign Students**

At the request of the Chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations, we monitored AID actions concerning adopting standardized maintenance allowances for foreign students. This request was

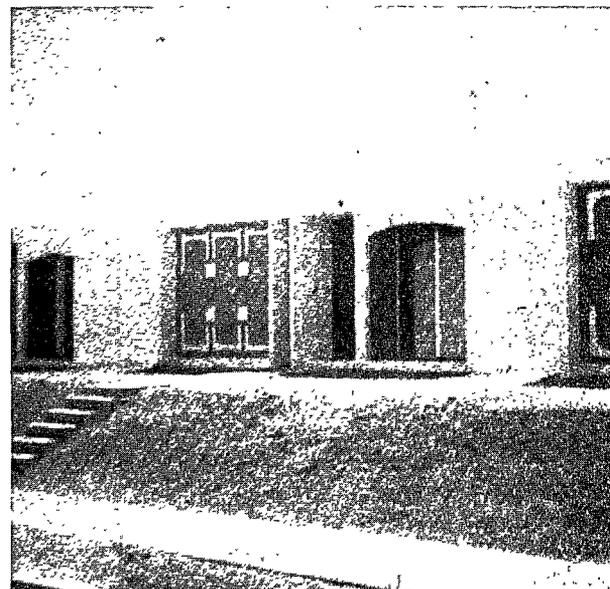
motivated by our May 1972 report pointing out the disparity in maintenance allowances for foreign students sponsored and supported by AID and the Department of State.

AID and State standardized maintenance allowances for students in comparable programs effective January 1973. Savings were generated by AID's (1) decreasing the maintenance allowance rates paid to most of its students and (2) discontinuing supplemental maintenance expenses to its students involved in the change-over. We estimated that this action, involving more than 2,600 students at 222 institutions, would result in net annual savings of \$900,000. (B-173240, Feb. 8, 1973.)

### **Housing Investment Guaranty Program**

At the request of the Chairman, Senate Committee on Foreign Relations, we reviewed the program's effectiveness in Central America and the financial aspects of the program managed in Washington, D.C. In attempting to fulfill its

Housing in Nicaragua financed by the AID Housing Investment Guaranty.



legislative objectives, the Housing Investment Guaranty Program in Central America:

Financed functional, attractive, and generally self-liquidating housing.

Contributed immeasurably to the development of housing institutions and the mobilization of savings.

Had no appreciable impact on improving housing conditions for lower income families because only the upper 25 percent of the economic stratum could afford housing under the program.

Had no appreciable impact on improving housing conditions when measured against relative need.

We made several other recommendations directed at improving financial reporting and management of the program. (B-171526, May 22, 1973.)

### **AID Loan Program Financial Statements**

We reported to the Administrator of AID that AID's system of accounting and internal control during fiscal years 1969-71 could not be fully relied on to insure that Loan Program assets were properly accounted for or to produce reliable overall financial statements and management reports for internal and external use.

We believe that major improvement is needed in AID's loan accounting system and that AID should place more emphasis on the value of financial reports for management purposes. (B-133220, May 18, 1973.)

### **Overseas Private Investment Corporation**

The Overseas Private Investment Corporation is a U.S. Government corporation which insures and guarantees U.S. investors against certain political and business risks in less developed countries.

We reported to the Congress that the financial statements, except for accounting for the Corporation's potential claim liability, presented fairly the financial position of the Corporation at June 30, 1972, and the results of its operations for the year then ended. Due to the many imponderable factors affecting potential claims for expropriation losses in Chile, as well as those

affecting the contingent liability that the Corporation incurred as a result of its other contracts of insurance and guarantees in force, we were not able to express an opinion on the adequacy of the amount reserved for losses. (B-173240, June 13, 1973.)

### **Eximbank Financial Statements**

We reported to the Congress that the financial statements, except for the treatment of sales of certificates of beneficial interest, presented fairly the financial position of Eximbank at June 30, 1972, and the results of its operations for the year then ended. The certificates of beneficial interest sold subject to contingent repurchase should, in our opinion, be considered as borrowing or financing transactions rather than as sales of assets.

We also reported that Eximbank had entered into agreements with the Private Exporting Funding Corporation, a private corporation, in hopes of attracting new private capital to finance U.S. exports. We questioned the need for the Corporation unless it could obtain funds from sources other than those already reached by Eximbank. If both obtain funds from the same sources and the Corporation charges higher interest rates, it may be unnecessarily increasing the cost of U.S. exports. (B-114823, Apr. 30, 1973.)

### **Other International Activities**

The management and operations of U.S. Embassies, consulates, and other U.S. installations in foreign countries and foreign information and exchange activities are primarily administered by the State Department and the U.S. Information Agency. We prepared one report on these activities to the Congress, one to a Member of Congress, and six to agency officials.

At the end of the fiscal year, we were reviewing (1) State's role in the international petroleum crisis, (2) allowances and benefits paid to U.S. Government employees overseas, and (3) management of real property overseas.

### **Language Training Programs and Assignments for U.S. Government Personnel Overseas**

The U.S. Government spends about \$60 million annually for training and associated language research for about 18,000 military and civilian personnel in about 150 foreign languages.

In 1960 the Congress required that foreign language competence of key U.S. Government representatives be improved. Our report showed that little progress was achieved in the past decade toward substantially raising foreign language competence of U.S. staffs abroad.

In the State Department, language-essential positions not satisfactorily filled increased from 38 percent in 1963 to 43 percent in 1972. In virtually all agencies, language-essential positions were staffed with individuals lacking required capabilities.

We made a number of recommendations to improve Government management of language-training facilities and programs and use of the language-proficient personnel. (B-176049, Jan. 22, 1973.)

### **Management of Foreign Bank Accounts**

The U.S. Disbursing Officer at the State Department's Regional Finance and Data Processing Center at Paris, France, maintains cash balances in numerous foreign banks to permit disbursements in the currencies of about 80 countries. The officer could reduce the interest expense incurred by the U.S. Government by keeping these bank balances at minimum levels. In a report to the Assistant Secretary for Administration, State Department, we stated that the average daily balances held by these banks could, with proper management, be reduced from \$14 million to \$4 million. We pointed out that a sustained reduction of this size would, by limiting the need for future Treasury borrowings, save about \$540,000 a year in interest paid by the U.S. Government. (Oct. 13, 1972.)

### **Access to Records**

Difficulties have continued in getting access to information needed in our reviews of foreign

assistance, programs involving U.S. relations with foreign countries, and U.S. participation in international organizations. These difficulties were discussed in our testimony before the Subcommittee on Foreign Operations of the Senate Committee on Appropriations on April 9, 1973.

Our work in the Departments of Defense, State, and the Treasury continues to be greatly delayed because of the extent of case-by-case screening and referrals of our requests through channels into the upper levels in the Departments in Washington. Although absolute denials of access to a document are quite rare, this time-consuming process hampers our audit work.

Our position is that the right of generally unrestricted access to documents and information is based on the laws enacted by the Congress and is inherent to the duties and responsibilities of the Comptroller General.

Since the hearings, we have noted some progress in localized situations and, in general, less resistance than previously experienced. We are continuing to work on these problems with Defense, State, and the Treasury to obtain the information we think necessary to make our audits.

### **Foreign Visitors**

Each year the General Accounting Office receives numerous visitors from foreign countries who seek information about how GAO operates and its role in relation to activities of the executive and legislative branches. Many of these visitors are students of foreign countries whose visits to the United States are sponsored under U.S. foreign assistance programs.

During fiscal year 1973, we briefed and talked to individuals and groups from 21 countries and the Commission of European Communities. Such assistance is limited to a few hours of orientation and briefing and does not involve long-term training. The visiting foreign nationals included embassy officials; audit organizations officials; finance, budget, treasury, and other departmental officials; members of legislatures; national bank officials; staff members of international organizations; and others holding senior financial management positions in government.

## Transportation Payments

Approximately \$1.7 billion of commercial transportation directly procured by the Federal Government annually is for services procured on standard forms and is audited centrally in GAO on the basis of paid bills submitted by Government agencies. Other expenditures for directly procuring commercial transportation, which consist primarily of contract services including the transportation of mail, payments by the Military Sealift Command for commercial ocean services, and payments by Government corporations, are audited onsite.

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

Federal agencies are required to pay the bills of carriers upon presentation before audit by GAO. Because accountable officers are exempted by law from liability for any overcharges by carriers improperly applying rates or from charges on services procured by standard forms, paid transportation bills are submitted to us for central postaudit, for determination of overcharges, and for recovery of overcharges directly from the carriers.

During the fiscal year we audited 4.1 million bills of lading for freight shipments, for which the Government had paid about \$800 million, and 2 million transportation requests, for which the Government had paid about \$600 million. From our audit of transportation payments, we issued 74,586 overcharge notices to commercial carriers requesting refunds totaling \$11.9 million. Collection from carriers totaled \$12.8 million, which was credited to basic appropriations of the procuring agencies or, where this was not possible, deposited in the Treasury as miscellaneous receipts. A summary of this activity for fiscal year 1973 is shown below.

## CHAPTER TWELVE

# TRANSPORTATION AUDIT AND CLAIMS SETTLEMENT

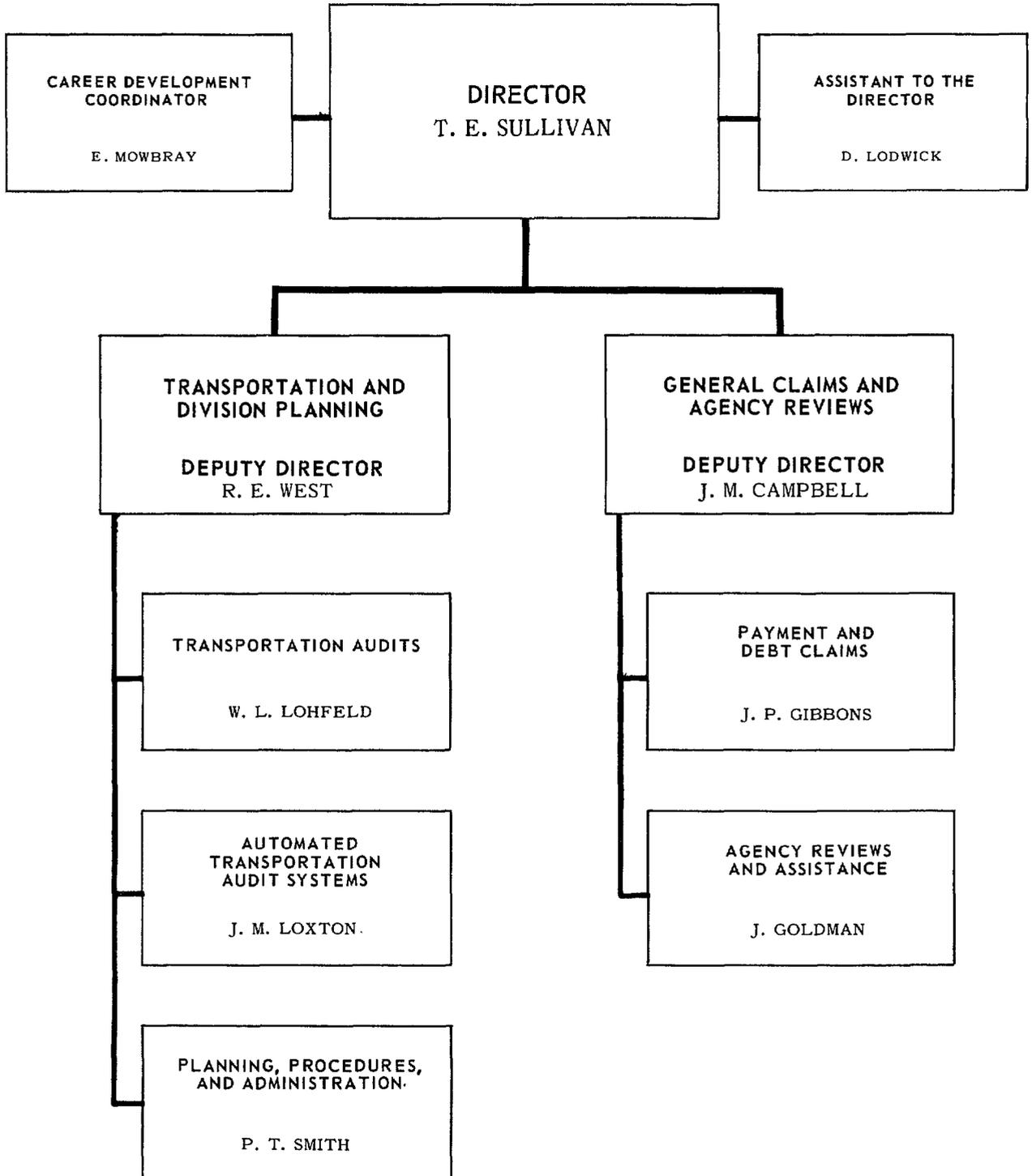
## Responsibilities

The General Accounting Office determines the correctness of charges paid for freight and passenger services furnished for the account of the United States, recovers overcharges, and settles transportation claims both by and against the Government. We also settle and adjudicate all general claims and demands by or against the United States. In settling transportation and general claims, we furnish technical support and other assistance to the Department of Justice in its prosecution or defense of suits to which the United States is a party.

We review, evaluate, and report on the claims settlement, debt collection, and transportation activities of Government agencies and assist the agencies in improving their effectiveness in these activities.

The Transportation and Claims Division carries out the above functions. Its staff of approximately 700 professional, technical, and clerical personnel is headed by Thomas E. Sullivan, Director, and Deputy Directors, Ralph E. West (Transportation and Division Planning) and James M. Campbell (General Claims and Agency Reviews). An organization chart of the division appears on the following page.

TRANSPORTATION AND CLAIMS DIVISION



JUNE 30, 1973

**BILLS OF LADING AND TRANSPORTATION REQUESTS AUDITED DURING FISCAL YEAR 1973**

	Number	Amount paid	Notices of overcharge issued	
			Number	Amount
Bills of lading .....	4,097,553	\$ 830,389,145	64,281	\$11,046,636
Transportation requests .....	1,992,876	587,245,076	10,305	838,351
<b>Total .....</b>	<b>6,090,429</b>	<b>\$1,417,634,221</b>	<b>74,586</b>	<b>\$11,884,987</b>

The amount of payments audited was about 16 percent less than in the previous year, and the amount of the overcharges detected and reported to carriers was about 20 percent less. This was accomplished with 23 percent fewer audit hours than were used on the transportation audits in fiscal year 1972. A schedule showing transportation audits and collections for fiscal years 1964-73 is included in appendix 7.

As part of our review of transportation payments, we identified hundreds of shipments where the transportation services were procured at the legal rates but resulted in excess costs to the Government which were not recoverable from the carriers. These traffic management errors resulted from selecting uneconomical routes, modes of carriage, or types of service and were brought to the attention of responsible transportation officials of the agencies involved for corrective action.

**Transportation Claims**

Under our claims settlement authority, we

adjudicate transportation claims against the United States, with certain minor exceptions. These exceptions relate to claims for loss and damage, accessorial or supplementary transportation services, and amounts due because of carrier errors in computing the original bills. These latter claims are settled by the administrative agencies but reviewed in our audit of paid vouchers.

We received about 14,500 transportation claims and settled or otherwise disposed of 16,505 claims for approximately \$5.3 million. On original unpaid bills for \$864,000, which we audit to fully protect the Government's interest, we disallowed about \$164,000 because it exceeded the proper contract and/or tariff rates. The balance of the claims were supplemental bills of carriers for changes in their original charges or demands for replacement of overcharges we had collected. In disposing of these claims totaling about \$4.4 million, we certified for payment \$2.3 million and disallowed or terminated \$2.1 million. A summary of this activity is shown below.

**TRANSPORTATION CLAIMS RECEIVED AND SETTLED DURING FISCAL YEAR 1973**

Class of claims	On hand July 1, 1972	Received	Settled			On hand June 30, 1973
			Number of claims	Amount claimed	Amount allowed	
Freight .....	10,123	13,752	15,882	\$5,094,743	\$2,831,135	7,993
Passenger .....	443	697	623	173,924	156,005	517
<b>Total .....</b>	<b>10,566</b>	<b>14,449</b>	<b>16,505</b>	<b>\$5,268,667</b>	<b>\$2,987,140</b>	<b>8,510</b>

A schedule showing transportation claims settled during fiscal years 1964-73 is included in appendix 7.

**Payment Claims**

As a rule, Government agencies must pay the

obligations incurred in connection with their operations. There are, however, two classes of claims we must adjudicate before payment can be made or denied—those in which such reasonable doubt exists as to preclude action by the administrative agency in the absence of specific statutory authority and those in which the ad-

ministrative agencies are prohibited by law from paying before our settlement. We also consider all reclaims of items previously denied by administrative agencies, unless the agency involved determines that it can properly correct the administrative disallowance.

Claims against the United States arise from every kind of Government transaction and are received from private citizens, civilian and military personnel, business entities, and State and foreign governments. The categories of claims include Government contracts; compensation due civilian and military personnel, including overtime and premium pay; quarters and cost-of-living allowances; travel; transportation of household effects; per diem; allowances on changes of official station; retirement pay; compensation due deceased civilian officers, employees, and members of the Armed Forces and the National Guard; and miscellaneous claims by Government personnel and public creditors.

On July 1, 1972, we had on hand, exclusive of transportation claims, 2,642 payment claims; we received 6,459 during fiscal year 1973. During the same period, 6,563 claims were settled and a total of \$130.6 million was allowed. As of June 30, 1973, a closing balance of 2,538 claims was on hand. For fiscal year 1973, final action was taken on 430 claims which were barred because of the 10-year statute of limitations on filing claims in the General Accounting Office.

## Debt Claims

All Government agencies have primary responsibility for collecting debts arising under their activities. However, they must report to us for further collection action those debts on which they have taken appropriate collection action but which cannot be compromised or on which collection action cannot be suspended or terminated.

In connection with debts reported to us for collection, we locate debtors whose addresses are unknown, issue demands for payment, review letters of explanation, and procure information on the financial status of debtors. Every effort is made to identify amounts due debtors by the Government for application to their debts. Debt-

ors who cannot pay the entire amount of their debts at one time may make monthly installment payments commensurate with their ability to pay. When we cannot obtain voluntary payment of a debt, we refer the case to the Department of Justice for suit, provided the debtor's financial circumstances warrant such action.

We adjudicate debt claims submitted by other agencies because of doubt about the amount due, the legal liability of the parties involved, or the action to be taken. Similarly we independently adjudicate disputed claims asserted against debtors by the various agencies when requested by the debtors, their representatives, or the agencies concerned.

On July 1, 1972, we had on hand 28,767 debt claims with a face value of approximately \$46.6 million. During fiscal year 1973, we received 26,528 claims and disposed of 25,615. Our collection actions totaled \$4 million.

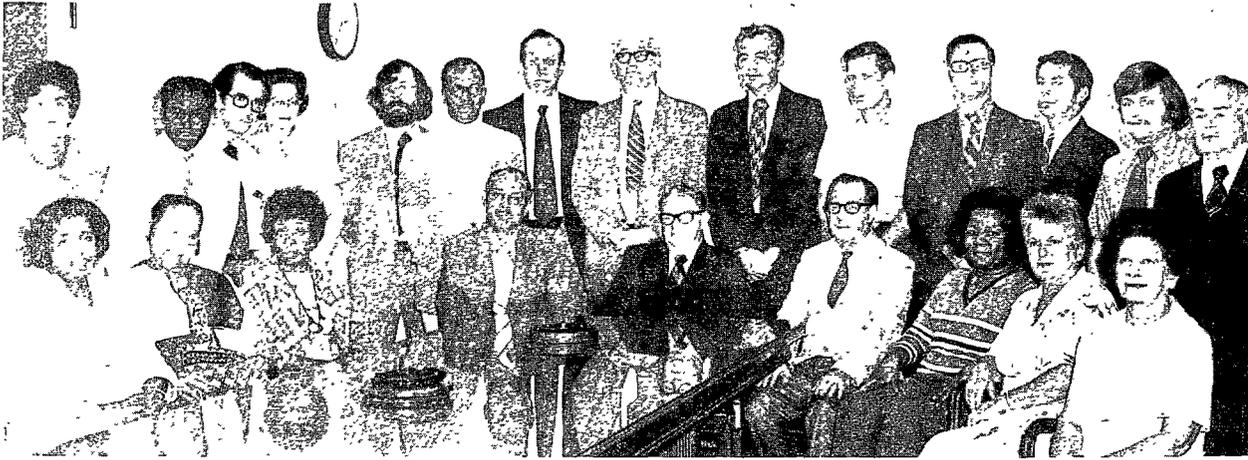
On June 30, 1973, 29,680 claims were on hand with a total estimated value of \$59 million. Of these, we have 9,472 claims representing accounts receivable of \$7.4 million under collection. The Department of Justice has another 4,105 claims for \$4.4 million under collection. Thus 13,577 claims with a combined value of \$11.8 million are under collection. The other claims are assigned to examiners and adjudicators for processing.

We have authority to compromise settlements on claims which do not exceed \$20,000, exclusive of interest. Compromise offers involving larger claims are referred to the Attorney General for disposition.

During fiscal year 1973, we solicited 21,964 compromises from debtors and made 451 compromise settlements, in which \$295,158 was accepted to liquidate debts totaling \$704,871. Compromise settlements accepted by GAO are final and conclusive on the debtor and on all U.S. officials, agencies, and courts.

Executive agency heads are authorized to waive claims for overpayment of pay to civilian employees and military personnel in certain cases of less than \$500. If the claim is for more than this amount or is the subject of an exception made by GAO in the account of any accountable officer, only GAO can waive the claim.

During fiscal year 1973, we processed 464 requests for waiver of erroneous payments of



The Employee Advisory Council of the Transportation and Claims Division, a group of nonsupervisory employees organized November 15, 1971, continued to serve as a communication medium between management and all nonsupervisory employees in the division. From the left, seated are Azzie Jones, Lillian W. Fogg; Barbara L. Manley; Arthur C. Lilly, Chairman; T. E. Sullivan, Director; Benjamin Kiefer; Celestine Clinkscale; Mary J. Harrison, Dorothy Welch Standing, left to right, Ruth R. Coffey, Harry Hooper; Charles LaMonte; Mary A. Esperancilla; J. C. Remington, Effinger W. Gaines; John I. Wallin, Regis T. Skeehan, Leonard L. Bryant; Fred E. Seets; Robert Richardson; William Hopkins, III, Jerry W. Duncan, and David Lodwick, Assistant to the Director.

pay totaling \$309,015. Waiver requests were granted for the full amount in 355 cases totaling \$208,178. Ninety-three requests totaling \$65,250 were denied, and the remaining 16 cases were denied in part—\$24,174 was waived and \$11,413 was denied.

### Agency Reviews and Assistance

During the year we prepared 13 reports covering reviews of agencies' transportation and traffic management activities and payment and debt claims activities. One report was submitted to the Congress, one to a congressional committee, three to Members of Congress, and eight to agency officials.

### Transportation and Traffic Management

#### Joint Agency Transportation Study

We submitted our summary report on agency implementation of the Joint Agency Transportation Study (JATS) recommendations to the Chairmen of 17 congressional committees and subcommittees and to the Director, Office of Management and Budget. This report supplemented the JATS report of September 25, 1970, which the same recipients had received.

The summary report covered the actions of GAO and other agencies responsible for implementing the JATS recommendations for developing better systems for conducting Government transportation business. We reported positive action in (1) centralized payment at agency levels, (2) automatic payment of freight charges, (3) automatic payment of airline ticket charges, (4) revision of the Government bill of lading and transportation request, (5) cash payment of freight and passenger charges, and (6) the computerized audit of transportation charges.

In furthering the implementation of the JATS recommendations, we assisted the Senate Committee on Commerce in drafting its report on legislation to exempt transportation payments from the scope of the statute prohibiting advance payments (31 U.S.C. 529). The President signed the legislation (Public Law 92-550) on October 25, 1972. (B-163758, Nov. 8, 1972.)

#### Payment of Alaskan Transportation for the Bureau of Indian Affairs

At the request of Senator Mike Gravel, we investigated the complaint of a barge carrier concerning its difficulties in getting Government bills of lading accomplished and in receiving payment on transportation vouchers presented to the Bureau in Alaska.

We reported that, with the enactment of

Public Law 92-550—the Transportation Payment Act of 1972—the problem of getting bills of lading accomplished, often difficult and time consuming at the remote villages served by the carrier, will be alleviated. This law has permitted us to develop a revised Government bill of lading eliminating the requirement for a consignee's certification of delivery and replacing it with a carrier's certification. This bill of lading will be given to the carrier at the time of shipping, and he will retain it generally throughout the shipment.

We also reported that the Bureau headquarters has requested its Alaskan area offices to improve their procedures for processing transportation vouchers. It has also agreed, as we suggested, to propose procedures to permit the forwarding of transportation vouchers directly to its payment center in Albuquerque, New Mexico, and thus bypass the handling in the Alaskan area offices. (B-163758, Mar. 13, 1973.)

#### **Loss and Damage Liability on Household Goods Shipments**

At the request of Congressman Sidney R. Yates, we investigated the handling of a military member's claim for loss and damage to his household goods and the practice of common carriers concerning liability when additional valuation was requested. The member had requested additional valuation on his shipment but, because the Government transportation officer handling the shipment had failed to properly annotate the shipment documentation of that fact, the carrier refused to honor a claim based on the additional valuation.

After reviewing numerous similar household goods shipments, we informed the Congressman that this case was unusual, because of the transportation officer's error in preparing documentation, and was not indicative of any general practice by carriers to shift liability to the Government. (B-176831, Feb. 7, 1973.)

#### **Payment and Debt Claims**

##### **Agencies' Implementation of Law Permitting Waiver of Erroneous Payments of Pay**

We reported to the Congress on 20 agencies' implementation of Public Law 90-616, an act providing for waiving in whole or in part a debt

claim arising out of an erroneous payment of pay to an employee of an executive agency on or after July 1, 1960. For a claim to be waived, the payment must have occurred through administrative error with no indication on the part of the employee of fraud, misrepresentation, fault, or lack of good faith.

Agencies' waiver procedures and operations generally complied with the act and the standards prescribed by the Comptroller General, but some initial confusion existed in formulating and administering the procedures. Also differences in interpreting the law and standards had resulted in nonuniform application. The Comptroller General's decisions and our advice and assistance on representative types of waiver requests have, however, contributed toward a common understanding and increased uniformity among agencies concerning the statute and regulations.

Much progress had been made toward accomplishing the two primary objectives of the waiver statute: (1) to relieve innocent employees of liability for erroneous payments of pay and (2) to relieve the Congress of the burdensome and time-consuming task of considering private relief bills. (B-152040, B-158422, Sept. 15, 1972.)

##### **Procedures for Recovery of Defaulted Student Loans**

In December 1971, we reported to Congress on improvements needed to recover defaulted loans under the Guaranteed Student Loan Program. Congressman Samuel L. Devine requested a progress report on the actions taken since then by the Office of Education, Department of Health, Education, and Welfare.

We informed the Congressman that much progress had been made and cited the implementation of our recommendations. The agency has taken or is beginning action to improve its collection operations, to reduce its backlog of unprocessed cases, and to revise its procedures, as recommended. (B-117604(7), Feb. 26, 1973.)

##### **Review of Administration of Debt and Payment Claims at the Agency for International Development**

In our report, we made suggestions to the Agency which would result in less duplication among its organizational units and increase overall efficiency. We helped revise collection proce-

dures and instructions, stressing the importance of screening debt files and acting promptly to avoid the possibility of legal action being barred by the statute of limitations.

Employees and their dependents who receive medical care at Government expense under the Foreign Service Medical and Health Program and who are covered by private medical insurance policies must claim and transfer to the Government such benefits as may be payable under these policies, less approved out-of-pocket medical expenses.

As of December 31, 1971, approximately 130 bills were outstanding under the program, almost half of which were issued before 1971. There was no follow-up action for as much as 1 year, no contact with insurance carriers, and minimal telephone contact with debtor-employees to determine whether they had filed claims with their carriers. Therefore we recommended the agency take appropriate action for insuring more timely processing and maintaining closer contact with debtors and carriers.

We also made suggestions on outstanding claims against contractors, overpayments to training program participants, and clarification on submitting doubtful claims to GAO. (B-117604(15), Feb. 7, 1973.)

### Followup Reports

In our continuing program for reviewing agency regulations, procedures, and operations for payment and debt claims, we reported to agency officials on actions taken on our previous reviews. These followup reviews covered the Marine Corps Finance Center, the Navy Finance Center, and the Air Force Accounting and Finance Center.

Each report noted that the agencies were generally following our prescribed policies and were consistent with the standards issued under the Federal Claims Collection Act of 1966. Corrective steps have been taken or were being actively explored in the areas in each finance office where we had suggested additional improvements in operations. (B-117604(2), Feb. 2, 1973; B-117604(2), Apr. 30, 1973; B-117604(4), May 27, 1973.)

### Other Traffic Management and Transportation Activity Assistance

During the year our assistance to various Government agencies in other aspects of their traffic management and transportation activities included:

- Auditing the transportation accounts of the U.S. Postal Service, on a reimbursable basis.

- Furnishing information on freight rates, household goods rates, and passenger fares and charges to the Department of Defense.

- Furnishing passenger fares and other transportation data to the Department of Labor for preparing the monthly Consumer Price Index.

- Providing guest lecturers at the Army Transportation School, Fort Eustis, Virginia, and the Military Traffic Management and Terminal Service General Traffic and Management Seminar in Atlanta, Georgia.

- Considering and acting on various requests from the administrative agencies for permission to deviate from established procedures to provide more economical and efficient traffic management.

We continued meeting with representatives of individual carriers or members of their trade associations to discuss and resolve mutual problems relating to our audit of carriers' bills. During the year we participated in seven meetings with various domestic and international trade associations and had numerous discussions in Washington, D.C., with carrier and carrier association representatives.

### Technical Assistance

We continued to provide technical assistance to the Department of Justice in its prosecution and defense of transportation suits by or against the United States and in proceedings before the Interstate Commerce Commission. As part of this assistance, transportation specialists participated in numerous conferences with members of the Department. As noted before, our assistance to the Department regarding general claims is limited to referring debts and advising on compromise offers.

We reported debts against carriers involving 376 items totaling \$109,634 to the Department for collection. During the fiscal year, similar

debts covering 663 items totaling \$245,679 were settled by collecting \$15,166 through judgments, compromises, or other methods.

The Department notified us that carriers had filed 19 suits covering 2,555 shipments. Four of the suits filed and about 1,856 of the shipments were on overseas movements of household goods by the Department of Defense. The amounts sued for are not stated in the petitions filed in those suits, but we estimate the liability of the United States on the approximately 850 suits filed in this and prior years to be about \$25 million as the final rulings of the court are applied.

In connection with the litigation on the movement of international household goods, the items which were in controversy and not delineated by the parties at the initial trial rendered on May 15, 1970 (192 Ct. Cl. 75, 426 F 2d 329) were decided December 12, 1972, in *Trans Ocean Van Service v. United States*. As a result, the plaintiff may submit claims on those issues that were favorable to the carrier.

The Department of Justice declined to consider our recommendation that a petition for certiorari be filed in *Global Van Lines, Inc. v. United States* (Ct. Cl. Nos. 259-65 and 355-65, decided Mar. 17, 1972). Thus this decision has become final. The plaintiff has already advised that he will file claims in accordance with this ruling.

We anticipate that the plaintiffs in the international household goods cases will file approximately 300,000 claims because of the favorable court rulings. The parties to the litigation are considering proposals and counterproposals for a compromise settlement of the suits filed by the plaintiffs.

In the same period, we furnished technical advice and other assistance to the Department of Justice in 21 suits for \$2,541,175 involving 2,120 shipments. Thirty-one suits, the subject of reports in this or prior years, involving 2,218 shipments and \$1,692,967, were settled by paying judgments for \$832,952 and by dismissing or withdrawing the balance.

The collecting of motor carrier overpayments is another activity of continuing importance in our audit and legal assistance work. Overpayments arise when carriers apply unjust and

unreasonable rates as defined by the Interstate Commerce Act. Reparations for overpayments to motor carriers may be recovered only through suits filed in the U.S. district courts. During the year we prepared reports on 10 motor carrier overpayments involving 57 shipments and claimed reparations of \$33,574. Nineteen of the cases were referred to the Department of Justice, and as of June 30, 1973, the Department had filed suits on most of them. When advised of unjust and unreasonable rate situations, certain motor carriers voluntarily refunded overpayments on 208 shipments totaling \$87,789.

### Transportation Documentation and Procedures

During the year we continued to make progress on implementing the documentation and procedural recommendations in the Joint Agency Transportation Study report. A major hurdle to implementing certain recommendations was cleared on October 25, 1972, with the passage of the Transportation Payment Act of 1972, Public Law 92-550. The act requires that standards be promulgated by the Comptroller General and the Secretary of the Treasury before any payments may be made under it. We completed a draft of the standards and in May forwarded it to the Department of the Treasury for review and comment.

We have finished revising the Government Bill of Lading and Government Transportation Request and have arranged with the General Services Administration for requisitioning the new forms early in July 1973. The new forms should be available for use starting January 1, 1974, and will simplify the procurement, payment, and audit of freight and passenger transactions. We have had numerous discussions with the Department of Transportation and the carrier industry about adapting the JATS-proposed bill of lading to the standard master format sponsored by the Department. Since there are many areas of conflict between the two formats, we have proceeded with implementing the JATS bill of lading but will continue to work with the Department to reconcile the differences.

Following a successful completion of a test

using a 5-part Government bill of lading for shipments via motor carriers from their Federal Supply Service depots, the General Services Administration has requested our approval to use this bill of lading permanently. The success and approval of this system is a prerequisite for

the General Services Administration's system-concept of providing automatic payment to motor carriers on a computer-printed Government bill of lading, prepriced with the transportation rate and charge. We are considering this request.

prescribed by the Comptroller General \* \* \*.” Other laws provide similar audit authority for unincorporated business activities. The Field Operations Division is responsible for such audits of the following corporations and other activities.

Agriculture Credit Insurance Fund  
Bureau of Engraving and Printing Fund  
Disabled American Veterans  
Environmental Financing Authority  
Federal Crop Insurance Corporation  
Federal Deposit Insurance Corporation  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Prison Industries, Incorporated  
Federal Savings and Loan Insurance Corporation  
Gorgas Memorial Institute  
Government National Mortgage Association  
Government Printing Office Revolving Fund  
Government Services, Incorporated  
National Credit Union Administration  
Panama Canal Company and Canal Zone Government  
Rural Telephone Bank  
Saint Lawrence Seaway Development Corporation  
Student Loan Insurance Fund  
Tennessee Valley Authority  
Treasurer of the United States  
Veterans Canteen Service

## CHAPTER THIRTEEN

# FIELD OPERATIONS

## Responsibilities

The Field Operations Division, through its headquarters staff and regional offices in principal cities of the United States, performs accounting and auditing work assigned by the directors of all GAO's operating divisions. In addition, it performs assigned audits under the Government Corporation Control Act (31 U.S.C. 841) and similar legislation and the audit and settlement of accounts of military disbursing officers.

This division is under the supervision of John E. Thornton, Director, and Stewart D. McElyea, Deputy Director. Its organization chart appears on the following page. A directory showing the location and managers of GAO regional offices, suboffices, and military audit staffs is included in appendix 9.

## Audits of Federal Corporations and Other Activities

The Government Corporation Control Act requires GAO to annually audit the financial transactions of Government corporations “in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be

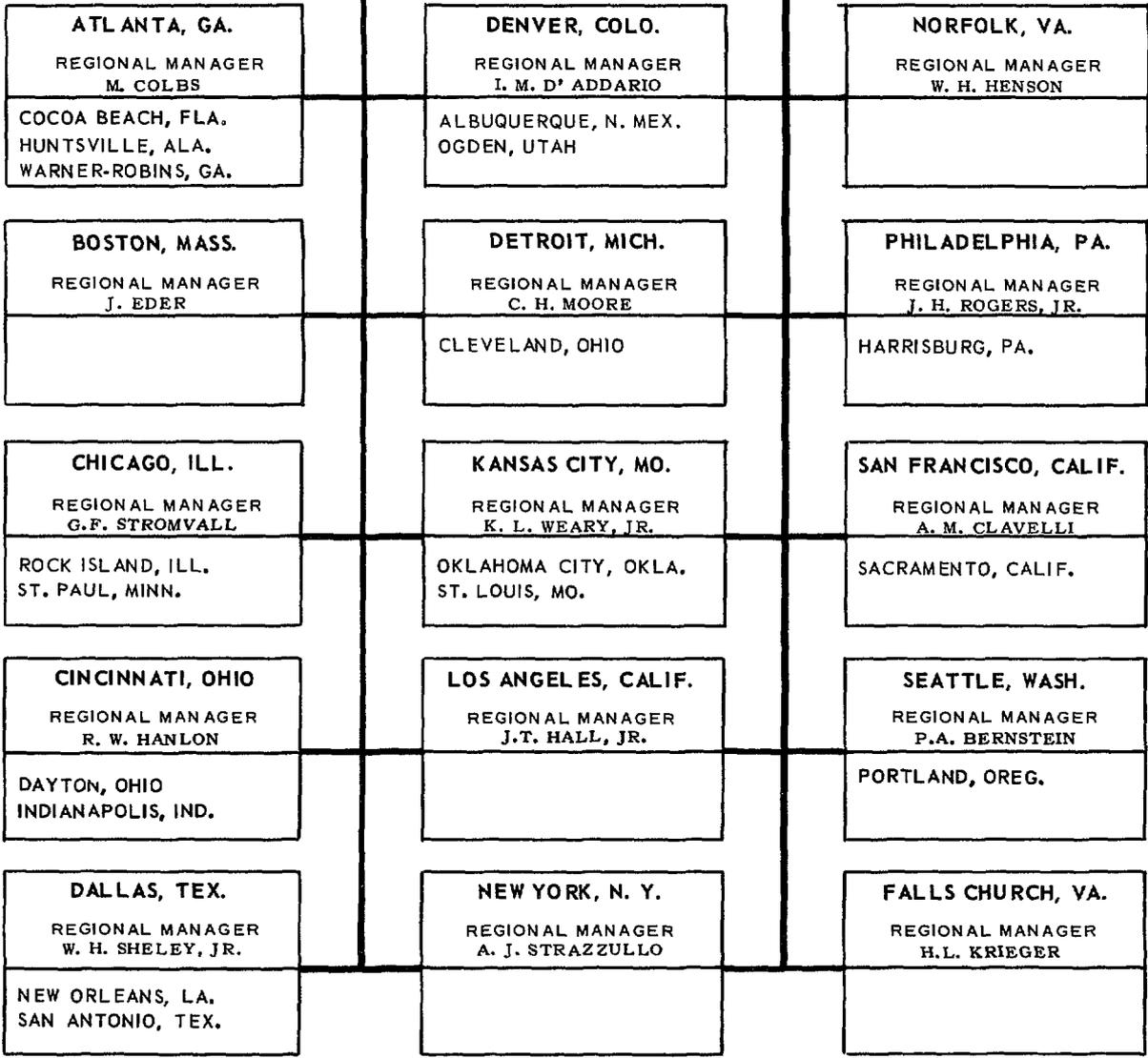
Audits of these corporations and other activities consist primarily of examining financial statements in accordance with generally accepted auditing standards. Eight reports were submitted to the Congress on this work during fiscal year 1973 in which we expressed opinions on whether the financial statements presented fairly the financial positions and results of operations of the Federal agencies involved. Twelve additional reports containing recommendations for improving agencies' financial management activities were issued to agency officials. These reports are included in the list of audit reports in appendix 2.

As in prior years, we could not fully discharge our responsibilities for auditing the Federal Deposit Insurance Corporation because the Corporation would not permit unrestricted access to reports, files, and other records relating to the banks it insures. Therefore, we could not ex-

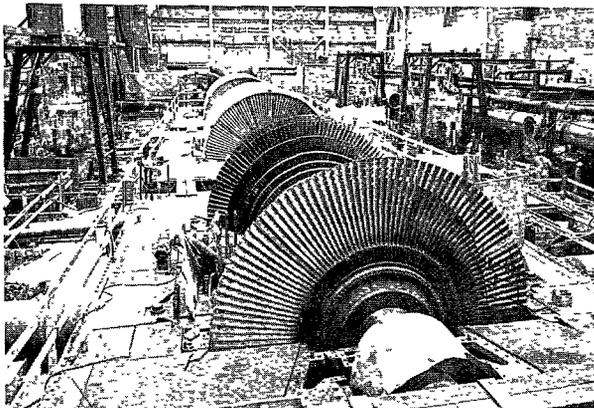
**FIELD OPERATIONS DIVISION**

<b>DIRECTOR</b> J. E. THORNTON
<b>DEPUTY DIRECTOR</b> S. D. McELYEA

**REGIONAL AND SUBOFFICES**



JUNE 30, 1973



View from inside the building housing turbine unit 2 at TVA's first nuclear power plant, Browns Ferry, near Athens, Alabama.

press an overall opinion on the Corporation's financial statements. We recommended in our report (B-114831, Apr. 23, 1973) that the Congress enact legislation which will clarify this access-to-records problem.

In the report on our audit of the financial statements of the Student Loan Insurance Fund for fiscal years 1971 and 1972, we expressed the opinion that the statements did not present fairly the Fund's financial position and results of its operations because no liability was established for estimated future losses on insured loans, insurance premium income was based on records we could not verify, records were not adequate to confirm receivables, and inappropriate rates were used in computing interest and allowance for losses.

We recommended that the Secretary of Health, Education, and Welfare have the Office of Education develop records for efficient administration and for preparation of accurate financial statements, fully inform the Congress on the program's future financial requirements, recognize insurance premium income when billed, include estimated losses on insured loans, remove uncollectible items from loans receivable, and compute the allowance for losses on the basis of loss experience. The Department concurred in our recommendations and took or planned corrective action.

In future legislation on the Student Loan Insurance program, we stated in our report that the Congress may wish to consider the (1) lack of disclosure of the full costs being incurred under the Student Loan Insurance Fund, (2)

substantial future funding required to pay future losses, and (3) inadequacy of the insurance premium rate to finance the direct Federal insurance of student loans. (B-164031 (1), June 8, 1973.)

## Organizations Outside the Federal Government

In a report addressed to the board of trustees, Government Services, Incorporated, we expressed the opinion that the financial statements of that company for calendar year 1972 presented fairly its financial position and results of its operations. The examination was made at the board's request. (B-114820, Mar. 28, 1973.)

## Audits of Military Pay and Allowances

In fiscal year 1973, the military services paid 2.3 million servicemen about \$20 billion for pay and travel. Through our staffs at the four military finance centers—Cleveland (Navy), Denver (Air Force), Indianapolis (Army), and Kansas City (Marine Corps)—we test the accuracy and legality of payments made by military disbursing offices throughout the world, review finance center operations, and make servicewide reviews of various types of pay and personnel activities.

During the year we issued 140 reports to various military officials—6 dealt with such servicewide problems as proficiency pay entitlement, the need for better guidelines on granting travel time to servicemen changing stations, and the need for improved controls over quarters allowances paid to single men. The remaining 134 reports were addressed to station and ship commanders and dealt with the accuracy of payments by individual disbursing officers. These reports are identified in appendix 2.

Many of our reports over the years have dealt with one overriding problem—numerous and complex laws and regulations lead to erroneous and inaccurate payments. The military departments have corrected the errors we identified and have taken some action to preclude recur-



rence. However, the complexity of the laws and regulations continues to cause millions of dollars in errors year after year.

At yearend, GAO was assessing the overall quality of the military pay systems (including

travel) and was evaluating the impact the new computerized pay systems (JUMPS) will have on the accuracy of payments. A report, with recommendations for improvement, will be issued in fiscal year 1974.

**ANALYSIS OF STAFF CHANGES  
FISCAL YEAR 1973**

	<u>Professional</u>	<u>Technical and other</u>	<u>Total</u>
Employees on rolls			
July 1, 1972 .....	3,128	1,698	4,826
Appointments .....	478	362	840
Transfers between			
categories .....	58	(58)	....
Separations:			
Retirements .....	90	95	185
Transfers to other			
agencies .....	66	44	110
Other reasons .....	150	259	409
Total separations.	<u>306</u>	<u>398</u>	<u>704</u>
Employees on rolls			
June 30, 1973 .....	3,358	1,604	4,962

**CHAPTER FOURTEEN**

**ADMINISTRATION**

**Personnel Management**

The Office of Personnel Management is responsible for staff acquisition and development, employment policy guidance, and personnel management services. During fiscal year 1973, special efforts were devoted to (1) developing improved employee appraisal and counseling techniques, (2) implementing a headquarters professional staff rotation program, and (3) promoting equal employment opportunity in all components of GAO. Leo Herbert is the Director of the Office. A position of Deputy Director, created late in the fiscal year, was filled by Joseph P. Normile, former Director of the European Branch.

An organization chart appears on the following page.

**Recruiting**

On June 30, 1973, we had 4,962 employees, excluding 148 contract personnel. Our professional staff, about 70 percent of all personnel, totaled 3,358, an increase of about 5 percent over fiscal year 1972. The following table summarizes the changes in number of employees during the year.

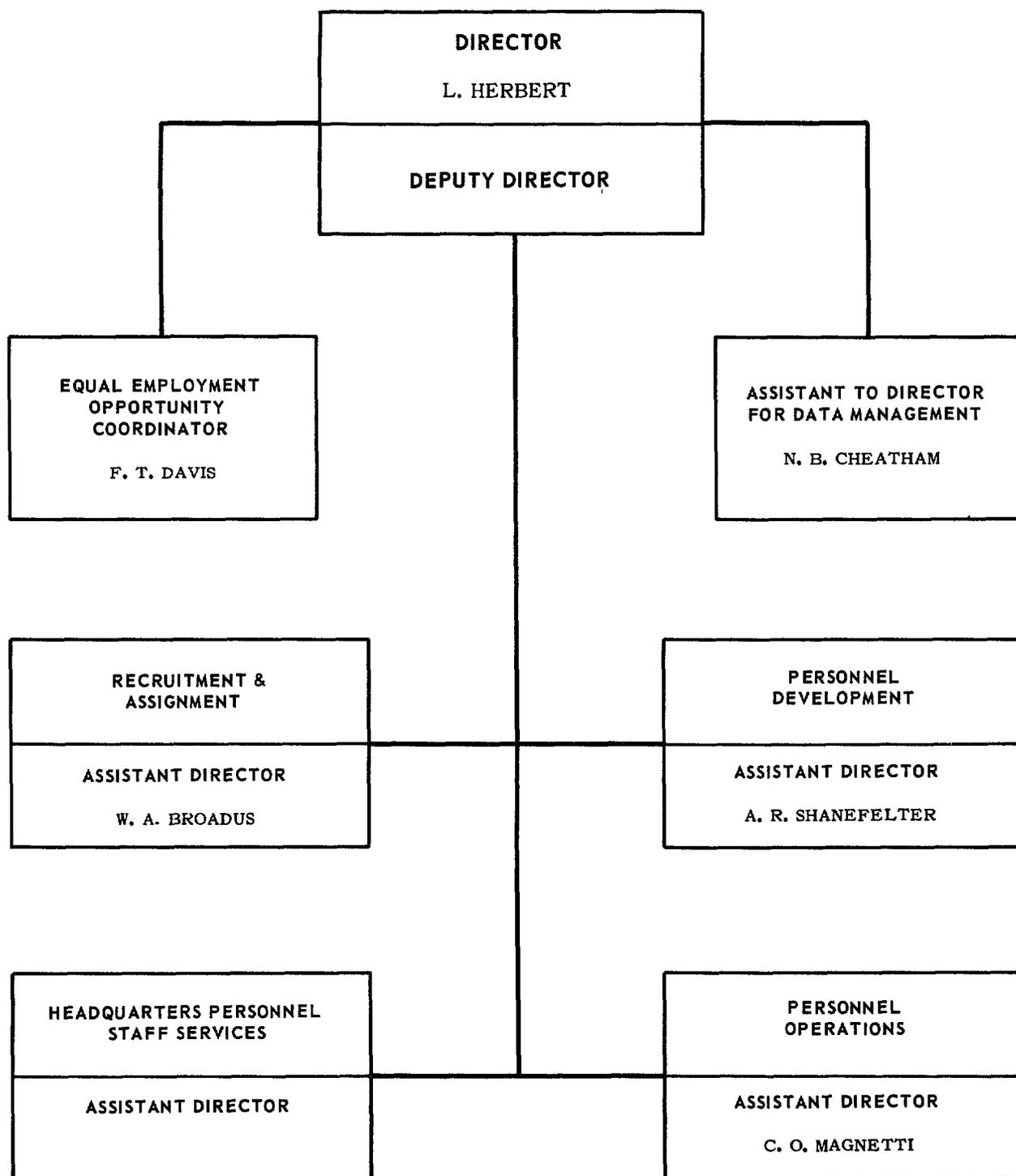
We continued during fiscal year 1973 to diversify our professional staff by also employing individuals with training or backgrounds in disciplines other than accounting and law, such as in engineering, economics, business and public administration, management sciences, and psychology.

The following table shows the composition of our staff at June 30, 1973.

**COMPOSITION OF STAFF**

<b>Professional</b>	
Accountants and auditors .....	2,473
Other auditors (with principal backgrounds in business or public administration) .....	567
Attorneys .....	100
Actuaries and other mathematical scientists .....	62
Claims adjudicators .....	46
Engineers .....	24
Computer specialists .....	19
Economists and other social scientists .....	16
Personnel management specialists .....	16
Other .....	15
Transportation specialists .....	14
Investigators .....	6
Total professional staff .....	<u>3,358</u>
<b>Technical</b>	
Transportation rate auditors .....	236
Fiscal auditors .....	65
Claims adjudicators and examiners .....	54
Legal assistants .....	9
Total technical staff .....	<u>364</u>

OFFICE OF PERSONNEL MANAGEMENT



JUNE 30, 1973

**Other**

Administrative and clerical .....	1,191
Wage board .....	49
Total other staff .....	<u>1,240</u>
Total .....	<u>4,962</u>

The location of our staff by division or office is shown in the table below.

**Recruiting—Professional Staff**

GAO recruits at major colleges and universities throughout the country. During the fiscal year 1973, our recruiters visited approximately 320 campuses and we employed 381 top-quality graduates. We also employed 80 experienced professionals at the GS-11 through GS-15 grade levels and reemployed 17 staff members who returned to GAO from military service.

Acquainting college faculty members and students with GAO is an important part of our recruiting program. During the year, approximately 120 faculty members and placement officials from various educational institutions attended meetings sponsored by GAO, and many college and university students visited our regional offices to learn more about career



Annually GAO field representatives form a vital link to colleges and universities throughout the Nation. H. Hajji Barber (right) of the Detroit regional office discusses career opportunities with a senior during a minority student business conference.

opportunities. Also, to help us in our recruiting and training efforts, we have a panel of 14 distinguished educator-consultants, eminent in their academic fields, who meet with GAO officials twice a year to exchange ideas about GAO programs and to suggest ways to increase interest in public service careers, particularly in GAO.

Division or office	Professional	Technical	Other	Total
Comptroller General .....	15	...	19	34
Administrative Planning and Services .....	9	...	260	269
General Counsel .....	97	8	99	204
Federal Elections .....	16	1	10	27
Personnel Management .....	151	1	79	231
Policy .....	7	...	2	9
Program Planning .....	3	...	3	6
Internal Review .....	9	...	2	11
Financial and General Management Studies .....	159	...	33	192
Logistics and Communications .....	132	...	26	158
Procurement and Systems Acquisition .....	142	...	28	170
Federal Personnel and Compensation .....	59	...	13	72
General Government .....	147	...	30	177
Resources and Economic Development .....	200	1	34	235
Manpower and Welfare .....	189	1	36	226
International .....	118	4	28	150
Europe .....	52	...	5	57
Far East .....	70	...	9	79
Field Operations .....	1,724	59	187	1,970
Transportation and Claims .....	59	289	337	685
Total .....	<u>3,358</u>	<u>364</u>	<u>1,240</u>	<u>4,962</u>

*Intern Program for Attorneys*

In early 1973 we inaugurated a summer intern program for attorneys in the Office of the General Counsel, with four primary objectives:

Develop a pool of capable and fully evaluated potential staff members, favorably disposed toward the office as a primary postgraduation employer, to whom we could direct offers with the likelihood that a substantial number would accept them.

Provide an opportunity to evaluate the personal attributes and professional characteristics of a potential staff member in performing office work before permanently employing him.

Reduce the break-in period needed to turn a new staff member into a fully productive staff attorney, because he would already be

familiar with our office facilities, routines, work requirements, and operational practices.

Create a body of informed people on law school campuses who could disseminate accurate information about GAO to their fellow students and thereby stimulate interest in the office as a source of employment.

We selected 16 second-year law students for the program, with the expectation that they would function as working attorneys writing decisions whenever possible, under the supervision of senior staff members. The program was well received by students and supervisors alike; with less than a month's experience, one student wrote a decision which was selected for publication in our annual bound volume of the "Decisions of the Comptroller General." According to the number of applications for employment

The Professional Staff Management group is charged with coordinating and monitoring the professional staff rotation program in Washington, D.C. Mike Burnett (right) of the staff discusses a new assignment with Joe Hobbs, a first-year professional staff member.



following graduation, the program has been highly successful.

**Recruiting—Support Staff**

Obtaining competent secretarial talent is a continuing goal of placement officials. This year we hired an experienced recruiter on a full-time basis and, since January, have appointed 55 secretaries, many with 2 or 4 years of college. In addition, we appointed several general clerical employees to aid the day-to-day operating activities of our support staff.

**Professional Staff Management**

By memorandum of August 15, 1972, the Comptroller General formalized a revised professional staff rotation program for headquarters divisions. The Professional Staff Management group was created in the Office of Personnel Management to assist in administering this program.

In fulfilling this responsibility, this staff made over 400 assignments and reassignments—320 for upper level staff members—during fiscal year 1973 and held over 900 counseling sessions with first-year staff members. When possible, assignments were made in consideration of the expressed interest of staff members.

New rating procedures were put into effect for upper level staff members to delineate highly effective, above average, average, and below average staff members and to indicate when they would be eligible for promotion. Ratings were monitored to insure fairness and to assess rates of development.

**Staff Development**

**Professional Staff**

The nature of GAO's work is such that constant attention must be given to providing suitable training and educational opportunities to staff members. To help staff members increase their knowledge and competence, we conduct training programs in-house, such as the following:

**SUMMARY OF INTERNAL CAREER DEVELOPMENT PROGRAM FOR PROFESSIONALS**

Programs	Requirements for participation
<b>Individual training:</b>	
First-year training	1 to 12 months' experience
Intermediate	15 to 18 months' experience
Supervision I	27 months' experience
Supervision II	Supervisors at grade GS-12
Managerial approaches	Managers at grade GS-13
Systems analysis	Staff at GS-13 level and above
<b>Operational team training:</b>	
Message design workshop	Audit groups with interest and need
Message design (briefing skills)	Audit groups with interest and need
Writing skills	Audit groups with interest and need
Statistical sampling	Audit groups with interest and need

*College and University Training.* Those engaged in evaluating Federal programs must keep abreast of new developments and assessment techniques. During fiscal year 1973, as in years past, many of our professional staff, and others, took courses in such areas as automatic data processing, communications, operations research, economics, statistics, management, and supervision, as well as in accounting, financial management, and contracts.

*Professional Recognition.* Becoming a CPA is an important milestone for those in the accounting profession. Most States now recognize that the professional nature of GAO work meets their eligibility requirements. During fiscal year 1973, 7 staff members passed the CPA examination and 18 received their certificates. Four employees with certificates also joined the staff. We have 510 staff members who are CPAs, and 121 others have passed the examination and will receive certificates after completing the experience requirements.

During the year, six staff members received law degrees and two acquired bar membership. Our staff now includes 123 who have been admitted to the practice of law in one or more of the States or the District of Columbia.

More than 20 staff members were awarded advance degrees during the year: 15 masters of business administration degrees, 3 master of arts degrees, 1 master of public administration de-

gree, and several others in governmental affairs, accounting, and management of natural resources. One staff member was awarded the degree of doctor of business administration, and one was certified as a professional engineer.

*Upper Level and Special Education Programs.* Annually, selected members of the professional staff are chosen to participate in executive development programs at the graduate schools of business administration at such leading universities as Columbia University, Cornell University, University of Virginia, Harvard University, The Pennsylvania State University, and Stanford University and at the Brookings Institution conferences, Federal Executive Institute, and executive seminar centers.

Other significant programs for fiscal year 1973 in which GAO staff members participated included:

- Fellowships in Congressional Operations for Executives
- Foreign Service Institute
- Industrial College of the Armed Forces
- National War College
- President's Executive Interchange Program
- Intergovernmental Affairs Fellowship Program
- American Association of Collegiate Schools of Business—Sears Roebuck Foundation—Federal Faculty Fellowship Program

**Technical and Support Staff**

In the early part of 1971, we revamped our clerical training and initiated a career development program in which support services personnel can improve their skills and develop new ones. This program is adjusted and revised according to staff needs and other circumstances.

We also support outside training when appropriate to further opportunities for development and upward mobility. (See also Equal Employment Opportunity section on page 174.)

Supervisory training is provided for technical and support services personnel. Occasionally, technical and administrative staff participate in writing skills development training similar to that provided for professional staff and sometimes participate along with the professional staff.

**SUMMARY OF INTERNAL CAREER DEVELOPMENT PROGRAM FOR SUPPORT SERVICES**

<u>Course</u>	<u>Who can attend</u>
Office skills	GS-2, 3, and 4
Basic typing:	
Phase I	Personnel who cannot type
Phase II	Personnel who can type 25 words per minute
Basic shorthand	GS-4 and above clerk-typist and secretary (typing)
English style practices	GS-3 and above
Shorthand refresher	Personnel who take dictation at 50 words per minute or better
Seminar for secretaries	GS-6 and above

**Personnel Operations**

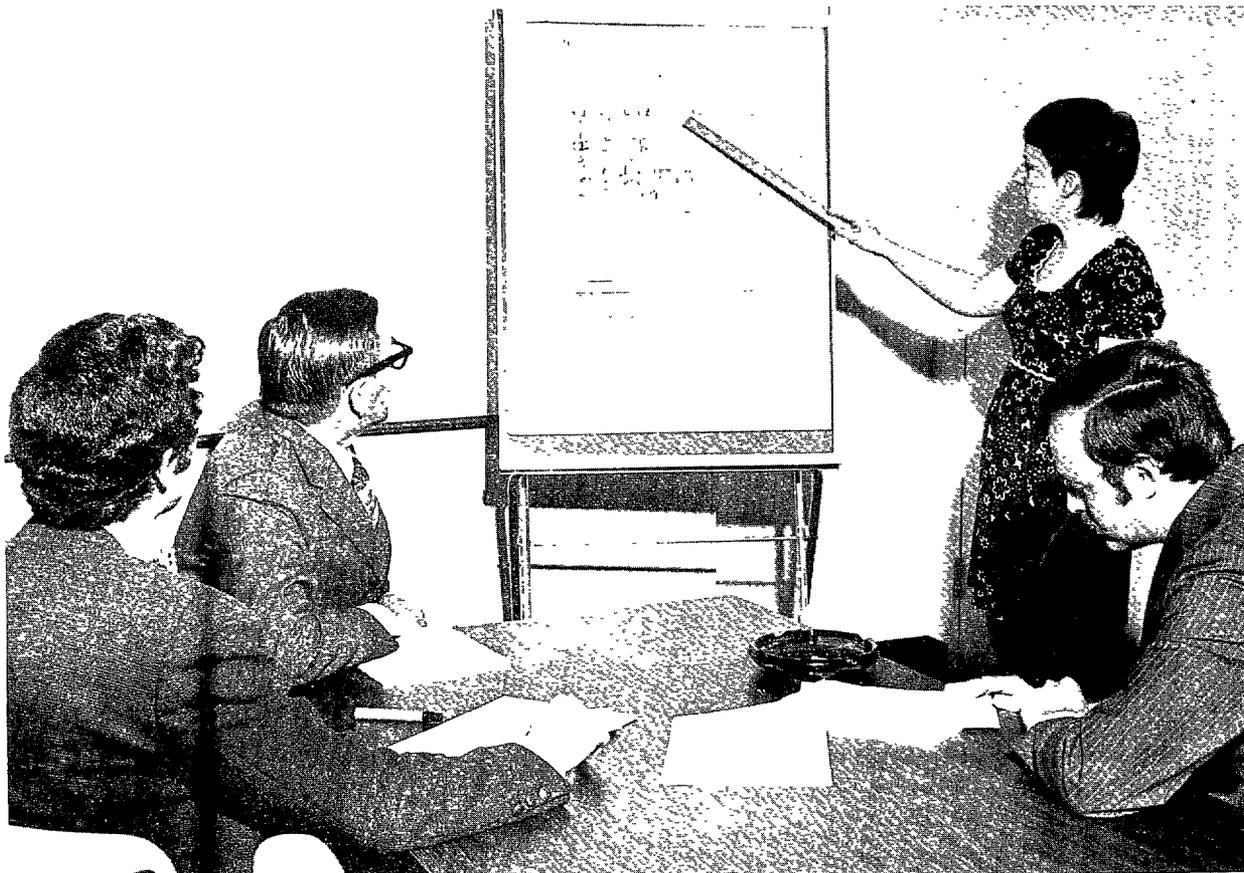
Day-to-day personnel management responsibilities include position classification, wage administration, incentive awards, labor-management relations, administrative appeals and grievances, health and safety, a variety of employee benefits, personnel security, and retirement counseling.

Classification studies, surveys, and recommendations to management are made annually to achieve greater efficiency and meet changing objectives. This fiscal year, more than 12 comprehensive surveys or organizational realignments were completed, and approximately 240 positions were reclassified.

Under our incentive awards program, internal and interdepartmental suggestions were processed and our largest honor awards ceremony was held on June 15, 1973. The Comptroller General presented 57 special achievement awards; 12 were group awards involving 185 individuals, including the Health Facilities Construction Costs Task Force and the Task Force for Measurement and Enhancement of Governmental Productivity—landmark cases in GAO's efforts to improve economy, efficiency, and effectiveness in Government operations.

GAO had the largest number of retirements ever—185—in fiscal year 1973, and its preretirement planning and counseling staff had numerous counseling sessions covering civil service benefits, including annuities, insurance, medical coverage, and related matters.

During the year, the personnel operations



Position review and classification is an essential element of personnel administration. Mrs. Kathleen Welsh briefs Jeff Oltchick, Bob Rissler, and Tom Webber, members of the Classification and Standards Staff, on the findings in a major organizational and job survey.

staff also revised policies on equal employment opportunity, work injury benefits and compensation, damage claims affecting GAO motor vehicle drivers, leave, and employment of experts and consultants.

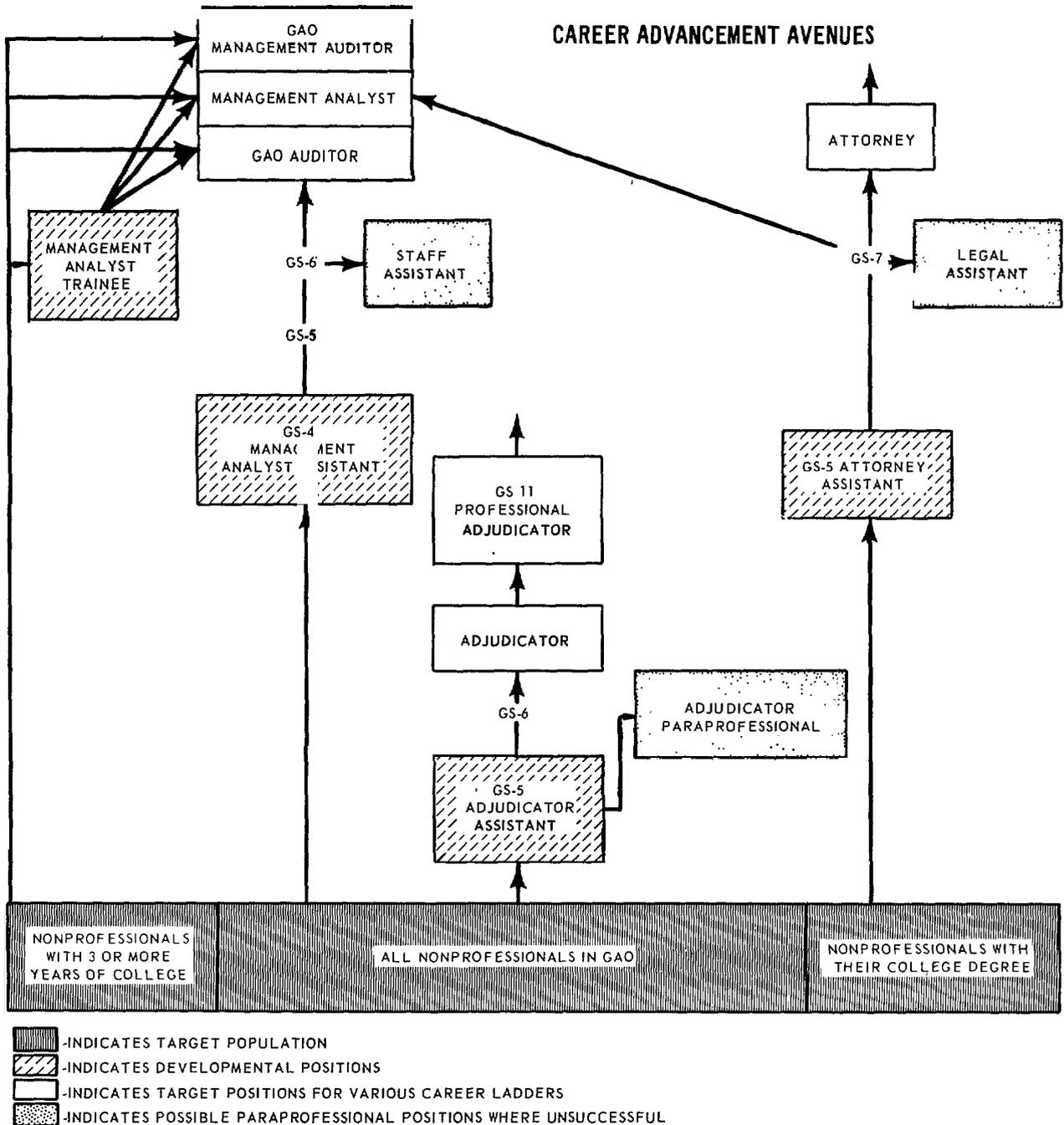
### **Upward Mobility**

In February 1973, we established a special task force to create new job classifications to bridge nonprofessional and professional positions in the General Accounting Office. The Task Force for the Development of New Job Classifications identified the target population for the program, as well as the target professional positions, and has structured preprofessional positions leading to each target. The task force's preprofessional program will train, counsel, and educate selected nonprofessional employees so they can advance to professional management

analyst, attorney, and adjudicator positions. The task force has also developed a process to identify employees eligible to enter the professional ranks directly.

The task force also developed a selection process which uses four-man interview teams and a seven-member selection panel of GAO employees. Selection criteria have been chosen which provide the broadest and most comprehensive base possible on which to assess a candidate's potential for career advancement. The selection process was successfully tested in selecting participants of the freight rate specialist training program in the Transportation and Claims Division.

The Civil Service Commission is aiding the task force in identifying the job elements necessary for success in a management analyst position. A test specially designed to measure these elements will be developed in the next fiscal year



in cooperation with the Commission to determine advancement procedures leading to professional management analyst positions. This process will serve as a model for identifying job elements required for other positions and for developing special tests for each career advance-

ment training program leading to a different target position.

Other task force recommendations pertain to remedial and preparatory training, released time, and a systematic outplacement program, to be implemented in the future. It also recom-

mends the development of career advancement programs leading to highly skilled technical positions.

A director of the program is to be designated. He will assume responsibility for implementing the program which will continue under the guidance of the task force for the first year and then will be placed under the auspices of the Office of Personnel Management.

### Equal Employment Opportunity

During the year emphasis was placed on hiring women and members of minority groups for professional positions. GAO established in its 1972 EEO action plan a goal of recruiting at least 10 percent from minority groups and 10 percent women.

By implementing an aggressive recruitment program, we surpassed these goals. For example, of 284 professional persons hired at entry-level grades GS-7 and GS-9 between October 1, 1972, and June 30, 1973, 72 were members of minority groups and 32 were women. In addition, three minority members were appointed at the GS-15 level, two at GS-13, and four at GS-11. Five women were hired at the GS-13 level and one at GS-11.

#### EEO Personnel

Many new EEO personnel were selected or appointed to various positions throughout GAO in fiscal year 1973. This included the designation of Alexander A. Silva as full-time Deputy Director, Equal Employment Opportunity, who serves under Milton J. Socolar, Acting Director. Mr. Silva has the major responsibility for developing, administering, and monitoring the equal employment opportunity program.

Twenty-eight new part-time EEO officers in senior management positions aid the Acting Director, Equal Employment Opportunity, by insuring that formal complaints of discrimination are expeditiously processed and, if possible, are resolved informally. They also act as principal advisers to heads of divisions and offices in implementing the program. Thirteen officers are in headquarters divisions and 1 is in each of the 15 regional offices.

Thirty-four new part-time EEO counselors were also appointed and received the required



GAO's first Equal Employment Opportunity Awards were presented at the Seventh Annual Awards Ceremony held in the GAO Auditorium, June 15, 1973. From the left: Leo Herbert, Director, Office of Personnel Management, and Chairman, Personnel Relations Steering Committee; Chester E. Martin, Transportation and Claims Division (awardee); Barney R. Putnam, Jr., Office of the General Counsel (awardee); and Milton J. Socolar, Acting Director, Equal Employment Opportunity Program.

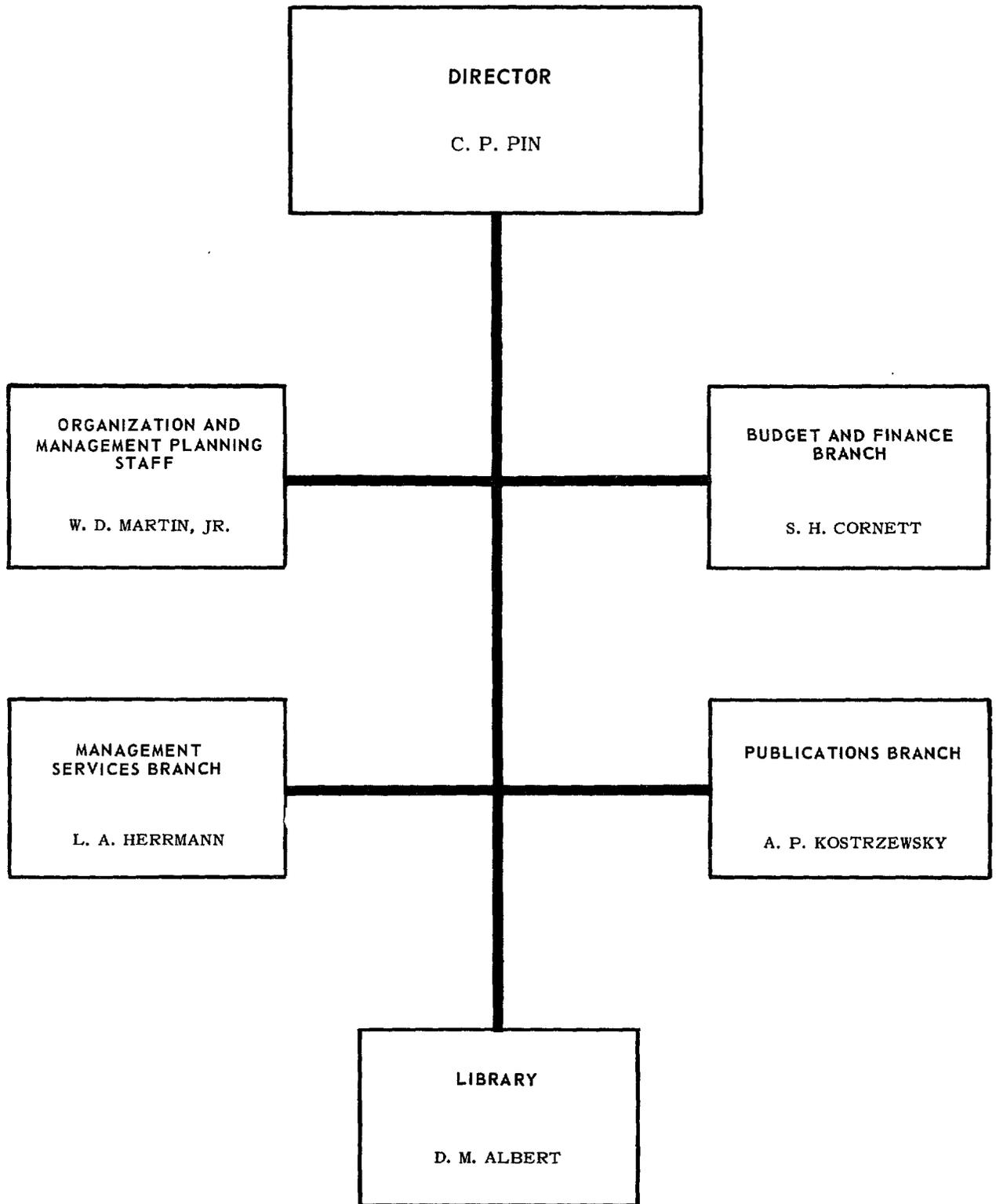
Civil Service Commission training. Thirteen serve headquarters units, and 21 serve regional offices and suboffices. Counselor appointments at headquarters were made on the basis of nominations presented by a selection committee widely representing EEO interests, particularly those of minorities and women.

In February 1973 elections were held for new representatives to the EEO Advisory Council established in 1971. The Council has 18 members, 14 elected by employees in secret ballot to represent the various divisions and offices and 4 appointed by organized employee groups. These include the Black Caucus, Lodge No. 8 of the American Federation of Government Employees, Local 1822 of the National Federation of Federal Employees, and the GAO Employees Association.

### Administrative Planning and Services

The Office of Administrative Planning and Services, under the direction of Clerio P. Pin, is responsible for providing all divisions and offices of GAO with a wide range of support services. Major changes in the Office during the year included the transfer of the GAO Library from the Office of General Counsel and the

OFFICE OF ADMINISTRATIVE PLANNING AND SERVICES



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merger of the Data Processing Center with the Organization and Management Planning Staff. The organization chart on the preceding page shows the five major components of this office.

### **Organization and Management Planning Staff**

The Organization and Management Planning Staff is responsible for (1) making detailed studies of organization and procedural problems assigned by the Comptroller General, Deputy Comptroller General, and Assistant Comptrollers General and (2) designing, testing, and assisting in the implementation and followup of internal management systems. This staff also provides a variety of ADP services to other divisions and offices.

Projects worked on during the year included handling of congressional requests, speeding up report processing, distributing workload among regional offices, developing audit assignment history records, evaluating the Legal Reference Services of the Office of General Counsel, reorganizing document dissemination functions, and implementing a document disposal and inventory level control program in support of distribution and mailing operations.

In February 1973 the General ADP Systems Group was established within the Organization and Management Planning Staff. The responsibilities of the group include developing long-range internal ADP plans, developing and maintaining Office-wide internal ADP systems, and assisting line managers in developing information systems for their specific needs. The group also reviews and recommends action to the ADP Steering Committee on all new management information systems, major changes to ADP hardware, and major problems in the development of ADP systems. In addition, the group prescribes data processing standards for Office-wide internal use.

### **Management Services Branch**

The name of this branch, formerly known as the Records Management and Services Branch, was changed during the year to reflect its diverse activities, of which records management is only one part. One major change in function

occurred when the Distribution Section was transferred from the Publications Branch to the Management Services Branch.

Of the branch's ongoing activities, perhaps the most difficult and comprehensive was modernizing and improving the working environment of GAO staff members. About 33,000 square feet of space on the seventh floor of the GAO Building was renovated with a new ceiling and lighting system, new carpeting, and a new office configuration to house approximately 200 staff members. In addition, nearly 50,000 square feet on the fifth floor of the building was improved. The emphasis for this project was on breaking up open areas and providing attractive colors and floor coverings. About 300 employees benefited from this first of three phases of work for the Transportation and Claims Division.

Also, the Atlanta, Seattle, and Philadelphia regional offices moved into new quarters, and several other regional offices were renovated.

The Distribution Section added about 20 staff members to this branch. This section is responsible for distributing (1) most GAO publications to both the public and GAO's staff and (2) a variety of publications originating in other agencies to the staff.

The Editing and Special Reports Section, added to this branch last year, edits the GAO audit reports, the annual report, a quarterly magazine for the staff, and other publications. Over 32,000 pages were edited during the year.

The Supply and Services Section entered into nearly 4,700 purchasing actions during the year to satisfy the agency's nationwide needs. This section also monitors the receipt of purchases, maintains accountability records, and performs the full range of property management and disposal activities.

An equipment repair and carpenter staff serves the Washington offices, and a mail and messenger staff provides mail delivery and special services daily throughout the GAO Building and to some 45 audit sites in the metropolitan area.

The Records Information Section answered nearly 1,600 requests from private individuals or Government agencies for access to, or information from, GAO records. The Illustrating Services Section provided well over 10,500 pieces of individual artwork in an expanding program of

audiovisual support for GAO audit reports and internal presentations.

The records management responsibilities of this branch included approving 55 records disposal schedules and lists for records of other agencies in which GAO is interested.

### **Budget and Finance Branch**

The Budget and Finance Branch:

Prepares in final form and administers the GAO budget.

Maintains liaison with the Office of Management and Budget, the Treasury Department, and others on budget, payroll, and related financial matters.

Maintains the central administrative accounting and financial reporting systems, including summary accounting control and deposit of all GAO collections involving Government agencies.

Examines and certifies administrative vouchers and invoices covering operating expenses.

Prepares, examines, and certifies GAO payrolls and prepares or maintains related records and reports.

Provides the above services, on a reimbursable basis, to the Cost Accounting Standards Board.

During fiscal year 1973, this branch prepared and approved financial plans for each of the divisions and offices. Using a financial plan to manage available resources emphasizes dollar control, and we expect this emphasis to improve our management effectiveness. A reporting system providing more timely and useful information will support our financial management system in fiscal year 1974.

To speed the processing and payment of miscellaneous vouchers, we developed and installed a simplified interim automated system. The system provided input editing, summary and detailed accounting information, routine management reports, and magnetic tapes used by the Treasury Disbursing Center to issue checks and prepare lists of payments to be made.

We are designing an automated financial management system to replace our manual and interim systems. Installation will begin in fiscal year 1974. The ADP techniques are expected to

improve the timeliness and usefulness of financial reports by providing information pertinent to current management decisions. Also, we expect to combine financial data with data from other subsystems to provide useful information related to productivity and unit costs.

### **Publications Branch**

The Publications Branch is responsible for copy preparation, copying, printing, printing procurement, and binding. Its major products are the Comptroller General's audit reports. Because of the sensitivity and significance of these reports, special attention is given so that they reflect the highest standards in preparation and production and so that they are distributed promptly and properly. The branch also produces manuals, decisions, digests, memorandums, regulations, forms, statements, press releases, drafts, audit programs, and other documents in accordance with prescribed policies and procedures.

The Publications Branch also:

Furnishes information on legal, regulatory, and procedural printing requirements and provides advice and assistance on such matters as methods and techniques, costs, schedules, and whether printing services can or should be provided by the branch or obtained from the Government Printing Office.

Prepares and submits specifications and requisitions for printing obtained from GPO.

Represents GAO before the Joint Committee on Printing and prepares reports and requests to this Committee.

Furnishes photoprints and enlargements or reductions of material.

Recommends the acquisition of new equipment and disposal of unserviceable or surplus equipment.

Because of the increase in the number of reports and other work, the equipment in the Publications Branch has been modernized. The Copy Preparation Section uses the latest magnetic tape and card typesetting systems and computer-based text processing service. The Printing Section has been equipped with roll-fed perfecter presses, high-speed collators, and platemakers. A Fast Copy Center has been established with fully automated equipment which

provides short-run copies efficiently and economically.

### **GAO Library**

The GAO Library serves all the offices and divisions. Its annual inventory showed 59,382 volumes, binders, pamphlets, and magazines.

In April the library began to serve staff members who use the Congressional Research Service Selective Dissemination of Information System. The system supplied bibliographic data to staff members on one or more of its 187 subject categories. Members reviewed the bibliographic data and the library provided hard copies of the material they requested. Each month the library received over 150 requests for hard copies. To accomplish this task contacts were made throughout the United States for material unavailable in the Washington area.

The library uses an interlibrary loan service to borrow books and periodicals from other libraries. During the year it borrowed 1,883 items.

This spring the library also began to publish a monthly accessions list which informs staff members and other Federal libraries of new additions to the library and other library holdings of interest. This list is invaluable to the staff and has generated considerable interest in the library.

The library purchases periodicals for the entire staff, except the regional offices. In January it began to use a subscription agent to purchase most periodicals. During the year the library increased the number of periodicals available to the staff from 159 to 270.

### **Policy**

The Office of Policy, under the supervision of Allen R. Voss, Director, is responsible for advising and assisting the Comptroller General on policy formulation, guidance, and review with respect to all GAO functions.

The Office's responsibilities include (1) conducting or sponsoring research in accounting and auditing theory, objectives, practices, and techniques, (2) developing auditing policies, standards, and procedures for the guidance of

GAO's operating divisions, (3) furnishing policy advice on accounting and auditing problems, (4) reviewing, on a selected basis, audit assignments proposed or in process, and (5) reviewing proposed reports for the Comptroller General's signature. It also advises and assists in developing operating policies and guidance for GAO's legislative, legal, claims, and administrative activities.

### **Program Planning**

The Office of Program Planning, under the supervision of William N. Conrardy, Director, was established as a part of the April 1972 reorganization. It is responsible for advising the Comptroller General on GAO objectives, budget development, resource requirements, and direction of effort and for monitoring and evaluating operational plans of GAO divisions and offices. To promote effective planning, the office provides guidance and counsel in developing division and office plans.

### **Internal Review**

The Office of Internal Review, under the supervision of Lloyd G. Smith, Director, is responsible for reviewing the operations and performance of all GAO divisions and offices. The office's work includes (1) evaluating GAO performance under established policies and procedures and identifying ways of achieving more effective, efficient, and economical performance, (2) examining and evaluating the extent and nature of divisions' and offices' compliance with prescribed GAO policies, plans, and procedures, (3) reviewing the system of management controls over operations and resources, (4) examining accounts, financial transactions, and other management reports for reliability and usefulness, and (5) making specific examinations requested by the Comptroller General. Reports prepared by this office are submitted to the Comptroller General and the Deputy Comptroller General with findings, conclusions, and recommendations.

NUMBER OF AUDIT REPORTS ISSUED DURING FISCAL YEAR 1973<sup>1</sup>

	Total	Congress <sup>2</sup>	Committees <sup>3</sup>	Members	Agency officials <sup>4</sup>
Executive Office of the President .....	26	4	1	19	2
Civil departments .....	277	55	73	56	93
Military departments:					
Department of Defense .....	94	24	17	20	33
Department of the Army .....	61	2	9	7	43
Department of the Navy .....	51	2	1	9	39
Department of the Air Force .....	135	2	2	12	119
Independent agencies .....	103	16	21	29	37
International activities .....	74	27	16	5	26
Government-wide and multiagency activities .....	48	14	18	13	3
Legislative branch .....	17	3	10	...	4
District of Columbia Government .....	13	3	8	1	1
Other organizations outside the Federal Government .....	8	...	4	1	3
Joint reports by GAO and other agencies .....	2	...	...	...	2
	909	152	180	172	405
Office of Federal Elections reports .....	40				
Total .....	949				

## NOTES

<sup>1</sup> A detailed listing of these reports is contained in appendix 2. Substantially identical reports shown more than once in the listing have been counted as one report.

<sup>2</sup> Reports submitted to the Congress are addressed to the President of the Senate and the Speaker of the House of Representatives. Copies are sent to the Director, Office of Management and Budget; the Senate and House Committees on Appropriations; the Senate and the House Committees on Government Operations; the appropriate legislative committees in the Senate and the House; Members of the Congress from the

districts in which the activities reported are located; others in the Congress as requested; the President of the United States as appropriate; the agencies reported on; and others directly affected.

<sup>3</sup> Includes reports addressed to officers of the Congress.

<sup>4</sup> Comprises reports addressed to heads of departments or agencies, to other officials at department or agency headquarters, to department or agency officials at regional or other local offices, or to commanding officers at military installations.

## AUDIT REPORTS ISSUED DURING FISCAL YEAR 1973

	Reference	Addressee and date issued			Agency officials
		Congress	Committees	Members	
<b>EXECUTIVE OFFICE OF THE PRESIDENT</b>					
Letter report on White House employees (request of Congressman Phillip Burton) .....	133209.....			12-	1-72
Report containing legal opinions regarding personnel detailed to the White House and use of funds appropriated for the Office of Emergency Planning and Office of Telecommunications Policy (request of Congressman Phillip Burton) ....	133209.....			1-	30-73
Personnel and budget data for the fiscal years 1969-73 .....	133209.....			2-	9-73
Report on White House employees (request of Congressman Phillip Burton) .....	133209.....			2-	15-73
Estimated expenses of the President's airplane and helicopter trips .....	89298.....			4-	18-73
Certain information on the "Battle of the Budget" kit (request of Senator Hubert H. Humphrey) .....	178448.....			4-	30-73
Examination into Federal officials' use of the "Battle of the Budget" kit (request of Senator Edmund S. Muskie) .....	178448.....			4-	30-73
<b>Office of Economic Opportunity:</b>					
Impact of Federal programs to improve the living conditions of migrant and other seasonal farmworkers (relates also to Departments of Agriculture; Health, Education, and Welfare; and Labor) .....	177486	2-		6-	73
The Legal Services Program—Accomplishments of and problems faced by its grantees .....	130515	3-		21-	73
Need for more effective audit activities .....	130515	4-		4-	73
Evaluation of the Office of Economic Opportunity's performance contracting experiment .....	130515	5-		8-	73
Review of financial management and administration of Cameron and Willacy Counties Community Projects, Inc., Brownsville, Texas (request of Congressman Eligio de la Garza) .....	130515.....			8-	22-72
Administration of grant funds by the Economic Opportunities Development Corporation of San Antonio and Bexar County, Texas (request of Congressman Henry B. Gonzalez) .....	130515.....			8-	24-72
Review of certain contracts with Booz, Allen and Hamilton, Inc. (request of Senator William Proxmire) .....	175394.....			8-	25-72
Administration of grant funds by the Guadalupe Organization, Inc., Guadalupe, Arizona (request of Congressman John J. Rhodes) .....	130515.....			9-	21-72
Financial and related activities of the Jefferson County Community Action Council, Steubenville, Ohio (relates also to Department of Health, Education, and Welfare) (request of Congressman Wayne L. Hays) .....	130515.....			11-	29-72

	Reference	Addressee and date issued			Agency officials
		Congress	Committees	Members	
<b>EXECUTIVE OFFICE OF THE PRESIDENT—Continued</b>					
<b>Office of Economic Opportunity—Continued</b>					
Financial and program management activities of the Northern Arizona Development Council, Flagstaff, Arizona (relates also to Department of Health, Education, and Welfare) (request of Congressman Sam Steiger) .....	130515.....			12- 7-72	
Activities of the Southwest Citizens Organization for Poverty Elimination, Inc., Bridgeton, New Jersey (request of Congressman Charles W. Sandman, Jr.) .....	130515.....			1- 4-73	
Financial activities of the Economic Opportunities Council of Indian River County, Inc., Vero Beach, Florida (relates also to Department of Health, Education, and Welfare) (request of Congressman Lou Frey, Jr.) .....	130515.....			2-28-73	
Activities of the Emergency Food and Medical Services project, Alabama Council on Human Relations, Lee County, Alabama (request of Senator James B. Allen) ...	130515.....			3- 1-73	
Activities of the Economic Opportunities Development Corporation of San Antonio and Bexar County, Texas (request of Congressman Henry B. Gonzalez) .....	130515.....			3- 9-73	
Activities of the California State Economic Opportunity Office (request of Senator Alan Cranston and 21 other members of the California congressional delegation) .....	130515.....			6-14-73	
Reduction-in-force procedures at the regional office of Office of Economic Opportunity in San Francisco (request of Congressman Ronald V. Dellums) .....	130515.....			6-20-73	
Review of administration of debt and payment claims .....					9- 7-72
<b>Office of Management and Budget:</b>					
Report on the administration of certain aspects of the Migratory Bird Conservation Fund (request of Chairman, Subcommittee on Fisheries and Wildlife Conservation and the Environment, House Committee on Merchant Marine and Fisheries) .....	148898.....		6-28-73		
Coordination of computerized information systems reporting on active projects .....	115398.....				3-29-73
<b>CIVIL DEPARTMENTS</b>					
<b>Department of Agriculture:</b>					
Department-wide:					
Request concerning expenditures for relocation of offices and related alterations to buildings in Michoud, Louisiana (request of Congressman Hale Boggs) .....	177038.....			11-20-72	
Agricultural and Marketing Service:					
Processed fruits and vegetables:					
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Fund. Under current law, if the benefits are not claimed, the Civil Service Commission must maintain records on the contingent liability for claims in perpetuity.

Our tests indicated that current addresses could be located for many of the people entitled to these benefits. We recommended that the Commission seek approval from the Congress to finance, out-of interest income of the Retirement Fund, a program to locate and settle the claims of former employees with balances in the fund

amounting to \$100 or more. We also recommended that the Commission propose legislation providing for a statute of limitations permitting the destruction of retirement records when it would be statistically sound to conclude that no claims would be made. We recommended to the Congress that it consider favorably the requests of the Commission for such spending authority and enabling legislation. (Unclaimed benefits in the Civil Service Retirement Fund, B-130150, Dec. 20, 1972.)

the acquisition of high-cost properties on or near the boundaries is involved.

We also recommended that the Congress require the Secretary to analyze the location and estimated cost of high-cost properties bordering those authorized recreation areas for which additional funds are needed and to justify the desirability of acquiring such properties. (Problems in Land Acquisitions for National Recreation Areas, B-164844, Apr. 29, 1970.)

*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. These restrictions have caused 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 half, if the Service allowed the use of a small trail machine especially designed for such work. 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 restricted the use of (1) power saws for maintaining trails, (2) helicopters for removing accumulated trash and litter, transporting equipment and materials for constructing trail bridges, and inspecting and repairing reservoirs, and (3) compacting equipment for repairing reservoirs.

The use of motorized equipment is not compatible with an ideal wilderness concept, but neither is the construction of trails, bridges, and other facilities and the presence of litter. 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.)

*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 air pollutants. The Environmental Protection Agency has made some progress in controlling auto-caused air pollution and in developing new ways of reducing it, but much remains to be done.

Perhaps the most important step in controlling such pollution is the periodic inspection of a car's emissions throughout its useful life. Tests of cars in 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, even if 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 notified car owners to return their cars for pollution control modification. (Cleaner Engines for Cleaner Air: Progress and Problems in Reducing Air Pollution From Automobiles, B-166506, May 15, 1972.)

## **Legislative Proposal to Head of an Agency**

*Unclaimed Benefits in the Civil Service Retirement Fund.*—Over a quarter million former Federal employees, most of whom are well beyond retirement age, have not applied for annuities or refunds of their contributions, totaling about \$26 million, to the Civil Service Retirement

Act 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.)

## National Defense

*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 should cost, given attainable efficiency and economy of operation. It uses industrial engineering and financial management principles to identify conditions which could unnecessarily increase the cost of contract performance. Because "should cost" reviews require examinations of many facets of contractors' operations and management not covered in our statutory authority to examine contractors' records, we suggested that the Congress may wish to expand our statutory authority to enable us to make effective "should cost" reviews independently. (Application of "Should Cost" Concepts in Reviews of Contractors' Operations, B-159896, Feb. 26, 1971.)

## Natural Resources and Environment

*Leasing of Federal Lands for Development of Oil and Gas Resources.*—The Bureau of Land Management, Department of the Interior, has granted most of the leases for developing oil and gas resources on Federal lands noncompetitively and, in many cases, at prices less than their indicated fair market value because the law requires that lands outside the boundaries of a known geologic structure of a producing oilfield or gasfield be leased noncompetitively. Generally, the geological data needed to determine whether lands are within such a structure is not available to the Department before leasing and drilling.

We believe the Government should and could use more competitive bidding to obtain prices more nearly approximating the lands' fair market values.

We found indications that the statutory right of lessees to sublease in units as small as 40 acres

impedes rather than induces the development of oil and gas resources.

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.)

*Acquisition of Land for National Recreation Areas Containing Improved Properties.*—The National Park Service, Department of the Interior, had acquired or planned to acquire high-cost improved properties 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 significantly benefit the Service, especially when authorized funds have fallen far short of the amount required to complete the land acquisition and when considerable amounts of unimproved land with lower estimated costs remain to be acquired.

Interior rejected the suggestion that it consider adjusting boundaries of certain recreation areas to exclude high-cost improved properties and stated that some acquisitions of expensive properties were 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 such important facts 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 changing established boundaries when

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, amounting to about \$9 million of the projects' total \$88 million construction costs. Higher wage rates can have an inflationary impact on the economic and labor conditions both in the project area 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) subject to wage determination. An amount between \$25,000 and \$100,000 would be more representative of present-day construction costs. Such an increase would substantially reduce the number of wage determinations to be issued by the Department and thereby lessen its and contracting parties' administrative burdens without appreciably affecting the act's wage stabilization objectives. (Need for Improved Administration of the Davis-Bacon Act Noted Over a Decade of General Accounting Office Reviews, B-146842, July 14, 1971.)

*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 was to close the education gap between Indians and other Americans by raising Indian students' academic achievement to the national average by 1976. The Bureau had made relatively little progress toward attaining this goal, had not adequately communicated it to its area offices and schools, and had not developed a specific plan of identifying and overcoming obstacles to, or for measuring progress toward, accomplishing this goal.

The Bureau 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.

By letter dated March 20, 1973, the Director of Education Programs advised us that the

Bureau had made some progress in developing a management information system. He stated, however, that the goal of raising Indian students' academic achievement to the national average was no longer considered a desirable or satisfactory goal and that the Bureau recognized that the primary responsibility for the education of children rested with their parents and communities. He said that the Bureau planned to offer assistance to the Indian community in all phases of the development and implementation of education programs, including assistance in assessing needs; establishing goals, objectives, and priorities; and evaluating progress.

Because of the concern of the President and Members of Congress regarding the quality of Indian education, we recommended, and we continue to believe, that the Congress should consider enacting legislation requiring the Bureau 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.)

## Health

*Insanitary Conditions in the Food Manufacturing Industry.*—To assess sanitary conditions in the food manufacturing industry, we requested the Food and Drug Administration, Department of Health, Education, and Welfare, to inspect 97 food manufacturing and processing plants selected at random from about 4,550 such plants in 6 FDA districts that included 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.

We suggested that the Congress consider amending the Federal Food, Drug, and Cosmetic

project costs, and long delays in realizing project benefits.

We suggested alternative actions, including possible legislation, for the Congress to consider for the delayed projects. (Construction of Watershed Projects Terminated or Delayed Because of Land Rights Problems, B-144269, July 13, 1971.)

### Community Development and Housing

*Establishment of an Appropriate Minimum Rental Rate for Occupancy of Federally Subsidized Housing.*—The Department of Housing and Urban Development 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 said 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. Because 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.)

*Means to Reduce the Losses of Two Insured Loan Funds.*—The Farmers Home Administration, Department of Agriculture, has incurred losses of \$104 million in recent years in operating the Agricultural Credit Insurance Fund and the Rural Housing Insurance Fund primarily because, under money-market conditions, FHA's interest rates on loans to borrowers have been substantially less than its rates for selling the borrowers' loan notes to investors, an action required by the legislation establishing the funds.

The 1961 act authorizing ACIF established a 5-percent interest ceiling, but the legislative history of the act did not indicate the Congress' intent in doing so. FHA paid less than 5-percent interest 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 FHA statistics showed, that many FHA borrowers could pay interest at rates exceeding 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 (1) based on the market yields on outstanding Government obligations of comparable maturities and (2) adjusted according to 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.)

### Education and Manpower

*Minimum Wage Determinations Under the Davis-Bacon Act.*—In a series of reports issued between 1962 and 1970, we informed the Congress of how 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

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