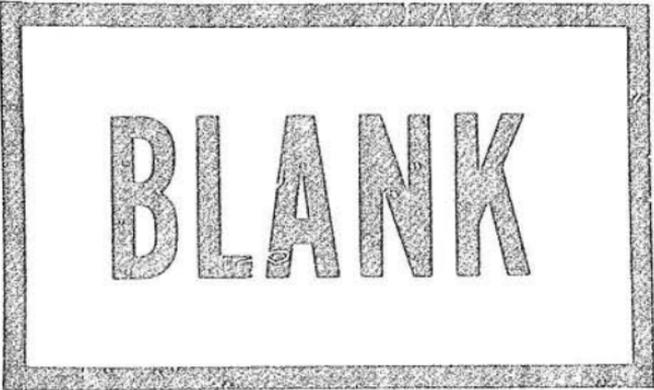


APPENDIX TO THE
ANNUAL REPORT OF THE
COMPTROLLER GENERAL OF THE UNITED STATES

1971



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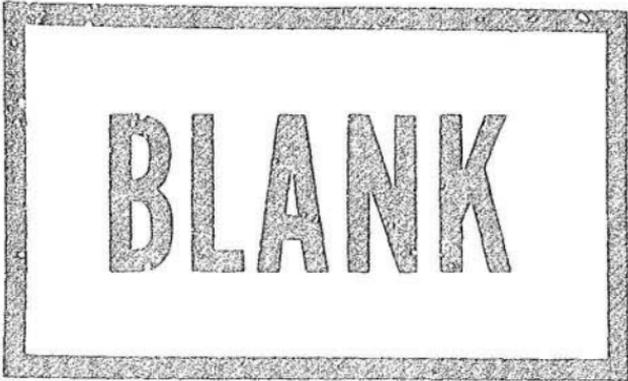
ANNUAL REPORT

APPENDIX
1971

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CONTENTS

	<i>Page</i>
SECTION I.—Compilation of Findings and Recommendations for Improving Government Operations	1
Contents	2
Compilation	9
Index by Government agency	140
Index by functional classification of the Federal budget	142
SECTION II.—Financial Savings Attributable to the Work of the General Accounting Office	144
Collections and other measurable savings	144
Details of other measurable savings	145
Additional financial savings not fully or readily measurable	149
Savings and benefits to others	157
SECTION III.—Audit Reports Issued During the Year	159
SECTION IV.—Approvals of Agency Accounting Principles and Standards, and Systems Designs	189



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COMPILATION OF FINDINGS AND RECOMMENDATIONS FOR IMPROVING GOVERNMENT OPERATIONS

This section of the Appendix contains a compilation of General Accounting Office findings and recommendations for improving Government operations relating for the most part to fiscal year 1971.

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

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

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

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

The back of Section I, beginning on page 140, contains indexes of (1) agencies to which the findings and recommendations relate and (2) the applicable Federal budget functional classifications.

CONTENTS—SECTION I

CIVILIAN DOMESTIC PROGRAMS

	<i>Page</i>
Agricultural commodity programs	
Feed grain program payments not contributing to control of production	9
Rice export subsidy rates	9
Wheat price-support loan rates	9
Air safety	
Surveillance over production of critical parts for civil aircraft	10
Airport safety inspection	11
Atomic energy	
Price increase and change in criteria for uranium enrichment services	11
Managing high-level radioactive wastes	12
Coal mine health and safety	
Implementation of the Federal Coal Mine Health and Safety Act of 1969	12
Economic development assistance	
Basis for providing Federal assistance to economically distressed areas	13
Economic opportunity programs	
Progress being made and difficulties being encountered by credit unions serving low-income persons	13
Administration of a neighborhood health services program (New York City)	14
Federal aid to education	
Policies and procedures for approving grants under the emergency school assistance program	15
Administration of Federal aid to educationally deprived children	15
Assessment of the Teacher Corps program in South Florida	16
Assessment of the Teacher Corps program on the Navajo and Hopi Indian reservations	17
Assessment of the Teacher Corps program in Western North Carolina	17
Use of Teacher Corps members to supplant local teachers	18
Administration of the Teacher Corps program	18
Policies and procedures for administering study and evaluation contracts	18
Student loan insurance fund	19
Grants to States for public assistance	
Approval of and payment for nursing home care	19
Problems in providing nursing home care	19
Payments for physician and X-ray services to nursing home patients	20
Problems in providing skilled nursing home care	20
Practices relating to nursing home operations	20
Administration of the Medicaid program by fiscal agents	21
Inadequate controls over Medicaid drug program	22
Excessive use of physician services	22
Eligibility under Medicaid	23
Overpayments for child care services	23
Administration of certain projects for older Americans	23
Simplified method for determining eligibility for public assistance	23
Highway programs	
Questionable basis for approving certain interstate auxiliary route segments	24
Management of the highway safety rest area program	24
Federal participation in costs incurred by States for highway landscaping	26
Experimental emergency communication systems	26
Limited progress of the Appalachian highway program	26
Information gathering and dissemination activities	
Operation of the medical literature analysis and retrieval system	27
Land management and natural resources	
Restrictions on the use of motorized equipment in wilderness and similar areas	27
Allocation of funds for construction of forest roads and trails	28
Loan programs	
Eligibility of loan applicants	28
Use of independent auditors' reports	28
Advancing grant and loan funds	29

CIVILIAN DOMESTIC PROGRAMS—Continued

	<i>Page</i>
Loan programs—Continued	
Determining financial feasibility of water and sewer systems	29
Assuring financial feasibility of loans to grazing associations	30
Records to be maintained by borrowers	30
Interest credit to rural housing borrowers	31
Instructions not adhered to	31
Low-income housing programs	
Occupancy of federally subsidized housing	31
Problems in rehabilitating housing to provide homes for low-income families	32
Accelerating construction and reducing costs of low-rent housing	32
Evaluating economic feasibility of insuring loans at below-market interest rates	33
Manpower training	
Administration of the Job Opportunities in the Business Sector (JOBS) program	33
Effectiveness of the special impact program in Los Angeles in meeting the goal of providing jobs for the disadvantaged	34
Effectiveness of on-the-job training in Appalachian Tennessee	34
Administration of training activities at a manpower training skills center	35
Administration of on-the-job training contracts	36
Administration of manpower training activities	36
Operation of the cooperative area manpower planning system	36
Training under the Government Employees Training Act	37
Mass transportation	
Determining the amount of grants	37
Maternal and child health programs	
Administration of certain research grant programs	38
Medicare program	
Payments for services of supervisory and teaching physicians	38
Delays in cost settlements for health services furnished under Medicare	39
Consolidation of claims processing activities	39
Determining reasonableness of physicians' charges	40
Model cities program	
Advances of funds	40
Open-space land program	
Leasing of land	40
Urban renewal program	
Allocation of funds to meet national housing goals	41
Administration of workable program requirements	41
Wage rate determinations	
Establishing minimum wage rates under the Davis-Bacon Act for federally financed housing projects	42
Water pollution control	
Operation and maintenance of municipal waste treatment plants	42
Controlling industrial water pollution	43
Water resources development program	
Evaluating the need for certain power transmission facilities	44
Guidance for relocating roads and bridges at water resources projects	44
Unnecessary replacement of roads and bridges at water resources projects	45
Consideration of project benefits as well as costs in relocating roads and bridges at a water resources project	45
Comparability of design alternatives for Federal water resources projects	46
Contributions for non-Federal water resources projects	46

INTERNATIONAL ACTIVITIES

Foreign assistance programs	
Administration of the military assistance training program	48
U.S. relief assistance to Nigeria	50
U.S. aid to the economic unification of Central America	50
Developmental assistance programs in Latin America	51
Economic and military aid to Honduras	51
U.S. assistance in Liberia	52

INTERNATIONAL ACTIVITIES—Continued

	<i>Page</i>
Foreign assistance programs—Continued	
Refugee relief program in Laos	52
Civilian health and war casualty program in Laos	54
International organizations and institutions	
Purchase commitment made to an international organization prior to availability of funds	55
Independent review and evaluation of international organizations and institutions	55
U.S. participation in the International Labor Organization	56
Management of U.S. participation in international organizations	57
U.S. balance-of-payments position	
Economic advantages of using American-made trucks abroad	57
Purchase of dairy and bakery products for U.S. Forces	58
Balance-of-payments benefits achieved through an increased agricultural barter program	58
Export expansion proposals	59
Economic advantages of procuring U.S. peanuts in lieu of foreign peanuts	59
Potential savings in shipping costs to Turkey	59
Consolidation of laundry facilities abroad	60
Economic advantages of using American ingredients to satisfy milk requirements in Western Europe	60
International activities—general	
Missing Government-owned materials in Vietnam	61
Control over local currency made available to the Republic of Vietnam	61
Overseas military construction contracts	62
Financial administration of the consular services program	62
Contract policies and procedures of the Agency for International Development, Vietnam	63
Opportunity to increase export sales of nonfat dry milk	63
Use of U.S.-owned excess foreign currency in India	64
Potential displacement of U.S. agricultural exports	66
Phasedown of U.S. military activities in Vietnam	66

PROCUREMENT

Contract administration	
Contractors' claims based on Government-caused delays	68
Plant equipment acquired by contractors for the account of the Government	69
Application of "should cost" concepts in reviews of contractors' operations	69
Processing of engineering change proposals	70
Contractors' acceptance of recommendations for improving their procurement systems	70
Revision of certain packing specifications	71
Competition in procurement of commercial equipment	71
Evaluation of cost-plus-award-fee-type contract performance	71
Target costs under incentive contracts	71
Contracting policies and practices	
Implementation of the Truth-in-Negotiations Act	72
Waivers of preaward audits of contractors' noncompetitive price proposals	72
Defense industry profit study	73
Awarding negotiated services contracts	74
Improper practices	74
Contracting for Metroliner and Turbo-Train projects	75
Contract award practices and administration	75
Acquisition and utilization of T-38 jet aircraft	75
Facilities, construction, and leasing	
Administration of construction contract provisions	75
Department of Defense reporting to the Congress on nonadvertised military construction contract awards	76
Problems in developing the Fast Flux Test Facility	76
Building under construction different than the one described to the Congress	77

PROCUREMENT—Continued

Procurement procedures and practices	<i>Page</i>
Potential savings by replacing Government-owned sedans each year	77
Career program for procurement personnel	78
Emergency procurement	78
Small purchases (Department of Defense)	79
Small purchases (District of Columbia Government)	79
Use of Government sources of supply	80
Lease versus Government ownership of mail-handling trailers	80

RESEARCH AND DEVELOPMENT

Development of major weapon systems	
Selected major weapon systems	81
Production before completion of development and testing	82
Drone antisubmarine helicopters	83
Deep submergence rescue vehicle	83
Antisubmarine warfare directional low-frequency analysis and recording system	84
Surface ship sonar system	85
Tactical vehicles	85
Research and development—general	
Basic research programs	87
Tours of duty for managers of major research and development projects	87
Procurement of munitions under development	88
Incentive provisions in subcontracts for development of major weapon subsystems	89
Foreign affairs aspects of Federal research	89
Administration of contracts and grants for cancer research	90
Construction and conversion of oceanographic research vessels	91
Coordination of Federal support of research vessel operations	92
Title to research vessels	92
Visitors' use of telescopes at the National Radio Astronomy Observatory	93
Cost sharing in federally financed research	93
Funding research projects	95
Distribution of indirect costs	95

INTERNAL MANAGEMENT PRACTICES AND RELATED CONTROLS

Accounting and fiscal matters	
Financing and accounting policies	96
Activities at the Regional Finance and Data Processing Center, Paris, France	97
Cost accounting for maintenance operations	97
Status, progress and problems in Federal agency accounting	98
Controlling and accounting for sight drafts	98
Deposit of funds in Federal Reserve banks	98
Internal control procedures	98
Unauthorized retention of money accumulated for earned leave of transferred employees	99
Accounting system deficiencies (Farmers Home Administration)	99
Accounting system deficiencies (Immigration and Naturalization Service)	99
Accounting system deficiencies (U.S. Coast Guard)	100
Accounting system deficiencies (Urban Mass Transportation Administration)	100
Accounting system deficiencies (Atomic Energy Commission)	100
Budget and cost improvements	100
Management information systems	
Adequacy of data base, reports, and procedures	101
Management practices—general	
Increased screening of registrants with medical conditions at local draft boards	101
Juror selection and utilization	101
Policy covering locations for holding court	102
Policy for improving court administration	102
Use of electronic traffic counters	103
Use of manpower and machines at mechanized post offices	103

INTERNAL MANAGEMENT PRACTICES AND RELATED CONTROLS—Continued

	<i>Page</i>
Management practices—general—Continued	
Use of value engineering studies in vessel construction	103
Government self-insurance, and performance and payment bonds	104
Administration of grants for construction of oceanographic shore facilities	104
Improvements needed in evaluating hospital construction and modernization design requirements	105
Improvements needed in management control over the identification and reporting of excess land	106
Preservice physical examinations of enlisted personnel	106
 PAY, ALLOWANCES, AND EMPLOYEE BENEFITS	
Alcoholism program for Federal civilian employees	
Establishment of program	107
Federal employees' health insurance	
Administration of the Government-wide Service Benefit Plan	107
Government-furnished housing	
Rental rates	108
Pay, allowances, and benefits—general	
Maintenance of attendance and leave records	109
Overtime claims	109
Maintenance of attendance and leave records	109
Allowances and differentials paid to civilian employees overseas	109
Employee entitlement to pay and leave	110
Accounting for military leave	110
Full-time graduate education programs for military officers	111
Management at the U.S. Armed Forces Institute	112
Conversion of National Guard technician positions to Federal positions	112
 AUTOMATIC DATA PROCESSING SYSTEMS	
Acquisition	
Evaluation of alternative means for acquiring automatic data processing equipment	114
Multiyear leasing and Government-wide purchasing of ADP equipment	114
Acquisition and use of software products for automatic data processing systems in the Federal Government	114
Utilization	
Redistribution of the Government's ADP equipment	115
Improvement in management controls over the scientific use of computers	116
Automated system for insurance programs	116
Case studies of auditing in a computer-based systems environment	116
 PROPERTY MANAGEMENT	
Control over property	
Government-owned property used by a contractor	118
Improved accounting control over equipment	118
Accuracy of inventory records	119
Projections of future requirements for major items of military equipment	119
Low-cost, low-usage items in supply systems	120
Duplicate stocks	120
Laboratory equipment	121
Construction, maintenance, repair, and overhaul	
Maintenance and repair of office machines	121
Maintenance of mail-handling equipment	122
Repair/replacement policies for mail-handling equipment	122
Maintenance of helicopters	122
Maintenance of commercial vehicles overseas	123
Rebuilding of tires	123
Spectrometric oil analysis in maintenance of engines	124

PROPERTY MANAGEMENT—Continued

	<i>Page</i>
Utilization and disposal of property	
Avoiding accumulation of excess spare parts	124
Use and redistribution of excess materiel in the Pacific area	125
Use and redistribution of excess materiel in Europe	125
Reclamation of usable parts from excess aircraft	126
Excess inventories of industrial materials	126

OTHER GOVERNMENT ACTIVITIES

Transportation

Centralized control of overseas air passenger transportation	128
Reduced paperwork in procuring bus transportation	128
Unused cargo space on aircraft controlled by the military	128
Airlifting of military service newspapers	129
Chartering practices of the Military Sealift Command	129
Consolidation of household goods activities in Hawaii	129
Air parcel post shipments of supplies	130
Use of air taxi service to transport mail	130

Government claims

Progress and problems in implementing the Federal Claims Collection Act of 1966	131
Improvements needed in guidelines and procedures	131
Collecting claims payable to the Government	132
Settling debt and payment claims	132

Manpower utilization

Ceilings on employment of civilian personnel	133
Use of enlisted personnel	133
Readiness of Naval Air Reserve units	134
Employment of consultants and experts	134
Transfer of regional activities to local post offices	135

User charges

Assessment and collection of postage for second-class mail	135
Unrecovered postage and handling costs for processing mail with insufficient postage	136
Establishment of user charges for special services	136
Fees charged for special benefits	136
Rental charges for occupying space in Government buildings	137

Miscellaneous

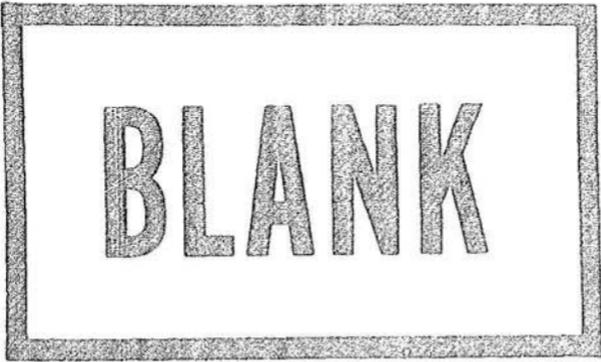
Collection of supplemental duties on imported merchandise	137
Federal assistance for presidential transitions	137
Management and operation of communications systems	138

INDEX BY GOVERNMENT AGENCY	140
---------------------------------------------	------------

INDEX BY FUNCTIONAL CLASSIFICATION OF THE FEDERAL BUDGET	142
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PHOTOGRAPHY CREDITS

Cleveland Local Educational Agency, p. 16; Department of Transportation, State of Florida, p. 25; U.S. Army, pp. 48, 85, 86, and 121; Agency for International Development, pp. 53 and 54; U.S. Navy, p. 83; and Woods Hole, p. 105.



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CIVILIAN DOMESTIC PROGRAMS

Agricultural Commodity Programs

1. Feed Grain Program Payments Not Contributing to Control of Production.—In 14 counties in six States, substantial payments had been made under the feed grain program administered by the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, for diverting from production land being used for other than agricultural purposes. Most of the 14 counties were undergoing urbanization, a change which could likely result in program enrollment of nonagricultural land.

Questionable diversion payments totaling about \$613,000 were made for the 1969 crop year to 938 farmowners or operators in the 14 counties. GAO reviewed in detail payments of about \$189,000 made to 215 individuals or organizations from that group. Of the 215 payments, 136 totaling about \$116,000 were made for land used or designated for use for such purposes as housing and commercial development, sod nurseries, garbage dumps, and gravel pits.

Since the use or intended use of the land ruled out the growing of feed grain or was inconsistent with crop production, the diversion payments did not contribute to the control of production—the principal objective of the diversion portion of the feed grain program. Most of the payments were made to persons engaged principally in businesses or occupations other than agriculture and thus were inconsistent with the program objective of maintaining farm income. Further, the making of diversion payments for land being used or intended to be used for nonagricultural purposes did not aid in attaining the secondary program objective of conserving land for future agricultural or related uses.

ASCS regulations governing the eligibility of land for diversion payments were subjected to various interpretations by county offices and committees, both of which have responsibilities for local administration of the program. Also, State and national offices were not providing the guidance to the county offices and committees necessary to insure uniform interpretation of the regulations.

In response to GAO's recommendations, ASCS officials issued regulations to more clearly define farms ineligible for the diversion programs and to strengthen administrative controls at the State and national levels. These regulations should provide assurance that nonagricultural land is excluded from the feed grain program and that county committees are maintaining adequate surveillance of land to promptly identify those tracts shifting from agricultural to nonagricultural uses. (Report to the Congress, B-114824, Jan. 12, 1971.)

2. Rice Export Subsidy Rates.—GAO proposed that the Secretary of Agriculture take appropriate action to obtain, from Federal sources, information on domestic rice production, sales, and inventories, along with more precise world market price data, for use in establishing weekly rice export subsidy rates. The Department subsequently advised GAO that certain corrective steps had been initiated and that a new policy and revised procedures had been adopted for establishing the rates.

The Department now considers several factors not previously considered, including (1) the availability, by types, of domestic rice for export, (2) the relationship, by types, of export sales to export subsidy rates, for use in determining whether domestic rice is generally competitive in world markets, and (3) the degree to which domestic rice has become established in foreign markets. These factors are consistent with the information which GAO proposed should be obtained and used in establishing subsidy rates.

The Department estimated that, under the new policy and revised procedures, subsidies for fiscal year 1970 commercial rice exports would be about \$12.5 million. This amount was \$23 million less than the annual average of \$35.5 million in commercial export subsidy payments made during the 1964-67 period for about the same quantities of rice. (Report to the Congress, B-114824, Jan. 15, 1971.)

3. Wheat Price-Support Loan Rates.—The price-support rate for wheat at Gulf of Mexico ports was

SECTION I

equivalent to the price-support rate at interior points plus the handling charges, and interstate freight charges of railroads for transporting the wheat to the gulf. The availability of substantial storage space at the gulf, combined with transportation charges that were lower than the interstate rail rates, gave producers an advantage of 15 to 20 cents a bushel if they placed their wheat under price support at gulf ports rather than at inland points.

To discourage this direct flow of wheat to the gulf, the Department of Agriculture in June 1969 proposed to reduce the loan rate at the gulf to compensate for the difference in freight rates. The Department rescinded the proposed change 2 days after announcing it, however, on the basis of verbal information received from farm and trade groups indicating that the movement of about 2 or 3 million bushels of wheat had already been negotiated.

From September 30, 1969, to December 31, 1969, the quantity of 1969 crop wheat recorded by the Commodity Credit Corporation (CCC) as in storage at gulf locations increased by 2.2 million bushels, indicating that, if the Department had made a timely reduction in the loan rate, as was originally contemplated, CCC could have avoided making a greater investment in wheat loans.

GAO recommended in March 1970 that CCC adopt a policy to provide for the prompt elimination of inconsistencies in price-support regulations that result from differences in freight rates or other factors, with due consideration for commitments already made.

In response, CCC stated that it had adopted a different method of establishing and applying price-support locational differentials for 1970 crop wheat and certain other commodities. Under the new method, locational differentials generally reflect no more than minimum transportation costs to recognized markets, and no monetary inducement is provided that could encourage abnormal movements of grain for placement under CCC loan. Report to the Congress, B-114823, Jan. 15, 1971.

Air Safety

4. Surveillance Over Production of Critical Parts for Civil Aircraft.—The Federal Aviation Administration (FAA), Department of Transportation, is required to prescribe minimum standards, rules, and regulations to promote flight safety of civil aircraft.

With respect to the airworthiness of aircraft, FAA promulgates standards governing aircraft design, materials, workmanship, construction, and performance. It also provides surveillance over manufacturers which it certifies as capable of producing aircraft, parts, and equipment. These manufacturers are commonly referred to as production certificate holders.

GAO reported that certain parts critical to the flight safety of civil aircraft, which are furnished by suppliers to aircraft manufacturers, airline companies, and other aircraft owners, generally were not being subjected to production surveillance by FAA or by the production certificate holders. The parts not under production surveillance are known as proprietary parts because neither FAA nor the certificate holders have design control over them, and inspection ordinarily is restricted to functional verification at receiving points. FAA officials in Washington had been aware of this lack of surveillance but had not determined the scope or magnitude of the problem. Some critical aircraft parts classified as proprietary parts had been placed under production surveillance subsequent to the occurrence of an aircraft accident or incident that had been caused by the malfunction of the part.

Under FAA's existing program for production surveillance, a number of standard conformity inspections are made covering numerous manufacturing control areas, such as heat treatment, laboratory testing, and metal surface treatment. The FAA program provides comparable levels of production surveillance over the manufacturing activities of both production certificate holders and their suppliers, except for manufacturing of proprietary parts. GAO reported that surveillance coverage under this program is limited, however, by the availability and location of FAA inspection staffs and the continued increase in the number of manufacturing facilities subject to surveillance.

One of the FAA regional offices had proposed that the production surveillance be directed or limited on the basis of an evaluation of the adequacy of manufacturers' quality control systems over critical aircraft parts. GAO concluded that the proposed system could provide the expanded production surveillance capability necessary to cover critical aircraft parts, such as proprietary parts, that were not receiving such coverage by FAA or by the production certificate holders.

Officials of the Department of Transportation were generally aware of the problems which existed and advised GAO that, upon completion of an overall review

in July 1971, corrective action would be taken to strengthen the administration of the program.

GAO believed that more timely corrective measures were needed to assure that critical proprietary aircraft parts were brought under production surveillance and recommended that FAA take immediate action to bring such parts under production surveillance by either FAA personnel or by production certificate holders. (Report to the Congress, B-164497(1), Feb. 25, 1971)

5. Airport Safety Inspection.—The Federal Aviation Administration (FAA), Department of Transportation, has had general authority since 1958 to prescribe reasonable rules and regulations or minimum safety standards regarding (1) air carrier airports that serve commercial passenger and cargo air carriers certificated by the Civil Aeronautics Board and (2) general aviation airports which ordinarily serve only private and small commercial aircraft. GAO reported that although conditions at airports may seriously influence flight safety, FAA did not have a program specifically designed to evaluate the safety of public airports. It relied on airport inspections under other programs which do not have safety as a primary objective. GAO concluded that these programs neither singly nor collectively provided the data required for determining the safety of an airport.

GAO also concluded that an airport safety inspection program was needed so that FAA could better fulfill its responsibility of insuring the flight safety of aircraft at both air carrier and general aviation airports and suggested that such a program be implemented.

In March 1970, GAO furnished its findings to congressional committees considering a bill requiring FAA to develop and enforce minimum mandatory safety standards for air carrier airports and to certificate airports meeting such standards. In May 1970, the Congress passed the Airport and Airway Development Act which contains those requirements.

The Department informed GAO in June 1970 that it intended to implement GAO's suggestions with respect to air carrier airports as part of its overall implementation of the Airport and Airway Development Act. In addition, the Department said that it plans to survey general aviation airports and implement safety standards as needed. (Report to the Congress, B-164497(1), Jan. 15, 1971)

Atomic Energy

6. Price Increase and Change in Criteria for Uranium Enrichment Services.—At the request of the Joint Committee on Atomic Energy, GAO reviewed certain factors relating to the proposals made by the Atomic Energy Commission (AEC) in June 1970 to amend its Uranium Enrichment Services Criteria and to increase its price for such services.

GAO reported in July 1970 that the proposed change in the existing enrichment criteria, which would require that enriching charges be based on commercial criteria, raised the question of the need for and applicability of the new basis. The type of data which would be generated under this commercial criteria could be accumulated with equal facility under the existing criteria.

Based on GAO's interpretation of the legislative history and statements from hearings on Uranium Enrichment Services Criteria, it did not appear to be consistent with the intent of Congress to conclude that the term "reasonable compensation," as used in the legislation, permitted including a profit over a period of time. Since the commercial criteria which AEC proposed contemplated more than recovery of full costs, GAO questioned the authorization of this revised criteria and expressed the belief that the new criteria should not be adopted without further action by the Congress.

Regarding AEC's proposal to increase the price for such services, GAO concluded that, as a result of cost escalation and operating levels lower than anticipated, it did not appear that AEC's price of \$26 a unit of separative work was adequate to insure recovery of appropriate Government costs; therefore, it appeared that AEC's proposed price increase to \$28.70 a unit of separative work might be warranted.

GAO suggested that the Joint Committee might wish to consider whether the proposed amendments to the criteria were needed to accomplish the objectives of obtaining commercial operating experience. If in the judgment of the Joint Committee it was deemed advisable to adopt the proposed criteria, GAO suggested that the criteria should require a consistent and uniform method of selecting variables and assumptions to provide the degree of stability required for future long-term commitments. (Report to the chairman, Joint Committee on Atomic Energy, B-159687, July 17, 1970)

SECTION I

After issuance of GAO's July 1970 report, the Congress enacted legislation clarifying its intent that the criteria for establishing charges for uranium enrichment services be based on recovery of Government costs.

In December 1970, AEC proposed another revision to the Uranium Enrichment Services Criteria as a result of this legislation. AEC also proposed to increase the price for enrichment services from \$28.70 to \$32 a unit of separative work. At the request of the Joint Committee on Atomic Energy, GAO reviewed AEC's proposals.

GAO reported that the provisions of the revised criteria having an effect on pricing afforded an adequate basis for recovering, over a reasonable period of time, appropriate Government costs of furnishing enrichment services.

GAO reported also that AEC's estimated costs for separative work had increased substantially since the \$26 price was established—a major part of which had occurred since the development of the \$28.70 price. Therefore, GAO believed that AEC's proposal to increase the price of a unit of separative work—which included a contingency factor—was consistent with the pricing provisions of the revised criteria and the provisions of the legislation.

AEC agreed with GAO's suggestion that financial statements, which AEC intended to prepare, be published annually and that AEC periodically prepare information showing current projections of costs and revenues to provide AEC and the Joint Committee with an indication of the extent to which the established price was meeting the objective of recovering the Government's costs over a reasonable period of time. (Report to the chairman, Joint Committee on Atomic Energy, B-159687, Feb. 9, 1971.)

7. Managing High-Level Radioactive Wastes.—

At the request of the Joint Committee on Atomic Energy, GAO reviewed the policies and procedures of the Atomic Energy Commission (AEC) for the management of radioactive wastes to determine what actions had been taken on matters discussed in a previous report issued by GAO on this same topic.

GAO reported that AEC had made progress in carrying out its programs for the effective management of radioactive waste materials; however, problems still remained to be resolved and delays were being experienced in implementing certain policies and practices.

Operational and technical difficulties had caused

delays in implementing certain programs to provide for long-term storage of radioactive wastes and their interim storage in underground tanks. As these tanks increased in age and were utilized more because of the accumulation of new wastes, there was an increased possibility of tank leakages or failures occurring. The AEC proposals for long-term storage of wastes in underground tanks required further evaluation before long-term storage methods could be approved.

GAO proposed that AEC develop and consolidate its plans for resolving waste management problems into an overall coordinated plan which would provide (1) the current status of the waste management program, (2) the specific actions necessary to resolve existing problems, (3) the time frames over which these actions could be carried out, and (4) the estimated fiscal year costs involved. In addition GAO recommended that AEC's Division of Waste and Scrap Management give its immediate attention to the plan and that the Division be given certain specific responsibilities necessary to provide for its implementation. AEC agreed with these proposals and advised that various budget and organizational alternatives within AEC were also being considered with the objective of insuring that the approved overall waste management plan would be effectively implemented.

On June 29, 1971, AEC announced an organizational change which established a new Division of Waste Management and Transportation and abolished the Division of Waste and Scrap Management. (Report to the chairman, Joint Committee on Atomic Energy, B-164052, Jan. 29, 1971.)

Coal Mine Health and Safety

8. Implementation of the Federal Coal Mine Health and Safety Act of 1969.—The Bureau of Mines, Department of the Interior, has had significant problems in carrying out its responsibilities for inspection of coal mines and enforcing the correction of unsafe and unhealthy conditions as required by the act. GAO reported that progress in complying with the requirements of the act has not been in accordance with the target dates set forth in the act, and it did not appear that full compliance would be achieved in the near future.

GAO's review at two districts disclosed that:

The Bureau had made only about 31 percent of the required safety inspections and about 1 percent

of the required health inspections from the effective date of the act through December 31, 1970.

Mine operators had not made various required samplings and inspections, and some that were made were not adequate.

In many cases, mine operators had not submitted required plans for roof safety and mine ventilation and for emergency action in case of fan stoppage nor had they submitted listings of electrical equipment used in mining areas.

Bureau inspectors found numerous safety violations, many of which were the same type that had been cited during previous inspections. This situation was attributable, at least in part, to the Department's policies for enforcing health and safety standards, which at times had been extremely lenient, confusing, uncertain, and inequitable.

Bureau representatives stated that shortages of qualified manpower and certain equipment and insufficient time were the principal reasons for noncompliance with the requirements of the act. As to shortages of equipment, GAO reported that the Bureau (1) had not made overall studies of the availability of equipment and the normal time required to obtain equipment in short supply, (2) may have permitted unnecessarily prolonged noncompliance with certain equipment requirements when comparable substitutes were readily available, and (3) had purchased more dust-sampling equipment than it needed, thus contributing to the shortages of such equipment available to mine operators.

GAO recognized that the passage of the act greatly expanded the responsibilities of the Bureau but believed that more could have been done to achieve greater compliance with its requirements.

The Department stated that with one exception actions responsive to GAO's proposals had been initiated or planned. The Department disagreed with GAO's proposal concerning the use of people less highly qualified than regular coal mine inspectors to perform health inspections. GAO believes, however, that the Department should give further consideration to the possibility of using such persons if the Department experiences difficulty in recruiting the required number of regular coal mine inspectors. (Report to the chairman, Subcommittee on Labor, Senate Committee on Labor and Public Welfare, B-170686, May 13, 1971)

Economic Development Assistance

9. Basis for Providing Federal Assistance to Economically Distressed Areas.—The Economic Development Administration (EDA), Department of Commerce, was determining eligibility for Federal assistance in the long-range development of economically distressed areas from data that was not current and was of questionable accuracy. The questionable reliability of unemployment data was attributable to conceptual weaknesses in the methodology for estimating unemployment as well as to problems in developing unemployment rates for small areas. Also, median family income data for States and local areas—another factor used in determining eligibility—are available only from the decennial population census.

EDA's ability to properly identify areas eligible for assistance hinges on the soundness of unemployment and income data, and the designations of economic distress may influence the distribution of moneys and benefits from other Federal agencies. Because current family income data are not available, EDA is not able to make the annual review of area eligibility based on income that is required by the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3121), or to base its determinations of maximum grant rates on recent data.

To improve the accuracy and comparability of unemployment data, the Department of Labor, which is responsible for collecting such data, said that it would take steps to insure uniform application of its prescribed estimating techniques and that the improvements necessary in the methodology would be made by the end of fiscal year 1971.

The Department of Commerce agreed, in principle, that it would be desirable to have more recent income information regularly. By using other data sources, such as the Office of Business Economics' data on per capita income, EDA hopes to develop reasonably accurate income statistics. The Department stated that a work group was studying per capita income data—a recently developed data source suggested by GAO as an alternative to median family income data—but that much remained to be done before it could be used to measure area economic distress. (Report to the Congress, B-133182, May 10, 1971)

Economic Opportunity Programs

10. Progress Being Made and Difficulties Being Encountered by Credit Unions Serving Low-Income

SECTION I

Persons.—In January 1965, as part of the Community Action Program, the Office of Economic Opportunity (OEO) began providing financial assistance to credit unions sponsored by Community Action Agencies to serve low-income residents living in designated neighborhoods. At December 31, 1969, there were 106 federally chartered, OEO-financed credit unions having 65,900 members, \$4.2 million in members' deposits, and 18,200 loans outstanding totaling \$4.2 million. From inception, the credit unions had made loans totaling \$14.2 million.

GAO reviewed eight of these credit unions, all of which had encountered a number of problems in their operations. These problems had resulted in relatively high operating deficits and in little success in attaining OEO's goal of becoming self-supporting.

The results of financial operations of the credit unions reviewed showed that, from the beginning of OEO financing to December 1969, they had incurred expenses which exceeded operating revenues by \$500,000 and that the deficits had been offset by grants from OEO amounting to \$565,000. The credit unions would have difficulties in achieving a break-even position, even with a substantial increase in loans, unless their operating expenses were reduced.

The eight credit unions did not have sufficient shareholder deposits, the primary source of funds, for making loans to generate interest income adequate to cover operating expenses. The insufficiency in shareholders' deposits was attributable primarily to the very limited savings that low-income families have available for deposit in the credit unions. OEO provided grants to credit unions which offset their operating deficits for periods longer than the 1 or 2 years anticipated by OEO guidelines.

Seven of the eight credit unions experienced higher costs for space occupied—rent, utilities, and maintenance—than other Federal credit unions of similar size, primarily because most of them paid rent for space whereas many other credit unions which were not OEO financed were provided with space free of charge or at relatively low rentals.

GAO reported also that neither OEO nor CUNA International, Inc., an OEO contractor responsible for certain administrative functions of the credit union program, had required the OEO-financed credit unions to develop plans showing projections of their financial operations or target dates for achieving the goal of becoming self-supporting. The establishment of such a target date and its comparison with a credit

union's progress toward meeting that goal would enable OEO and the credit union to determine whether the credit union's progress was adequate.

OEO and the National Credit Union Administration agreed with CAO's conclusions and recommendations. In response to these recommendations, OEO stated that it intended to obtain status reports, plans, and projections bearing on the goal of self-support of credit unions; to review the operations of the credit unions and to provide necessary guidance and assistance; and to require them to concentrate their efforts on cost reductions. (Report to the Congress, B-164031(4), June 17, 1971)

11. Administration of a Neighborhood Health Services Program (New York City).—GAO reported to the Congress that improvements were needed in the operating efficiency and effectiveness of the Neighborhood Health Services Program administered by St. Luke's Hospital Center, New York City. The program is financed with grants from the Office of Economic Opportunity (OEO). Because of a number of problems identified below, the project had not provided a significantly better health care delivery system than that which previously existed.

The amount of space available to the project limited the range of services which could be offered at the project site. A formal agreement for use of the space had not been signed with the city.

The relatively low average number of patients seen by project physicians and dentists indicated that the project was not making maximum use of available professional staff members. OEO guidelines suggest that with adequate space a physician should treat 28 patients, and a dentist 14 patients, per day; however, project physicians averaged only 9.5 patients, and project dentists only 5.7 patients, per day, for the 8-month period ended February 28, 1970.

Although patients were generally treated by the same physicians when they visited the project site for medical care, such continuity was often lost when patients were admitted to St. Luke's Hospital for inpatient care because half the project's physicians did not have hospital privileges at St. Luke's.

The project generally provided individual-oriented rather than family-oriented health care. OEO guidelines call for the project's staff to attempt to see the patient in his family setting when appropriate and for all members of the family to

be seen by the same physician or team of physicians to the extent feasible.

The project had made some progress in implementing a program to provide comprehensive health care, including preventive care; however, additional efforts and space would be necessary for the project to fully implement such a program.

The project made free medical services available, in some instances, to persons who did not meet OEO eligibility criteria. The project needed to strengthen its controls over eligibility determinations to insure that OEO funds were used to provide care for those persons whom the program was designed to help.

In commenting on GAO's recommendations, the Deputy Director of OEO acknowledged that improvements were needed in the project's administration and informed GAO that progress had already been made in all areas cited. The project informed OEO in January 1971, that all project physicians had clinical appointments and all pediatricians had attending status at St. Luke's. In addition, a team approach intended to provide family-oriented rather than individual-oriented services was initiated on a test basis in January. (Report to the Congress, B-130515, June 15, 1971)

Federal Aid to Education

12. Policies and Procedures for Approving Grants Under the Emergency School Assistance Program.—In a report on the policies and procedures of the Department of Health, Education, and Welfare for approving, under the Emergency School Assistance Program, Federal grants to school districts to defray the costs of meeting special problems arising from school desegregation, GAO identified several weaknesses and concluded that they were due mainly to the Department's policy of emphasizing the emergency nature of the program and its desire for expeditious funding, at the expense of a more thorough review and evaluation of school districts' applications. Among the weaknesses were:

School districts did not submit with their applications, nor did the Department obtain, sufficient information to determine whether grants were made in accordance with program regulations.

Applications did not contain, as required by the regulations, comprehensive statements of the prob-

lems faced in achieving and maintaining desegregated school systems.

Grant files did not evidence full compliance by the school districts with the regulations concerning the formation of biracial and student advisory committees.

GAO suggested that the Department undertake a strong monitoring program to help insure that grant funds already made available to school districts are used for the purposes intended. GAO suggested also that, in the event additional funding is authorized, Department procedures be strengthened by (1) providing sufficient time for program officials to make a thorough review and evaluation of applications, (2) requiring that all information relied on in approving an application be made a matter of record, and (3) providing for a monitoring system. (Report to the chairman, Senate Select Committee on Equal Educational Opportunity, B-164031 (1), Mar. 5, 1971)

13. Administration of Federal Aid to Educationally Deprived Children.—Title I of the Elementary and Secondary Education Act of 1965 authorizes funds for programs designed to meet the special educational needs of children deprived of normal educational development who live in school attendance areas having high concentrations of children from low-income families. GAO issued reports on its reviews of the program in Ohio and in New Jersey in which it identified a number of areas of administration where opportunities for improvements existed.

Among the areas identified in Ohio were:

Projects were not concentrated on the educationally deprived, but were opened to all interested children.

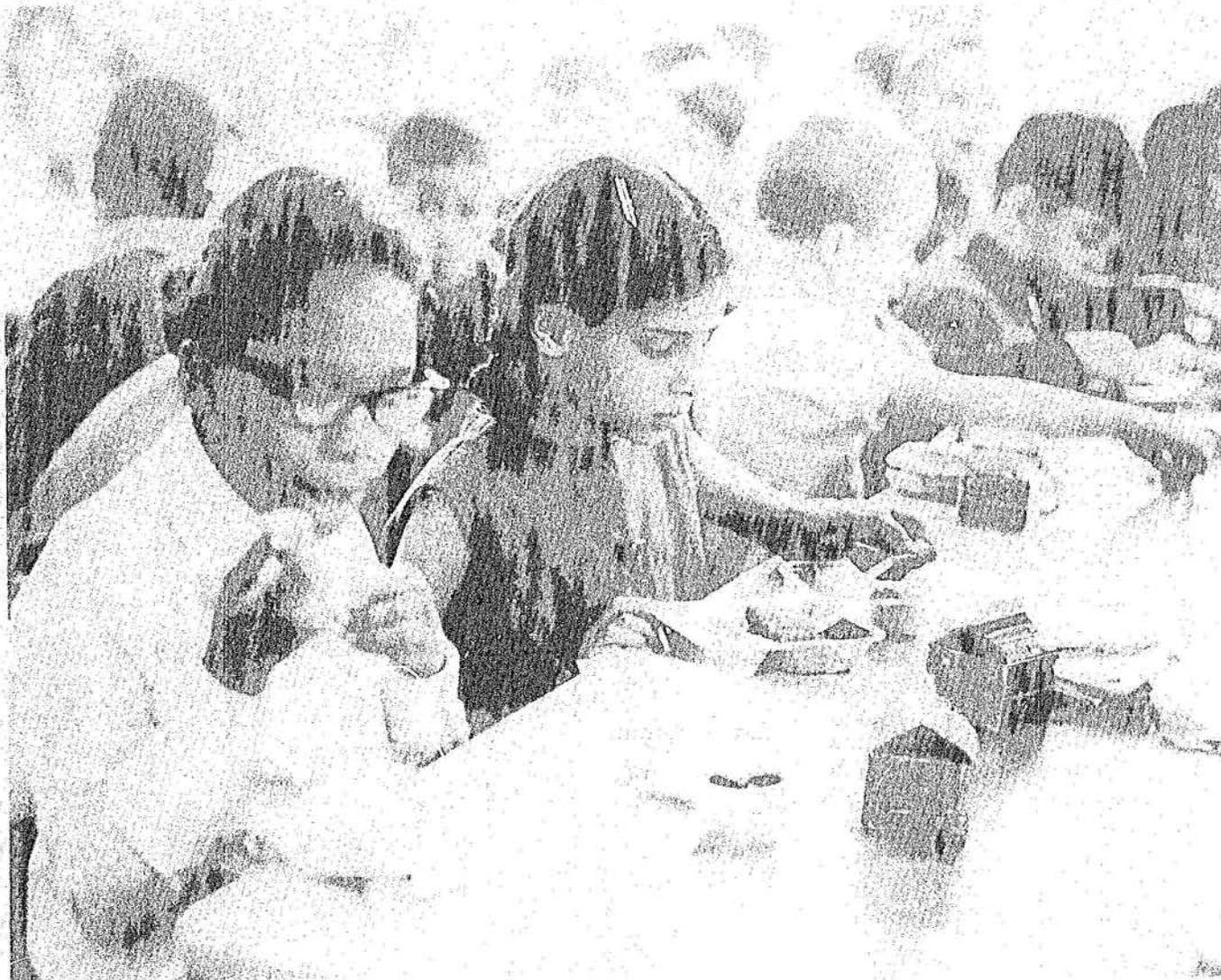
Facilities acquired could not be fully used for over a year because the local agency had not arranged to obtain sufficient operating funds.

Procedures for acquiring and using Title I equipment needed improvement.

A local agency charged the program for unused sick leave earned by its employees although it did not charge its locally financed programs for such leave.

The more significant areas identified in New Jersey were:

Areas to participate in the program were not selected and documented in accordance with program criteria.



Children eating hot lunches provided by a food project in Cleveland, Ohio.

Projects were designed and operated in a manner which provided general aid to the school system rather than special educational programs for educationally deprived children.

State agency reviews of project applications and operations were inadequate.

The Office of Education, Department of Health, Education, and Welfare, concurred with GAO's recommendations in these reports and agreed to take corrective action.

In a letter dated May 6, 1971, addressed to all chief State school officers, the Office of Education summarized the deficiencies in the program identified by GAO and requested the officers to take steps to determine whether any of the deficiencies existed in their States and to initiate remedial action where necessary. (Re-

ports to the Congress, B-164031(1), Dec. 28, 1970, and Apr. 7, 1971.

14. Assessment of the Teacher Corps Program in South Florida.

The Teacher Corps program at the University of Miami and participating schools in south Florida strengthened educational opportunities available to pupils in classes to which Corps members were assigned and had some degree of success in broadening the university's teacher preparation program. As a result of the program, new teaching methods were introduced in the schools, education-related community activities were initiated, and some changes were made in the university's teacher preparation program. Also, over half of the 71 interns who completed the program remained as teachers in schools serving poor areas.

The Miami program had much less impact than it might have had because many Teacher Corps innovations were not continued after the Corps member finished their assignments. Specific procedures were not developed to determine which innovations would benefit regular curriculums at the participating schools and at the university.

GAO recommended that local educational agencies adopt specific procedures to integrate successful Teacher Corps innovations into their regular school programs; that the university develop ways to determine which ideas, experiments, and techniques should be included in its regular teacher preparation program; and that the Office of Education discuss with the Florida Department of Education the feasibility of disseminating information about successful Corps methods. The Assistant Secretary, Comptroller, Department of Health, Education, and Welfare, concurred with the recommendations and described actions planned to put them into effect. (Report to the Congress, B-164031(1), Apr. 16, 1971)

15. Assessment of the Teacher Corps Program on the Navajo and Hopi Indian Reservations.—

Northern Arizona University and participating schools on the Navajo and Hopi Indian reservations increased the educational opportunities available to Indian children through the operation of their Teacher Corps program. Corps members provided individualized instruction and introduced several new teaching methods which made the instruction more relevant to the culture and background of the children. School officials stated that the new teaching methods had been successful and had been adopted by their regular teaching staffs. About three-fourths of the 26 interns who had completed the program were hired as teachers in reservation schools.

The program had some degree of success in broadening the university's teacher preparation program. However, much of the special curriculum offered to Teacher Corps interns was not offered to students in the university's regular teacher training program. The university began a study to identify aspects of the Teacher Corps program that should be made available to other students.

There was a need for the Office of Education to stay abreast of the university's study, to encourage the university to incorporate successful program features into its regular teacher preparation program, and to cooperate with the Arizona Department of Education in its plans to disseminate information on successful

innovations and teaching methods used in the program to other educational institutions in the State.

The Assistant Secretary, Comptroller, Department of Health, Education, and Welfare, concurred with GAO's recommendation that the Office of Education stay abreast of the progress of the university's study of the ideas, experiments, and techniques used in the Navajo-Hopi program and encourage the university to incorporate the successful ones in its regular teacher preparation program.

He stated, however, that HEW preferred to delay action on GAO's recommendation that the Office of Education cooperate with the Arizona Department of Education in its plans to disseminate information on successful innovations and teaching methods to other educational institutions in the State until the Department could provide staff and expertise to carry out its plan. (Report to the Congress, B-164031(1), May 13, 1971)

16. Assessment of the Teacher Corps Program in Western North Carolina.—

The program increased educational opportunities available to pupils in grades to which Corps members were assigned, but the program's impact was not nearly as great as it could have been. Most of the activities started by Corps members were not continued after they left the schools, and program officials did not evaluate Corps members' activities to identify those which were successful. Community involvement was made difficult by western North Carolina's mountainous terrain and its scattered populace. Of the 71 interns who completed the program, only 14 remained as teachers in the eight-county area served.

Western Carolina University broadened its teacher preparation program by making changes in its student teaching practices. University officials did not emphasize the introduction of new courses for the Teacher Corps because they believed that existing courses could be adapted to training teachers of disadvantaged children. Most interns, however, said that their course work was irrelevant and repetitious.

GAO recommended that innovations resulting from the Teacher Corps program be evaluated, that ways to achieve a higher degree of graduate retention be explored, and that the types of community activities reasonably attainable in rural areas be clarified. GAO recommended also that the need for the incorporation of new courses and approaches to education into the Teacher Corps and regular curriculums at Western Carolina University be evaluated. The Assistant Secretary, Comptroller, Department of Health, Education,

SECTION I

and Welfare, concurred with the recommendations and described actions planned to implement them. (Report to the Congress, B-164031(1), May 20, 1971)

17. Use of Teacher Corps Members To Supplant Local Teachers.—Beginning in 1969 members of the Teacher Corps participating in the program in western North Carolina were assigned to State or locally allotted teaching positions. According to program officials, this practice resulted in supplanting teachers who would have otherwise been hired by the local educational agencies. Since section 517 of the Higher Education Act of 1965 states that no member of the Teacher Corps shall be furnished to any local educational agency if that member is used to replace any teacher who is or would otherwise be employed by such agency, GAO expressed the belief that the arrangement was not authorized.

Although the practice was not authorized, the State and local funds which would have been expended for regular teacher salaries were used for Corps members' salaries and related benefits. As a result, State and local funding of the Western Carolina program increased from about 40 percent to about 70 percent, thus decreasing the amount of Federal funds needed to operate the program. Since this funding procedure is being used at other locations and may provide local educational agencies with the impetus to continue successful features of a Teacher Corps program after Federal funding ceases, GAO suggested that the Congress might wish to consider whether the enabling legislation should be amended to authorize such arrangements. (Report to the Congress, B-164031(1), May 20, 1971)

18. Administration of the Teacher Corps Program.—Grantees participating in the Teacher Corps program held about \$428,000 of Federal funds for up to 3 years beyond the completion of the periods for which the funds were intended to be used. A factor which contributed to this accumulation of excess funds was the practice of furnishing grantees with specific amounts to use in their budget requests for certain expense items without instructing grantees to consider available information which would have indicated that lesser amounts would suffice.

GAO recommended that the Office of Education, Department of Health, Education, and Welfare, provide for the early identification of grantees holding unused funds, take action to recover such funds, and revise Teacher Corps guidelines to provide for con-

sideration by grantees of all available cost and other pertinent information when preparing budgets in support of their requests for Federal funding.

The Commissioner of Education stated that the Teacher Corps had assigned a staff member to devote a major portion of her time to the recovery of outstanding funds and that the Corps would revise its budget guidelines so that negotiations would take into account a project's previous fiscal activity as well as current needs. (Report to the Commissioner, Office of Education, Mar. 5, 1971)

19. Policies and Procedures for Administering Study and Evaluation Contracts.—Through its institute program, authorized under the National Defense Education Act of 1958, the Office of Education, Department of Health, Education, and Welfare, provided financial support to universities and colleges to provide advanced study to persons concerned with the teaching of modern foreign languages, English, history, and other subjects. Many of the universities which operated the institutes contracted for evaluations of their particular programs. To coordinate the many evaluations, the Office of Education contracted with the Consortium of Professional Associations for Study of Special Teacher Improvement Programs (COMPASS) to undertake these evaluations.

In April 1971, GAO reported that under the contract terms some of the basic management functions of the Office of Education that are essential to an effective administration of the contract were delegated to COMPASS. Office of Management and Budget Circular No. A-76, as revised, directs that executive agencies perform for themselves those basic functions of management necessary to retain essential control over the conduct of their programs. These basic functions include assigning organizational responsibilities, planning programs, and evaluating performance.

The delegation of authority to COMPASS for making decisions on what studies would be undertaken or continued was not, at least in one case, in the best interest of the Office of Education. In this case, COMPASS continued an evaluation of a program at an additional cost of \$15,000 even though the Office of Education was against further funding of the evaluation because the program was being phased out.

GAO recommended that, if the contract with COMPASS is continued, the Office of Education should provide for retention of the basic management functions it needs to effectively direct and control CON-

PASS activities. (Report to the Secretary, HEW, B-164031(1), Apr. 22, 1971)

20. Student Loan Insurance Fund.—The financial statements of the Student Loan Insurance Fund for fiscal year 1969 did not present fairly the financial position of the fund because not all unpaid premiums due from lenders were included in accounts receivable; not all premiums on loans made during the year were considered in computing the amounts shown for income from insurance premiums earned and deferred; and the amount for unpaid default claims, which were classified as deferred charges, was overstated.

To produce financial statements which will present fairly the financial condition of the fund, the Office of Education, Department of Health, Education, and Welfare, needs to classify lenders default claims on hand at yearend as loans receivable or some similar type of current asset rather than as deferred charges, establish an allowance for losses on these claims and charge the amount to expense in the year in which the claims are made against the fund, and strengthen accounting procedures to insure that the amounts shown on the financial statements for accounts receivable and insurance premium income are derived from reasonable and sound bases.

HEW took or planned to take appropriate action on most of the matters discussed in GAO's report. (Report to the Congress, B-164031(1), Apr. 12, 1971)

Grants to States for Public Assistance

21. Approval of and Payment for Nursing Home Care.—A review of the nursing home program under Medicaid in the State of California revealed weaknesses in the State's admission and billing procedures. Medicaid recipients received nursing home care without adequate determinations that such care was warranted, and studies by three counties showed that a high percentage of patients were not in need of the care provided. In addition, in some cases, care was approved and payments were made for periods after a patient's death or discharge, and nursing homes were paid under both the Medicare and Medicaid programs for the same days of care.

GAO recommended that the Department of Health, Education, and Welfare (HEW) provide for (1) developing or evaluating the administrative and program requirements used by the States in approving and paying for nursing home care and (2) monitoring State

Medicaid activities to determine the extent to which its standards were being implemented and to effect corrective action where warranted.

HEW concluded that the deficiency relating to placement and retention of Medicaid recipients resulted from failure of county agencies and personnel to follow HEW policy and State guidelines. Both HEW and the State concurred that guidelines should be developed to avoid improper payments.

The State issued instructions which it believed would improve control of billings after death or discharge of patients and initiated action to eliminate duplicate Medicare and Medicaid payments by refining computer controls. HEW informed GAO that, as staff increased, priority would be given to problems involving timeliness of approvals and controls and that monitoring of the States' programs should be more effective. (Report to the Congress, B-164031(3), July 23, 1970)

22. Problems in Providing Nursing Home Care.—GAO reported to the Congress that actions taken by the Department of Health, Education, and Welfare (HEW) and the State of California to correct problems previously disclosed by GAO were generally ineffective.

Problems regarding nursing home care continued to exist because California's Medicaid plan, as approved by HEW, did not provide adequate guidelines, and the State did not have adequate procedures to help insure compliance with established guidelines. These problems related to (1) inadequate control over drugs, (2) payments for patients in substandard nursing homes, (3) transfers of patients without just cause, (4) supplemental payments, prohibited under Medicaid, to nursing homes, (5) inadequate safeguards over patients' personal funds, (6) misleading advertising, and (7) inadequate controls over authorizations for medication and treatment. The continuing nursing home problems appeared to be attributable, at least in part, to the inadequacy of administrative reviews by HEW regional representatives.

GAO recommended that HEW review State agencies' implementation of HEW regulations and impress upon State officials the need to clarify the roles of State and county agencies involved in the Medicaid program.

HEW informed GAO that it would (1) discuss with California officials the Federal regulations and their application relating to the quality of nursing home care, and (2) assist the State in determining the cor-

SECTION I

rective actions with respect to GAO's findings. (Report to the Congress, B-164031 (3), Aug. 26, 1970)

23. Payments for Physician and X-ray Services to Nursing Home Patients.—GAO's review of the Medicare and Medicaid programs in California showed that the State had paid providers of medical services the single-patient visit fee rather than the lower multiple-patient visit fee for visits made to more than one patient on the same day in the same nursing home. GAO estimated that such overpayments during 1969 totaled about \$426,400, of which the Federal share was about \$343,500. The overpayments occurred because (1) physicians and providers of X-ray services did not know the correct billing procedures for multiple-patient visits, (2) the claims processing and payment system used by the principal fiscal agent (a private organization under contract with the State) did not contain adequate controls to identify multiple-patient visits, and (3) physical payment profiles (histories of past billings used to determine the reasonableness of physicians' charges) for multiple-patient visits had not been properly developed.

Regulations of the Department of Health, Education, and Welfare (HEW) did not provide guidelines to the paying agents concerning payment policies for physician visits made on the same day to a number of patients in the same nursing home. HEW had made a nationwide study on the diversity of payment policies and the feasibility of prescribing uniform guidelines for use under the Medicare program, but it had not made a similar study for the Medicaid program.

In response to GAO's recommendations for corrective action, HEW stated that (1) uniform guidelines would be issued to all Medicare carriers with respect to identifying multiple-patient visits and insuring proper reimbursement, (2) a study would be made of the diversity of existing payment policies under Medicaid preparatory to the issuance of guidelines, and (3) HEW regional offices would be given the responsibility for obtaining compliance with policies under the Medicaid program. (Report to the Congress, B-164031 (3), Feb. 2, 1971)

24. Problems in Providing Skilled Nursing Home Care.—GAO visited 90 skilled nursing homes (30 each in the States of Michigan, New York, and Oklahoma) having a total of 5,581 Medicaid patients; 33 of these homes were also serving Medicare patients. Many of these nursing homes were not adhering to Federal requirements for participation in the Medicare

aid program—and, in some cases, the Medicare program. As a result, the health and safety of patients may have been jeopardized.

GAO noted such problems as (1) patients not receiving required attention by physicians and nurses and (2) fire protection not being adequate. The deficiencies resulted primarily from weaknesses in State procedures for certifying eligibility of skilled nursing homes and from ineffective State and Department of Health, Education, and Welfare (HEW) enforcement of Federal requirements, including those for State licensing.

In addition, patients had been placed in skilled nursing homes even though their needs were for less intensive and less costly care which could have been provided in other facilities; however, alternative facilities in which less intensive levels of care could be provided were limited. GAO believed that the primary cause of this problem was that HEW had not developed criteria for measuring the need for skilled care under the Medicaid program although the Social Security Administration had developed such criteria for skilled care under the Medicare program.

In response to GAO's recommendations HEW stated that the Department's Social and Rehabilitation Service (SRS) had implemented a new monitoring and liaison program in each regional office that would insure closer relationship with State agencies and require more frequent visits by regional officials and detailed reviews of State Medicaid operations. HEW also advised GAO that SRS planned to issue guidelines to assist the States in evaluating patients' needs for skilled nursing care and services under the Medicaid program and that, where applicable, the guidelines would embrace areas of common interest, such as those outlined in criteria developed for the Medicare program. (Report to the Congress, B-164031 (3), May 28, 1971)

25. Practices Relating to Nursing Home Operations.—At the request of the chairman, Subcommittee on Long-Term Care, Senate Special Committee on Aging, GAO obtained information about questions raised during the subcommittee's hearings on a salmonella outbreak in nursing homes in the Baltimore, Md., area. GAO visited four nursing homes in Maryland which were participating in either the Medicaid or Medicare programs administered by the Department of Health, Education, and Welfare (HEW).

GAO reported that:

In Maryland, it was not an uncommon practice for physicians to sign death certificates without having

viewed the bodies of patients who died in nursing homes; the practice was not illegal in Maryland, however, and it was not considered unethical by the State Medical Society.

On three occasions physicians had been paid under the Medicare and Medicaid programs for signing death certificates although the fee was not reimbursable under either program.

The records of 322 Medicaid and Medicare patients who died during fiscal year 1970 revealed 39 instances in which payments had been made under the Medicaid program for nursing home care for periods after the deaths of the patients. In 36 of the 39 instances, however, the overpayments had been detected by State employees and adjustments had been made to correct the overpayments prior to GAO's bringing them to the attention of State officials.

In some cases payments had been made to nursing homes for care on the same days under both the Medicaid and Medicare programs.

Medicaid audits required by the State had not been made at three of the four nursing homes visited.

GAO pointed out the need for the following action by HEW.

HEW's Social Security Administration and/or the Social and Rehabilitation Service should assist paying agents under the Medicare and Medicaid programs in studying the feasibility of establishing (1) procedures to insure that payments are not made to physicians for signing death certificates, which is an unallowable cost, and (2) controls to insure that duplicate payments for the same services are not made under the programs.

The Social and Rehabilitation Service should improve its monitoring of the State's administration of the Medicaid program to insure that required audits of nursing home costs are made.

HEW informed GAO that it planned to issue a letter to State Medicaid agencies pointing out that payments to physicians for signing death certificates is an unallowable cost under the program. Also, with respect to duplicate payments under the Medicaid and Medicare programs, HEW stated that the newly established management information system for improving the administration of the Medicaid program should help to insure that duplicate payments are not made. With respect to improved monitoring by SRS of State Medicaid programs, HEW advised GAO that monitoring

activities were expected to increase in the future. (Report to the Subcommittee on Long-Term Care, Senate Special Committee on Aging, B-164031(3), Dec. 4, 1970)

26. Administration of the Medicaid Program by Fiscal Agents.—Most States contract with private organizations—referred to as fiscal agents—for assistance in administering their Medicaid programs. In GAO's review of the program in Kansas and Iowa, weaknesses were noted in fiscal agents' administration of the Medicaid program.

Neither Kansas nor Iowa had established controls adequate for insuring that payments were made only for medically necessary services, and neither State had provided adequate supervision or review of the administration of the programs by fiscal agents. As a result:

There were indications of overuse of program services, and both States experienced lengthy delays in establishing procedures to control such overuse.

Neither State had ascertained the reasonableness of the amounts paid as customary charges for the services provided.

Improvements were needed in administrative practices relating to (1) identification of claims for services that might be covered by recipients' private health insurance policies, (2) prevention of duplicate payments and payments for medical services provided after recipients' eligibility had terminated, (3) filing of paid claims, and (4) determination of reimbursable costs to participating hospitals.

GAO recommended that the Secretary of Health, Education, and Welfare (HEW) (1) provide the States with guidelines for reviewing and controlling the use of Medicaid services, including the accumulation and use of data on charges made by individual practitioners in determining the reasonableness of customary charges, (2) require the States to provide the fiscal agents processing Medicaid claims with the identification of recipients who have private health insurance coverage, and (3) define the State agencies' responsibilities relative to fiscal agents' activities.

HEW informed GAO that utilization review guidelines would be issued but expressed the view that its existing regulations provided sufficient guidance to State agencies with respect to (1) the accumulation and use of historical charge data, including charges to private insurance programs and (2) the considera-

SECTION I

tion to be given to private medical insurance coverage in computing the amounts to be paid by Medicaid. HEW believed that the weaknesses noted in these areas were caused by inadequate implementation by the State agencies of existing regulations but stated that it planned to inaugurate a closer monitoring and liaison program with the individual State agencies. HEW informed GAO that it would continue to evaluate its guidelines in light of information obtained through its monitoring of State programs. (Report to the Congress, B-164031(3), Oct. 20, 1970)

27. Inadequate Controls Over Medicaid Drug Program.—During fiscal year 1969, about \$307 million was expended for drugs under the Medicaid program, about \$14 million of which was spent in Ohio. With regard to Ohio, GAO found that:

A substantial number of welfare recipients were ineligible for Medicaid services, including drugs.

Certain drugs purchased under the State's Medicaid program were not reasonably priced.

The Department of Health, Education, and Welfare (HEW), in its studies of drug efficacy, needed to give priority to lower cost frequently used drugs which had been identified by the HEW Task Force on Prescription Drugs as offering potential for considerable savings.

Ohio's controls over drugs under its Medicaid program were inadequate for the State or HEW to determine whether (1) drugs obtained by nursing homes were administered to welfare patients and were effective in their treatment, (2) drugs dispensed and billed by pharmacies were actually received by welfare recipients, and (3) only needed drugs were provided to welfare recipients.

GAO recommended that the Secretary of HEW:

Provide assistance to Ohio and other States in revising their drug payment policies to conform to HEW policy.

Give priority in the conduct of HEW's drug-efficacy studies to those drugs identified by the HEW Task Force as having considerable potential for savings and furnish physicians with information on the results of the studies.

Issue guidelines for utilization reviews of drugs, monitor the implementation of these guidelines, and give assistance to Ohio and other States as needed.

HEW stated that guidelines for payments of reasonable charges for prescribed drugs and for a review of their utilization were expected to be issued in the near

future, and that the drug-efficacy study was in progress. HEW also stated that it planned to institute a closer monitoring and liaison program in each regional office and to make more frequent visits and detailed reviews of State Medicaid operations. (Report to the Congress, B-164031(3), Nov. 23, 1970)

28. Excessive Use of Physician Services.—The Department of Health, Education, and Welfare (HEW) did not provide States with guidelines for evaluating the need, quality, or timeliness of medical services under the Medicaid program. In a review of the program in Kentucky, GAO noted that HEW had not adequately supervised or monitored the State's evaluation of medical services provided. GAO noted also that there was a need for more effective action to curb misuses of physician services.

GAO reviewed the cases of 100 Medicaid recipients who had received large quantities of drugs and interviewed the attending physicians. Eighty-four of these recipients had received an excessive number of prescriptions a month, and 62 of them had averaged five visits a month to different physicians, at an average monthly cost of \$33.

GAO concluded that an HEW regulation—adopted by Kentucky—which allowed providers of services to submit bills for payment under Medicaid for periods up to 2 years after the services were provided—represented an obstacle to examining and evaluating the number and/or frequency of physician visits. It appeared to GAO also that Federal and State staffing limitations had contributed to the problems, and that better monitoring of Kentucky's activities by HEW was needed.

GAO recommended that HEW provide the States with guidelines for effectively reviewing the use of physician services, increase its monitoring of the States' evaluations of physician services, and reduce the 2-year period during which providers may bill for services.

HEW informed GAO that (1) guidelines would be issued for evaluating the use of medical services, (2) Medicaid program staffs in Kentucky had been increased, (3) monitoring of State evaluations of physician services would be increased and a closer monitoring and liaison program with each individual State agency would be made, and (4) revised regulations had been issued to reduce the 2-year time limitation for submission of bills. HEW stated that, before reaching a decision as to the time limitation that should be established, a survey would be made in all States to obtain information about the length of time needed

to process claims for all medical care and services. (Report to the Congress, B-164031 (3), Feb. 3, 1971)

29. Eligibility Under Medicaid.—Regulations of the Department of Health, Education, and Welfare (HEW) require that an individual's eligibility for Medicaid be reconsidered or redetermined at least once every 12 months.

In Massachusetts, the required redeterminations of eligibility had not been made in about one-half of the 127 cases GAO reviewed. As a result, there was no assurance that recipients continued to be eligible for Medicaid. In addition, in determining the financial eligibility of employed Medicaid applicants, the State had failed to make required adjustments because of the excess incomes of some applicants.

HEW informed GAO that corrective action would be taken. (Report to the Regional Commissioner, Social and Rehabilitation Service, HEW, Aug. 17, 1970)

30. Overpayments for Child Care Services.—In a review of claims for Federal sharing in the administrative costs of public assistance programs in California and Pennsylvania, GAO noted that incorrect payments for child care services had been made to some recipients of public assistance.

GAO recommended that the Social and Rehabilitation Service (SRS), Department of Health, Education, and Welfare (HEW), look into the possibility that inadequate procedures leading to incorrect payments might exist in other States.

SRS agreed with GAO's recommendation; took actions to determine whether States' procedures were adequate to prevent overpayments; and stated that corrective action, including adjustments of overpayments, would be taken where procedures were found to be inadequate. (Report to the Administrator, SRS, HEW, Mar. 11, 1971)

31. Administration of Certain Projects for Older Americans.—Title III of the Older Americans Act of 1965 authorized Federal funds for use by the States in community planning and coordination of programs, demonstration of programs or activities, training of special personnel needed to carry out programs and activities, and establishment of new programs or the expansion of existing ones.

In reviewing six of 21 active Title III projects in Maryland, GAO found that (1) half of them had not achieved their estimated potential in serving the senior

citizens in the community. (2) the Department of Health, Education, and Welfare's (HEW) regional office staff had not made regular visits to review and evaluate State operations, and (3) the State agency had not established procedures for project reports to be submitted on a timely basis.

In response to GAO's recommendations, HEW stated that a plan had been established to evaluate local community projects, a project had been completed to identify and evaluate the criteria used by State agencies in funding local community projects, and guidelines had been developed for evaluating State agency planning activities. (Report to the Administrator, Social and Rehabilitation Service, HEW, Sept. 23, 1970)

32. Simplified Method for Determining Eligibility for Public Assistance.—A simplified method to determine the eligibility of persons for adult public assistance was used by the States on a trial basis. Eligibility determinations were to be based, to the maximum extent possible, on information furnished by the applicants without routine interviewing of the applicants and without routine verification and investigation by the caseworkers.

The Department of Health, Education, and Welfare (HEW) instituted a test of the method to determine whether the intended objectives were being achieved. The test, which included validating the correctness of eligibility decisions made by the caseworkers, was carried out by State and local welfare agencies and was monitored by HEW. Largely on the basis of results of the test, HEW directed the States to fully implement the simplified method.

GAO reported to the Senate Committee on Finance that it had observed a number of problems in the implementation of the method by the States and in HEW's conduct of the test. GAO believed that these problems, collectively, were sufficient for questioning certain of the data from which conclusions were drawn. GAO expressed the opinion that the problems observed suggested a need for HEW to closely monitor the nationwide implementation of the simplified method.

GAO made several recommendations designed to insure that States implement the simplified method effectively and work toward further simplification and improvement. HEW subsequently provided guidance to the States for verifying inconsistent statements by applicants and for developing and using simplified application forms. HEW also developed a continuous review system for monitoring and controlling the func-

SECTION I

tioning of the method, and informed GAO that it planned to reevaluate the tolerance level for ineligibility as experience was gained. (Report to the Senate Committee on Finance, B-161031(3), Aug. 5, 1970)

Highway Programs

33. Questionable Basis for Approving Certain Interstate Auxiliary Route Segments.—Mileage allocations by the Federal Highway Administration, Department of Transportation, for certain auxiliary route segments of the Interstate Highway System were made on a case-by-case basis without the use of a system to rank States' requests for mileage in the order of their relative merit and significance. Approving these routes on this basis was contrary to the established practice of approving additions to the Interstate Highway System only after systematically rating, evaluating, and comparing the relative merits and needs of all States.

One of the segments approved in this manner—a \$47 million spur route near Hennepin, Ill.—does not provide the general benefits normally associated with the Interstate System because it primarily benefits a private steel plant located near a small rural community. A rating system would have highlighted the fact that this segment was not in consonance with the nationwide character of the Interstate Highway System and that it should not have qualified as an addition to the Interstate System.

GAO recommended that the practice of approving auxiliary interstate mileage on a case-by-case basis be discontinued and that a numerical rating system be used to rank requests on the basis of priorities which reflect the current objectives of the Interstate Highway System in order to provide more assurance that (1) auxiliary interstate mileage is allocated on the basis of the most important needs of the System, (2) the various States are afforded an equal opportunity to compete for any additional interstate mileage which may become available, and (3) responsible officials have a means for comparing the relative merits of all States' requests for additional mileage.

The Department agreed that the States should have an equal opportunity to compete for interstate mileage and that this mileage should be allocated to serve the most important needs. The Department

stated, however, that no rigidly applied numerical rating system can adequately measure the relative merits of applications for interstate mileage particularly where an urgent need arises for adjustments or additions to specific short route segments.

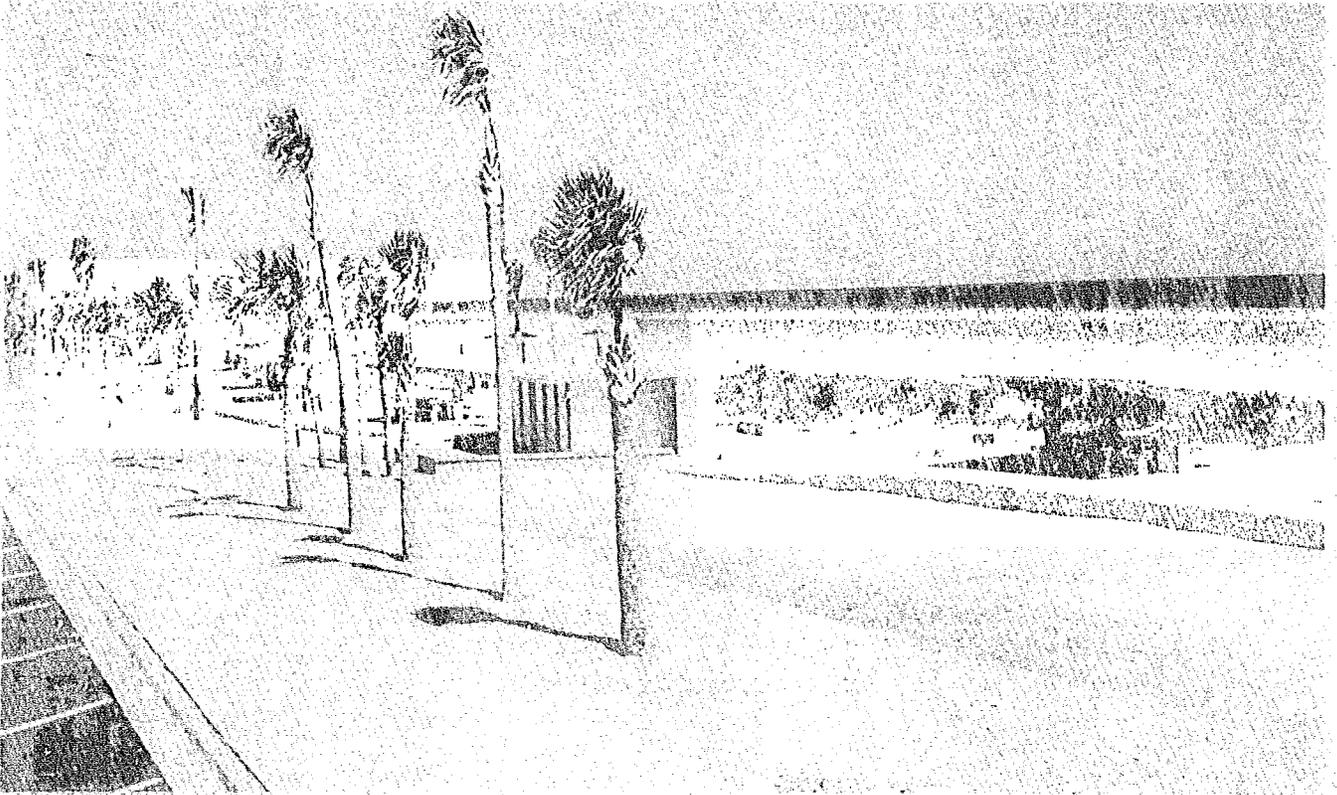
GAO agreed that a totally inflexible system would not be feasible but stated that the officials responsible for managing the interstate program should have some means of clearly identifying the various alternatives, so that, when dealing with problems of the magnitude encountered in interstate mileage allocations, they will have a proper framework for more informed management decisions. (Report to the Congress, B-163714, July 31, 1970)

34. Management of the Highway Safety Rest Area Program.—Costs of constructing highway safety rest areas are generally shared by the States and the Federal Highway Administration (FHWA), Department of Transportation. In administering the rest area program, FHWA had not required the States to establish and adhere to a system of priorities to insure that safety rest areas were constructed first at locations which would meet the motorists' greatest needs. Also, FHWA had not provided and/or required the States to adhere to definitive guidelines relating to the size, type, quality and cost of rest areas acceptable for approval for Federal financial participation. As a result, the amount of land and the size, type, and cost of facilities varied widely for rest areas designed to serve similar volumes of traffic. The cost and quality of equipment for these rest areas also varied widely.

In response to GAO's recommendations, the Department stated that FHWA would continue surveillance of the design of safety rest area facilities, including location and land acquisition, to be certain that Federal funds are properly and wisely spent and that, in revising current guidelines, it would consider the advisability of specific guidelines along the line recommended by GAO. The Department rejected the idea, however, that it would be proper to establish specific cost limitations for equipment. GAO believes that, in the absence of guidelines regarding the type and cost of equipment acceptable for Federal financial participation, there will continue to be a lack of assurance that needed facilities are being provided at reasonable costs. (Report to the Congress, B-164497(3), June 2, 1971)



Safety rest area -Hawthorne, Nev.



Silver Beach safety rest area--Florida

35. Federal Participation in Costs Incurred by States for Highway Landscaping.—The Federal Highway Administration (FHWA), Department of Transportation, is responsible for approving Federal aid to highway landscaping projects initiated by the States for roadside planting and related work contributing to the aesthetic and functional design of the highways. Federal financial participation in landscaping projects is allowed for the costs of planting woody groundcover, shrubs, and trees, together with turfing, mulching, and other work incidental to the completion of a planting operation.

FHWA's policy is to allow Federal participation, once the planting and all other initial landscaping construction work on a project is completed, in all costs incurred by a landscaping contractor in caring for the plantings for periods up to 1 year to insure that such plantings become established.

GAO's review showed that the majority of the work performed during the plant establishment periods was about the same as that which at any other time would be classified as State maintenance. GAO therefore recommended that FHWA revise its policy to provide that the basis of Federal participation in landscaping projects exclude the costs of maintenance-type activities performed by landscaping contractors during plant establishment periods, other than those costs incurred for additional care required to insure the success of the projects. (Report to the Secretary of Transportation, B-118653, Sept. 16, 1970)

36. Experimental Emergency Communication Systems.—The Federal Highway Administration (FHWA), Department of Transportation, provided, as of August 1970, about \$1.1 million to certain States for the installation and evaluation of various types of communication systems which allow stranded motorists to communicate a need for service.

FHWA instructions in effect at the inception of the program required that the States perform an evaluation study of the communication systems to determine their effectiveness. The instructions, however, did not contain specific guidelines for obtaining the information needed to make such a determination, and GAO's review indicated that sufficient data were not collected to adequately determine their effectiveness. Subsequently, FHWA recognized that additional data were needed and issued additional guidelines to be followed in performing future research studies.

FHWA, in March 1971, stated that the communi-

cation systems reviewed by GAO would be reevaluated, as suggested by GAO, under the requirements included in the new guidelines. (Report to the Administrator, FHWA, Jan. 28, 1971)

37. Limited Progress of the Appalachian Highway Program.—The Appalachian Regional Development Act of 1965 was enacted to promote the economic development of the Appalachian region on a coordinated and concerted regional basis. The Appalachian Regional Commission, created by the act, established a development highway system about 2,900 miles in length to open up isolated areas of the region and connect these areas with the Interstate Highway System. About 2,530 miles of highway in this system were considered inadequate, requiring new construction or improvement, and were eligible for financing under the act. The act authorized about \$1.8 billion of Federal funds for Appalachian development of which about \$1.08 billion was earmarked for the development highway program.

The Regional Commission did not establish construction priorities directed toward achieving the greatest contribution toward program goals at the earliest practicable time, nor did it determine whether priorities established by the States were directed toward that end. Instead, the Regional Commission allocated the Federal funds available on the basis of the estimated cost of the highways authorized for each State. The States, in effect, were allowed to set their own priorities, regardless of the extent to which they might further regional accessibility.

The Regional Commission disagreed with GAO's conclusion that priorities for highway construction should have been allocated to projects having the highest regional priority. The Regional Commission also stated that it believed GAO had somewhat overstated the problem of highway fragmentation that resulted. In its report to the chairman, House Committee on Government Operations, the Regional Commission restated its disagreement with GAO's conclusions and said that it would continue to administer the program in the same manner as it had in the past.

Because the Congress was considering legislation to provide additional funds for the development highway system, GAO suggested that the Congress might wish to consider requiring the Regional Commission, or any future similar organization, to adopt a regional approach to the construction of the development high-

ways. (Report to the Congress, B-164497(3), May 12, 1971)

Information Gathering and Dissemination Activities

38. Operation of the Medical Literature Analysis and Retrieval System.—The Department of Health, Education, and Welfare's (HEW) National Library of Medicine maintains a computerized medical literature analysis and retrieval system and administers various programs for collecting, publishing, disseminating, and exchanging medical health information.

A major use of the library's computer has been to prepare bibliographies of biomedical subjects requested by medical schools, researchers, practitioners, public health officials, and other health professionals. Due to the slowness inherent in the computer's storage and retrieval system, limitations in the computer's vocabulary, inconsistencies in indexing procedures, and errors by the people who did the searching, the library had encountered problems in responding to requests. To expand the system and correct the problems, the library had awarded contracts for the development, design, and installation of an improved computer system and for the training of employees in the system's operation. GAO concluded that, if properly installed and operated, the revised system should alleviate the problems experienced in the past.

Also, the library had not been able to satisfy all the information needs of other HEW agencies having responsibilities for health programs. HEW agreed with GAO's recommendation that these needs be met in revising the computer system and assigned responsibility to the Assistant Secretary for Health and Scientific Affairs for coordinating technical and scientific information within the Department.

It was GAO's opinion that considerable savings could be realized if the library purchased its existing computer equipment. However, after studying its future equipment needs, the library determined that, because of changes in expected requirements, continued leasing of equipment then in use would be more economical.

On another point, GAO suggested that the Congress might wish to consider the library's determination that all of its principal activities are public services, for which no fees are charged. (Report to the Congress, B-164031(2), Nov. 30, 1970)

Land Management and Natural Resources

39. Restrictions on the Use of Motorized Equipment in Wilderness and Similar Areas.—About 9 million acres of Federal lands under the administration of the Forest Service, Department of Agriculture, were designated as wilderness areas by the Wilderness Act of 1964. The act directed the Secretaries of Agriculture and the Interior to study several million acres of additional lands for possible future designation as wilderness areas.

The Wilderness Act provides that motorized equipment not be used in wilderness areas except as necessary to meet minimum requirements for the administration of the areas for the purpose of the act. The Forest Service has determined that a significant amount of trail construction, bridge construction, trash and litter cleanup, and other work is necessary to carry out its responsibilities for preserving and protecting the areas, but has restricted the use of motorized equipment in carrying out these activities. Handtools including some portable power tools, pack animals, and backpackers are generally used instead.

These severe limitations on using motorized equipment result in additional costs and create problems in preserving and protecting the areas. For example, the estimated \$100 million cost of planned construction and reconstruction of 18,000 miles of trails in wilderness and similar areas in three Forest Service regions could be reduced, possibly by one-half, if the use of a small trail machine especially designed for such work were allowed. Also, the Forest Service restricts the use of (1) powersaws for maintaining trails, (2) helicopters for removing accumulated trash and litter, transporting equipment and materials for the construction of trail bridges, and inspecting and repairing reservoirs, and (3) compacting equipment for repairing reservoirs.

The National Park Service (NPS), Department of the Interior, also could realize significant savings by using the small trail machine in areas it manages under the wilderness concept. NPS planned to construct about 2,000 miles of trails in areas where the use of motorized equipment is limited.

GAO recognizes that motorized equipment is not compatible with the ideal wilderness concept but believes that the construction of trails, bridges, and other facilities and the presence of litter left in the areas by users also are basically inconsistent with the ideal wilderness concept. Once decisions have been made

to construct such facilities and dispose of accumulated litter, GAO believes that economy and convenience should be considered, along with other factors, in deciding when to use motorized equipment.

Inasmuch as the Forest Service and NPS believed that their restrictions were consistent with the intent of the Wilderness Act, GAO recommended that the Congress consider providing further guidance as to the use of such equipment. (Report to the Congress, B-125053, Oct. 29, 1970)

40. Allocation of Funds for Construction of Forest Roads and Trails.—At June 30, 1969, the Forest Service, Department of Agriculture, had planned for new construction or reconstruction of roads and trails in national forests and grasslands at an estimated cost of \$10.4 billion. Although a portion of such work is financed by credits against timber sales prices and by contributions from cooperators, a large portion is financed by appropriated funds.

Forest Service procedures for allocating funds appropriated for roads and trails did not provide for adequate comparisons of the needs of the various national forests that would insure that funding priorities were given to the most needed projects. The Federal Aid Highway Act of 1958 provides that such funds be allocated according to the relative needs of the various national forests, taking into consideration (1) existing roads and trails, (2) value of timber or other resources to be served, (3) relative fire danger, and (4) comparative difficulties of construction.

GAO's review of the funding of projects in six forests in one Forest Service region showed that funds were being used on projects that met limited needs while projects of greater needs were deferred.

The Forest Service agreed in principle with GAO's recommendation for establishing an effective system for assigning funding priorities on the basis of the relative needs of all national forests and stated that a study, with a 1975 target date for completion and implementation, was being made. The Forest Service stated also that interim reports on the study contained data which might affect the allocation of fiscal year 1972 funds. (Report to the Congress, B-125053, Nov. 20, 1970)

Loan Programs

41. Eligibility of Loan Applicants.—GAO concluded that the Small Business Administration (SBA)

was providing or guaranteeing part of the financing of business loans for amounts greater than necessary because loan specialists were not adequately considering the personal resources or credit of the owners, partners, management, or principal stockholders of the applicants in their analyses of loan applications.

GAO recommended that SBA establish criteria to assist loan specialists in deciding whether an application for SBA assistance should be disapproved or modified on the basis that the personal resources or credit of the applicant's principals were substantial enough and that additional financial assistance could be obtained elsewhere without undue hardship to the principals.

The Administrator indicated that SBA's legal counsel had reviewed existing instructions and considered them adequate and had concluded that the problem arose because of lack of compliance with the directive. The Administrator directed that action be taken to insure that a proper evaluation was made of the principals' ability to provide funds from personal resources and that files be adequately documented when a determination was made of undue hardship in utilizing personal resources. (Report to the Administrator, SBA, Feb. 18, 1971)

42. Use of Independent Auditors' Reports.

The Farmers Home Administration (FHA), Department of Agriculture, makes loans to rural public and private nonprofit associations and organizations to finance various undertakings, such as the development of water and sewer facilities, recreational facilities, and rural housing projects. FHA uses reports of independent auditors in administering these loans. The Rural Electrification Administration (REA), Department of Agriculture, also uses reports of independent auditors in administering its loan programs. GAO concluded that audit reports prepared by qualified independent auditors could be useful to FHA in supervising its borrowers, particularly from the standpoint of isolating and analyzing problem areas and evaluating the financial position and results of borrowers' operations.

While REA had established a sound program for using independent auditors, FHA needed to strengthen its procedures and practices because it had not:

Provided clear guidelines to its field staff for determining whether the auditors engaged by its borrowers possessed the independence and professional qualifications essential to the conduct of audits and

preparation of required reports in accordance with generally accepted auditing standards.

Properly defined or effectively communicated its auditing and reporting requirements to borrowers and their independent auditors.

Developed instructions on how FHA personnel were to review and use audit reports prepared by independent auditors.

FHA stated that its instructions were being revised generally in line with GAO's recommendations to:

Define the minimum professional qualifications of independent auditors.

Establish standards by which borrowers may select independent auditors acceptable to FHA.

Define standards for making audits and for preparing reports.

Define the required minimum scope of audit, including any procedures to be used in tailoring reports to meet FHA's specific needs.

Require that borrowers and auditors be furnished FHA requirements which the auditors must meet in performing audits and preparing reports.

Provide FHA personnel with guidance for the review and use of the independent auditors' reports.

FHA stated also that FHA's professional staff at the national headquarters and at certain field offices would be increased to insure that functions relating to the use of independent auditors are performed by qualified individuals. In addition, FHA stated that appropriate action would be taken where reviews of independent audit reports evidence noncompliance with requirements. (Report to the Congress, B-170874, Jan. 22, 1971)

43. Advancing Grant and Loan Funds.—The Farmers Home Administration (FHA), Department of Agriculture, makes grants and direct and insured loans to public and nonpublic associations to finance the improvement and/or construction of rural water and sewer facilities.

The Government's general policy is to limit advances of loan and grant funds to recipients to amounts needed to meet their current requirements to preclude unnecessary borrowings by the U.S. Treasury and the related interest costs.

GAO analyzed the monthly cash balances of 92 associations in nine States which had been advanced loan and grant funds of about \$43 million from August 1964 to October 1969 to finance the improvement and/or construction of water and sewer facilities. FHA

had (1) advanced the full amount of loans to associations even though substantial portions of such advances were not expended by the associations for periods up to 20 months or longer and (2) made one or more advances of grant funds to associations at times when the associations had substantial amounts of unexpended loan and/or grant funds on hand. In some instances, the associations did not use substantial portions of the grant funds advanced for periods up to 15 months or longer. Interest savings of about \$200,000 could have been realized by the Government if FHA had advanced the funds to the 92 associations only as needed.

FHA instructions for making cash advances to association-type borrowers obtaining recreational loans, grazing loans, and irrigation loans were similar to the instructions for the water and sewer program.

As a result of GAO's recommendations, FHA revised its instructions to require that:

Cash advances under all association loan programs be made on the basis of the associations' anticipated cash requirements.

Associations furnish periodic estimates of project expenditures and such estimates be reviewed and analyzed by the FHA county supervisors to determine the amount of cash to be advanced.

Also, FHA stated that advances would be monitored to insure that they are made only when needed. (Report to the Congress, B-114873, July 6, 1970)

44. Determining Financial Feasibility of Water and Sewer Systems.—Contrary to its instructions, the Farmers Home Administration (FHA), Department of Agriculture, had disbursed loan and grant funds to public and nonprofit associations to finance the improvement and/or construction of water and sewer systems before adequately determining that the associations would have the minimum number of users to make their systems financially feasible. Failure to have the necessary number of users when the systems go into operation is significant because sufficient revenues may not be generated to enable the associations to continue operating and to meet repayments on their loans.

Also, FHA did not require associations to obtain firm commitments from potential users of proposed water and/or sewer systems including (1) cash contributions covering the estimated cost of connecting service lines from the users' property to the associations' water or sewer systems and (2) agreements requiring users to

pay a minimum monthly rate regardless of whether they actually use the associations' facilities.

The demand for assistance in financing systems has been greater than the funds available during the past few years. This fact makes it increasingly important that FHA establish reasonable user requirements and procedures for enforcing such requirements to insure that loan and grant funds are provided to only those associations having financially feasible systems.

In response to GAO's recommendations, FHA agreed to provide financial assistance to an association only after FHA county and State loan approval officials have verified and documented in the files that an association has obtained:

The required number of users to make its proposed system financially feasible.

A cash contribution from each prospective user to cover the estimated cost of connecting a service line from the user's property to the association's facilities.

An enforceable agreement from each prospective user, committing the user to pay at least a minimum monthly rate to the association regardless of whether he uses the system.

Also, GAO was informed that FHA would establish procedures to determine, on a systematic basis, whether associations are enforcing user agreements. (Report to the Congress, B-114873, Apr. 21, 1971)

45. Assuring Financial Feasibility of Loans to Grazing Associations.—The Farmers Home Administration (FHA), Department of Agriculture, makes loans to nonprofit associations of farmers and ranchers to finance the acquisition and development of grazing land for their livestock.

In a 1968 report to the Congress, GAO had pointed out the need for FHA to establish certain minimum loan-closing requirements to be met or exceeded by grazing associations before loans were made in order to reduce the possibility of defaults and foreclosures on loans. In March 1968, FHA issued revised instructions which provided that each association, before receiving a grazing loan, would have to meet requirements regarding the minimum number of members, the number of grazing units to be sold (i.e., rights to graze a specified number of animals), and the initial cash contributions to be collected from each member.

The sale of the required number of grazing units is the most significant factor in providing reasonable assurance that an association's operations will be finan-

cially feasible, since sales of grazing units are the principal source of income to an association.

A subsequent review of 40 loans totaling about \$8 million, made to 37 grazing associations in four States between April 1968 and May 1970, showed that, at the time the loans were closed, FHA's conditions relating to the minimum number of members and initial cash contributions to be collected from members generally were met but that 21 associations, which had received loans totaling \$4.2 million, had not sold the number of grazing units determined necessary by FHA's financial feasibility studies. Further, FHA's letters of conditions for 15 of the 21 associations either had required the sale of fewer grazing units than indicated by its financial feasibility studies or had failed to specify the number of grazing units which should have been sold.

A review of the current financial status of 16 associations covered in GAO's earlier review showed that, as of January 1970, seven were delinquent on their loan payments by about \$265,000, and 12 sustained operating losses in calendar year 1969, pointing to possible additional delinquencies.

GAO proposed that FHA establish a program for monitoring, at the State and county offices, the closing of grazing loans. GAO stated that (1) the program should include evaluations, made on a systematic basis, of the adequacy of the established loan-closing conditions and whether these conditions had been met by the associations and (2) the evaluations should be made prior to the closing of loans so that Government funds would not be disbursed until the potential fiscal soundness of grazing associations had been determined. GAO was informed that FHA had issued instructions in line with GAO's proposals. (Report to the Congress, B-114873, May 27, 1971)

46. Records To Be Maintained by Borrowers.—Instructions issued by the Farmers Home Administration (FHA), Department of Agriculture, provide that borrowers be required to maintain such accounts as are necessary to successfully continue their operations, meet the requirements of State and local laws and regulations, and meet the terms of their loan agreements with FHA and other creditors.

The instructions are not specific concerning the type of balance sheet and income accounts and other records that should be maintained by each type of borrower and do not provide criteria or guidelines to be used by FHA field personnel in determining whether borrowers' accounts and other records are adequate.

With such instructions, FHA field personnel would

be better able to counsel and supervise borrowers, particularly from the standpoint of determining whether the borrowers' financial policies are being carried out in accordance with loan requirements and whether their financial positions are being preserved so as to adequately protect the Government's interest.

FHA agreed with GAO's recommendation that its instructions be revised. (Report to the Administrator, FHA, July 30, 1970)

47. Interest Credit to Rural Housing Borrowers.—Under its rural housing loan program, the Farmers Home Administration (FHA), Department of Agriculture, is authorized to reduce to as low as 1 percent the interest rate charged to borrowers who have low or moderate incomes. FHA accomplishes this by computing an annual interest credit for eligible borrowers and using this credit to reduce the normal interest rate.

Under FHA's instructions, a full-month's interest credit is provided to a borrower without regard to the day of the month in which the loan is closed. The Department of Housing and Urban Development, which administers a similar mortgage assistance program, required that interest credits be computed from the date mortgage proceeds are disbursed by the lenders.

GAO estimated that, during fiscal year 1971, FHA would grant about \$375,000 in interest credits to borrowers whose loans were closed on other than the first day of the month. Similar unnecessary interest credits would also occur in subsequent years.

FHA revised its instructions in line with GAO's recommendation that interest credits not be granted for periods prior to loan closing. (Report to the Administrator, FHA, Dec. 7, 1970)

48. Instructions Not Adhered To.—The Farmers Home Administration (FHA), Department of Agriculture, makes recreation loans to individuals under its farm-operating, farm-ownership, and farm-recreation loan programs. In reviewing recreation loans totaling \$705,000 made to 16 individuals, GAO found that FHA county and district supervisors, who are under the direction of State offices, did not adequately follow FHA instructions in approving loans totaling about \$375,000 made to nine of the 16 individuals.

GAO recommended that FHA require its State office officials to see that more realistic farm and home plans, used in determining the financial soundness of recreation loans to individuals, are prepared; borrowers

are required to meet loan approval conditions before Government funds are disbursed; and only eligible borrowers are approved for recreation loans.

The Administrator, FHA, agreed with GAO's recommendations and issued a bulletin to all State directors and district and county supervisors to place greater emphasis on their responsibilities for seeing that each program involving funds for recreation purposes is administered in accordance with FHA instructions. (Report to the Administrator, FHA, Mar. 15, 1971)

Low-Income Housing Programs

49. Occupancy of Federally Subsidized Housing.—Procedures and practices of the Department of Housing and Urban Development (HUD) and project owners were not adequate to insure that multifamily housing provided for low- and moderate-income families under the below-market interest rate mortgage insurance program authorized by section 221(d)(3) of the National Housing Act was being occupied by families intended to be served by the act. GAO's tests showed that housing units were being occupied by families whose incomes may have exceeded the prescribed limits for occupancy. Income information may not have included all relevant data, may not have been current at the time of occupancy, and was not verified to determine eligibility for continued occupancy.

GAO recommended that HUD:

Strengthen its procedures to promote accurate reporting of income. GAO suggested that each family adult be required to certify the accuracy of income information. Also, families approved for membership in federally subsidized cooperative housing projects more than 60 days before occupancy should be required to provide updated income information prior to occupancy and, if their incomes have increased above the applicable income limits, they should pay the prescribed rent surcharge.

Provide for more effective surveillance by its field offices of adherence by federally subsidized housing projects to HUD instructions for obtaining and verifying family income information and for assigning families to appropriate-sized units.

Establish an appropriate percentage-of-income contribution as the minimum rent to be required for units in section 221(d)(3) projects, the maximum rent being the equivalent market, or unsubsidized, rent for the housing.

SECTION I

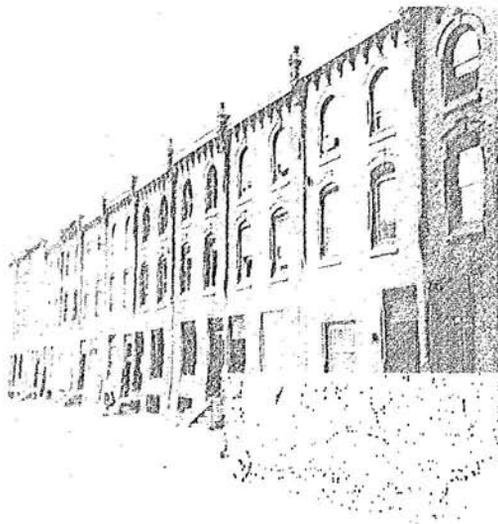
HUD stated that GAO's findings and recommendations would be studied carefully but did not agree that income information should be updated prior to occupancy or that minimum rental rates should be established at an appropriate percentage of income, as required under the new section 236 program for lower income families. GAO suggested, therefore, that the Congress might wish to consider whether such minimum rental rates should be established. (Report to the Congress, B-114860, Jan. 20, 1971.)

50. Problems in Rehabilitating Housing To Provide Homes for Low-Income Families.—Financial aid is furnished to local housing authorities to acquire and rehabilitate housing for sale or rent to low-income families. GAO reviewed the operation of this program in Philadelphia, Pa., because about 75 percent of the houses being acquired were in that city. Although benefits resulted, some goals of the Philadelphia project had not been fully achieved and the Department of Housing and Urban Development (HUD) had not effectively enforced compliance with the prescribed requirements for the project.

Contrary to approved plans, considerably more of the acquired units consisted of multifamily housing rather than single-family housing, and many units were located near industrial and commercial sites. Consequently, the possibility of low-income families, and their incentive for purchasing their own homes was greatly reduced. Also, the selection of houses for acquisition and rehabilitation was made in a manner that did not encourage repair of adjacent houses by their owners. HUD knew of many of these conditions, repeatedly notified the local housing authority that it had failed to comply with the approved development plan, and urged the authority to remedy the situation. There was no indication that the authority had made any effort to correct the matters brought to its attention.

The program was ineffective also because of important deviations from contract specifications and from HUD's minimum standards of livability and construction and because there was a need to improve specifications to assure use of the most appropriate materials.

Although HUD took some action concerning construction deficiencies, it did not agree with GAO's position that it should assign more inspectors to insure that the program is carried out in accordance with approved plans and procedures. Subsequent to the issuance of GAO's report, however, the Secretary of



Some structures acquired by the Public Housing Administration for rehabilitation.

HUD informed GAO that, as a result of decentralizing the operations of HUD, the new field organizations would be in a position to increase surveillance of local rehabilitation programs. (Report to the Congress, B-118718, Mar. 19, 1971.)

51. Accelerating Construction and Reducing Costs of Low-Rent Housing.—The Department of Housing and Urban Development (HUD) reviews and approves budgeted construction costs for proposed low-rent housing projects which serve as cost limitations for local housing authorities (LHAs). Budgeted costs were frequently based on unrealistically low cost estimates which did not reflect local prevailing construction costs or additional costs due to changes in the projects. As a result, even the low bid for construction exceeded budgeted costs in many cases.

In such cases, HUD generally permitted an LHA to award the contract only after it either (1) negotiated reductions in the bid price with the lowest bidders for changes in the scope of the contract work, (2) resolicited bids on the basis of revised plans and specifications, and/or (3) obtained HUD's approval of an increase in the budgeted construction costs. These procedures usually delayed construction by an average of about 2 months, increased local administrative and financing costs, and added to the workload of the LHA and HUD.

GAO expressed the belief that resultant delays and increased costs could be minimized if (1) HUD reviewed cost estimates carefully before approving cost limitations and authorizing the LHAs to solicit bids, (2) the use of negotiations was limited so as to obtain the full benefit of competition, and (3) local housing authorities were required to prepare detailed estimates of the cost of proposed changes as a basis for negotiation.

HUD was pessimistic about the possibility of preparing realistic cost estimates and did not agree that local authorities should be required to use independent cost estimates in negotiating prices for changes. Also, HUD decided not to draft criteria setting forth the specific circumstances governing the award of contracts under the negotiation method and the resolicitation-of-bids method. HUD feels it desirable to leave the matter of negotiation for case-by-case resolution rather than to attempt the issuance of general guidelines for the purpose. It is HUD's belief that circumstances within the various regions and cities are too variable and conditions are shifting too rapidly to permit the development of such guidelines at this time. HUD did adopt some revised procedures to help minimize processing delays and began a pilot audit of pertinent regional office activities. (Report to the Congress, B-114863, Aug. 4, 1970.)

52. Evaluating Economic Feasibility of Insuring Loans at Below-Market Interest Rates.—The Department of Housing and Urban Development's (HUD) decision to insure a \$1.1 million mortgage loan for purchase and rehabilitation of a 285-unit apartment project was not supported by an adequate financial analysis.

HUD's policy for insuring such loans at below-market interest rates under section 221(d)(3) of the National Housing Act provides for the assumption of reasonable risks to achieve important social objectives. Although HUD was aware that there were some economic risks involved in the project, the record did not clearly show that HUD had determined the full extent of the economic risks.

Also, the basis for a number of decisions made by HUD in approving mortgage insurance for the project appeared questionable: (1) HUD's headquarters office approved the insurance without benefit of a fair market value appraisal of the property, (2) HUD did not, in GAO's opinion, reasonably estimate the cost of rehabilitating the property, (3) the estimate of annual operating expenses used by HUD in evaluating the

economic feasibility of the proposed project was not representative of the operating expenses which could have been reasonably expected to be incurred, and (4) the approved rents appeared somewhat high for serving the optimum number of low- and moderate-income families.

HUD stated that it was adopting GAO's recommendation that a fair market value appraisal be made and used for valuing property to be rehabilitated. Also, in response to other GAO recommendations, HUD stated that appropriate emphasis would be given to (1) the use of work write-ups as a basis for estimating costs of rehabilitation, (2) including allowances for contingencies in estimating rehabilitation costs, and (3) the use of current and accurate operating expense data. (Report to Congressman Joel T. Brodhill, B-168191, Sept. 23, 1970.)

Manpower Training

53. Administration of the Job Opportunities in the Business Sector (JOBS) Program.—The JOBS program, designed to assist disadvantaged persons achieve self-sufficiency through employment in private enterprise, is one of the principal manpower programs. It was started in January 1968, by the Department of Labor in cooperation with the National Alliance of Businessmen. Through June 30, 1970, the Department had allocated \$199.1 million to the program.

After reviewing the program, GAO made the following observations regarding the accumulation of data on program operations and the manner in which the program was conceived and designed:

Reporting by the Department and the National Alliance of Businessmen on the total number of jobs pledged by business, trainees hired, trainees terminated, trainees on board, and the trainee retention rate was based substantially on data that, for the most part, had not been verified and, in some cases, was based on inaccurate or misleading data. A revised and improved management information system was put into use in February 1970.

As conceived, the JOBS program provided for helping the disadvantaged to obtain meaningful employment creditably well during periods of high or rising employment levels but not during periods of high or increasing unemployment.

The JOBS program is not a job-creation program; ordinarily it does not increase the number of exist-

ing job openings. Therefore, during periods of declining or relatively stable labor demand, it appears to simply shift the burden of unemployment from disadvantaged persons to others.

The people whom the JOBS program was designed to assist are too broad a segment of the population and include many who have no clear and legitimate need for assistance under this type of program. Many persons enrolled under the existing eligibility criteria appeared to require placement assistance only, not costly on-the-job training and the support services that are also integral parts of this program.

GAO also reported a need for significant improvements in the administration and operation of the program. Contracting for on-the-job training on a fixed-unit-price basis generally was not appropriate—many contracts provided for excessive payments to the contractors; the number of job pledges by some prospective employers were unrealistically high and not always consistent with their ability, or intention, to provide jobs; a significant number of the jobs provided by contractors paid low wages and appeared to afford little or no opportunity for advancement; substantial improvements were needed in the procedures and practices for ascertaining and documenting the eligibility of persons for enrollment; and the Department's failure to scrutinize contractor performance perpetuated many of the problems identified.

GAO's report contained a number of recommendations for improvement. The Department concurred for the most part with the recommendations and cited various corrective actions that had been taken or were being considered. In GAO's opinion, however, the reasons cited by the Department for disagreeing with the recommendation that contracting be on a cost-reimbursement basis rather than a fixed-unit-price basis were not valid. (Report to the Congress, B-163922, Mar. 24, 1971)

54. Effectiveness of the Special Impact Program in Los Angeles in Meeting the Goal of Providing Jobs for the Disadvantaged.—GAO's review of the Department of Labor's Special Impact program in Los Angeles, Calif., showed that the program had fallen far short of accomplishing its goal of providing jobs for the disadvantaged and had been poorly administered. The program's shortcomings were exemplified by the fact that at June 1, 1970, the 10 private contractors—who were to receive about \$8.9 million to lease or

build manufacturing facilities and provide 3,751 hard-core unemployed and disadvantaged persons training and jobs—were employing only 526 persons and the stipulated hiring periods had expired for eight of the 10 contractors. Three contractors were involved in bankruptcy proceedings and four had discontinued all work under the contracts.

Specifically, GAO's review showed that (1) the program was not well publicized and became known to the contractors mainly through the efforts of the Los Angeles investment banking firm which had collected fees of \$242,400 from nine of the contractors for services in obtaining the contracts, (2) the basis for selecting contractors and establishing contract amounts was not adequately documented, and the doubtful financial position of some contractors appeared to limit the program's potential for success, (3) the terms of some of the contracts did not adequately protect the Government's interest because they provided for the payment to four contractors of all the contract funds before any disadvantaged individuals had been hired, and four contractors could retain a sizeable portion of the contract funds even if they failed to hire any disadvantaged individuals, and (4) the Department's monitoring of the contractors' performance appeared to have been inadequate during the critical early stages of the program.

GAO concluded that the program could have been effective with proper planning, careful selection of contractors, and adequate monitoring by the Department.

The Department stated that GAO's findings confirmed those of an internal review made by the Department in October 1969, that the Department's Manpower Administration concurred with GAO and had implemented to the fullest extent possible GAO's recommendations which were germane to the present status of the program, and that all possible actions were being taken to protect the interest of the Government.

GAO concluded also that the Office of Economic Opportunity, which has assumed responsibility for the Special Impact program should, in its administration of future projects, benefit from the problems experienced by the Department in its management of the program in Los Angeles. (Report to the Congress, B-168560, Oct. 7, 1970)

55. Effectiveness of On-the-Job Training in Appalachian Tennessee.—GAO reported a number of weaknesses in the training activities of the commu-

nity agencies and their subcontractors which were conducting an on-the-job training program in Appalachian Tennessee under contracts with the Department of Labor. Through June 30, 1969, the Department had spent about \$2.8 million in Appalachian Tennessee to train 8,700 workers under the on-the-job program which is authorized by the Manpower Development and Training Act of 1962. GAO observed that:

Most of the employers visited by GAO were not providing any training beyond that normally provided to new employees or generally were not hiring persons with any less or different qualifications from those of persons they had previously hired under their normal business practice. Under these circumstances, nothing of significance was being accomplished by the program that was not being accomplished otherwise and Federal funds were being dissipated that could have been used for productive on-the-job training activities.

A number of persons reported by employers as receiving training for entry-level jobs already possessed extensive experience in the skill in which they were supposedly being trained.

In some instances, employers were paid for a full training period for enrollees who had not completed their training or were included under two training subcontracts at the same time.

In many instances the community agencies enrolled persons for training who had not been screened, tested, counseled, or certified by the State Employment Service.

In line with its national goal, the Department's contracts with the two community agencies provided that at least 65 percent of the trainees be disadvantaged. One of the community agencies did not meet this goal.

GAO reported that neither the Department nor the community agencies had made any real effort to monitor employers' training activities, although the Department is responsible for visiting the on-the-job training contractors to develop comprehensive program information. Increased monitoring might have detected and helped to correct the weaknesses noted by GAO. Further, GAO reported that there was a need for closer coordination between the Department, the State Employment Service, and community agencies to enhance the overall effectiveness of the program.

The Department advised GAO that internal studies conducted by it had produced substantially the same conclusions as those reached by GAO and that in many

cases steps had already been taken to correct the problems. GAO concluded that recent changes in the Manpower Development and Training Act, providing for transfer of certain functions to the State agencies, and the Department's proposed actions, if properly implemented, should serve to improve the effectiveness and the administration of the program. (Report to the Congress, B-146879, Nov. 13, 1970)

56. Administration of Training Activities at a Manpower Training Skills Center.—The Departments of Labor and Health, Education, and Welfare, in cooperation with the California State security employment and vocational educational agencies, administer under the Manpower Development and Training Act of 1962, an institutional or classroom-type training program for unemployed or underemployed persons at the East Bay Skills Center in Oakland, Calif. GAO reported the following weaknesses and problems in the administration of this program:

Space acquired, renovated, and equipped was designed to provide training to 1,500 individuals at one time. However, from April 1965 to December 1969, the center had an average monthly enrollment of only about 490 trainees. The facilities were not fully used because, among other reasons, the center's method of funding its training courses on a project-by-project basis was causing delays in initiating follow-on training courses after prior courses had been completed, and the design of the training courses did not readily permit new trainees to enter into training positions made available through attrition as the courses were proceeding.

Trainees frequently did not meet the enrollment criterion that a person be in need of training to obtain employment. Some trainees were physically or emotionally handicapped and some appeared to have possessed, at the time they were referred for training, sufficient skills to obtain employment without training.

Only limited counseling services were provided to help the trainees plan their vocational goals and assist them with personal problems that would hinder their progress in getting a job, and records frequently were not maintained on the counseling that had been provided.

Contrary to the Manpower Development and Training Act and to Department of Labor directives, many trainees were paid training allowances for unexcused absences.

The local employment security agency did not develop needed information on the status of trainees who left the center for employment and did not provide these trainees with such followup services as additional training and placement services.

The Departments of Labor and Health, Education, and Welfare were in general agreement with GAO's recommendations and outlined corrective actions to improve the center's operations.

It was GAO's opinion that the problems noted could have been identified and corrected earlier through more appropriate and timely monitoring by the two Federal Departments and their State counterparts. (Report to the Congress, B-146879, Feb. 10, 1971)

57. Administration of On-the-Job Training Contracts.—The Department of Labor had 27 on-the-job training contracts in the Milwaukee area during 1968 and 1969 under the Manpower Development and Training Act of 1962. These contracts authorized a total of 1,553 training positions at a cost of about \$1,259,000. GAO reviewed six contracts which authorized 826 persons to be recruited for enrollment in training at a cost of about \$655,000. Under the six contracts, 49 percent of the persons recruited were to be disadvantaged, but only about 22 percent of the individuals enrolled in the program were designated as disadvantaged.

GAO also noted that of the 609 persons enrolled under the six contracts, 106 were either provided with training in temporary, part-time, or seasonal jobs, or were trained under the contractor's regular training program that existed prior to its receiving the contract. Department regulations prohibit the use of Federal funds for training persons for temporary or seasonal work unless a combination of such employment provides the trainee with year-round employment. They also prohibit use of Federal funds for training normally given by the contractor. Federal funds are to be used only for new or additional training efforts.

The Department cited certain corrective actions that had been taken in response to GAO's recommendations. (Report to the Assistant Secretary for Administration, Department of Labor, Oct. 8, 1970)

58. Administration of Manpower Training Activities.—GAO examined into the trainee selection, job development, and job placement aspects of the on-the-job training and institutional training programs conducted by the Department of Labor and

State employment security agencies under the Manpower Development and Training Act (MDTA) of 1962, in the States of Oregon and Washington. From the inception of the MDTA training programs in August 1962 through June 30, 1970, the Department estimates that about 14,600 persons in Oregon and about 27,600 persons in Washington were enrolled. About \$7.6 million was spent in Oregon and \$9.9 million in Washington for MDTA training during fiscal years 1968 through 1970.

The MDTA requires that occupational training be directed to those unemployed and underemployed persons who cannot reasonably be expected to secure appropriate full-time employment without training. GAO noted, however, that individuals who already possessed both marketable skills and recent work experience had been referred to institutional training or on-the-job training by the State employment security agencies in Oregon and Washington. These persons would have been better served, in GAO's opinion, if the State agency had placed them directly into available jobs.

GAO also noted that the effectiveness of MDTA institutional training projects in Oregon and Washington could be enhanced through increased emphasis by the State and local employment security offices on job development for, and more timely placement of, persons completing training. A primary goal of the occupational training provided under the MDTA is successful employment. A large percentage of the program graduates included in a GAO test were unemployed immediately after completion of training.

The Department informed GAO that it had taken action in consonance with GAO's recommendations for improving the administration of the program. (Report to the Assistant Secretary for Administration, Department of Labor, Oct. 12, 1970)

59. Operation of the Cooperative Area Manpower Planning System.—The Cooperative Area Manpower Planning System (CAMPS) is designed to achieve interagency coordination in the planning and execution of all federally supported manpower training and supportive manpower services programs. The Department of Labor provides leadership in the operation of CAMPS.

In surveying the operations of CAMPS, GAO noted that it had encountered problems in implementing Executive Order No. 11422, dated August 15, 1968, which established the Government's policy of cooperative planning and execution of manpower training programs. Some of the main problems noted were:

Confusion among participating Federal and non-Federal agencies concerning the specific objectives and functions of CAMPS, particularly the role of local and area organizations.

Limited commitment to CAMPS by the participating Federal agencies and limited communication from the headquarters offices of these agencies to their local counterparts.

Concern at the local level that CAMPS plans had only a limited impact upon the manpower budgeting decisions of the Federal agencies.

GAO was advised by the Department of Labor that the structure of CAMPS was being revised. GAO believes that this revision may help to correct these problems. (Report to the Assistant Secretary for Administration, Department of Labor, May 28, 1971)

50. Training Under the Government Employees Training Act.—

The Government Employees Training Act provides for Government-sponsored programs to supplement and extend self-education, self-improvement, and self-training by employees. House Report 329, issued June 1, 1967, identified problems in employee training in the Government and recommended certain improvements. GAO reviewed the employee training programs at 14 installations of the Department of Defense (DOD) to see what had been done in response to the recommendations.

The weaknesses identified in 1967 regarding training costs continued to exist within the Department of Defense during fiscal year 1970. The military departments and agencies of DOD did not have adequate accounting systems for determining and reporting accurate costs of training, and not all of the training costs were being identified in the cost accounting systems. Information reported to the Congress in the annual training reports tended to give a distorted picture of the training programs that were being operated under the act because the cost of internal training, which represents more than 75 percent of the total costs, was not reported. Also, trainee salaries were not reported as a training cost. GAO believes that this is the most significant cost element in the Federal training program and should be reported.

The cost shown in the annual training reports were not obtained from the accounting system but from various source documents. In most cases the source documents either were not available for GAO's review or could not be reconciled with the reports.

Instructions issued by the military services and the Defense Supply Agency for determining training needs and developing training plans generally appeared adequate but had not been effectively implemented at most of the installations GAO visited. Training selection procedures were generally fairly applied but there was a little indication of a systematic method of selection at some of the installations.

To correct these and other weaknesses observed in the training program, GAO recommended that the Secretary of Defense:

Consider identifying training costs in the accounting system to make these data available to managers at all levels.

Insure that DOD Instruction 1430.5, prescribing policies and standards for conducting training, is properly implemented.

Insure that adequate procedures and management controls are established for recording completed training in the personnel files.

Promote increased emphasis on surveillance of training activities by the use of management review groups, including internal auditors.

GAO recommended also that the Civil Service Commission:

Provide leadership in recommending or establishing a uniform costing system for training items to insure that costs are comparable.

Provide more frequent inspections of the training activities at military departments and agencies of the Department of Defense.

DOD and the Civil Service Commission agreed, in general, with the findings and cited corrective actions which appeared to be responsive to the conditions cited in GAO's report. (Report to the Congress, B-70896, May 25, 1971)

Mass Transportation

61. Determining the Amount of Grants.—The Urban Mass Transportation Administration (UMTA), Department of Transportation, administers a capital grant program to assist State and local public bodies in financing the acquisition, construction, reconstruction, and improvement of facilities and equipment used for providing mass transportation service in urban areas.

The law requires that the amount of a grant be directly related to the net project cost. In addition it requires UMTA to estimate—on the basis of engineering studies, studies of economic feasibility, and data showing the nature and extent of expected utilization of the facilities and equipment—what portion of the cost of a project cannot be reasonably financed from revenues of the transit system.

GAO's review of selected grants showed that UMTA did not obtain and evaluate the availability of transit system revenues prior to the award of a \$28 million grant and the subsequent approval of a \$40 million grant amendment. GAO believes that, if UMTA had obtained and evaluated data on the availability of transit system revenues prior to the grant award and approved amendment, it would have found that system revenues were available which could have been used to finance a part of the project's cost.

GAO recommended that, in reviewing applications for capital grants, UMTA establish policies, procedures, and guidelines to insure that engineering studies, studies of economic feasibility, and data showing the nature and extent of expected utilization of the facilities and equipment are obtained and evaluated in determining the availability of system revenues and in calculating the net project cost to be assisted with Federal grant funds. GAO recommended also that UMTA be required to adequately document its evaluations and conclusions based on such studies. (Report to the Secretary of Transportation, B-169491, June 30, 1971)

Maternal and Child Health Programs

62. Administration of Certain Research Grant Programs.—An examination of the child welfare research and demonstration grant program and the maternal and child health and crippled children's research program showed that the Children's Bureau consistently awarded grants in excess of the amounts of funds needed, had not taken advantage of opportunities to assure the maximum use of grant funds because of late expenditure reporting by grantees, and did not know whether findings of research projects were being disseminated to interested individuals and organizations that might benefit from their use.

The Department of Health, Education, and Welfare (HEW) stated that GAO's report had generated self-examination not only for the research grant programs

discussed, but also for the entire grant administration program. HEW agreed to (1) make more stringent reviews of research grant budget requests, (2) study its entire administrative processing of grants with a view towards requiring prompter expenditure reporting by grantees, and (3) give increased attention to research utilization. (Report to the Secretary, HEW, B-164031 (3), July 31, 1970)

Medicare Program

63. Payments for Services of Supervisory and Teaching Physicians.—GAO's reviews of about \$2.6 million of Medicare payments for the services of supervisory and teaching physicians at five teaching hospitals in four States indicated serious problems in paying for the physicians' services on a reasonable charge or fee-for-service basis under the supplementary medical insurance (part B) portion of the Medicare program. The Medicare program is administered by the Department of Health, Education, and Welfare (HEW).

The hospitals' medical records showed that the physicians' services, paid by the Medicare program on a fee-for-service basis under part B, had been furnished in most cases only by residents and interns whose salaries were reimbursable to the hospitals under the hospital insurance (part A) portion of Medicare.

It is important that billings to Medicare for supervisory physicians' services be supported by evidence that they were also involved in providing the services because if payment for the services provided only by residents and interns was made under both parts A and B, Medicare would be paying twice for the same service.

In addition to the problem of supporting the propriety of the supervisory physicians' fees for the services provided by residents and interns, there were also difficulties in administering the dual Medicare reimbursement system under which the services of the same supervisory physician may be reimbursed under both part A on the basis of costs and part B on the basis of fee-for-service. For example, for two of the hospitals, GAO reported that the costs claimed under part A and the \$725,000 already paid under part B for the services of salaried supervisory physicians exceeded the hospitals' reimbursable Medicare costs by about \$134,000.

Other problems reported by GAO included difficulties in:

Establishing the "attending" physician-patient relationship necessary to qualify for fee-for-service payment under HEW regulations.

Clearly establishing that patients had authorized Medicare payments to be made on their behalf.

Establishing the required "customary" or "prevailing" charge for physicians' services when major health insurers other than Medicare do not pay for similar services.

At June 30, 1971, the Congress was considering changes in the Medicare legislation which, under certain circumstances, would provide for paying for supervisory and teaching physicians' services in hospitals on a cost basis under part A rather than under the traditional fee-for-service basis. Also, HEW was taking action to determine the extent of and to recover the questionable or excessive Medicare payments disclosed by GAO's reviews. (Reports to the chairmen, Senate Finance Committee and House Ways and Means Committee, B-164031(4), Aug. 21, 1970; Sept. 30, 1970; Nov. 13, 1970; Dec. 4, 1970; and Dec. 22, 1970.)

64. Delays in Cost Settlements for Health Services Furnished Under Medicare.—Federal payments to institutions, principally hospitals, for health services provided to Medicare patients usually are made through fiscal intermediaries acting under contracts with the Department of Health, Education, and Welfare (HEW) and administered by the Social Security Administration (SSA). For fiscal years 1967 through 1969 such institutions were paid about \$11 billion for the costs of furnishing services to Medicare patients, of which about \$10 billion was paid to hospitals. The payments were made on an estimated basis, subject to adjustments at the end of each institution's Medicare reporting period.

GAO noted that, because of lengthy delays in making settlements, billions of Medicare dollars had been paid out on the basis of the estimated cost of services long since incurred and which had not been afforded an appropriate final accounting or timely review by the intermediaries and the Federal Government. At September 30, 1970—over 3 years after the end of the reporting periods for the first year under Medicare—final settlements for the cost of care provided had been made with only 68 percent of the 2,245 hospitals included in GAO's review.

There were delays in every step of the settlement process, from the preparation of cost reports by hos-

pitals, through the audit of cost reports by intermediaries, to the final settlement or agreement with hospitals concerning their actual and reasonable Medicare costs to be reimbursed under the program.

Some of the delays were attributed in part to the use of an HEW-authorized reimbursement method which resulted in Medicare payments that included private room costs, which were not covered under the Medicare program, and delivery room costs, which were not applicable to Medicare patients. In line with GAO's recommendation that HEW discontinue or modify this questionable reimbursement method, HEW took action which it estimated would reduce Medicare costs by about \$100 million in fiscal year 1972. HEW also agreed to take other actions in line with GAO recommendations to improve the process of making settlements. (Report to the Congress, B-164031(4), June 23, 1971.)

65. Consolidation of Claims Processing Activities.—Under Medicare, payments for physicians' services, which are to be based on reasonable charges, are made by about 50 separate carriers under contracts with the Social Security Administration (SSA), Department of Health, Education, and Welfare (HEW). Each carrier pays benefits in designated geographical areas of the United States but does not pay Medicare benefits for eligible railroad workers and annuitants of the Railroad Retirement Board (RRB). The Board, under a delegation of authority from SSA, had contracted with a separate carrier to make payments for about 810,000 beneficiaries—less than 5 percent of the nearly 19 million persons eligible for physicians' services under Medicare.

GAO reported that the arrangement of having a separate nationwide carrier pay Medicare claims on behalf of workers and annuitants of the Railroad Retirement Board was not the most efficient and effective arrangement for making such payments because:

The Board's carrier could not determine, in the manner prescribed by SSA, whether physicians' charges were reasonable.

The determinations of reasonable charges by the Board's carrier and by the SSA carriers differed in the same geographical areas. As a result, benefit payments by the RRB carrier in fiscal year 1970 were about \$2.9 million higher than the payments that would have been made by the SSA carriers for like medical services.

SECTION I

The use of a separate carrier to process railroad-related claims resulted in increased administrative costs of about \$2.8 million a year.

GAO recommended that HEW arrange to have the railroad-related claims paid by the SSA carriers. HEW stated that it was not prepared, without additional review, to accept GAO's recommendation that the claims processing activities be consolidated, and said that, as an alternative, it planned to have the RRB carrier experiment in determining reasonable charges for physicians' services. GAO suggested that the Congress might wish to consider the recommendation for consolidation and review the plans for the proposed experiments. (Report to the Congress, B-164031(4), Jan. 21, 1971)

66. Determining Reasonableness of Physicians' Charges.—GAO's reviews showed a need for the Social Security Administration (SSA), Department of Health, Education, and Welfare (HEW), to closely monitor the procedures used by selected Medicare carriers to determine the reasonableness of physicians' charges and to process and pay Medicare claims. Instances were noted where benefit payments had exceeded the charges established as reasonable by the carriers, where duplicate payments had been made, and where payments had been made without evidence that the charges were reasonable. Also, errors were noted in coding and recording customary charge data which contributed to improper payments, and instances were observed where payments had been made for noncovered services and where required safeguards against payments for unnecessary medical services had not been implemented.

Although the carriers and SSA had made improvements in the processing of claims and in the overall administration of the Medicare program, GAO believed that further improvements were needed. GAO therefore recommended that the Secretary of HEW provide for:

More effective surveillance by SSA of carriers' claims processing activities.

An evaluation by SSA of the effectiveness of the corrective actions taken or planned to be taken in improving claims processing.

A review and evaluation of the regulations which allowed carriers to make assumptions concerning the nature and extent of services provided and to determine how much latitude carriers should have in determining the reasonableness of charges.

HEW advised GAO that onsite representatives had been placed with all the larger Medicare carriers to study their claims processing activities and that new instructions had been issued which require each carrier to establish a quality control program, the implementation of which should meet certain minimum standards. (Report to the Congress, B 164031(4), Dec. 31, 1970, and reports to the Commissioner, SSA, Oct. 29, 1970; Dec. 21, 1970; and Dec. 31, 1970)

Model Cities Program

67. Advances of Funds.—GAO noted that a City Demonstration Agency (CDA) had advanced model cities grant funds received from the Department of Housing and Urban Development (HUD) to operating agencies without fully evaluating their immediate cash needs and requirements. GAO estimated that if the CDA had advanced these funds more closely in line with actual cash needs, the Federal Government could have saved about \$26,000 in interest during 1970.

In response to GAO's suggestions, HUD informed GAO of certain steps it had taken to minimize such premature advances. (Report to the Assistant Secretary for Community Development, HUD, Apr. 8, 1971)

Open-Space Land Program

68. Leasing of Land.—Under the open-space land program, administered by the Department of Housing and Urban Development (HUD), Federal grants are provided to States and local public bodies (grantees) to acquire and/or develop land to help curb urban sprawl, to assist in preventing the spread of urban blight, to encourage economic urban development, to provide parks and recreational areas, and to preserve conservation, scenic, and historic land areas.

GAO noted during a survey that certain grantees were leasing land acquired under the program without obtaining HUD's approval, contrary to the requirements of the grant contracts. GAO therefore undertook a review of the program. GAO found that HUD had not established procedures for insuring that grantees were obtaining HUD's approval prior to leasing open-space land and had not developed require-

nents or guidelines relating to the use of revenues received by grantees from such leasing.

In response to GAO's suggestions, HUD stated that instructions had been issued to all regional administrators requiring that (1) reviews and followup reviews be made of certain grants awarded prior to January 1, 1970, on which delays in the acquisition and/or development of the land were being experienced and that appropriate action be taken, (2) compliance site inspections be scheduled for certain projects approved during fiscal years 1962 through 1968 and that appropriate action be taken on any contract violations disclosed, and (3) all grantees certify to HUD that the terms and conditions of their open-space land grant contracts are being met.

HUD also stated that information relative to its approval of leases and the use of lease revenues would be included in a consolidated program guide being drafted. (Report to the Congress, B-168174, June 16, 1971)

Urban Renewal Program

69. Allocation of Funds To Meet National Housing Goals.—The Department of Housing and Urban Development (HUD) needs an improved system to better insure that the projects it helps support are responsive to the greatest needs of the cities in relation to the national housing goal—the realization of a decent home and a suitable living environment for every American family as soon as feasible.

The need for an improved system was evidenced by the effect the urban renewal program had on the supply of housing for low- and moderate-income families. GAO reported that (1) there was a significant reduction in housing for low- and moderate-income families in project areas nationwide, (2) there was a significant reduction in the land area used and scheduled for use for residential purposes in project areas, and (3) in 324 cities, urban renewal had resulted in the demolition of about 88,000 more dwelling units than were constructed for low- and moderate-income families under all HUD programs from 1949 through June 30, 1968.

HUD advised GAO that it was engaged in devising a satisfactory set of objectives and criteria and a satisfactory resource allocation system for the urban renewal program. HUD regarded as unjustified GAO's conclusion that program funds had not been effectively

allocated on the basis that GAO's analysis dealt only with the housing aspect of the urban renewal program. GAO recognizes that the program has goals other than housing but believes that achievement of those goals should be sought in a manner that does not result in a significant reduction in the housing available to low- and moderate-income families.

GAO believes that HUD needs a resource allocation system that would be applicable to each of its various programs for assisting in attaining the national housing goal and that its consideration of a system should not be limited to the urban renewal program. GAO believes also that HUD should consider reevaluating urban renewal projects involving redevelopment primarily for nonresidential purposes that are in the planning stage or, if in the execution stage, that have significant land areas still uncommitted for redevelopment. (Report to the Congress, B-118754, Oct. 2, 1970)

70. Administration of Workable Program Requirements.—To be eligible for Federal financial assistance under the urban renewal program and certain other programs administered by the Department of Housing and Urban Development (HUD), cities are required by law to develop workable programs for community improvement. These programs are designed to encourage cities to identify and attempt to alleviate their problems of blight and deterioration on a self-help and continuing basis.

Although HUD's requirements for workable programs are explicit, HUD accepted workable program submissions and issued certifications of eligibility without assuring that the requirements were being met. In GAO's opinion, HUD's actions in thus certifying workable programs were contrary to the intent of the legislation and worked to eliminate some of the incentives for cities to undertake effective self-help programs.

GAO stated that until HUD improved the quality of its reviews to assure that accurate and reliable information is reported and was willing to withhold or at least restrict certifications to assure that cities meet program requirements, HUD's administration of workable programs would continue to be somewhat less than adequate.

In response to GAO's recommendations for improvement, HUD stated that, following delegation of authority to approve workable programs to recently established area offices, the responsibilities were being discharged more adequately and effectively. (Report

SECTION I

to the Assistant Secretary for Metropolitan Planning and Development, HUD, Oct. 19, 1970.

Wage Rate Determinations

71. Establishing Minimum Wage Rates Under the Davis-Bacon Act for Federally Financed Housing Projects.—Under the Davis-Bacon Act, the Department of Labor prescribes the minimum wage rates to be paid to workers on construction of military housing, low-rent public housing, and other federally financed housing projects. Such rates are to be based on rates prevailing for corresponding classes of laborers and mechanics employed on similar projects in the city, town, or other civil subdivision where the work is to be performed.

GAO's review of the rates determined by the Department for seven federally financed housing projects in four areas in New Jersey, Oklahoma, Pennsylvania, and Virginia showed that the rates were higher than the rates prevailing in these areas for similar private residential housing construction projects. The rates prescribed by the Department for these projects were the union-negotiated rates generally applicable to commercial building construction. The Department's files, however, did not contain adequate data to justify that such negotiated rates were in fact prevailing on residential housing construction. GAO's review showed also that there were inconsistencies in the Department's determinations of prevailing wage rates for federally financed public housing projects and for housing projects financed under federally insured mortgage loans for the same area.

GAO estimated that the higher wage rates increased the \$15.6 million contract costs of the seven projects by about \$2.4 million.

Also, at the time of GAO's review four federally financed housing projects had been authorized for construction but had not been started in Oklahoma and New Jersey. GAO estimated that, if the Department's higher prescribed minimum wage rates for the federally financed housing projects were used, the extra construction costs on these four planned housing projects would be about \$1.5 million of total estimated construction costs of \$8.9 million.

Although the Department appeared to have improved its wage determination operations in the last few years, GAO's review indicated that the Department had not taken action to determine residential

construction wage rates for most of the federally financed housing projects.

The Department agreed with GAO's recommendations and stated that action was being taken to (1) seek wage determinations which reflect accurately the prevailing wage rates for residential housing construction, (2) conduct more on-site surveys, contingent on favorable action on budget requests for additional field staff, (3) revise its procedures to clarify distinctions between different types of construction and to facilitate more adequate collection of relevant data, and (4) obtain from the Department of Housing and Urban Development wage data on residential construction.

During appropriation hearings for fiscal year 1971, the Department informed the House Subcommittee on Appropriations of the corrective action being taken as a result of GAO's recommendations and estimated that savings of \$60 million annually could be realized by the Federal Government by using residential wage rates instead of commercial rates as the minimum rates for federally financed housing construction. This potential savings was based on an estimate of \$3 billion of federally financed public housing construction. (Report to the Congress, B-146842, Aug. 12, 1970)

Water Pollution Control

72. Operation and Maintenance of Municipal Waste Treatment Plants.—The Environmental Protection Agency (EPA) (formerly the Federal Water Quality Administration, Department of the Interior) has awarded substantial amounts of Federal funds to State and local governments and interstate commissions for the construction of waste treatment facilities. EPA estimated that local governments were spending between \$150 and \$200 million a year to operate and maintain waste treatment plants.

Operation and maintenance problems have been widespread for many years and have resulted in inefficient plant operations. A widespread occurrence of these problems was shown to exist during a nationwide study of 1,500 waste treatment plants conducted by EPA in fiscal years 1963-65 and more currently by GAO's review of 69 selected plants. EPA's inspection reports available for 54 of the 69 plants showed that operation, mechanical, or structural problems existed at 40 plants.

GAO expressed the belief that operation and maintenance problems have resulted from a lack of qualified operating personnel, inadequate controls over industrial wastes, and inadequate plant design or lack of adequate equipment.

EPA and the States have established certain procedures for preventing, detecting, and correcting operation and maintenance problems. However, they have acknowledged a need to further develop such procedures and are considering a number of proposals for improving plant operation and maintenance.

GAO recommended that EPA:

Establish in cooperation with the States, comprehensive guidelines for use by municipalities, States, and EPA in determining the provisions necessary for insuring proper and efficient operation and maintenance of municipal waste treatment plants.

Gather and disseminate information to help the States identify, develop, and implement more effective procedures for the prevention, detection, and correction of plant operation and maintenance problems.

GAO recommended also that, to avoid duplication of effort, EPA discontinue its plant operation and maintenance inspections except for the purpose of periodically evaluating the State procedures.

In July 1970, EPA amended its regulations to require assurances from (1) grant applicants that possible harmful industrial wastes will receive pretreatment prior to discharge into the municipal sewage system and (2) State water pollution control agencies that newly completed facilities would be inspected at least annually for the first 3 years and periodically thereafter. EPA also prepared guidelines dealing with plant design and operation and maintenance, and established an operation and maintenance function in each region to assist the States in developing their programs. (Report to the Congress, B-166506, Sept. 1, 1970)

73. Controlling Industrial Water Pollution.—

State governments have primary responsibility for controlling water pollution. GAO's study of 14 waterways in five States showed that some progress had been made in abating industrial water pollution, but that much more needed to be done. The approach, emphasis, and achievements attained varied from State to State. In some States, prodding by the State government together with public pressure had spurred indus-

try to action. In other States, few tangible results could be seen. Wide variances in the levels of financing and staffing of the five State pollution control agencies affected the scope and adequacy of the State programs.

Effective planning had been hampered by such problems as the lack of data on the types and extent of pollutants being dumped into the waterways by industry and the lack of knowledge of the effect of certain pollutants on the water.

The five States included in GAO's review generally required polluters to provide secondary treatment or its equivalent. The requirement is due, at least in part, to encouragement from the Environmental Protection Agency (EPA, formerly the Federal Water Quality Administration, Department of the Interior). However, secondary treatment may not always be necessary to achieve desired water uses. A requirement for such treatment can result in additional capital expenditures and operating costs without increasing water uses.

In addition, enforcement action against polluters had been hindered by a lack of (1) information on trends in water quality and progress being made to meet State implementation schedules, (2) authority to enforce specific effluent restrictions, and (3) authority to enforce dates set for implementing abatement measures without also having to show a violation of water quality standards or endangerment of health and welfare—a procedure which could be costly and time consuming.

EPA's actions, which met GAO's recommendations, included (1) revising its guidelines for the preparation of State implementation plans to require submission of the needed enforcement data and (2) developing an industrial waste inventory through the Corps of Engineers permit program and a voluntary questionnaire program. EPA disagreed, however, with GAO's position regarding the secondary treatment requirement.

GAO recommended that the Congress consider the matters discussed in the report during its deliberations on proposed water pollution control legislation. GAO recommended also that the Congress consider whether applicants for Federal grants should be required to provide secondary treatment even in those cases where less than secondary treatment would result in meeting the water quality standards established by the States and approved by the Federal Government. (Report to the Congress, B-166506, Dec. 2, 1970)

Water Resources Development Program

74. Evaluating the Need for Certain Power Transmission Facilities.—The Department of the Interior began work in 1965 on the Celilo-Mead project, which consists of a direct-current electric transmission line and associated terminals and alternating-current transmission lines between certain points in Oregon and Arizona, as part of the Pacific Northwest-Southwest Inter tie program to connect the electrical systems of nine Western States. The Secretary of the Interior, in advising the Congress on the feasibility of the project in October 1964, stated that the demand for electric power from Celilo-Mead would be sufficient to recover the cost of the project within 50 years.

In late 1967 and early 1968 GAO contacted potential users of the project and found that the anticipated demand for power from the project was considerably less than forecasted by the Department in its feasibility report. In addition, information was available to the Department as early as 1966 which indicated that the demand for power from the project might not materialize to the extent necessary to make the project self-liquidating within the 50-year period.

In May 1968, GAO requested the Department's views on the need to reevaluate the desirability of completing construction of the project. The Department reported in January 1969 that a new study reaffirmed that the cost of the project would be recovered in 50 years. In March 1969, GAO examined the new study, met with potential users of the project and Department officials, and concluded that the Department's projected demand for Celilo-Mead power was significantly overstated. As a result of the information developed in March 1969, the Department, in May 1969, postponed completion of the project and stated that it would reexamine the need for the project at a future date.

The Department's action delayed and possibly avoided an expenditure of \$138 million. The project was estimated to cost \$185 million to construct and the Department had expended \$47 million. If the project is never completed, constructed facilities costing \$37 million probably could be used in the Department's normal electric power operations. Some portion of the other facilities costing \$10 million may be of little value even if the project is completed.

GAO recommended that, in evaluating the need to complete the project, the Department attempt to obtain from potential users commitments for the use

they would make of the project, contingent upon the project being in service by a specific date. GAO further recommended that if commitments could not be obtained, the Congress should be advised of the problem so it could reconsider authorization of the project. The Department expressed general disagreement with these recommendations. GAO continues to believe, however, that the recommendations have merit since their adoption would show whether there will be a need for the project in the future and whether the project will be self-liquidating. (Report to the Congress, B-164064, Aug. 5, 1970)

75. Guidance for Relocating Roads and Bridges at Water Resources Projects.—Roads and bridges to be relocated as a result of the construction of a water resources project must be constructed in accordance with the Flood Control Act of 1960, as amended (33 U.S.C. 701r-1(c)), if the cost of relocation is to be borne by the Federal Government. The act directs that a relocated road or bridge must be designed on the basis of current traffic and constructed in accordance with applicable State or county standards—if a facility is constructed to higher standards, the additional cost must be paid by the owner.

The Auburn-Forest Hill Bridge in California is being constructed to meet projected traffic needs, and the Bureau of Reclamation, Department of the Interior, is financing the entire cost, including at least \$1.5 million to construct the bridge to meet projected rather than current traffic needs. The Bureau's position was that the bridge could be relocated and federally financed under the general legislation which authorized construction of the Auburn-Folsom South Unit, rather than under the Flood Control Act of 1960, as amended.

GAO advised the Department that the Flood Control Act of 1960, as amended, was the proper legislation for relocating the bridge and that its provisions must be followed. Subsequently, legislation was enacted specifically authorizing the Bureau's design for the bridge.

Although the question regarding the authority of the Bureau to finance the entire cost of the bridge was resolved by the new legislation, GAO believes that similar problems may be encountered in the future at other projects and recommended that the Bureau establish policies and procedures for relocating roads and bridges in accordance with the Flood Control Act of 1960, as amended. (Report to the Congress, B-125045, May 7, 1971)

76. Unnecessary Replacement of Roads and Bridges at Water Resources Projects.—The Bureau of Reclamation, Department of the Interior, is planning to construct a modern two-lane, all-weather paved road, with two bridges, to replace certain little-used dirt roads and river crossings which will be inundated as a result of the Auburn Dam and Reservoir in California. The estimated cost of the new road and the two bridges is \$26.2 million.

Based on the conditions of the existing roads, the current traffic, the purposes served, and the availability of other roads and bridges to serve existing traffic, GAO reported that replacement was not justified and recommended that the roads and bridges be abandoned without replacement. The Bureau advised that it did not

agree with the recommendation and that, in adopting its feasibility report and authorizing the project, the Congress recognized the need for replacing them.

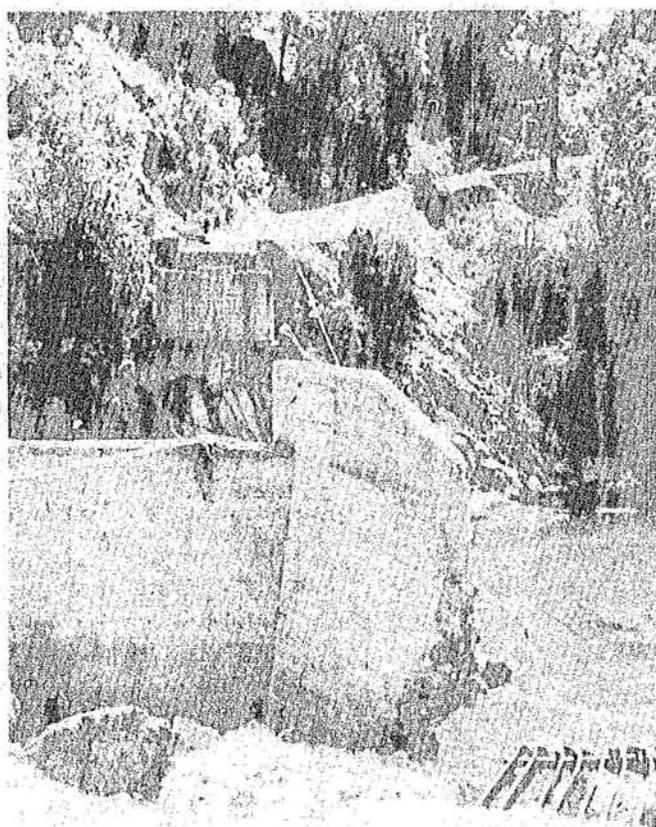
Neither the feasibility report nor the legislation authorizing the project, however, requires the replacement of all existing roads and bridges or restricts the Bureau from abandoning existing roads and bridges if such action is indicated as a result of more detailed studies of the traffic needs of the area. GAO continues to believe that the recommended action should be taken. GAO believes also that the Bureau should develop criteria for determining when roads or bridges affected by Bureau projects should be abandoned rather than replaced. Report to the Congress, B-125045, May 7, 1971.

Among the little-used dirt roads and bridges to be replaced by a new highway system costing \$26.2 million.



Ponderosa Way—approaching washed out crossing of the Middle Fork of the American River.

77. Consideration of Project Benefits as Well as Costs in Relocating Roads and Bridges at a Water Resources Project.—The Bureau of Reclamation, Department of the Interior, plans to relocate existing State Highway 49 across the crest of the Au-



Ponderosa Way—washed out bridge across the Middle Fork of the American River.

burn Dam in California at an estimated cost of \$10.5 million. Based upon rough estimates provided by the Bureau, GAO stated that \$5.5 million could possibly be saved by relocating the road downstream from the dam. More importantly, this alternative location would per-

mit annual benefits—the value of products or services resulting from the project—of as much as \$59 million to begin to be realized from the Auburn project 3 years earlier.

The Department stated that a more detailed cost estimate for relocating Highway 49 downstream from the dam would probably be considerably higher than the \$5 million rough estimate and that it appeared highly doubtful that the Office of Management and Budget and the Congress would be amenable to appropriating funds sufficient for the relocation and the dam construction to be undertaken at the same time, which would be necessary if project benefits were to be realized sooner.

GAO recognized that the \$5 million estimate for relocating the bridge downstream from the dam was not a refined estimate but that the potential savings were significant enough to justify having a more detailed estimate prepared for use in determining the alternate route more advantageous to the Government. Also, a number of other alternative routes existed which had the advantage of permitting project benefits to be realized sooner than the route selected by the Bureau.

The Department's comment that the Congress and the Office of Management and Budget would not appropriate, simultaneously, the funds needed for relocating the road and constructing the dam is somewhat speculative. GAO stated that the Bureau should decide the most economical plan for relocating the highway and provide justification for that plan when requesting the necessary appropriations.

GAO recommended that the Bureau make a detailed study of the estimated cost of the downstream route and determine which of the several alternatives is the most economical when both costs and benefits are considered. GAO also recommended that the Bureau develop procedures for all Bureau water resources projects to provide for consideration of the effect that road and bridge relocations will have on the realization of project benefits. (Report to the Congress, B-125045, May 7, 1971)

78. Comparability of Design Alternatives for Federal Water Resources Projects.—Both the Corps of Engineers (Civil Functions), Department of the Army, and the Bureau of Reclamation, Department of the Interior, plan, construct, and operate similar water resources projects, but have different design procedures and practices. GAO reported that substantial savings could be achieved by improved coordination

and dissemination of design information and techniques between the two agencies.

The Bureau has made significant progress in the design and construction of arch dams which, under certain conditions, have significant advantages over other types of dams, while the Corps has not kept abreast of the advancements in arch dam design to the same degree as the Bureau. The Corps may have constructed other types of dams at locations where arch dams might have been more suitable. As an example, GAO noted that the construction of an arch dam at the Corps' New Melones project in California would have resulted in savings of about \$9 million over the proposed rock-fill dam.

GAO also reported that guidance was needed for evaluating design alternatives. The Bureau constructed an unreinforced-concrete lining for the San Luis Canal in California. A more carefully prepared evaluation of the design alternatives would have shown a cost advantage of \$12 million in favor of an earth lining rather than the concrete lining chosen by the Bureau.

GAO concluded that the matters discussed in its report, both with respect to the type of dam for the New Melones project and the type of lining for the San Luis Canal, indicated a need to develop guidelines setting forth factors, including those for making cost comparisons, that are to be considered in evaluating design alternatives.

In response to GAO recommendations, the Corps and the Bureau entered into a written agreement to exchange useful information. Also, the Corps agreed to consider use of certain Bureau practices that GAO had called to its attention. (Report to the Congress, B-125045, Apr. 6, 1971)

79. Contributions for Non-Federal Water Resources Projects.—The procedures used by the Corps of Engineers (Civil Functions), Department of the Army, for computing the Federal contribution for flood control features on water resources projects constructed by non-Federal agencies did not protect the Government from unbalancing of contract costs by the contractor for the various items of work.

Unbalancing of contract costs occurs when a contractor—to obtain higher progress payments in the early stages of a contract—assigns a higher cost than had been estimated to those items of work, such as excavation, that will be completed first and a correspondingly lower cost to items that will be completed later. Therefore, although the total cost of a project may not

increase, unbalancing may result in the Government's contributing more than it should because its contribution is determined by applying a percentage to the cost of certain features of the project.

GAO recommended that the Federal contribution be based on the ratio of project cost allocated to flood control to the total project cost instead of following the Corps' procedures of applying a percentage to the cost of certain features of the project. GAO estimated that

the Government could have saved about \$1.7 million at two State projects in California if the Federal contribution had been determined through use of the recommended procedure.

The Corps agreed to revise its procedures, in accordance with GAO's recommendation, for determining the Federal contribution at projects where unbalanced contractor costs are possible. (Report to the Secretary of the Army, B-167941, July 30, 1970)

INTERNATIONAL ACTIVITIES

Foreign Assistance Programs

80. Administration of the Military Assistance Training Program.—GAO, at the request of the chairman, Senate Committee on Foreign Relations, performed a detailed review of the military assistance training program in 10 recipient countries. In recent years, according to GAO, the total funds provided for the training of foreign military personnel under this program have averaged about \$74 million a year.

In assessing the training against the military requirements and resources of recipient countries, GAO found that some of the training was unnecessary or was not of high priority. Some of the training pro-

vided was related to equipment not on hand. An example of this is the U.S. training of Thai personnel at a cost of \$500,000 to operate a missile system which would not be installed for some years.

In addition, GAO noted that the military advisers gave inadequate consideration to the recipient countries' capabilities to provide training from their own resources and no effort was made by the advisers to correlate the military assistance or service-funded training programs with other U.S. Government training programs.

Finally, in the selection of foreign students to be trained, the report noted that U.S. advisers did not



Students from Iran conducting soils lab tests in a U.S. Army course at Fort Belvoir, Va., under the Military Assistance Training Program.

take the necessary steps to insure that a sufficient number of qualified candidates were nominated, screened, and tested in time so that they would be available to attend scheduled training courses. As a result, some courses had to be canceled or deferred, and in other cases, marginally qualified and unqualified personnel entered into the training program.

Some reexamination of the overall program, for which significant costs are being incurred, may be appropriate because of its less than satisfactory administration. In view of this, GAO recommended two alternatives for consideration: (1) concentrating more effort by U.S. advisers on planning, programming, administering, and supervising the training program to



Korean navigators receiving training from a U.S. Air Force adviser in Korea.

achieve effective management or (2) reducing the size of the training program so that it can be effectively managed with presently authorized staffs.

GAO stated in the report that the committees of the Congress might wish to consider the desirability of enacting legislation requiring the Secretary of Defense to establish a measurement system to assist in determining the effectiveness of expenditures for the military assistance training program.

The Department of State, in commenting on the report, stated that it contained a wealth of information and data which will be extremely useful in the Department's efforts to improve the effectiveness of the training program. The Department intends to use the report as a means of assuring that U.S. resources

are employed in the most effective manner to pursue abroad the security and political objectives of the United States. In this regard, the Department distributed the report to all overseas posts having supervisory responsibility for such training programs. The Department further stated that the training program has been a valuable instrument in contributing to the achievement of U.S. security and political objectives.

Although the Department of Defense disagreed with some of GAO's findings, it advised that it had knowledge of improvements needed in some of the areas pointed out in GAO's report and that it was attempting to solve these matters. (Report to the Senate Committee on Foreign Relations, B-163582, Feb. 16, 1971)

SECTION I

81. U.S. Relief Assistance to Nigeria.—In response to a request from the chairman, Subcommittee on Refugees and Escapees, Senate Committee on the Judiciary, GAO submitted reports in August 1970 and in December 1970, on U.S. assistance furnished to Nigeria. The reports disclosed that the U.S. Government had provided Nigeria about \$107 million in relief assistance, including Public Law 480 food commodities, cash donations, and relief and rehabilitation support. This assistance began in 1968 while the Nigerian civil war was in progress and continued throughout the war and through the period following the cessation of hostilities in January 1970.

The United States, although recognizing the sovereignty of the Federal Military Government of Nigeria, adopted a policy of political and military non-involvement regarding the Nigerian civil war. However, the United States provided relief assistance through U.S. voluntary relief agencies, international relief organizations, and the Nigerian Red Cross.

Numerous changes occurred in the organization for relief in the Department of State and the Agency for International Development. These changes apparently were ad hoc changes in response to the increased demands of the Nigerian relief program. GAO believed that this suggested a need to consider whether improved effectiveness could have resulted from assigning responsibility for similar programs to a permanent, viable U.S. organization capable of planning, coordinating, and implementing major U.S. relief operations of the magnitude and significance of the Nigerian effort.

With respect to relief food planning and distribution during the war, GAO observed that:

A principal impediment to effective relief food planning had been the absence of reliable information on the size and condition of the population in the war-affected areas and on the availability of local foods.

Although actual food distribution rates in the federally controlled areas had been less than the planned, actual stockpiles of food apparently always had been more than sufficient to meet planned distribution requirements.

Food distribution within the Biafran enclave had been limited to those food supplies which could be flown into the area by night. The United States made efforts to increase the flow of food supplies into the enclave but was unsuccessful because of the irreconcilable positions of the combatants.

A nutritional survey conducted in the Biafran enclave in October 1969 showed that about one-third of the population was suffering from advanced protein deprivation. GAO, however, found no reliable data on the number of civilian deaths which had occurred in the enclave during the war.

GAO was unable to evaluate the effectiveness of the food planning and distribution for the postwar period because its staff members were denied entry visas by Nigeria. (Reports to the chairman, Subcommittee on Refugees and Escapees, Senate Committee on the Judiciary, B-167677, Aug. 25, 1970, and Dec. 17, 1970.)

82. U.S. Aid to the Economic Unification of Central America.—From July 1961 through the beginning of 1970, the Agency for International Development (AID) had budgeted about \$143 million and had paid out \$67 million for aid designed to accelerate the economic unification of Central America. AID's Regional Office for Central America and Panama (ROCAP), established in 1962 to encourage and support the Central American Common Market, was responsible for the program. ROCAP aid was part of a larger economic assistance program amounting to about \$1.3 billion during the 8-year period to five countries of Central America. Such assistance was equal to about 31 percent of domestic revenues of the five countries, or about 20 percent of the export earnings. The United States had provided about 78 percent of the total external assistance.

Because of congressional interest in multicountry economic development and the amounts of U.S. moneys involved, GAO reviewed AID's efforts to help accelerate economic unification of Central America.

GAO pointed out that although the Central American Common Market was recognized by a number of authorities as the most successful attempt to date at economic unification among developing countries, achievement of a common market that is fully effective could be some time away. With regard to AID's program management, GAO made the following observations:

AID was unable to relate the Common Market's actual accomplishments and priorities to those AID had hoped for.

AID had not developed methods necessary to measure with reasonable accuracy the impact of AID programs on the Common Market movement or the

impact of the unification movement on the region's rate of growth and development.

AID loans for industrial projects requiring predominantly raw material imports rather than local resources may have contributed adversely to Central America's balance of payments.

AID needed to give increased attention to the problem of slow use of available aid development funds.

GAO recommended that the Administrator of AID should:

Require that long-term objectives and goals of U.S. support for the Common Market be formulated in terms which permit measurement over time, together with a statement of priorities and an explicit plan and time for achieving action.

Order more comprehensive efforts to identify key problems requiring solution on a regional basis and require that AID's regional office for Central America direct its future resources to only such problems.

Accelerate efforts to develop methods necessary to measure with reasonable accuracy the impact of AID programs on the Common Market and the impact of the unification movement on the area's rate of economic growth and development.

Give increased attention to ways of overcoming the problem of slow use of AID loan funds in Central America.

AID agreed in principle with the recommendations but also outlined some of the difficulties involved in their application. (Report to the Congress, B-169350, Aug. 13, 1970)

83. Developmental Assistance Programs in Latin America.—During four reviews involving U.S. developmental assistance programs in individual Latin American countries or regions, GAO noted that certain U.S. program objectives, goals, and targets lacked the specificity necessary to permit objective measurement and evaluation of program results over a period of time. For this reason audit work was undertaken to determine if the condition was common in U.S. assistance programming in other Latin American countries.

GAO reported, in a letter addressed to the Secretary of State, that in a review of selected fiscal year 1972 programming documents for developmental programs for six Latin American countries, in a majority of cases

program objectives and goals were not stated in objectively measurable terms and did not include a time frame for accomplishment. Of a total of some 259 developmental objectives and goals reviewed, about 13 percent were stated in objectively measurable terms and 16 percent had a specified time frame for accomplishment.

The report cited the congressional interest in the problem of evaluating program performance where foreign aid funds were involved and the fact that the Department of State and the Agency for International Development's guidance for the preparation of planning documents had stated that objectives and goals should be measurable in terms of achievements desired and have a time frame for completion of the planned achievements. GAO concluded that specificity was a prerequisite not only for effective administration, but also for a responsible objective assessment of results. An improvement of this nature, GAO reported, would be of special long-range importance because of the need to show the Congress and the American public, the demonstrable and objectively measurable results of U.S. developmental assistance programs.

GAO recommended that the Secretary take the measures necessary to assure that in the programming process objectives and goals (both intermediate and final) were formulated and stated in terms objectively measurable over time.

At June 30, 1971, the Department of State was still reviewing GAO's recommendation. (Report to the Secretary of State, B-161882, June 14, 1971)

84. Economic and Military Aid to Honduras.—The basic objective of U.S. assistance to Honduras is to serve, within the Alliance for Progress, as a catalyst—causing or permitting Honduras to mobilize a much larger and more intensified development effort to achieve significant speedups in economic productivity and social and political progress. The end results are intended to be significantly larger incomes, more equal distribution of income, and higher standards of living for Hondurans.

From 1961 to 1970, U.S. direct and indirect assistance to Honduras was about \$149 million excluding a GAO estimated \$15 million in commodity trade assistance from U.S. preferential purchases of sugar and coffee. The U.S. contribution was about 73 percent of the outside assistance to Honduras. Total assistance was equivalent to about 37 percent of Honduran central government revenue.

SECTION I

GAO found that Honduras' economic growth during the Alliance years had accelerated but there was no evident acceleration of its overall social or political development when compared with the 1950's. GAO stated that politically, while Honduras achieved relative stability during the Alliance, it did not make significant progress toward a moderate, democratic, constitutional government—a basic U.S. desire. The Honduran Government's attention to such things as civil liberties, efficient administration, and basic reforms during the Alliance was significantly less than expected.

GAO pointed out that basic changes in U.S. assistance strategy would be required if current objectives were to be effectively achieved in the next decade and in this regard made 10 recommendations. Most of these were concerned with improvements needed in the planning and evaluation of the Agency for International Development's (AID) programs. In responding on behalf of the Secretary of State, the Administrator of AID agreed with most of GAO's recommendations, however, he remarked that the report did not appear to reflect fully the progress made in recent years by AID in program planning and evaluation, and that improvements in the management of the programs have been and will continue to be made.

GAO suggested that Congress might wish to consider:

If executive branch foreign assistance program justifications to the Congress should be restructured to (1) show the relative long-range acceleration of the recipient country's economic, social, and political development achieved in the past and planned in the future and (2) provide a more explicit focus on the timespan envisioned to precede phase-out of U.S. assistance; the relative levels of such assistance during this timespan; and the nature and rate of economic, social, and political development anticipated and to be supported during this timespan.

Whether congressional action might be desirable for facilitating the development of improved models and other analytical tools to better measure, with greater objectivity and accuracy, the impact of U.S. assistance programs on a recipient's rate of development.

(Report to the Congress, B-169521, Dec. 3, 1970)

85. U.S. Assistance in Liberia.—Total U.S. assistance to Liberia for fiscal years 1960-69 amounted to \$212 million, an average of \$21 million a year. The

Agency for International Development (AID) and the Export-Import Bank contributed more than 87 percent of this amount—54 percent and 33 percent respectively. AID's assistance for fiscal years 1966-69 was \$23.2 million, an average of over \$5.8 million a year. This was an average of about \$6 per capita a year whereas developing countries on a worldwide basis have received less than \$1 per capita.

GAO made limited reviews of AID-managed projects to ascertain how well U.S. objectives had been attained. The review showed a number of problem areas: lack of Liberia's financial support, poor location of physical facilities, and inadequate commitment by Liberia to institute changes necessary to attain project objectives.

GAO recommended that:

The Director of the Peace Corps reevaluate the Corps' program and specifically consider the reasonableness of the program goals and the strategies employed to achieve them.

The Secretary of Defense provide U.S. military assistance program equipment only after it is certain funds will be available to use the equipment adequately.

U.S. agencies involved in implementing assistance programs in Liberia make certain that all U.S. assistance that can be related to the Educational and Cultural Foundation be made a part of the U.S. contribution toward this program. The Secretary of State should assume overall coordination and/or monitoring of this program.

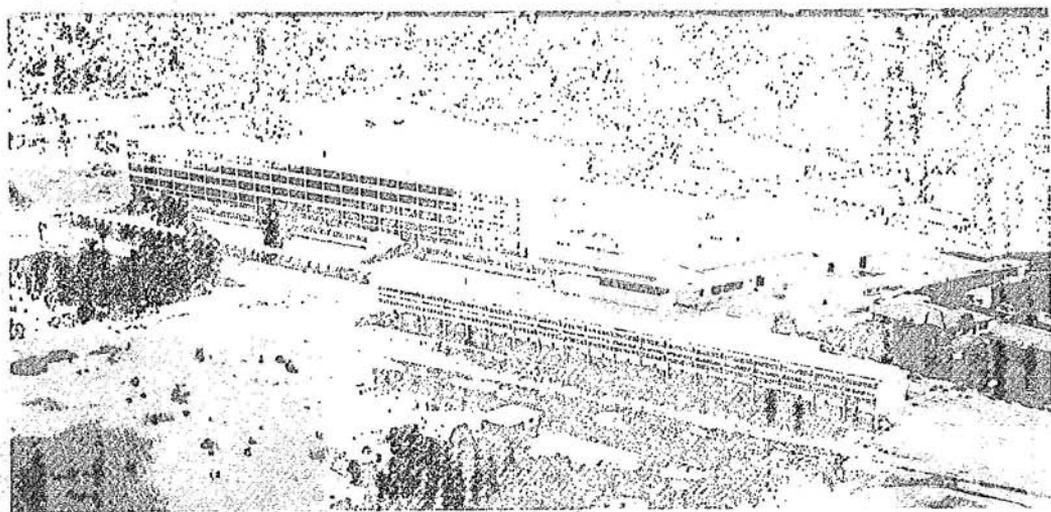
U.S. agencies have promulgated new broad assistance guidelines for Liberia which GAO believes, if followed, will strengthen the effectiveness of the U.S. program. (Report to the Congress, B-159380, Nov. 6, 1970)

86. Refugee Relief Program in Laos.—GAO found that only limited data on the evaluation of the refugee relief program had been submitted to Washington, and the Agency for International Development's (AID) Washington management was limited to overall program direction. GAO also noted that the AID Mission in Laos did not have written operating procedures and its functional and mission statement, prepared in 1962, was outdated.

AID officials stated that contingency plans had not been developed for movement of refugees in the event of dislocations caused by future military actions. They also stated that they had been reacting to the exigen-



U.S. foreign assistance provides modern hospital facilities to a developing country. Liberian Government Hospital (above) replaced by modern AID-financed John F. Kennedy Hospital—National Medical Center (below) in Liberia



SECTION I

cies of the situation, rather than anticipating future needs and preparing alternative movement plans.

GAO also noted that the AID Mission in Laos did not have enough staff to manage both the refugee program and its other programs. After repeated efforts, however, seven additional American positions for the refugee program were authorized on June 26, 1970. Quite a long time will have elapsed before these people could be physically in Laos, because it takes time to select, process, train (including 6 months of Lao language instruction), and comply with other administrative requirements. In the meantime, personnel from other programs were temporarily assigned to refugee operations.

AID officials stated that, because of the unstable and diverse conditions in Laos, standards had not been established as to the amounts and types of assistance. Instead, the needs of a particular group were assessed by Laotian Government and AID refugee officers on the spot.

During field visits to a limited number of refugee villages, it was observed that the refugees usually were

poorly clothed, water supplies appeared inadequate, housing was inadequate for the crowded conditions, farmland was limited, and there were relatively few medical dispensaries.

GAO suggested that the subcommittee bring the report to the attention of AID for possible use in improving its management of the program. (Report to the chairman, Subcommittee on Refugees and Escapees, Senate Committee on the Judiciary, B-133001, Nov. 5, 1970.)

87. Civilian Health and War Casualty Program in Laos.—GAO reported that there was no civilian health and war casualty program as such in Laos. Assistance rendered in this area by the Agency for International Development (AID), was included as part of the Public Health Development Program of the AID Mission in Laos (AID-Laos). The two primary activities involving civilian health and casualties were the Operation Brotherhood Project and the Village Health Project.



Distribution of AID medical supplies in Laotian refugee village.

AID's assistance to public health development in Laos had been carried on over a 7-year period during which \$16.8 million had been obligated—\$7.4 million for Operation Brotherhood and \$9.4 million for Village Health. In addition, the equivalent of \$4.4 million in local currency generated from U.S. assistance had been furnished directly to the health program over the same period.

AID's management seemed less than adequate in consideration of the relatively high priority assigned to these projects. The Public Health Division generally reacted to the exigencies of the situation and there was little emphasis placed on development of long-range plans related to civilian war casualties.

At the time of GAO's visit in July 1970, the Public Health Division of AID/Laos had compiled some data on war casualties treated in the Village Health Project dispensaries. No war casualty information, however, was compiled until June 1970 for the seven Operation Brotherhood Project hospitals. Information on overall casualty figures was furnished by AID for earlier years; however, these figures were not very accurate. Also data on civilian war casualties did not include those who were killed or those who were wounded but did not seek medical attention.

GAO suggested that the subcommittee bring the report to the attention of AID for possible use in improving its management of the program. (Report to the chairman, Subcommittee on Refugees and Escapees, Senate Committee on the Judiciary, B-133001, Nov. 25, 1970)

International Organizations and Institutions

88. Purchase Commitment Made to an International Organization Prior to Availability of Funds.—The Anti-Deficiency Act (31 U.S.C. 665) requires that Government agencies either have estimated funds available or have advance congressional approval before entering into contractual obligations.

GAO found that no express authorization existed, in law, allowing the Department of Defense (DOD) in March 1960, to enter into a commitment to purchase four HAWK missile systems while having only a portion of the funds available. The purchase was made as a part of U.S. participation in a written agreement with a consortium of five North Atlantic Treaty Organization (NATO) countries formed for the purpose

of producing HAWK surface-to-air guided-missile systems in Europe.

This commitment was funded incrementally, consistent with annual assistance requirements, but with little or no relation to the costs of the major missile systems and the funding was less than the projected costs of the systems.

Also, DOD submitted an \$11.9 million claim to the NATO consortium in June 1967 for documentation, technical and engineering services, and depreciation costs. In May 1970, \$9.1 million of the claim was tentatively accepted by the consortium.

The costs of the four systems are estimated to total in the multimillion-dollar amounts. Final costs and final payments are not expected to be known or made until 1972 or 1973.

GAO recommended that the Secretary of Defense (1) make a report to the President and to Congress of all pertinent facts concerning this matter and any action taken or to be taken as required by law and (2) bring to the attention of DOD officials the fact that decisions on the making of contractual obligations of the Government should be consistent with the requirements of law and pertinent DOD directives.

DOD disagreed with GAO and cited the Mutual Security Act of 1954 (sec. 105b) as its authority. According to DOD, the act allows Government agencies to make such agreements, regardless of fund availability or receipt of advance congressional approval, based upon use of the "subject to availability of funds" clause as contained in DOD's commitment.

It is still GAO's opinion that DOD's actions had the effect of committing the Congress to appropriating additional funds after the fact notwithstanding the proviso "subject to availability of funds," and there was little practical control that Congress could exercise over the amount of funds it would subsequently be required to appropriate if the United States was to meet its contractual commitments under the international agreement. Finally, in acting without express authorization and without sufficient funds available, DOD violated the act when the arrangement was signed in March 1960. (Report to the Congress, B-160154, Oct. 2, 1970)

89. Independent Review and Evaluation of International Organizations and Institutions.—GAO's reviews of U.S. financial participation in international organizations have clearly shown the need for independent reviews and evaluations of the organizations' activities. These reviews and evaluations provide the

organizations' governing bodies and, through them, member governments with adequate information on the manner in which the organizations are discharging their responsibilities in meeting their respective goals and objectives.

It was to this end that GAO recommended that the Department of State encourage the establishment of an effective review and evaluation function for United Nations (U.N.) programs and activities.

In response to a request from the chairman of the House Foreign Affairs Committee, GAO set forth, in December 1970, its views on the essential elements it considered necessary for achieving effective independent reviews and evaluations of the programs and activities of all the major international organizations and institutions in which the United States holds membership. These elements related to organization, staffing, review guidelines, and performance and reporting standards.

GAO expressed its willingness to cooperate with the U.S. representatives to the organizations by preparing a statement of objectives, standards, and guidelines for the professional conduct of and reporting on the reviews and evaluations, for use by the representatives in proposing and assisting in the formulation of the terms of reference for such reviews and evaluations.

The Department of State has advised that, at the 25th session of the United Nations General Assembly, the U.S. representatives suggested for consideration GAO's proposal for a mechanism which would meet the need for effective independent evaluation of the activities of the entire U.N. system. The Department further advised that, although the proposal received little support at the General Assembly, the Department will bring it up again in the future. GAO intends to work with the State Department and other agencies in its continuing efforts to encourage the establishment of effective evaluation functions for the U.N. system as well as other major international organizations and institutions. (Report to the chairman, House Committee on Foreign Affairs, B-161470, Dec. 4, 1970)

90. U.S. Participation in the International Labor Organization.—GAO reported in December 1970 that although U.S. contributions to the International Labor Organization (ILO), a specialized agency of the United Nations, had increased steadily, the Department of State could not give assurance they were being used efficiently and effectively or that U.S. interests were being served by the expenditure of the funds.

GAO found that the U.S. Government's policy objectives for participation in the ILO were broadly defined and not easily measured. Generally they were to assist in the economic and social development of less developed countries and to present the advantages of the economic, social, and political systems of the United States in contrast with other nondemocratic systems.

Individuals interviewed and documents reviewed by GAO indicated that there had been a lack of U.S. initiative to implement a firm policy aimed at attaining its political objectives and that the United States was not having any great success in achieving such objectives. The result, according to these sources, had been an almost unimpeded expansion of Soviet-bloc influence in the ILO.

Related to the achievement of U.S. objectives is the fact that the executive branch has not been successful in its efforts to increase substantially the number of Americans employed by the ILO—an obvious means of making U.S. influence felt in the Organization.

Responsible U.S. officials did not have sufficient information on most of the Organization's programs and activities and the manner in which they were being carried out to be assured that U.S. contributions to ILO were being used in an effective and efficient manner and to accomplish intended objectives.

GAO recommended that the Departments of State, Labor, and Commerce frame definitive and measurable U.S. objectives and develop and implement a firm policy and a workable plan for achieving such objectives, including steps to be taken to increase employment of Americans by ILO.

GAO recommended that the Department of State:

Obtain more complete and informative budget and program proposals and require that thorough analyses of these data be made.

Obtain adequate information on ILO's operations and make effective evaluations of its projects and programs.

The Department of State expressed general agreement with GAO's recommendations that more complete information be obtained from ILO and stated that it would pursue the information aspect not only in its own contacts with ILO, but also by encouraging other like-minded governments to exert similar pressure on ILO for such information.

The Department saw the need for better evaluation of ILO activities and stated that it would continue to

press within the U.N. system for establishment of evaluation bodies.

GAO's report was subsequently transmitted by the Department of State to all U.S. overseas posts having labor offices and was used in connection with a White House-directed study carried out by the Departments of State, Commerce, and Labor relative to future U.S. participation in the I.L.O. (Report to the Congress, B-168767, Dec. 22, 1970)

91. Management of U.S. Participation in International Organizations.—The President has charged the Secretary of State with the responsibility for directing and coordinating the activities of all U.S. departments and agencies involved in the affairs of the United Nations, regional, and other international organizations and for appointing and instructing U.S. representatives to the organizations. However, during its reviews of U.S. participation in various international organizations, GAO found that in most cases there was no effective working mechanism for the Department of State to effectively carry out its assigned responsibilities.

GAO found widespread feeling both within and outside the Department of State that the Department generally accorded a very low priority to the review and evaluation of the programs and accompanying budgets of the international organizations. There was also a concern over the disparity which existed between the management level of the action officers in the Department's Bureau of International Organization Affairs and the near Cabinet level officers they had to deal with in other departments and agencies.

Within the Bureau of International Organization Affairs, GAO found areas of responsibility not clearly defined as between offices within the Bureau, as well as with other departments and agencies. Moreover, there was no formal vehicle for coordinated direction within the Department.

Although the Department of State has the primary responsibility relative to participation in the international organizations, it needs the assistance and advice in substantive areas found in other departments and agencies. This assistance was found to be uneven and at times nonexistent. In some cases, the initiative had been taken away from the Department of State so that decisions were being made and acted on outside the Department.

GAO recommended that the Department of State:

Give the matter of U.S. financial participation in international organizations a higher priority than it had in the past.

Realign and strengthen the Bureau of International Organization Affairs so as to establish identifiable lines of responsibility and an appropriate coordinating mechanism.

Establish a working mechanism to include necessary interdepartmental advisory committees with specific responsibilities and duties, each under the active leadership of a designated Department of State representative as chairman.

The Department of State advised GAO that it had considered the organizational and staffing changes which were needed and, to improve its operations, had initiated actions essentially in line with the steps set forth in the GAO letter. The Department expressed agreement with the objectives of the GAO and pledged every effort to bring about needed improvements. (Letter to the Deputy Under Secretary of State for Administration, B-168767, Aug. 6, 1970)

U.S. Balance-of-Payments Position

92. Economic Advantages of Using American-Made Trucks Abroad.—Comparative cost studies by GAO show that substantial savings and balance-of-payments advantages can be realized at some overseas locations by using more American-made trucks in place of foreign vehicles being used by commercial carriers under contract with the military. Increased use of American trucks could be achieved in a variety of ways—increasing the military's own transportation capability, furnishing American trucks to contractors, or requiring contractors to use American trucks.

A study of contract services costing \$10.7 million revealed that expanding the military's capability could annually produce cost savings of \$1.8 million and reduce dollar payments abroad by \$6.4 million.

GAO found that few comparative cost studies had been made by the armed services and that the sound operating and maintenance data needed were generally not available.

GAO recommended that the Secretary of Defense require:

The military services to develop better local operating and maintenance cost data to serve as a basis for evaluating comparative costs.

SECTION I

Amendments to the procurement regulations requiring consideration of economic advantages which might be realized through the use of American-made vehicles where the size of the activity justifies procurement of such vehicles.

The services to make current cost studies and to periodically update the studies.

GAO also recommended steps designed to increase the usage of American trucks abroad. These steps provide that:

Budgetary requests be prepared for submission to the Congress for American-made trucks to replace the use of foreign trucks where economic advantages can be realized.

The additional trucks be distributed first to locations where potential cost and balance-of-payments advantages are greatest.

Studies be made of the effectiveness of current operations and of types and sizes of American equipment most needed abroad.

Consideration be given to including in contracts a preference for American trucks and to contracting with American firms for transportation services at foreign locations.

Department of Defense officials advised that the services concurred with most of these findings and conclusions and agreed to take steps along the lines proposed. (Report to the Congress, B-163869, Feb. 4, 1971)

93. Purchase of Dairy and Bakery Products for U.S. Forces.—In February 1971 GAO reported to the Congress on the opportunities to economize on dairy and bakery purchases for U.S. forces in Southeast Asia. GAO found that more than half the wheat used for bakery products by U.S. forces in Thailand came from Australia because the contracts for bakery products did not require the use of U.S. wheat. This resulted in lost sales of U.S. wheat and an unfavorable effect on the U.S. balance of payments.

GAO recommended that the Department of Defense include a requirement in its contracts for bakery products in Thailand that wheat from the United States be used.

GAO also recommended that the State Department:

Direct its officials to consult with Royal Thai Government officials regarding the possibility of obtaining relief from taxes on dairy and bakery products purchased for U.S. forces.

Seek an equitable rebate for taxes and duties levied in the past.

The Department of the Army stated that it would examine into the economy of using U.S. wheat, and, if it can be clearly demonstrated that there would be an advantage in using U.S. wheat, the Thailand procurement office would be requested to make this a requirement in its contracts.

The Department of State in its response stated that GAO's views and recommendations had been referred to a joint State/Defense committee on foreign tax relief and that the committee would give priority attention to tax relief matters in Vietnam and Thailand. (Report to the Congress, B-171428, Feb. 4, 1971)

94. Balance-of-Payments Benefits Achieved Through an Increased Agricultural Barter Program.—GAO reported in May 1968, that nearly \$700 million worth of Government expenditures abroad were qualifying for payment from barter transactions annually compared with \$260 million worth actually bartered. GAO believed that a relaxation of existing barter constraints would increase American agricultural exports and thereby benefit the U.S. balance-of-payments position.

GAO recommended that the Department of Agriculture adopt a policy of letting market conditions determine the size of the barter program rather than to hold the size below a theoretical or administrative limit. The thrust of GAO's report was that the Department should accept a higher percentage of bids even if that meant some increase in the barter premiums paid.

In February 1971, GAO reported that the Department had taken certain actions to increase agricultural exports through the barter program, thereby benefiting the U.S. balance-of-payments position. These actions included increasing the size of the barter program by increasing the barter premium that the Department was willing to pay, including additional free market stocks to the list of commodities eligible for barter, and revising the destination list to which the commodities could be exported. These actions resulted in an increased barter program.

Barter contracts awarded under funding arrangements during fiscal year 1970 amounted to \$429 million, compared with \$181 million for fiscal year 1969. Total contracts signed during fiscal year 1971 amounted to about \$885 million. A comparison with the fiscal year 1969 total of \$181 million shows an

advantage to the U.S. balance-of-payments of about \$952 million during fiscal years 1970 and 1971. (Report to the Congress, B-163536, Feb. 12, 1971)

95. Export Expansion Proposals.—The Department of Agriculture, Foreign Agricultural Service (USDA, FAS), has sponsored the sending of numerous foreign executive teams to the United States for the purpose of providing technical assistance in the management, processing, and uses of agricultural commodities. These visiting teams consist of upper level executives such as managing directors, technical services officials, purchasing agents, and others in decision-making capacities. GAO's review of this program disclosed that the potential for exposing these officials to the advantage of using American equipment to improve their operations had not been fully explored.

Further review disclosed that while the Department of Commerce International Liaison Trade Opportunities staff had a Foreign Business Visitors Services Program, the FAS sponsored teams had not been covered by this program. GAO found general agreement among Agriculture and Commerce officials that, with proper coordination, American manufacturers and suppliers could profitably conduct program seminars and demonstrations of their products in an attempt to satisfy the visitors' needs. (Report to the Deputy Assistant Secretary, Bureau of Domestic Commerce, Department of Commerce, Mar. 23, 1971)

96. Economic Advantages of Procuring U.S. Peanuts in Lieu of Foreign Peanuts.—GAO found that the European Exchange System (EES), a large U.S. nonappropriated fund activity which is a part of the Army and Air Force Exchange Service (AAFES), had arranged to buy about \$92,000 worth of peanuts from a German contractor. The EES decided to purchase these peanuts in Germany because they thought that American peanuts would cost 24½ cents a pound, plus freight and handling, compared with a delivered cost of 23 cents a pound for the foreign peanuts.

The Department of Agriculture (USDA), operating through the Commodity Credit Corporation (CCC), subsidizes the export of peanuts by selling them to processors at prices which make them available competitively in foreign markets. Under this program, unroasted peanuts in-the-shell (which are the type purchased by the EES) are selling for about 14½ cents a pound, f.o.b. origin, processors' plants.

In view of the balance-of-payments benefits that might be realized, GAO suggested that the AAFES

jointly explore with USDA the possibility of obtaining U.S. peanuts provided under the CCC export program to meet future worldwide requirements which otherwise would be purchased with dollars from foreign sources. USDA officials advised GAO that they would be pleased to discuss the possibility of making American peanuts available to AAFES at competitive prices. Report to the Army and Air Force Exchange Service, B-114324, May 28, 1971

97. Potential Savings in Shipping Costs to Turkey.—GAO found that 28 shipments consisting of about 9,000 tons of agricultural commodities, under Title II, Public Law 480, were shipped to Turkish outposts of Samsun and Trabzon between December 1968 and May 1970—resulting in costs of about \$221,000 more than the costs to deliver these commodities to direct ports of call. Most of the shipments were made from the Great Lakes and the Gulf Coast. Shipment charges ranged from \$17 to \$30 per ton depending on the ports of loading and discharge and the commodity.

Of the 28 shipments, at least 10 were transported on foreign flag vessels. These 10 shipments amounted to about \$121,000 of the \$221,000 in addition charges and adversely affected our Nation's balance-of-payments position. GAO also noted that four of the 28 shipments were arranged by the Department of Agriculture and were transhipped at Istanbul. GAO could not ascertain whether or not this cargo was reloaded aboard American or foreign vessels at Istanbul.

Officials of the Agency for International Development (AID) informed GAO that they will attempt to obtain reimbursement from CARE, for about \$121,000 representing the additional charges incurred by foreign flag vessels beyond Istanbul. It is GAO's belief that even if this amount were reimbursed by CARE, this would not undo the adverse effect these payments had on the U.S. balance of payments.

GAO was further advised that Turkish vessels could transport these commodities from Istanbul to outposts for about \$4 per ton as compared to present costs to the United States ranging between \$17 and \$30 per ton. In view of this reduced rate, AID personnel recommended exploration of obtaining Turkish currency to finance transportation on Turkish coastal vessels.

While attempting to reduce U.S. budgetary costs is a step in the right direction, GAO believes that shipments of Title II commodities should be financed to direct ports of call only.

SECTION I

In view of the substantial costs to the United States resulting from financing shipments of Title II commodities to outposts, GAO recommended that AID require the Government of Turkey to arrange for and finance the transportation of these commodities beyond direct ports of call.

GAO believes that this would be a test of Turkey's desire for the commodities and would give it additional responsibility and experience in handling logistics problems so that when the transition from AID programs to programs completely operated by the Government of Turkey is made, the program would function more efficiently and effectively.

In April 1971, AID agreed with GAO's recommendation and advised that steps were being taken to rectify the situation. (Report to the Administrator, AID, B-152538, Aug. 24, 1970)

98. Consolidation of Laundry Facilities Abroad.—GAO learned that, for certain locations, the Army obtained laundry services by contracting with foreign firms, whereas the Air Force had its own "in-house" facilities operating at a fraction of their capacity at the same locales.

Calculations made in conjunction with Army and Air Force specialists revealed that meaningful savings could have been achieved through the use of a military interservice agreement which would have enabled the Army to reduce its volume of contracting by using Air Force laundry facilities at Cam Ranh Bay, Vietnam, and U Tapao, Thailand.

Until the time of GAO's examination, the two services had not cooperated to reduce expenditures by consolidating their laundry service operations. After GAO discussed the matter with Army and Air Force laundry specialists, steps were taken to consider an interservice laundry support arrangement for the Cam Ranh Bay area.

GAO computations showed that annual savings of about \$227,000 could be realized by the Government if the Army would reduce its contracts and obtain its laundry services from the Air Force facilities at Cam Ranh Bay.

GAO proposed that the Department of Defense (DOD) undertake studies to determine whether similar interservice support agreements would be beneficial at other overseas locations in view of the potential cost and balance-of-payments benefits that might be realized.

Military specialists agreed that economic benefits were possible by using "in-house" facilities rather than contracting for laundry services and on July 21, 1971, DOD officials advised that the U.S. Army in Vietnam had initiated action with the Air Force for laundry services at Cam Ranh Bay through an approved Military Interdepartmental Purchase Request, which became effective July 1, 1971. (Report to the Secretary of Defense, B-165629, Mar. 15, 1971)

99. Economic Advantages of Using American Ingredients To Satisfy Milk Requirements in Western Europe.—In June 1971, GAO reported on the economic advantages of substituting filled milk from the United States for whole milk purchased from European sources to satisfy the milk requirement of military personnel and their dependents in Western Europe. GAO found that the ingredients for filled milk (vegetable oil and nonfat dry milk) were in surplus supply in the United States, were frequently acquired by the Department of Agriculture to support domestic prices, and were disposed of through various domestic and foreign donation programs.

The Department of the Army expressed concern at the possible effects that discontinuance of fresh whole milk procurements might have on troop morale in Europe. GAO stated that the problem apparently would be minimized if the military would give adequate advance notice of its intention to switch to filled milk and to provide material designed to inform military personnel and their families of the wholesome characteristics of filled milk, the general practice of providing filled milk at all other locations, and the overall balance-of-payments advantages resulting therefrom.

GAO recommended that the Department of Defense (DOD) establish close liaison with the Department of Agriculture (USDA) and with the Department of State in order to minimize the potential economic or political repercussions to broader U.S. interests.

In line with GAO recommendations, the Department of the Army, on behalf of the Secretary of Defense, agreed to conduct an objective consumer acceptance test in Europe.

USDA informed GAO that it was prepared to cooperate with DOD in whatever decision DOD might make in this matter. The Department of State advised GAO that it foresaw no political repercussions and agreed with the decision made by the Secretary of Defense. (Report to the Congress, B-172539, June 3, 1971)

International Activities—General

100. Missing Government-Owned Materials in Vietnam.—In May 1967, GAO reported that \$120 million worth of U.S. Government-owned material and supplies had not been accounted for by the principal construction contractor for the United States in Vietnam. Subsequently, the contractor reported that it had accounted for all but \$5 million worth of the missing materials and supplies.

At the request of the chairman, Permanent Subcommittee on Investigations, Senate Committee on Government Operations, GAO performed a followup review to determine the methods used by the contractor in arriving at the \$5 million figure and submitted a report to the Congress in May 1971 on the results of the followup review.

GAO noted that the contractor's method of accounting for the missing materials and supplies could not be regarded as valid. One reason for the invalid estimates concerned the unreliable receiving reports which were prepared many months after the goods were supposed to have arrived in Vietnam, and which were based on purchase or shipping documents rather than on evidence of receipt. Also, the contractor made substantial adjustments, generally not based on physical counts, in inventory records and subsequently reduced the unaccounted for balance. GAO questioned the validity of these adjustments and the contractor canceled them.

GAO also found that the contractor collected only a relatively small value for loss and damage claims from vendors, shippers, and others because of its failure to follow up, to any substantial degree, on these claims. Finally, from contract inception in 1962 to September 1968, the contractor was relieved of accountability for materials and equipment valued at over \$14 million which had become lost, damaged, or otherwise unserviceable.

GAO noted great improvements in almost every aspect of the contractor's material controls since GAO's first report. The almost chaotic conditions existent in 1966 at the three major supply depot operations for the most part have been corrected.

GAO recommended to the Secretary of Defense that (1) further efforts to account for the contractor's unaccounted for materials not be made, (2) the unaccounted for materials be recognized formally in the contract records, and (3) damage reports prepared under the contract be reviewed to determine whether the contractor has made a reasonable effort to fix re-

sponsibility and to process resultant claims against vendors, shippers, or others.

The Department of the Navy considered the report, on the whole, accurate and, in general, the Department of Defense (DOD) responded favorably to GAO's recommendations. DOD stated that the magnitude of the unaccounted for materials was the result of the unprecedented conditions existent in Vietnam. Also, DOD has undertaken a full review of all loss, shipping shortage, and damage claims, and GAO believes this action should result in additional collection. (Report to the Congress, B-159451, May 28, 1971)

101. Control Over Local Currency Made Available to the Republic of Vietnam.—GAO reviewed the effectiveness of corrective actions taken by the Agency for International Development (AID) and the Department of Defense (DOD) to strengthen controls over the budgeting, release, and use of local currency (piasters) in Vietnam. This review was conducted at the request of the chairman, Foreign Operations and Government Information Subcommittee, House Committee on Government Operations. In 1966, the subcommittee found that the AID mission in Vietnam had not established adequate controls over the budgeting, release, and use of U.S. owned or controlled local currency made available for support of Vietnam's civil budget.

From 1966 through 1968 the AID mission in Vietnam made available about 74.3 billion piasters (equivalent to about \$629.7 million) to support Vietnam's military and civil budgets. The U.S. Military Assistance Command in Vietnam was responsible for administration of 50.9 billion piasters designated for the military budget. The AID mission was responsible for administration of 23.4 billion piasters assigned to the civil budget.

Since 1966, the U.S. agencies have strengthened their administration and control over the use of piasters, but it was noted that further strengthening was necessary. The controls and procedures established would generally not detect or prevent improper payments by Government of Vietnam personnel, such as payments for unauthorized activities or for padded payrolls. Large sums of piasters were released to the Government of Vietnam before needed, piasters were released on the basis of unverified reports, and only a few post-audits were made.

DOD and AID advised GAO that actions have been taken to strengthen controls over piasters for support

SECTION I

of Vietnam's military and civil budgets. Both agencies believe that controls and review practices in use plus actions to be taken, including procedural changes and staff increases needed to monitor the funds and programs, would provide adequate control. The agencies have made some improvements in the administration and control over the military and civil budget support programs, but the improvements cited will not provide adequate control. Considerable improvements are needed, especially with regard to verification and other measures to insure that Vietnam's reports of obligations and expenditures are reliable. (Report to the Congress, B-159451, July 24, 1970)

102. Overseas Military Construction Contracts.—GAO examined the justification for the Air Force's engaging a separate contractor to build a single airfield after the Department of Defense (DOD), in early 1966, had directed a U.S. Navy construction contractor to complete the airfield as a part of a large and complex construction program to support the buildup of U.S. military forces in the Republic of Vietnam.

Although the Air Force stated it had an urgent need for the airfield and justified the use of another contractor in Vietnam on this basis, GAO's review disclosed that there were considerable differences of opinion within the various organizational components of DOD as to the necessity for pursuing this course of action, and that added costs were incurred by the U.S. Government. During performance of the contract, a number of problems arose, many of which were related to the lack of experience of the Air Force in administering major construction contracts of this type and to weaknesses in the major subcontractor's equipment procurement policies and practices.

The Navy proposed to DOD that the airfield be constructed by its contractor as a part of its assigned responsibility. The Navy pointed out to DOD that any increase in construction capability should be achieved by taking advantage of existing logistics management, equipment, and material of its joint-venture construction contractor. Nevertheless, DOD authorized the Air Force to use a separate contractor to build the airfield.

It was GAO's opinion that, had the Navy proposal been followed, several million dollars in added costs would have been avoided. Those costs consisted of duplicate equipment purchases (for example, under the Air Force contract a subcontractor purchased heavy construction equipment for about \$9.5 million while similar equipment, valued at about \$7.4 million, had already been bought by the Navy's contractor for the

same job), duplicate overhead and administrative costs, premium prices paid for construction equipment, and disproportionate fee payment rates.

GAO proposed to the Secretary of Defense that DOD (1) use a single construction agent in any one overseas area, (2) insure parity of construction contractor fees and (3) provide timely procurement guidance to contractors under cost-reimbursable contracts.

GAO also recommended that in the future the Secretary of Defense (1) direct military construction agents to submit for DOD consideration the military justification and a detailed estimate of the duplicate overhead and equipment costs expected if more than one cost-type construction contractor is considered, (2) consider strengthening administrative procedures on cost-reimbursable contracts, and (3) in cost-type construction contracts, require that military construction agents obtain advance approval from the Office of the Secretary of Defense for fee rates that are an exception to those prevailing in that area.

DOD's response to the comments offered by GAO was that improvements in the management of any operation are always possible and that GAO's recommendations are accepted in that spirit and will be given full consideration in continued efforts to improve management. (Report to the Congress, B-159451, Oct. 28, 1970)

103. Financial Administration of the Consular Services Program.—An integral part of the Department of State's responsibility over the conduct of foreign affairs is the providing of consular services to both U.S. and foreign nationals. These services include passport and citizenship services and visa services for aliens.

Legislation passed by the Congress on October 21, 1968 (Public Law 90-609) authorized the Secretary of State to set immigrant visa and certain other consular fees on a fair and equitable basis commensurate with the services rendered and moving in the direction of fuller implementation of the user-charge principle.

GAO found, however, that the fees currently being charged for processing and issuing immigrant visas were established in 1952 and that the total cost to the Department for providing immigrant visas exceeded revenues by approximately \$9 million in fiscal year 1970. In addition, GAO found that the Secretary of State had not promulgated definitive policy and criteria for the establishment of consular fees, nor did the Department's accounting system provide for the systematic accumulation of cost and revenue data necessary for the establishment of fees and for the

effective financial management of the various consular activities.

Accordingly, GAO recommended that the Secretary of State:

Revise immigrant visa and other consular fees on a basis that is responsive to Public Law 90-609 and in consonance with public policy that services provided to or for any person should be self-sustaining to the fullest extent possible.

Promulgate definitive policy and criteria for establishing consular fees.

Develop an accounting system and related procedures for periodically determining the cost of providing consular services.

Although the Department of State agreed to analyze the existing fee structure to determine the necessity for and extent of a change in the fees, it expressed the view that the costs associated with the investigations of applicants whose visas are not issued should be excluded. The Department agreed to develop definitive policy and criteria for the establishment of consular fees. It pointed out, however, that the fee structure must recognize the foreign policy implications involved.

Regarding GAO's recommendation that an accounting system be developed for systematically determining the cost of providing consular services, the Department of State indicated that it believed that cost-finding techniques were sufficient and that the development of an accounting system for this purpose was unnecessary.

GAO firmly believes, however, that without an acceptable accounting system the Department of State is not in a position to obtain reliable cost information necessary for the effective financial management of the consular services program. (Report to the Congress, B-118682, Apr. 14, 1971)

104. Contract Policies and Procedures of the Agency for International Development, Vietnam.—

GAO's review disclosed that contract representatives frequently did not prepare required evaluations of contractor's performance. GAO reviewed 40 contract files and found that the required evaluations were not in the files for about half of the contracts. As a result, contracting officers had not received the technical and managerial advice needed to evaluate a contractor's performance or his qualifications for further Agency for International Development (AID) contracts.

In addition, GAO found that the Agency for International Development in Vietnam (AID/VN) had cost-reimbursement contracts for technical services of

third-country nationals (TCN's) which generally did not specify salary rates for TCN's. The contractors had to compute the rates using the general guidelines provided in the contract.

GAO also found that the contracting officers were not reviewing the salaries, and as a result, AID was reimbursing contractors for salaries in excess of the limitations. In one contract, the AID auditors found that a contractor had paid salaries of \$860,000 more than the rates allowed in the contract.

GAO recommended that AID/VN review the salaries paid under cost-reimbursable contracts for TCN's to determine whether employees' salaries were established in accordance with the limitations contained in their contract. GAO further recommended that the Area Auditor General, in making final audits of completed cost-reimbursement contracts, place special emphasis on determining allowable salaries.

The Director, AID/VN, advised GAO that these recommendations were being implemented.

In January 1970, GAO found that 274 AID/VN contracts were awaiting closeout action. Some of these had been completed as early as 1964. In addition, GAO noted 39 contracts executed by AID/Washington for which information concerning closeout action was not available at AID/VN.

GAO found that AID's internal auditors had conducted final audits on only seven completed contracts because the Contract Audit Branch had generally not been notified when contracts were completed.

The Chief of the Contract Audit Branch informed GAO that contracting officers had failed to notify his office when contracts were completed. As a result, contract audits were not initiated on a timely basis.

The Director, AID/VN, advised that as of June 12, 1970, closeout procedures had been initiated on most of the expired contracts and that as current contracts reach the completion stage, the closeout procedure will be immediately inaugurated. In connection with GAO's other findings, the Agency advised that corrective action either had been taken or promised by the responsible officials. (Report to the Administrator, AID, B-159451, Aug. 27, 1970)

105. Opportunity To Increase Export Sales of Nonfat Dry Milk.—

The Export Marketing Service, in cooperation with the Agricultural Stabilization and Conservation Service (ASCS), conducts a program under which nonfat dry milk of the Commodity Credit Corporation is sold for dollars to American plants overseas based on competitive bids or announced

prices. The basic procedures for the program are set forth in ASCS Announcement MP-23 (hereafter referred to as the MP-23 program).

The GAO review showed that a significant increase in sales of nonfat dry milk under the MP-23 program would be possible if the Department modified its present restrictive procedures slightly in order to be able to (1) accept all reasonable bids and (2) reduce prices as necessary to meet foreign competition.

Under the restrictive bid procedure instituted in August 1970 through early April 1971, GAO found that bids for more than 4.5 million pounds of milk powder with a value approximating \$550,000 were rejected. The quantities covered by the rejected bids averaged only nine-tenths of 1 cent per pound below the award price.

Information obtained from an overseas dairy company which buys most of its milk from foreign suppliers indicated that the Department of Agriculture could realize additional revenue of \$2.5 million per year if the Department supplied milk to this company. This company advised GAO that it would be willing to purchase U.S. powdered milk if the price was comparable to other foreign sources.

In view of the cost, the balance-of-payments and other benefits possible in an increased program, GAO recommended that the Department of Agriculture consider:

Giving a higher relative priority to MP-23 sales in relation to Public Law 480, Title II, donations.

Adopting a more flexible bid policy so that greater quantities might be sold under the program.

Offering price reductions to provide American plants overseas with U.S.-source milk powder on a basis competitive with offshore procurement.

Informing American firms which operate dairy plants abroad of the availability of American nonfat dry milk at competitive prices and encouraging them to use American milk.

Officials of the Department generally agreed with GAO's recommendations and, to the extent feasible, will continue to give consideration to the proposals. However, the officials also stated that in addition to providing donations of nonfat dry milk to overseas voluntary relief agencies to feed the needy, consideration is also given to certain political and humanitarian interests of the United States, such as donations to feed people displaced by earthquakes or other natural disasters and to war refugees. (Report to the Secretary of Agriculture, B-114824, June 16, 1971)

106. Use of U.S.-Owned Excess Foreign Currency in India.—In 1971, GAO reported on possible uses of the large amounts of Indian currency (rupees) which the United States had accumulated through the operation of its food and other assistance programs in India. In mid-1969, the amount of Indian rupees available for U.S. expenditures equaled \$678 million and would have lasted about 19 years at current expenditure rates. U.S. holdings were expected to increase substantially in the future.

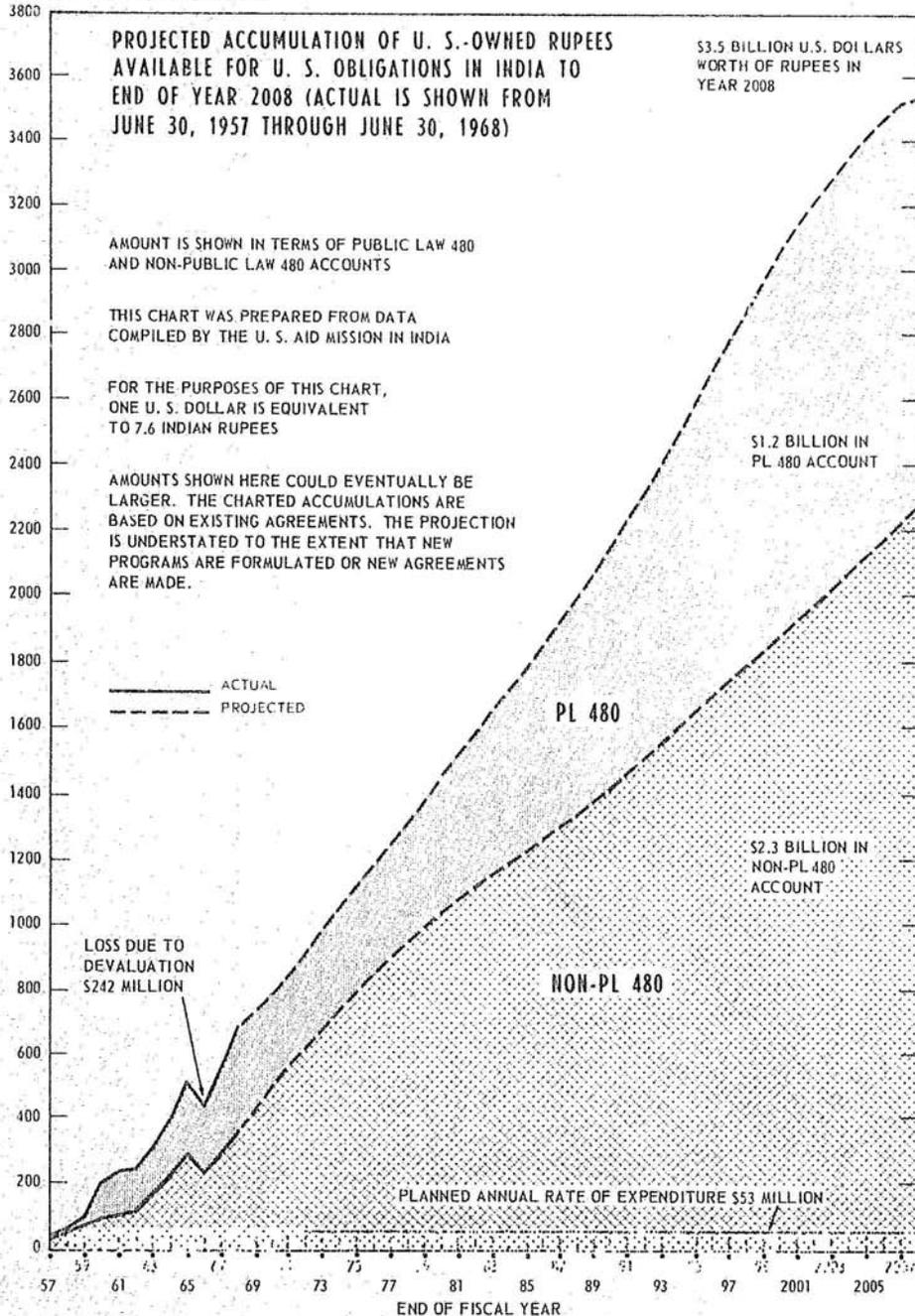
GAO found that important economic, political, and legal factors limited the amount of U.S.-owned rupees that the United States could spend in India during any period. GAO believed, however, that many opportunities existed for increasing the use of rupees in support of U.S. programs.

GAO recommended that (1) the Office of Management and Budget insure that executive branch agencies can seek approval for well-documented excess currency funded projects without regard to overall agency dollar ceilings, (2) the Office of Management and Budget explore with the appropriate committees of the Congress the acceptability of direct appropriations of foreign currency, and (3) the Treasury Department establish more flexible procedures for valuing U.S.-owned Indian rupees in dollars in making sales to U.S. agencies to encourage greater productive use of the funds for U.S. programs in India without compromising congressional control over the use of the funds.

The agencies generally agreed with GAO's recommendations. The State Department noted the urgency of the problems and stated that it had begun a study to complement the GAO report. The Agency for International Development agreed with the recommendations, but expressed reservations about the economic and political impact of greater local currency use in India. The Office of Management and Budget agreed with the intent of recommendation (1), but had some doubts about recommendation (2). The Treasury Department responded with classified comments.

GAO expressed the belief that the Congress might wish to favorably consider foreign currency denominated appropriations as an advantageous funding form and, with regard to the excessive accumulation of U.S.-owned foreign currencies in India, might wish to consider (1) whether a reduction in U.S.-owned rupees should be made to preserve good relations with India, (2) whether executive action in this regard meets congressional desires, (3) whether legislative action should be taken concerning the U.S.-owned rupee balance in

MILLIONS OF U.S. DOLLAR EQUIVALENTS



SECTION I

India, and (4) whether authority should be given to use non-Public Law 480 excess currency in India for grants without appropriations, as is already permitted for Public Law 480 excess currency. (Report to the Congress, B-146749, Jan. 29, 1971)

107. Potential Displacement of U.S. Agricultural Exports.—The investment survey and guarantee programs were designed to stimulate the flow of private capital in less developed countries by sharing with American firms the cost of conducting investment opportunities and by insuring investors against certain political and business risks.

The purpose of this review was to determine whether sufficient consideration was being given to the potentially adverse effects of investment survey and guarantee programs on export markets for American agricultural commodities. GAO wished to know whether countervailing views of Government agencies having priority interests in domestic farm programs and problems and in the U.S. balance-of-payments position were being sought and were being given due consideration and whether the kinds of economic analyses needed to weigh the effect of the investment programs on U.S. agricultural export markets were being made.

Until January 19, 1971, investment survey and guarantee programs were administered by the Agency for International Development (AID). Pursuant to the Foreign Assistance Act of 1961, as amended in 1969, a new agency, the Overseas Private Investment Corporation, was established to carry out incentive programs for private investment in less developed countries. The Administrator of AID is the Chairman of the Board of the Overseas Private Investment Corporation.

GAO found that AID did not make the kinds of economic analyses necessary for measuring whether U.S. foreign policy and economic development gains from underwriting programs to boost foreign production and exports of agricultural commodities produced in excess quantity in the United States offset the disadvantages to the domestic U.S. farm economy and balance-of-payments position. Also, efforts of AID officials were directed primarily toward assisting other nations to increase their agricultural productivity through economic development and, by doing so, raise their standards of living. AID officials therefore could hardly have been expected to always be knowledgeable of and give overriding consideration to factors which were at odds with their primary objectives.

GAO recommended that applications for investment survey and guarantee programs involving potential foreign exports of crops in U.S. surplus should be called to the attention of all executive agencies concerned, so that due consideration could be given to the likely effect of the proposed investment on the American economy, exports, and balance-of-payments position. GAO proposed that the views of each agency participating in the deliberations be recorded in detail and that the reasons for decisions reached be explicitly set forth.

GAO also observed inconsistencies in policies enunciated in AID handbooks for investment survey and guarantee programs and in the AID manual order dealing with these programs. Accordingly, GAO further recommended that the policies with respect to investment survey and guarantee programs be reviewed and revised to insure that they are uniform and consistent in their interpretation and application.

GAO further recommended to the Board of Directors of the Overseas Private Investment Corporation—which assumed responsibility for the evaluation of proposals after the completion of GAO's fieldwork—that the Corporation (1) consult with the Department of Agriculture and other executive agencies to establish an evaluation procedure acceptable to all parties and (2) include in its policy directives the necessary measures for analyzing projects which could adversely affect U.S. agricultural exports.

Although the executive agencies agreed, in general, that there was a need for consideration and coordination by all agencies concerned, they cautioned about the potential for delays in approval of applications if the applications were submitted to a formal board. They suggested several alternative approaches. GAO concluded that any one of the several suggestions for better evaluation of the impact of proposed investment survey and guarantee programs would achieve the objectives sought. However, whatever the means adopted, the Department of Agriculture should be given an effective voice in the decisionmaking process. (Report to the Congress, B-166077, Apr. 27, 1971)

108. Phasedown of U.S. Military Activities in Vietnam.—Between June 8, 1969, and April 15, 1970, the U.S. forces in Vietnam were reduced from 538,000 to 425,500 troops as a part of the phasedown of U.S. military activities in Vietnam. These reductions were made in three steps—over periods of 3 to 4 months for each step—by redeploying military units or placing

them in an inactive status, by reassigning individuals, and by curtailing replacements scheduled to be sent to Vietnam. The military services met each of the directed troop reduction schedules despite the relatively short time provided. The phasedown of the large quantities of supplies and equipment was and continues to be a more formidable task.

GAO reviewed the policies and procedures being applied in the phasedown to identify problems being encountered—particularly in the logistics area—and to bring the problems promptly to the attention of the responsible military commanders and the Secretary of Defense while the phasedown was continuing. The review was directed primarily to matters connected with the third-step reduction of 50,000 troops completed April 15, 1970.

The circumstances made it difficult for organizations in Vietnam, subordinate to the command headquarters of the services, to prepare for efficient reductions of military activities. They could not be provided specific information as to size and time of force reductions until announced by the President. Further, they were placed in the position of having to continue their assigned missions until a few days prior to reassignment of personnel and turn-in of equipment. In many cases detailed procedures for withdrawal had to be improvised even as the withdrawal was taking place. Notwithstanding these constraints, the Department of Defense and the military services were making a concerted effort to account for and control the arms, equipment, and materiel which became excess as the phasedown proceeded.

The constraints contributed to a variety of problems requiring attention of military commands in Vietnam and Washington, including the Office of the Secretary of Defense.

There was a need for greater coordination among the three military services in supplying the needs of the Vietnamese Armed Forces. Lack of uniform procedures resulted in some cases in equipment needed by the Vietnamese being shipped back to the United States.

There were problems in returning Army equipment to the United States because of the backlog of equipment which required cleaning (to meet standards of the U.S. Public Health Service and the

Department of Agriculture for treatment and processing of materiel being returned to the United States) and a shortage of facilities for cleaning.

There were problems in returning Air Force materiel to the United States because of a lack of people qualified to pack and crate the materiel.

GAO observed also the following situations where improvement might be possible.

Because of ineffective screening, Army repair parts and components were issued to the Vietnamese Army although needed by U.S. military services in Vietnam, or shipped out of Vietnam, although needed by the Vietnamese Army.

The logistical reporting and accounting system did not provide accurate, complete, or timely data.

The procedures for cancellation of requisitions for supplies, not needed because of force reductions, were not adequate.

The Army had a significant backlog of unserviceable equipment in Vietnam because of limited maintenance capabilities.

There may also be a need to strengthen control over transfers to the Vietnamese of such facilities as buildings, airfields, and water purification plants, to insure that they are capable of using and maintaining them.

GAO suggested that the Secretary of Defense:

Review existing plans of the military services for anticipated withdrawals to insure that the plans provide for withdrawals on a unit-by-unit basis.

Establish uniform procedures and criteria (1) for the transfer of excess materiel to the Vietnamese Armed Forces and (2) to insure that all excess materiel in Vietnam is considered in fulfilling requirements of the Vietnamese.

Reduce the backlog of equipment awaiting preparation for return to the United States.

The Assistant Secretary of Defense (Installations and Logistics) stated that the military departments concurred generally with the conclusions and suggestions and cited the recent actions to implement the suggestions. GAO believes that the actions, if consistently applied, will improve the conditions which existed in the early stages of the phasedown. (Report to the Congress, B-171579, Mar. 15, 1971)

PROCUREMENT

Contract Administration

109. Contractors' Claims Based on Government-Caused Delays.—GAO had issued to the Congress several reports in prior years on the Navy's procedures in contracting with private industry for ship construction. A December 1958 report pointed out that contractors had submitted claims for costs, sustained because of Government-caused delays, which were vague and lacked adequate support, that evaluations of the claims by the Navy had been inconclusive, and that the claims had been settled without sufficient data to show the damage sustained by the contractors. Two other reports, in June and October 1964, pointed out that a lack of effective price evaluation procedures had resulted in the negotiation of unnecessarily high prices for work which had been added to the original contracts by change orders. GAO made a followup review to determine whether improvements had been made by the Navy.

Claims submitted in the period April 1965 through January 1969 by three contractors (referred to as contractors A, B, and C) in the amounts of \$114,300,000, \$486,000, and \$1,342,000 were settled in the amounts of \$96,500,000, \$354,000, and \$760,000, respectively. Although the amounts of the claims were purported to represent the additional costs incurred by the contractors because of Government-caused interruptions and delays, the contractors provided no tangible evidence of the additional costs incurred. In the absence of such evidence, the Navy, in GAO's opinion, could not adequately evaluate the validity of the claims.

The following are examples of the rationale on which the contractors based their determinations of additional costs attributable to Government-caused interruptions and delays:

Contractor A compared the estimated labor-hours in its original price proposal with the labor-hours actually expended and estimated to be expended to complete the contract and attributed the increase over the original estimate, after an allowance for

the increase it judged to be caused by its own inefficiencies, to Government-caused delays.

Contractor B based its claims on judgment factors. The contractor's chief estimator stated that disruption claims were based on highly intangible judgment factors and, in his opinion, were impossible to accurately detail.

Contractor C compared its labor-hours expended in earlier construction of ships of the same class with the labor-hours expended in the follow-on construction and, after taking into account the physical differences in the ships, attributed the increase to Government-caused delays.

GAO believes that, without information linking the additional costs to actions of the Government, the Government had insufficient assurance that the settlements made were fair and reasonable. Therefore GAO recommended that supervisors of shipbuilding require contractors to furnish evidence relating the delay and disruptions to actions of the Government and to provide specific data in support of additional costs claimed.

With respect to pricing of contract changes other than those arising from claims, GAO found that certain contractors used historical data and standards in preparing proposals for the pricing but the Navy generally did not obtain that data. It relied on the personal judgment of its negotiators and analysts. GAO believes that the Navy would have been in a better position to evaluate the proposals and would have had greater assurance as to the reasonableness of the prices negotiated had it obtained the data used by the contractors.

GAO recommended that the newly implemented "change order accounting" contract clause be clarified to clearly require contractors to segregate their direct costs on constructive as well as formally written changes. To facilitate the negotiation of reasonable prices for change orders, GAO recommended also that:

Contractors lacking adequate systems for providing a factual basis for proposed prices be encouraged to improve their systems.

Historical cost data and standards be obtained, whenever appropriate, for evaluation and audit.

The Navy insure that supervisors of shipbuilding obtain current evaluations by the Defense Contract Audit Agency of the estimating systems of contractors located in their respective geographic areas and that the evaluations include the bases upon which proposed prices are developed.

The Navy generally concurred with GAO's recommendations but pointed out that some of the cited problem areas are susceptible to improvement but not to total and precise solution. It was the Navy's opinion that this was particularly true of any attempt to achieve total, explicit, and auditable justification of all delay and disruption costs. (Report to the Congress, B-171096, Apr. 26, 1971)

110. Plant Equipment Acquired by Contractors for the Account of the Government.—Department of Defense (DOD) regulations provide that, with some exceptions, contractors furnish all plant equipment needed for contract performance. Equipment so specialized that its use is limited to testing in the development or production of particular items, or performance of particular services, is not considered plant equipment. Such equipment—known as special test equipment—is generally acquired by contractors for the account of the Government and ownership is retained by the Government. GAO's prior work had indicated that some plant equipment had been inappropriately classified as special test equipment and acquired for the account of the Government.

GAO's review at plants of five contractors showed that, of the equipment acquired for the account of the Government at a cost of \$62 million, about \$12 million worth should have been classified as plant equipment and acquired for the account of the contractors.

The problem of classification stems from the Armed Services Procurement Regulation which defines special test equipment as including "all components of any assemblies of such equipment." This definition permits the acquisition of plant equipment as special test equipment when it is to be included in a group of test equipment items assembled for a specific use. GAO recommended that the Secretary of Defense:

Revise the definition of special test equipment in the Armed Services Procurement Regulation and other pertinent DOD regulations to exclude items that are really plant equipment.

Require contracting officers to review proposals for special test equipment to insure that plant equipment is not included.

The Department concurred with the findings and recommendations and outlined the actions taken or proposed to be taken. (Report to the Congress, B-110389, Apr. 9, 1971)

111. Application of "Should Cost" Concepts in Reviews of Contractors' Operations.—At the request of the Joint Economic Committee, through its Subcommittee on Economy in Government, GAO made a study of the feasibility of applying "should cost" analyses in its audits and reviews of Government procurement. The committee defined the "should cost" approach as an attempt to determine the amount that a weapon system or a product ought to cost given attainable efficiency and economy of operation. In a report to the Congress on the study (B-159896, May 20, 1970) GAO concluded that it is feasible, in auditing and reviewing contractors' performance, to utilize "should cost" analyses.

Subsequently GAO made a trial application of the "should cost" concepts at the plants of four contractors. At each of the plants GAO found areas where the contractors' operations could be improved and costs could be reduced through such things as better production planning and control, more competition in subcontracting, and greater care to avoid assigning engineers of higher competence than required by the nature of the work to be performed.

Although "should cost" review techniques are intended to find out how contractors' operations can be improved, they also lead to disclosure of areas where Government contracting or administration practices affect contract costs adversely. GAO noted areas where the Government could improve its practices and reduce costs through consolidation of procurements and through elimination of unnecessary requirements for packaging and for testing.

GAO brought its findings and suggestions for improvements to the attention of officials of the contractors and the Department of Defense. The potential for total savings which could accrue from the findings and suggestions was not readily measurable. In those instances where they were measurable, GAO estimated the potential savings to be almost \$6 million annually. The Department of Defense advised GAO that the agencies concerned would look into the specific matters noted by GAO at the contractors' plants.

SECTION I

Because "should cost" reviews require examinations into many facets of contractors' operations and management not covered in GAO's statutory authority to examine contractors' records, GAO suggested that the Congress might wish to consider expanding GAO's statutory authority to enable it to make effective "should cost" reviews on an independent basis. (Report to the Congress, B-159896, Feb. 26, 1971)

112. Processing of Engineering Change Proposals.—During the course of production of military aircraft, many engineering changes are made to make the aircraft safer, more reliable, or easier to maintain. The need for such changes is usually brought to light through test and operation of the units already produced. The changes may originate with either the military service responsible for the aircraft or the contractor, but plans for the changes, in the form of engineering change proposals, must be approved by the military service before the contractor is authorized to make the changes. A delay in processing a change proposal can increase the number of aircraft delivered without the change. Once the aircraft are delivered, the change could be delayed for months or years or never made at all. Furthermore it is generally more expensive to make changes after production.

GAO examined 547 engineering change proposals, implemented on 11 types of aircraft in the fiscal years 1967 and 1968, to determine whether extensive delays had occurred in processing them.

The average time for processing the 547 proposals was 131 days as compared with time standards established by the Department of Defense of 45 days for routine proposals, 15 days for urgent proposals, and 24 hours for emergency proposals. GAO estimated that the additional costs caused by delays in processing 42 of the proposals could amount to as much as \$3.7 million if all the planned changes were made.

The following were some of the causes of the delays.

Ineffective monitoring by project offices of evaluations by reviewing staffs.

Insufficient direction for contractors from the military services as to the kind and extent of data to be submitted.

Reliance on a single, overall time standard in lieu of time standards for each individual organization concerned in the evaluation.

Sequential rather than concurrent reviews by the organizations concerned in an evaluation.

Duplicate reviews.

Lengthy processing by groups not under the control of the group managing the project.

GAO suggested that the Secretary of Defense designate a group to establish procedures for effective control of the processing of engineering change proposals and to monitor the implementation of the procedures by the military services. GAO suggested also specific steps it believed would reduce processing time. The Department of Defense agreed with the suggestions. Report to the Congress, B-152600, Jan. 20, 1971.

113. Contractors' Acceptance of Recommendations for Improving Their Procurement Systems.—The Armed Services Procurement Regulation provides for the review of contractors' procurement systems. The reviews are performed primarily by the Defense Contract Administration Services for the Department of Defense (DOD) and the National Aeronautics and Space Administration (NASA). Subcontracting practices are an important part of the procurement systems—about \$20 billion of the \$40 billion spent annually under DOD prime contracts goes to subcontractors—and improvement in the practices could result in large savings to the Government.

In a report issued to the Congress in August 1970, GAO stated that the review program was sound in concept but its implementation was not fully effective. There was a need to motivate contractors whose procurement systems were found to be unacceptable to make needed improvements. GAO found instances where contractors had refused to take action on weaknesses reported to them, contending that their procurement systems were good enough. The negative attitude of the contractors did not appear to have diminished their ability to obtain Government prime contracts.

GAO also found a need for:

Definitive standards for the approval or disapproval of contractors' procurement systems.

Greater discretion in scheduling detailed annual reviews of systems of contractors whose systems had been found to be satisfactory in the past.

DOD and NASA agreed, in general, with specific proposals of GAO to improve the program for review of contractors' procurement systems. However, DOD did not believe that there was a need to motivate contractors to accept recommendations of the Government because in actual practice most of the contractors accepted them.

GAO pointed out that it was inequitable for the nonresponsive contractors to continue to receive the same consideration as that given contractors who had made efforts to devise acceptable procurement systems from which the Government and the contractor benefit. GAO recommended that the Secretary of Defense consider imposing penalties, such as reductions in allowable profits, on contractors whose procurement systems had been disapproved and who made no effort to make the changes necessary to improve the systems. (Report to the Congress, B-163434, Aug. 18, 1970)

114. Revision of Certain Packing Specifications.—The General Services Administration (GSA) revised packing specifications in September 1966 for certain types of cabinets, lockers, and wardrobes. The revisions resulted in additional contract costs of \$1.5 million—an increase of 12 percent—during the first 14 months that the specifications were in use. For subsequent periods through June 30, 1970, GAO was unable to determine what portion of the \$14.4 million in contract costs was attributable to the revised specifications.

GAO concluded that the revised specifications provided for more elaborate packing than necessary and recommended that GSA reevaluate the packing specifications. GSA maintained that its actions were justified and that a reevaluation of the specifications was unnecessary. (Report to the Congress, B-160817, Feb. 19, 1971)

115. Competition in Procurement of Commercial Equipment.—The National Aeronautics and Space Administration (NASA) made a significant number of equipment purchases without effective competition because, in many instances, restrictive specifications governed the procurement. Generally, specifications were prepared by equipment users or under their direction and included special features which the users desired. These special features which sometimes were unnecessary, usually were available only on a particular piece of equipment from a single supplier. If equipment users had not specified such features, specifications could have been less restrictive, which probably would have resulted in increased competition and in savings to the Government.

GAO recommended that the Administrator of NASA should (1) require the use of specifications that have acceptable ranges of dimensions, performance, and other characteristics of the minimum equipment necessary to fulfill the Government's require-

ments and (2) require that requests for the purchase of equipment clearly state whether the specifications are brand name or equal or have been prepared on the basis of equipment descriptions in a supplier's catalog and, if so, that the requests give full written justification of the need for any restrictive features specified.

NASA was in agreement with the objective of the recommendations and stated that it intended to implement requirements, emphasizing to contracting and management officials the need to increase competition. (Report to the Congress, B-164018, Feb. 26, 1971)

116. Evaluation of Cost-Plus-Award-Fee-Type Contract Performance.—Cost-plus-award-fee contracts are used extensively at National Aeronautics and Space Administration (NASA) locations. The contracts provide for payment to the contractor of a variable fee determined subjectively by Government evaluators on the basis of periodic evaluations of the quality of the contractor's performance against criteria in the contract.

At NASA's Manned Spacecraft Center (MSC), award fees were paid to the contractor for aircraft maintenance services primarily on the basis of opinions and judgments of MSC evaluators as to the contractor's performance. Objective measurement standards had not been developed for evaluating performance even though guidance on aircraft maintenance operations was available from Air Force sources and from MSC personnel who were sufficiently involved in the details of maintenance management.

GAO recommended that NASA examine into the work requirements of the contract and establish a performance evaluation plan which would place greater emphasis on objective performance standards in terms of output criteria and that NASA make use of available performance indicators. NASA expressed a willingness to explore the possibilities of work order evaluations based on output measurement standards. NASA noted, however, that such evaluations represented a significant change from the current evaluation plan and that staffing levels might not be adequate to implement the change. (Report to the Administrator, NASA, B-133394, Apr. 14, 1971)

117. Target Costs Under Incentive Contracts.—GAO's review of target costs under cost-plus-incentive-fee contracts negotiated by the National Aeronautics and Space Administration's (NASA) Marshall Space Flight Center, indicated large underruns related to

SECTION I

(1) F-1 engines and (2) the first stage of the Saturn V launch vehicle. Underruns of target costs—cost forecasts included in contracts for control purposes—result, in incentive-type contracts, in larger fees for contractors.

The Flight Center had negotiated target costs under rocket engine contracts that included material costs and indirect costs which were not the most accurate, complete, or current. The target costs were overstated by about \$5 million and the total fees the contractor could earn under the contracts were increased by about \$1.5 million. The target cost negotiated under the contract for the first stage of the launch vehicle included amounts for materials and indirect costs which were overstated by about \$2.6 million. As a result, the total fee the contractor could earn was increased by about \$695,000.

NASA advised GAO that in the case of the rocket engines, it had requested the Defense Contract Audit Agency to conduct a postaward evaluation which, together with other overstatements found by GAO, would be the basis for contract adjustments. NASA said that a selective review would be made of material costs for the first stage of the launch vehicle and that it would make other cost examinations to determine the extent to which these costs might be applicable to overstated material costs.

NASA also revised its procurement regulations which if properly implemented should provide greater assurance that cost data furnished by contractors is accurate, complete, and current. (Reports to the Congress, B-161366, Oct. 26, 1970, and B-167838, Dec. 30, 1970)

Contracting Policies and Practices

118. Implementation of the Truth-in-Negotiations Act.—Under the Truth-in-Negotiations Act of 1962, contractors are required to submit cost or pricing data in support of their price proposals and to certify the correctness of these data. Cost or pricing data are required, generally, on negotiated contracts not based on adequate price competition, when prices exceed \$100,000. The act, together with the regulations implementing its provisions, has been criticized by industry spokesmen as being inequitable and unduly burdensome on contractors. GAO reviewed the reasonableness of prices negotiated under the act and the problems experienced by contractors and agency of-

ficials in applying the act and the implementing regulations. The review included 53 contracts, valued at \$135 million, awarded to 24 contractors.

For 18 contracts, valued at \$47 million, negotiated prices were \$1.5 million higher than warranted by the cost data available to contractors at the time of negotiation. The overpricing stemmed basically from the same circumstances which the Truth-in-Negotiations Act was designed to remedy—contractors' submissions of incomplete, inaccurate, and noncurrent data. Little or no overpricing was found in the other 17 contracts valued at \$88 million. GAO brought the findings of overpricing to the attention of agency officials and they took action to obtain price adjustments where appropriate.

GAO found no serious problems experienced by contractors and agency officials in applying the act and the implementing regulations. There were two areas, however, which warranted the attention of the Secretary of Defense. They involved: (1) differences among Government and contractor officials in their understanding of the extent of cost data to be submitted and (2) the reluctance of some subcontractors to furnish cost data to prime contractors with whom they may be in competition. (Report to the Congress, B-30995, Dec. 29, 1970)

119. Waivers of Preaward Audits of Contractors' Noncompetitive Price Proposals.—Department of Defense (DOD) regulations provide that, prior to negotiation or modification of a contract resulting from a proposal in excess of \$100,000 when the price will be based on cost or pricing data submitted by the contractor, the contracting officer request the Defense Contract Audit Agency (DCAA) to audit the contractor's price proposal. This requirement may be waived by the contracting officer whenever it is clear that information already available is adequate for the proposed procurement.

GAO examined 344 noncompetitive fixed-price procurement actions amounting to about \$500 million that were awarded in 1967 by six procurement centers.

Contracting officers had waived the preaward audits for 130 of the actions, amounting to about \$51.7 million. Of the 130 waivers of preaward audits:

Thirty-one appeared to be justified on the basis of available information.

Ninety-nine did not appear to be justified because (1) available information either was not for comparable quantities, was not current, or had not

been verified or (2) the contractors' cost or pricing data were verified by price analysts and technical specialists who generally did not have the specialized audit training and experience acquired by the DCAA's auditors. Of the 99 waivers, 34 were justified, in part, by contracting officials on the basis that time was insufficient for an audit. Defense regulations do not provide for waiver of audits on this basis.

GAO reported to the Defense Contract Audit Agency the procurement actions in which waivers of audits did not appear to be justified and the Agency undertook postaward audits of these procurements. GAO recommended that DOD:

Provide guidance to contracting officers on the type of procurement information considered adequate to justify waivers of audit.

Require contracting officials to improve the documentation of waivers of audit.

Strengthen internal audit surveillance of the propriety of waivers of audit.

Establish procedures for reporting waivers of audit so that DCAA may consider postaward audits of these procurements.

Provide guidance as to what actions should be taken when there is insufficient time to perform a preaward audit.

The Department of Defense agreed that waivers of audit should be better documented and that internal surveillance of such waivers should be increased. With respect to the other recommendations, the Department stated its belief that existing instructions provided the recommended guidance. GAO pointed out that the findings indicated that there was a need for improvement in the existing instructions and suggested that the recommendations be reconsidered. (Report to the Congress, B-39995, Aug. 3, 1970).

120. Defense Industry Profit Study.—The Armed Forces appropriation authorization for fiscal year 1970 directed GAO to study profits earned on negotiated contracts and subcontracts entered into by the Department of Defense, the National Aeronautics and Space Administration, and the Coast Guard. Contracts of the Atomic Energy Commission awarded to meet requirements of the Department of Defense were also included.

Profit before Federal income taxes, measured as a percentage of sales, was significantly lower on defense work than on comparable commercial work for 74

large defense contractors included in GAO's study. The profits of these 74 contractors for the 4-year period of 1966 through 1969 averaged 4.3 percent of sales on defense work and 9.9 percent of sales on comparable commercial work. When profit was considered as a percentage of the total capital investment—total liabilities and equity, but exclusive of Government capital used in generating the sales, the difference narrowed to 11.2 percent for defense sales and 14.0 percent for commercial sales. Further, when profit was considered as a percentage of equity capital investment of stockholders, there was little difference between the rates of return.

The major factor causing comparability of the rates of return on contractors' capital investment for defense and commercial work was the substantial amount of capital provided by the Government in the form of progress payments, cost reimbursements, equipment, and facilities. This reduced the contractors' capital investment required for defense work.

GAO also reviewed 146 negotiated defense contracts to see whether it was practical to develop investment data on individual contracts and to see whether any wide range in profits existed. The review showed that data on cost, profit, and invested capital could be developed on individual contracts and that there was a wide range of profit rates on defense contracts. The average rates of return for individual contracts were substantially higher than the average annual profit rates developed from the questionnaires GAO submitted to the 74 large defense contractors. However, the 146 contracts reviewed cannot be considered as a representative sample.

Under current procedures for negotiation of profit for defense contracts, little consideration is given to the amount of capital investment required from the contractor to perform the work. Profit objectives are developed as a percentage of the anticipated costs. As a result, inequities can and do arise between contractors when differing proportions of their capital are required to perform the work. Further, by relating profits to costs, contractors in noncompetitive situations are not provided with positive incentives to make investments in equipment that would increase efficiency and result in reduced costs, especially where follow-on contracts are involved. Under the current system of negotiating contract prices, such investments tend to lower, rather than increase, profits in the long run. Other factors, however, such as whether the program will be continued, could be overriding considera-

SECTION I

tions affecting contractors' decisions concerning investments in equipment.

GAO believes that, in determining profit objectives for negotiated contracts where effective competition is lacking, consideration should be given to capital requirements as well as such factors as risk, complexity of the work, and other management and performance factors. Where capital requirements of contractors are insignificant, such as in many service-type contracts or contracts for the operation of Government-owned plants, profit objectives would continue to be developed primarily through consideration of the other factors. The system adopted should be used, where applicable, by all Government agencies to simplify industry participation.

GAO did not consider that legislation was required to establish uniform guidelines. GAO recommended that the Office of Management and Budget take the lead in the development of uniform, Government-wide guidelines for determining profit objectives in negotiation of Government contracts and that the guidelines emphasize consideration of the total amount of capital required by a contractor when appropriate, where effective price competition is lacking.

On June 11, 1971, the Industry Advisory Council Subcommittee on Contract Financing issued a report recommending that the Department of Defense adopt a profit policy which is in part based on contractor capital investment. On July 17, 1971, the Deputy Secretary of Defense issued a memorandum to the Assistant Secretaries of Defense (Comptroller and Installations and Logistics) indicating his support of the profit based on capital investment concept and requested the submission of a comprehensive profit policy proposal by December 1, 1971. (Report to the Congress, B-159896, Mar. 17, 1971)

121. Awarding Negotiated Services Contracts.—GAO made a survey of the District of Columbia Government's Procurement Office procedures and practices for awarding negotiated services contracts and noted instances of continuing noncompliance with procurement manual requirements.

For nonpersonal services contracts in excess of \$2,500, departments or agencies were to provide a full and detailed description of the services needed in a memorandum requesting the Procurement Office to contract for services; the memorandum was to include unit cost and estimated total contract cost data and correspondence with the proposed contractor; negotiation was to be completed by the Procurement Office;

and no contractor services were to be obtained until final contract approval by the Procurement Office.

GAO reviewed the contract files for 333 contracts awarded during fiscal year 1969 and found that the Procurement Office had been partially effective in curbing the practice of permitting a contractor to begin work before the contract had been approved.

GAO reported the survey findings to the District in order to bring attention to the need for department and agency officials to adhere to procurement manual regulations and improve practices for negotiating and awarding negotiated services contracts. (Report to the Director, Department of General Services, District of Columbia Government, Apr. 30, 1971)

122. Improper Practices.—In the procurement of food services at the U.S. Merchant Marine Academy, the Maritime Administration, Department of Commerce, had not followed the policies and procedures prescribed by the Federal Procurement Regulations regarding the type of contract used, selection of contractor, and contract renewal options.

Maritime negotiated the food service contract for the school year ended June 30, 1967, and, rather than obtaining competitive bids, accepted prices for some items in the contract without negotiations, and did not adequately review the cost data provided by the contractor.

The contract for the school years ended June 30, 1968 and 1969, which related to four categories of meals, was not awarded to the low responsible bidder. Instead, Maritime accepted the low bid on the major category and then negotiated with this bidder for prices on the other categories. The ultimate contract price for the four categories was \$5,000 higher than the original low bid. In GAO's opinion, Maritime's action was not in accord with regulations and was not justified by the reasons given. Also, awarding the contract for a 2-year period was improper because of the statutory provisions against multiple-year contracts.

GAO recommended that actions be taken to preclude recurrences of the cited situations. The Assistant Secretary for Administration advised GAO in August 1970 that memorandums had been issued to Procurement Division personnel bringing to their attention the matters discussed in the GAO report and reiterating the importance of following the provisions of the Federal Procurement Regulations. (Report to the Assistant Secretary for Administration, Department of Commerce, June 30, 1970)

123. Contracting for Metroliner and Turbo-Train Projects.—The Metroliner and Turbo-Train demonstration projects administered by the Federal Railroad Administration, Department of Transportation, did not accomplish their objectives on a timely basis and were not conducted as originally planned. Technical problems encountered with the trains delayed the start of the projects and prevented the contractors from maintaining operational enough cars to run the number of round trips necessary to fully accomplish the projects' objectives.

The Metroliners and Turbo-Trains were an advancement of the state of the art. No similar equipment had ever been constructed or used in regular passenger service in the United States. An agreement was entered into to lease two Turbo-Trains being developed, and authorization was given to a railroad company to contract for the construction of 50 Metroliners, without knowledge as to whether the trains would be able to operate to the degree anticipated for the demonstrations. In view of the significant Government funds committed to the demonstrations, the development and testing of prototypes should have been encouraged to provide greater assurance that later demonstrations could be carried out as planned.

Also, the contracts with the railroad company and with the lessor of the Turbo-Trains did not provide for a reduction in the amount of the contracts in the event the trains could not be used as planned. As it was not known whether the trains would perform as anticipated, a provision should have been included in the contracts to protect the investment of the Government.

The Department of Transportation agreed with GAO's proposals that when the Department sponsors future demonstration programs involving new equipment, it should (1) encourage the use of a prototype to insure, to the extent possible, that the equipment will perform as anticipated and (2) provide for contract price adjustments if the equipment is not used to the degree planned. The Federal Railroad Administration issued a policy statement providing for the adoption of these proposals in sponsoring future demonstrations. (Report to the Congress, B-164497(5), Jan. 27, 1971)

124. Contract Award Practices and Administration.—The contracting policies and procedures of the Federal Railroad Administration (FRA), Department of Transportation, contained weaknesses affecting the timeliness, legality, and proper administration of contracts.

Because of the frequent requests for purchase requirements on an urgent basis, the contracting officer was not provided with sufficient leadtime to complete procurement actions before the work starting dates. This resulted in the frequent use of letter contracts and a lessening of competition. Also, the contracting officer failed to definitize the letter contracts into negotiated contracts in a timely manner and was unable to negotiate some contracts until after substantial amounts of work had been completed. On several occasions, FRA project officials directed contractors to perform work prior to obtaining authorization from the contracting officer. Also, there were no systematic contract cost control methods.

FRA agreed with GAO's recommendations for corrective action. (Report to the Acting Administrator, FRA, Aug. 21, 1979)

125. Acquisition and Utilization of T-38 Jet Aircraft.—GAO's review of the National Aeronautics and Space Administration (NASA) Manned Spacecraft Center's procurement of eight T-38 aircraft at a cost of about \$6.7 million for use in the astronaut training program indicated that some of the eight aircraft might not be needed to meet astronaut and staff pilot flying requirements. The estimated future flying requirements used to determine the number of aircraft needed exceeded the past flying experience. In addition, NASA's announcement that the number of astronauts is excess by about one-third also indicated that future flying requirements were likely to decrease instead of increase.

Because of the possibility that the purchase of some of the undelivered aircraft could be canceled, GAO suggested that NASA reassess the need for purchasing the eight aircraft on the basis of a consideration of its past flying experience as an indication of future flying requirements.

NASA did not concur and stated that the procurement action had been reassessed and that the aircraft were needed to meet the requirements of the astronaut training program. (Report to selected committees of the Senate and the House, B-172171, May 28, 1971)

Facilities, Construction, and Leasing

126. Administration of Construction Contract Provisions.—The Army Corps of Engineers and the Naval Facilities Engineering Command are agents for

the Department of Defense (DOD) in the construction of military facilities. GAO reviewed their inspection procedures for insuring that construction is in accordance with contract specifications and found a need for strengthening such procedures.

A number of military facilities accepted by the Government as completed were not built in compliance with contract specifications. As a result, the facilities were not fully satisfactory for their intended use and/or the Government had to spend additional time and effort having deficiencies corrected.

GAO recommended that the Secretaries of the Army and the Navy have the two construction agencies:

Systematically monitor the enforcement by field offices of the quality control programs of contractors.

Review the inspection reporting practices of field offices, correct those not in compliance with agency regulations, and implement a system for prompt communication of inspection findings from the field offices to the construction management levels.

Improve the Army training programs for inspectors and establish such programs in the Navy.

Perform more comprehensive reviews of field offices' implementation of agency procedures for inspection and supervision of military construction.

GAO also recommended that the Secretary of Defense take action to insure that the two construction agencies exchange information and coordinate activities in areas of mutual interest regarding construction quality assurance.

DOD agreed with these recommendations and in June 1971 advised GAO of the corrective actions taken or planned by the two construction agencies. (Report to the Congress, B-171496, Apr. 16, 1971)

127. Department of Defense Reporting to the Congress on Nonadvertised Military Construction Contract Awards.—In August 1970 GAO issued a report to the Congress on a survey of certain aspects of the award and administration of military construction contracts.

Under the military construction authorization acts, the military departments are required to report to the Congress all nonadvertised (negotiated) military construction contract awards. The fiscal year 1968 reports listed 110 nonadvertised contract awards, totaling \$91 million, and indicated that about 91 percent of the amount of military construction contracted for in that year had been advertised.

GAO found that the reports to the Congress did not include most of the nonadvertised military construction contract awards for work overseas. GAO identified 125 awards of this type: 100, totaling \$184 million, in Southeast Asia; and 25, totaling \$7 million, in the Republic of Germany. Inclusion of these overseas awards in the nonadvertised contracts reported to the Congress would have shown the proportion of advertised contract amounts in fiscal year 1968 to be 72 percent rather than 91 percent.

GAO noted also that the Department of Defense (DOD) was not required to report to the Congress nonadvertised construction contract awards financed with other than the military construction appropriations. GAO identified nonadvertised military construction contract awards of \$98 million in fiscal year 1968 that had been funded from other appropriations—principally procurement appropriations. In addition, GAO had found in an earlier review that subcontracts for construction had been awarded by prime contractors holding negotiated defense contracts for research and development and for production of materiel.

GAO suggested that DOD require the military departments to improve their practices in reporting to the Congress. In response, DOD stated that other means had been used to keep the Congress informed of the overseas awards discussed in GAO's report. The Department, however, concurred in the suggestion and cited new instructions that had been put into effect to insure proper reporting in the future.

Since the requirement to report nonadvertised military construction contract awards does not extend to contracts financed from other than the military construction appropriations and in view of the substantial amounts involved, GAO suggested that the Congress might wish to consider requiring DOD to broaden its reporting to include these contracts. (Report to the Congress, B-133316, Aug. 18, 1970)

128. Problems in Developing the Fast Flux Test Facility.—The Fast Flux Test Facility (FFTF) was being designed to provide for radiation exposure of fuels and materials under conditions similar to those expected to be encountered in liquid metal breeder reactors. Construction of the FFTF was estimated by the Atomic Energy Commission (AEC) to cost \$102.8 million.

Delays were encountered in completing the conceptual design of the FFTF—the first step in the design cycle, thereby resulting in compressed schedules for

completing the remaining phases of the work. These delays were caused by management problems: specifically, the laboratory responsible for the project had not established an engineering-oriented organization with sufficient management and technical capabilities to develop a complex project such as FFFF, and, AEC did not effectively bring about changes in organization and design approaches that had been identified as being essential. Also, the technological base for developing the project was not as advanced as initially believed.

AEC agreed with GAO's suggestion that AEC review the reactor development and technology organization and all levels of contractor and laboratory management involved with the project to streamline the organization, to strengthen review channels, and to provide some assurance that there will be maximum contribution by staff and management to this high-priority project. (Report to the Congress, B-164105, Sept. 23, 1970)

129. Building Under Construction Different Than the One Described to the Congress.—At the National Aeronautics and Space Administration's (NASA) Manned Spacecraft Center, an engineering building under construction was substantially different in function, program application, and cost from the one NASA described and justified to the Congress.

The building authorized by the Congress was estimated to cost about \$2.6 million and would have provided office space for 704 employees of the Manned Space Flight Program. The building under construction was estimated to cost \$2.4 million plus about \$14.8 million for laboratory equipment and would provide primarily laboratory space for employees of the Earth Resources Survey Program.

There was no indication that the Congress or its committees had been notified of the change; however, the engineering building was not identified as a specific item in the NASA authorization act. The GAO has long held that the breakdown into amounts of individual items in an agency's budget estimates presented to the Congress that are the basis on which lump sums are appropriated is not binding on the administrative offices of the agency unless such breakdown is carried into the law. GAO sees no reason why such position shouldn't be equally applicable insofar as lump-sum authorizations are concerned.

GAO stated that the committee might wish to consider identifying in NASA's authorization acts the specific projects to be constructed with appropriated

funds. This identification would restrict the availability of funds appropriated under the construction of facilities appropriations to the projects and amounts identified in the authorization acts.

In the 1972 fiscal year authorization for NASA, bill H.R. 7100 reported out by the committee identified the specific projects to be constructed with appropriated funds. On June 29, 1971, the Senate passed the authorization bill which included the identification of the projects. Report to the Senate Committee on Aeronautical and Space Sciences, B-165118, Mar. 29, 1971.

Procurement Procedures and Practices

130. Potential Savings by Replacing Government-Owned Sedans Each Year.—The Federal civil agencies had a domestic fleet of 37,000 sedans at the end of fiscal year 1969. The cost of operating them during that year was \$27.7 million, of which \$17.8 million was related to the 22,500 sedans in the General Services Administration's (GSA) interagency motor pools.

GAO reported that replacing GSA's sedans each year rather than every 5 years would save the Government an estimated \$5.1 million annually because (1) maintenance, repair, and tire costs are lowest during the first year of ownership and (2) the discount obtained by the Government when it purchases sedans substantially offsets the depreciation factor during the first year of ownership.

GAO recommended that the Administrator of General Services, with the concurrence and cooperation of the Office of Management and Budget (OMB):

Adopt a 1-year replacement standard for sedans in the interagency motor pools.

Revise the Federal Property Management Regulations to require other Federal civil agencies to adopt a 1-year replacement standard for sedans.

Examine into the feasibility of adopting a 1-year replacement standard for station wagons and light trucks in the civil fleet since they are purchased and operated under conditions similar to sedans.

Department of Defense vehicles are not subject to GSA replacement standards and were excluded from GAO's review. However, because the findings might have application to these vehicles as well, GAO recommended that OMB examine into the feasibility of adopting a 1-year replacement standard for Depart-

ment of Defense sedans, station wagons, and light trucks.

GSA agreed with GAO's proposals. OMB also agreed that a 1-year replacement cycle for GSA's sedans was optimal in the long run but planned to continue the current replacement cycle for the present time—primarily because of the impact of the additional capital investment on the overall Federal budget and the relative priority of other Federal projects. GAO expressed the belief that the payoff on the capital outlay was significant and that the additional capital investment plus imputed interest would be recovered through annual savings in about 2 years. (Report to the Congress, B-158712, June 9, 1971)

131. Career Program for Procurement Personnel.—Department of Defense (DOD) procurement of weapons, support equipment, and other goods and services totals tens of billions of dollars annually and involves hundreds of thousands of procurement transactions. The procurement transactions are subject to numerous statutes, policies, regulations, and directives and require procurement personnel with a great deal of special knowledge, skill, and dedication. GAO made a study of the effectiveness of the Department's program for recruiting, training, and stimulating people to pursue careers in the procurement field.

The development of the current career program for procurement personnel was prompted by the Secretary of Defense in 1965. Because of resistance from some of the services, however, the program was not fully implemented.

GAO's study showed that, to revitalize the program, a major effort needed to be directed toward (1) updating the program to meet the needs of procurement as envisioned for the 1970's and beyond, (2) recognizing the conflicting career objectives of civilians and of military officers in procurement, (3) raising the status of the procurement field, (4) attracting young, high-caliber people, (5) providing more data to assist the Defense Procurement Career Management Board in its decisions, (6) improving the selection of personnel for managerial procurement positions, and (7) giving more intensive management attention to the program—the responsibility for which is split between two part-time boards.

GAO recommended that, to meet future needs of procurement, the Secretary of Defense initiate action to update the current career program and resolve other issues raised in GAO's report. To insure a complete and objective evaluation of the program, it may

be desirable to use experts from DOD, other Government agencies, industry, and educational institutions. The evaluation should be directed to:

Creating one organization to manage the program on a full-time basis.

Establishing prerequisite education requirements for use at the trainee level.

Studying the feasibility of a separate recruiting program for young trainees.

Formulating a program to reduce the turnover of young people.

Performing an in-depth analysis of the broadened procurement function to determine the optimum organization structure and staffing requirements and to lay out career patterns and training required to meet the staffing requirements.

Establishing a realistic career appraisal and counseling program.

Considering establishment of a Department of Defense procurement academy for developing management personnel and as a center for direction of procurement training regardless of where the training is conducted.

Establishing a management information system to provide information for making decisions in recruiting, training, and overall management of the career program.

Formulating a separate funding program or taking other steps to prevent disproportionate cuts in training funds during overall fund cutbacks.

Appraising the effectiveness of the Central Automated Inventory and Referral System.

Determining the requirements to raise the status and enhance the image of the procurement career field.

Establishing uniform standards for selection of personnel for the procurement function.

Insuring that the career program provides full and satisfying career opportunities for personnel entering the procurement field.

Working with the Civil Service Commission on all proposed corrective actions under its purview.

GAO was advised that the Department of Defense would undertake an intensive effort to improve its procurement career development program for both military and civilian personnel. (Report to the Congress, B-164682, Aug. 13, 1970)

132. Emergency Procurement.—During fiscal year 1968 the Department of Defense negotiated about

\$5.4 billion of emergency procurement: about 72 percent was negotiated without obtaining competition. Emergency procurement declined to about \$2.5 billion in fiscal year 1970, but the percentage of noncompetitive procurement remained at about the fiscal year 1968 level. GAO found that many of the noncompetitive procurements might have been made competitively, at lower costs, and with acceptable time for delivery.

A report issued to the Congress in March 1971 pointed out that GAO's review of 54 noncompetitive procurements amounting to \$33 million showed that, for 36 of them amounting to \$31.5 million, there was information available at the time of the awards that there were other suppliers who could have delivered at lower prices and within the desired periods. GAO estimated that, had competition been obtained, about \$3.1 million could have been saved on 14 of the 36 procurements and an amount not readily determinable on the remaining 22 procurements.

GAO recommended that decisions to procure noncompetitively in emergencies be based on:

A determination that the selected supplier can make delivery a specified number of days, weeks, or months earlier than other suppliers.

An estimate of the additional unit cost to result from the proposed noncompetitive procurement.

A statement, from the commander of the activity needing the item, that the additional cost is justified by the time saved.

The Deputy Assistant Secretary of Defense (Installations and Logistics) advised that there was no need to implement GAO's recommendations because procurement officials were already giving great weight to the urgency of need cited by the requesting activity and were considering availability of other sources of supply, price factors, and other relevant matters in decisions to procure without competition.

GAO pointed out that the degree of urgency for emergency procurements was generally indicated only by reference to a high priority number on the procurement request without support as to urgency of mission, date material was required, or effect of delay. Little attempt was made to determine whether the earlier projected delivery date was worth the additional cost. GAO stated that its findings showed a need for the recommended improvements in awarding emergency procurements. (Report to the Congress, B-171561, Mar. 25, 1971)

133. Small Purchases (Department of Defense).—A small purchase is described in the Armed Services Procurement Regulation as the procurement of supplies and nonpersonal services the aggregate amount of which does not exceed \$2,500. In fiscal year 1969 small purchases in the Department of Defense (DOD) amounted to \$1.6 billion for about 6.9 million transactions. Of the \$1.6 billion, about \$926 million (58 percent) was awarded without competition.

In an earlier examination GAO had found that buyers had not been aware that some of the items they bought were listed in suppliers' catalogs or Federal stock catalogs at lower prices. GAO found also that in many cases the buyers lacked sufficient information concerning the items they were buying to enable them to adequately evaluate the reasonableness of the prices charged by the suppliers.

GAO examined into the implementation of the corrective measures established by DOD and the military services after the hearings held in the fall of 1967 by the Subcommittee for Special Investigations, House Committee on Armed Services.

The examination indicated that most of the locations GAO visited had effectively implemented the corrective measures. GAO's tests showed that generally small purchases were fairly priced. GAO believes, however, that DOD should continue to monitor this area closely because of the large number of small purchases and the significant number of personnel who are engaged in making small purchases.

Among the improvements noted were better training of buyers, improved procurement data, and more extensive internal reviews of small purchase activities. Also, the Department published a Small Purchase Manual. (Report to the Congress, B-162313, Jan. 29, 1971)

134. Small Purchases (District of Columbia Government).—GAO examined small open market purchases made by the District of Columbia Government. During fiscal year 1968, District agencies processed 38,675 purchase orders, totaling about \$4.6 million under authority delegated to them by the Bureau of Procurement to make purchases directly from vendors for supplies and services within certain limitations.

GAO's review of 5,300 purchase orders showed that, generally, information recorded by the agencies was not sufficient to fully identify the items purchased; agencies did not avail themselves of Federal or District supply sources when identical or similar items were

SECTION I

available at less cost: purchases exceeded the open market limitation of \$500 in any one day from any one vendor and on occasion purchases from a single vendor were split, apparently in order to stay under the applicable dollar limitation.

GAO found that of the \$555,000 worth of small open market purchases reviewed, items costing \$143,000 or about 26 percent of the total dollar value of purchases were procured from 18 vendors. The large amount procured from only 18 vendors indicated a potential for consolidated procurement and resultant savings.

The District established the Bureau of Procurement for the purpose of obtaining the maximum advantages of centralized purchasing. The procurement officer agreed with GAO that further improvement in this area was feasible. The District plans to establish an optimal District-wide inventory control system which when properly implemented should greatly reduce the need for small open market purchases. (Report to the Commissioner, District of Columbia Government, Jan. 6, 1971)

135. Use of Government Sources of Supply.—

The costs of administering the Medicare program could be substantially reduced if the Social Security Administration (SSA), Department of Health, Education, and Welfare (HEW), were to authorize Medicare contractors to use Government sources of supply.

GAO suggested that SSA authorize cost-type contractors administering Medicare program functions to (1) acquire office furniture and equipment and expendable supplies through General Services Administration supply sources without requiring that title be vested in the Government and (2) acquire printed forms under Government Printing Office term-printing contracts when such items can be acquired at more favorable prices than obtainable through commercial sources. GAO suggested also that the HEW Audit Agency take steps to insure that personal property acquired from Government sources of supply are used for Medicare program purposes.

Officials of HEW and SSA agreed with GAO's suggestions, and procedures were drafted accordingly. (Report to the Secretary, HEW, B-164031(4), July 21, 1970)

136. Lease Versus Government Ownership of Mail-Handling Trailers.—

GAO's examination into the cost of leasing versus the cost of Government ownership of mail-handling trailers in the New York City area showed that the Post Office Department's leasing rates had declined from \$7.25 a day in 1966 to \$4.40 a day in fiscal year 1971 and that the average daily cost of Government-owned trailers in the year ended April 3, 1970, was \$1.32. GAO concluded that, since the cost of Government-owned trailers approximated the cost of leasing in fiscal year 1971, there would have been little or no financial benefit, at that time, in acquiring additional trailers in the New York City area on a Government-owned basis. GAO suggested, however, that, because the leasing rates appeared to fluctuate sharply from time to time and because Government costs also were subject to change, the Department should restudy these alternatives periodically to determine the most economical method of acquiring mail-handling trailers.

The results of GAO's examination were discussed with postal officials during hearings held in March 1971 before the Subcommittee on Treasury, Post Office, and General Government, House Committee on Appropriations. During those hearings, the Assistant Postmaster General for Finance and Administration indicated that the Department had not planned to purchase any trailers for the New York City area in fiscal year 1972 and that future lease versus Government-ownership decisions would give recognition to GAO's examination results. (Report to the chairman, Subcommittee on Treasury, Post Office, and Executive Office, House Committee on Appropriations, B-114874, Nov. 27, 1970)

RESEARCH AND DEVELOPMENT

Development of Major Weapon Systems

137. Selected Major Weapon Systems.—The acquisition of major weapons has required a large investment in recent years and has involved substantial long-term commitment of future expenditures. This has impacted heavily on the resources available for other national goals and priorities. Because of deep concern in the Congress and because of evidence of serious weaknesses in the weapon systems acquisition process, GAO undertook to provide the Congress and the Department of Defense with a continuing series of appraisals of those factors most closely related to effective performance in procuring major weapons. In a report on the first such appraisal, issued to the Congress in March 1971, GAO concluded that:

The Office of the Secretary of Defense and the military services had been engaged in a substantial effort to identify and solve problems that had adversely affected the acquisition of major weapon systems in terms of compromised performance, delayed availability, and increased costs. Generally, the newer weapon procurements were following a slower development pace, and procurement practices were more conservative than those of earlier periods. Because many of the current programs were in early stages of acquisition, evidence of the results of changed concepts was not yet available to adequately assess them, but the outlook was brighter.

The identification of need for a weapon system and the relative priority to be assigned to its development was a fundamental problem in acquisition of weapon systems. Initial decisions as to which weapon system would be developed and the priority of its development were made by any one of the military services but the Department of Defense had no organized method by which such proposals could be measured against the Department's total needs. Such a method was under development, but it was in its infancy.

The Office of the Secretary of Defense and the military services had paid extensive attention to the persistent problems of defining performance characteristics of weapon systems and of determining the technical feasibility of achieving that performance. There were many encouraging signs that these problems were being abated. Extensive efforts were being applied—early in the weapon development process—to identifying areas with high design risks and to constructing and testing the hardware itself to demonstrate the feasibility of high-risk components before proceeding with further development.

In the preparation of and attention given to cost-effectiveness determinations, there was a wide range of quality. This variation had lessened the value of these studies to the entire acquisition process.

One of the most important unresolved problems in the management of major acquisitions was the problem of organization. The essence of the problem appeared to be attempts to combine the specialized roles of major weapon systems acquisition management into more or less traditional military command structures. Because of this, there usually were a large number of organizations not directly involved which could only negatively influence the project. There should be a direct relationship between the missions for which weapon systems requirements are determined, e.g., strategic deterrent, land warfare, ocean control, etc., and the organizational structure needed to acquire them. Such an arrangement would facilitate grouping related weapon systems in packages of common mission and would permit putting together an acquisition organization of appropriate size and stature to handle these matters.

On 61 weapon systems where complete cost data were available, estimates to develop and produce them had increased some \$33.4 billion. About one-third of this increase, or \$9.5 billion, represented the difference between the estimates prepared when the systems were first approved for development (the planning estimates) and the updated estimates prepared when the systems were about to be placed under development

contracts. The remainder of the increase, or \$23.9 billion, was due to changes in quantities to be acquired and to a combination of such things as engineering changes, revisions to estimates, and provisions for increased cost due to economic inflation.

GAO recommended that the Secretary of Defense:

Make every effort to develop and perfect a Department-wide method—now in its early stages of development—to be followed by all military services for determining two things: (1) what weapon systems are needed in relation to the Department's missions and (2) what the priority of each should be in relation to other systems and their missions.

Establish guidelines and standards for the preparation and utilization of cost-effectiveness studies. These guidelines should require that studies be updated and reviewed as part of the decision process when major changes in cost and/or performance require revised schedules for funding commitments.

Place greater decisionmaking authority for each major acquisition in a single organization within the service concerned, with more direct control over the operations of weapon systems programs and with sufficient status to overcome organizational conflict between weapon system managers and the traditional functional organization.

Insure that each selected acquisition report (1) contain a summary statement regarding the overall acceptability of the weapon for its mission, (2) recognize the relationships of other weapon systems complementary to the subject systems, and (3) reflect the current status of program accomplishment.

The Director, Defense Research and Engineering, expressed general concurrence with these recommendations. (Report to the Congress, B-163058, Mar. 18, 1971)

138. Production Before Completion of Development and Testing.—Large-scale production of major weapon systems prior to completion of development and testing—concurrent development and production, or concurrency—is a primary cause of cost growth because of problems in attempting to produce items on the basis of unproven designs. GAO examined into five systems of the Navy, developed and produced concurrently at a cost of about \$2 billion, and reviewed a Navy study of 13 weapons, nine of which also were produced concurrently. The purpose of the work was to obtain information on the extent of concurrency in the Navy, how it was managed, how the Navy decided

that it was necessary and likely to be successful, and what success was achieved.

Most of the Navy's major weapon systems were approved for large-scale production before completion of development and testing. The weapons frequently would not perform all the functions intended, and sizeable amounts of time and money were spent to correct deficiencies. It appeared that deployment of effective weapons may not have been accelerated by concurrency and, in fact, may have been delayed.

Since concurrency can seriously affect cost and readiness, it is wise to limit its use to those cases where the risk is necessary and there is a reasonably good chance of success. The Navy procedures for concurrency were not sufficiently effective. Decisionmakers were not presented with all the information that should have been available to them in considering whether to proceed into production.

The Blue Ribbon Defense Panel—appointed by the President and the Secretary of Defense in July 1969 to study the organization, structure, and operation of the Department of Defense—recommended on July 1, 1970, that:

A new development policy for weapon systems and other hardware should be formulated and promulgated to cause the reduction of technical risks through demonstrated hardware before full-scale development, and to provide the needed flexibility in acquisition strategies.

The Panel stated further that the new policy should provide a general rule against concurrent development and production, with the production decision deferred until successful demonstration of developmental prototypes.

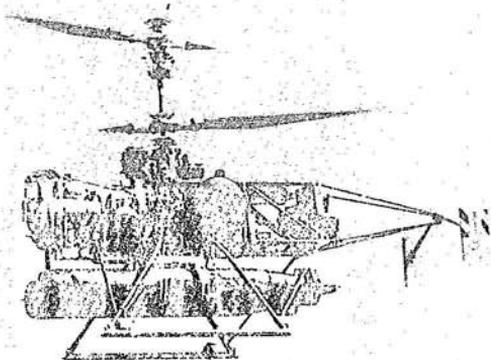
GAO recommended that the Navy revise its instruction on concurrent development and production to provide for submission of the following data to the Assistant Secretaries who make concurrency decisions:

A comparison of design performance requirements with actual performance based on testing.

An assessment of how essential an unproven component is to the weapon system, and the feasibility of either delaying production or using a substitute for the component.

Documented views of Government activities and contractors involved in the project, as well as the project manager, as to the feasibility of proceeding on a concurrent basis.

An assessment of the contractor's ability to produce the weapon under regular production conditions.



QH-50C Drone Helicopter

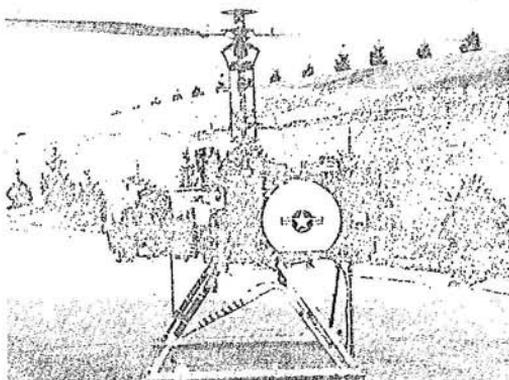
The Director of Defense Research and Engineering and the Navy agreed in general with the recommendations and outlined the actions the Navy had taken or had planned to take. (Report to the Congress, B-163058, Nov. 19, 1970)

139. Drone Antisubmarine Helicopters.—

Through June 30, 1969, the Navy spent over a quarter of a billion dollars for the development and acquisition of the drone antisubmarine helicopter weapon system. This system, designed for the delivery of torpedoes by drone helicopters, operates from surface ships for the purpose of attacking and destroying enemy submarines. The system provided the Navy with a capability it did not previously have; however, the system suffered from a high rate of loss of the drone helicopters—of the 750 purchased, 362 had been lost through April 1969.

In a report issued to the Congress in December 1970, GAO pointed out that the difficulties experienced with the system resulted, in large part, from producing the helicopters before they were fully developed and tested. Modifications of some of the ships from which the helicopters were to operate were completed while the helicopters were still under development. This, together with the capability that the helicopter was expected to provide, created strong pressure on the Navy and the contractor to expedite development and delivery.

The concurrent development and production of major weapon systems by the Navy were discussed in an earlier report to the Congress (B-163058, Nov. 19, 1970). In that report GAO recommended that the



QH-50D Drone Helicopter

Navy revise its instruction relating to concurrent development and production to provided for the submission of meaningful data to the Assistant Secretaries who make concurrence decisions. GAO recommended also that the Naval Audit Service give consideration to making regularly scheduled audits of the practice of concurrent development and production. The Navy agreed in general. (Report to the Congress, B-160877, Dec. 31, 1970)

140. Deep Submergence Rescue Vehicle.—The

deep submergence rescue vehicle is a small submersible craft designed to rescue personnel from a disabled submarine. The development cost and time for the rescue vehicle far exceeded original estimates. GAO made a review to determine the causes.

The estimated cost for the rescue vehicle program increased by more than 1,100 percent between 1964 and 1969—from \$36.5 million for a 12-vehicle system and 1 year of operation to \$163 million for a six-vehicle system. The estimated development and introduction period increased from 4 to 10 years. In addition, costs of support equipment increased because of changes made in the design of the vehicle which necessitated a redesign of support craft and some of the supporting equipment.

In response to an earlier report to the Congress (B-167325, Feb. 20, 1970) in which GAO pointed out that the increased effectiveness to be obtained from producing four more vehicles, in addition to the two already on order, would be small in relation to their cost, the Navy advised that it had initiated a cost-effectiveness study. In December 1970, following the

study, the Navy reduced the program to two rescue vehicles at an estimated cost of \$199.4 million.

GAO believes that a substantial portion of the cost growth and program stretchout occurred because:

The original estimates, made by a Deep Submergence Systems Review Group established by the Secretary of the Navy, were low and were made without sufficient design, preliminary development, and testing.

Changes were made in the vehicle design to increase its capabilities beyond those stated in the formal requirement document for the vehicle.

The design changes in the vehicle included an increase in the operating depth to almost three times the depth at which rescue of submarine personnel is possible and an increase in rescue capacity from 14 to 24 survivors.

The Navy management system includes many controls. It does not, however, require formal approval by top-level management of major changes increasing the capabilities of a developmental system beyond those called for in the formal requirement document. GAO found no thorough and well-documented analysis of consideration given in the decisionmaking process to the effects the changes would have on development cost and time—which were considerable—or to the measurement of the benefits obtainable from the increased capabilities against the increased program costs.

To provide more effective control over development projects and over significant increases in development cost and time, GAO recommended to the Secretary of the Navy that he require that:

A sufficient body of design, experimental development work, and subsystem testing be done before promulgation of an end-item system requirement document and thus establish a sound factual basis for authorizing full-scale development.

Analyses be made of the impact on program cost and time schedules of proposed changes designed to increase the capabilities of equipment beyond the required level.

Advance approval of top-level management be obtained for all changes which are designed to increase the capabilities of the equipment beyond requirements and which significantly affect program cost and time schedules.

The Navy considered the management objectives implicit in the recommendations to be generally sound but did not cite any actions to be taken. The Navy pointed out that, since initiation of the rescue vehicle

program, the Department of Defense established new methods to improve the management of major acquisition programs which will correct the problems GAO reported.

The new methods should help to insure more participation by top management in the acquisition process. GAO believes, however, that it is still necessary to revise Navy regulations. (Report to the Congress, B-167325, June 3, 1971)

141. Antisubmarine Warfare Directional Low-Frequency Analysis and Recording System.—The directional low-frequency analysis and recording system (DIFAR) is regarded as critical to the proper operation of the Navy's latest land- and carrier-based means of detecting, classifying, localizing, and attacking enemy submarines. It is intended as the principal antisubmarine sensing means in the P-3C, the latest version of the land-based P-3 patrol aircraft. Older versions of the P-3 and other aircraft are to be retrofitted with DIFAR. The expected costs of procuring P-3C aircraft, which will depend upon DIFAR for achievement of the antisubmarine warfare role, will be about \$2.6 billion. A total of about \$50.2 million had been expended in the development, test, and evaluation of DIFAR and it was estimated by the Navy that the total program costs would be in the hundreds of millions.

In a report issued to the Congress in June 1971, GAO stated that the Navy awarded contracts in April 1968 for the production of DIFAR for deployment before satisfactory testing to determine its suitability for use in an operational environment and despite available evidence which indicated that its performance would not acceptably meet requirements.

A production contract was awarded for a more complex system (DIFAR II) which had not been successfully tested prior to award even though a less complex system (DIFAR I) had failed testing. GAO believes that neither system was ready for large-scale production at the time the production contracts were awarded.

To preclude the production of developmental equipment which has not yet demonstrated its ability to meet prescribed objectives, GAO recommended that Navy instructions be revised to require that:

The approval for production prior to completion of development and testing be contingent, as a minimum, on the equipment satisfactorily passing a suitable technical evaluation test by the responsible testing agency.

The equipment design tested be the same as the design to be produced.

GAO recommended also to the Secretary of the Navy that:

DIFAR be thoroughly proven in the P-3C aircraft prior to installation in other aircraft.

The Chief of Naval Operations have adequate information on which to base his decision for producing an unproven item for deployment by requiring that the request for authority to produce it include a comparison of the design performance requirements with the performance actually achieved as the result of testing.

The Assistant Secretary of the Navy (Financial Management) stated that the Navy agreed with the intent of the recommendations, but did not state that specific actions would be taken with regard to the recommendations. (Report to the Congress, B-160877, June 4, 1971)

142. Surface Ship Sonar System.—In a report issued to the Congress in March 1971, GAO stated that the Navy began procurement of the AN/SQS-26 surface ship sonar system before completion of initial development and testing. As a result, the system underwent continued redesign and modification to correct numerous equipment deficiencies and to incorporate features to improve performance. The cost to develop the system, which was estimated in May 1960 to be about \$12 million, increased to an estimated \$101 million by 1970; costs of production units increased; and delivery of production units was often later than originally scheduled. With the possible exception of the most current models of the system, performance was below expectations.

In an earlier report to the Congress on the Navy's large-scale production of major weapons before completion of development and testing (B-163058, Nov. 19, 1970), GAO had recommended that the Navy revise its instructions relating to concurrent development and production to provide for the submission of meaningful data to the Assistant Secretaries who make concurrency decisions and that the Naval Audit Service give consideration to making regularly scheduled audits of the practice of concurrent development and production. The Navy, in general, agreed with these recommendations. (Report to the Congress, B-160877, Mar. 9, 1971)

143. Tactical Vehicles.—The Army Tank-Automotive Command is responsible to the Army Materiel Command for the development and procurement of tactical wheeled and tracked vehicles. During fiscal year 1970, a total of \$35.5 million was programmed by the Army Tank-Automotive Command for functions relating to research and development of vehicles, and the Command awarded contracts valued at \$5-15.7 million for tactical vehicle production. GAO's previous studies and studies by the Army Audit Agency revealed management weaknesses. Recommendations for improvement had been made as a result of the studies.

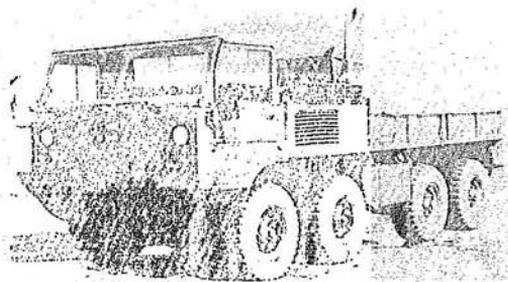
GAO made a followup review and found that problems continued despite organizational and procedural changes.

To improve the management of the tactical vehicles development program, GAO recommended that the Army insure that:

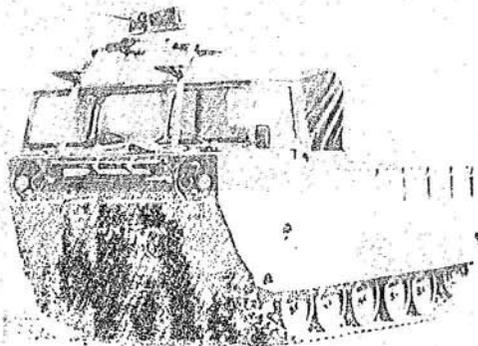
Requirements documents specifying, in accordance with existing regulations, the desired characteristics of the vehicles to be developed are prepared, thoroughly analyzed, and approved at the Department level before any full-scale development efforts are initiated.

Approved requirements documents clearly set forth valid and realistically attainable requirements, based upon prior exploratory and experimental work, to permit full-scale development and production within the designated time frame.

Coordination and communication between the developing and using agencies are improved to preclude the need for significant deviations from, or later waiver or relaxation of, design or performance characteristics deemed essential by the user.



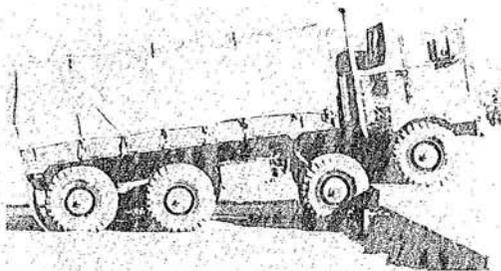
M410E1 2 1/2-ton, 8x8 cargo truck



M548 6-ton tracked cargo carrier



XM759 1 1/2-ton, soft tire tracked cargo carrier



M656 5-ton, 8x8 cargo truck

Mass production of vehicles is authorized only after the vehicles have demonstrated the capabilities to meet the essential characteristics established and after the prospective user has pronounced them suitable, thereby minimizing costly changes during production.

Management places greater emphasis on the timely dissemination of complete and current data to decisionmaking agencies and, to the extent possible, maintains continuity of participants from one meeting to the next throughout the development project to promote stability.

The Assistant Secretary of the Army Research and Development agreed, in general, with these recommendations and cited the actions taken. These actions included the following.

Army regulations were changed to require an in-process review that will show proof that advanced development is progressing satisfactorily, or that the degree of risk is known and is acceptable to the Army, prior to continuing development.

Army regulations were changed to require more detailed information to obtain authorization for mass production.

Continuity was being maintained at the review meetings by project managers' deputies, and other high-level project management members, and the in-process reviews were strengthened by requiring voting members to comment on the minutes of meetings within 30 days.



M561 4 1/2-ton, 6x6 cargo truck

GAO believes that adequate implementation of these actions and continuing management attention should improve the Army's management of its tactical vehicles development program. Report to the Congress, B-133256, Jan. 27, 1971.

Research and Development—General

144. Basic Research Programs. GAO sought to evaluate the practices followed by the Air Force Office of Scientific Research (OSR) in selecting, managing, and using the results of research projects. At the time of the review, OSR was supporting about 1,200 projects, costing about \$285 million, most of which had been proposed and were being performed by university researchers.

Federal policy is that the National Science Foundation will provide support for general-purpose research. Other Federal agencies should support basic research only in areas closely related to their missions. This policy is set forth in an Executive order as well as a Department of Defense directive. Guidelines for applying this policy were not provided, however.

OSR interpreted this policy broadly when selecting projects to be funded. Also, it did not prepare written justification showing the basis for supporting the projects. Although many of the projects appeared to be closely related to the Air Force mission, some did not. Support of research not closely related to the Air Force mission reduces the effectiveness of its basic research program since fewer dollars are available for closely related research.

Immediately after GAO's evaluation the Air Force reviewed all current projects in OSR as part of a Defense-wide study following enactment of the 1970 Defense procurement authorization. This act contained a provision forbidding the use of 1970 funds for research projects which did not have a direct and apparent relationship to a specific military function or operation. On the basis of its review, the Air Force disqualified 115 OSR projects—10 percent of the active projects—because of insufficient relevance.

GAO found also that OSR was not obtaining maximum benefit from its basic research program because certain procedures were not consistently followed.

Surveillance over ongoing research projects was not adequate to insure that researchers did not deviate from negotiated budgets or from the agreed

upon time that the principal investigator would devote to the project.

Procedures for insuring that all required scientific reports were being received were not consistently followed; some reports were not obtained at all and others were obtained only after long delays.

Procedures for disseminating research results were not fully effective.

GAO suggested that the Department of Defense issue guidelines limiting defense funding to projects which were clearly relevant to assigned missions. Consideration should be given to the most appropriate agency to support the research in view of the missions and research performed by other organizations—military and civilian, Government and private. Instructions should be issued requiring the need for each contract to be clearly established in writing. GAO made also a number of suggestions for improving management procedures. The Air Force took actions which were responsive to GAO's suggestions. Report to the Congress, B-170801, Jan. 29, 1971.

145. Tours of Duty for Managers of Major Research and Development Projects. The Army Materiel Command is responsible for the integrated research, development, and production management of the Army's materiel needs. The cost of these activities is over \$8 billion annually. About half of this work—involving the most critical or costly programs—is managed by military officers, called project managers. Because of congressional interest in the tenure of military management officials, GAO reviewed the project managers' tours of duty.

The Army was not effectively implementing existing policy and regulations that project managers serve a tour of duty of at least 3 years (the time considered essential for such critical positions). Most of the project managers had served less than 2 years. Most had been reassigned and some had retired before completing a 3-year tour of duty. Overlapping tours of duty—which provide continuity of leadership and expertise and reduce the need for acting project managers—were almost nonexistent.

Although project managers may be either military officers or civilians of comparable grade, the Army had not given sufficient consideration to the use of civilian personnel in filling these positions. All project managers had been military officers who were subject to high turnover through reassignment or retirement.

C O N T E N T S

CONTENTS

	<i>Page</i>
SECTION I.—Compilation of Findings and Recommendations for Improving Government Operations	1
Contents	2
Compilation	9
Index by Government agency	140
Index by functional classification of the Federal budget	142
SECTION II.—Financial Savings Attributable to the Work of the General Accounting Office	144
Collections and other measurable savings	144
Details of other measurable savings	145
Additional financial savings not fully or readily measurable	149
Savings and benefits to others	157
SECTION III.—Audit Reports Issued During the Year	159
SECTION IV.—Approvals of Agency Accounting Principles and Standards, and Systems Designs	189

SECTION I

The Army agreed generally with the GAO findings and proposals for extending the tenure of project managers. The Army:

Revised regulations to stabilize the tour of duty of project managers for an "indefinite" period.

Revised criteria for selection of project managers, including exclusion of officers facing mandatory retirement within the expected tour of duty.

Arranged for estimating requirements for project managers 18 months in advance to provide for an adequate overlap of project managers on a continuing program.

The Army believed it preferable to fill project manager positions with military officers on the basis that they possess the breadth of experience in the military art to give them an understanding of the problems faced by the Army in the field. GAO pointed out that this expertise could be provided by military personnel not necessarily assigned as project managers. The Army, in its revision of regulations to stabilize the tour of duty for an "indefinite" period, did not clarify the term "indefinite" and, in its provision for an adequate overlap of project managers on a continuing program did not establish a minimum period of overlap. Therefore, GAO suggested that the Secretary of Defense:

Modify the criteria for selection of project managers to insure appropriate consideration of civilians.

Clarify the term "indefinite" in the stabilization policy.

Establish a minimum period of overlap.

GAO found on the basis of limited tests that conditions similar to those in the Army also existed in the Navy and the Air Force and discussed them with officials of the Department of Defense (DOD), the Navy, and the Air Force. GAO suggested that the Secretary of Defense insure that appropriate action is taken to correct similar deficiencies in the Navy and the Air Force.

GAO suggested also that the Congress might wish to urge DOD to use civilians in these positions to a greater extent to avoid the problems encountered in the use of military personnel.

On November 24, 1970, the Director of Defense Research and Engineering, on behalf of the Secretary of Defense, replied to GAO's report to the Congress. He stated that DOD agreed with (1) GAO's belief that program managers are extremely important in the weapon system acquisition process and that emphasis must be placed on the selection, continuity, and

tenure of these persons and (2) the findings and recommendations in GAO's report. (Report to the Congress, B-167412, Aug. 31, 1970)

146. Procurement of Munitions Under Development.—GAO reviewed the procedures and practices of the Army in authorizing production, purchase, and field use of developmental munitions. The review was limited to a specific round of howitzer ammunition because GAO was informed that the procedures followed were representative of the procedures in managing other developmental munitions.

Production and operational use of materiel prior to completing development and testing is referred to as concurrent development and production or concurrency. The concurrency of Army munitions is authorized by a "Limited Production" (LP) classification. Items so classified are to be used only for the urgent requirement they are intended to fulfill.

The howitzer ammunition had been authorized as LP for 1 year to fill an urgent requirement for close-range, direct-fire capability in Southeast Asia. The item was still in limited production 3½ years later, although authorization from higher echelons had not been obtained. The rate of use in Southeast Asia was far lower than had been anticipated but production was continued and resulted in excess stock.

GAO proposed that the Army improve its overall management of munitions development by:

Reviewing all LP munitions to determine whether similar problems warranting correction existed.

Enforcing its regulation requiring that LP items be used only for the specific, urgent requirement for which purchases were approved.

Complying with its requirements for periodic justification by the developing agency, and approval by the Army General Staff, of the need to renew an LP authorization.

Monitoring the use of developmental items purchased for the other services.

The Assistant Secretary of Defense agreed with the first three proposals and stated that action had been taken to (1) issue revised regulations strengthening and clarifying procedures for managing LP items and (2) restrict the amounts budgeted for procurement of such items. Also, the Army reduced funding for procurement of LP items from \$220 million in fiscal year 1969 to \$10 million in fiscal year 1971.

The Assistant Secretary did not agree with GAO's proposal that the Army monitor the use of develop-

mental items purchased for the other services. He stated that the Army had a monitoring responsibility only when a safety risk was involved. The new Army Regulation 71-6, dated January 1, 1970, however, does not mention this responsibility. Therefore, GAO recommended that the Secretary of the Army revise Army Regulation 71-6 to reflect the responsibility of the Army to maintain cognizance of the use of developmental items in instances involving potential safety risk. (Report to the Congress, B-169675, Dec. 7, 1970)

147. Incentive Provisions in Subcontracts for Development of Major Weapon Subsystems.—GAO had previously reported to the Congress on improvements needed in the management of the NIKE-X antiballistic missile (ABM) development program (B-164250, Nov. 28, 1969). That report covered improvements needed in the use and administration of contract incentive provisions designed to reduce costs, meet schedules, and improve performances, and improvements needed in the retention of records for review by responsible Government officials concerning multi-million-dollar negotiations between a weapon system's prime contractor and its subcontractors. In other reviews GAO had found indications that contract incentives were used inappropriately.

As part of GAO's response to the request of the Joint Committee on Atomic Energy for continuing review of the SAFEGUARD ABM program, GAO examined into the cost-plus-incentive-fee subcontract for development of the SPARTAN—the SAFEGUARD's long-range missile subsystem. The subcontract price at completion was estimated at \$300 million. A report was issued to the Secretary of Defense, with an information copy to the committee, in November 1970.

Current instructions in the Department of Defense and National Aeronautics and Space Administration Incentive Contracting Guide are that (1) the incentive plan must identify the critical performance elements and their alternative technical levels—the minimum acceptable, the expected or target, and the maximum desirable—and (2) significant personal judgments used to quantify an incentive element should be carefully documented and the documentation retained so that a basis exists for review and evaluation. The Guide states that expected performance goals warrant target fees only, while added fee incentives should motivate the contractor to achieve higher performance levels of value to the Government.

GAO found that the available records of the sub-

contract negotiations—contrary to the requirements of the Armed Services Procurement Regulation (ASPR) and the prime contract—did not set forth the details leading to the agreed incentive plan. In the absence of such documentation, GAO's evaluation could not be conclusive and was limited to specific aspects of the incentive plan.

For example, GAO was unable to determine whether there was a valid basis for paying added incentive fees for accomplishment of a single, specified flight test performance objective. The guidelines state that achievement of expected performance goals warrants only target fees. GAO found, however, that the incentive plan does not establish an "expected" or target performance for which only target fees are allowed and, in fact, appears to allow incentive fees for "expected" performance.

GAO suggested to the Secretary that in the negotiation of the follow-on to the present SPARTAN subcontract—due to expire December 31, 1970—emphasis be given to insuring that (1) the incentive fee arrangements are in accord with the intent of the Department of Defense guidelines and (2) documentation is prepared and retained for use of reviewing authorities of the details in support of the judgments used in negotiating the target fee and the value to the Government of incentive fees provided by the incentive plan.

In view of the absence of clear requirements in the ASPR, GAO further suggested action to (1) include, in cost-reimbursement prime contracts, clauses requiring the preparation and retention of records of negotiations for large dollar amount subcontracts and (2) specifically provide that these records show the factors which were considered in negotiating the agreed upon incentive fee plan.

The Deputy Assistant Secretary of the Army (Research and Development) in commenting on GAO's report in January 1971, stated that the incentive fee arrangements were in accord with Department of Defense guidance. He stated also that implementation had been initiated on GAO's suggestion that documentation be obtained covering the factors considered in negotiating the incentive plan for large dollar amount subcontracts. (Report to the Secretary of Defense, B-164250, Nov. 23, 1970)

148. Foreign Affairs Aspects of Federal Research.—Research performed in foreign countries or otherwise bearing on foreign affairs is sponsored in some degree by nearly every large agency of the Federal Government. The full dimensions of such research

are obscure, but a level of spending of at least \$70 million a year was identified by GAO.

The State Department has the responsibility to insure that federally sponsored foreign research does not adversely affect U.S. relations with other countries. GAO found, however, that the Department was neither reviewing all proposals for foreign research nor furnishing agencies with guidelines for determining conditions under which proposed research might affect foreign relations and should be submitted for review.

GAO concluded that the responsibility for the Department's review function—presently divided between the diplomatic posts and two bureaus in Washington—should be assigned to the Washington bureaus. This would permit the reviews to be made under central control on a consistent basis.

Accordingly, GAO recommended that the Secretary of State:

Issue guidelines to the domestic agencies stating the factors to be considered in reviewing social and behavioral research proposals.

Issue guidelines to all agencies to help them identify research in the physical and natural sciences which poses a potential risk to foreign relations.

Require such research proposals to be submitted to the Department for review.

Require the agencies to furnish the Department summary information about their proposals for foreign research in the physical and natural sciences.

Require agencies to submit their proposals for research by foreign performers directly to the Department for review.

The Department, in response to these recommendations stated that it was clarifying procedures for domestic agencies and Foreign Service posts to follow in reviewing research projects, encouraging improved analysis by the posts of the impact and scope of Government-supported research abroad, and insuring better coordination between its own bureaus.

In the area of coordination of foreign affairs research among Federal agencies, GAO found that recent proposals for improving the coordination provided for the development of an overall Federal plan, but did not provide for machinery to carry it out. In February 1971, however, the Under Secretaries Committee within the National Security Council system was directed to assume responsibility for insuring inter-agency coordination of foreign affairs research and for an annual consolidated plan for such research to be submitted to the President for approval. GAO be-

lieves that this directive provides the framework for more effective coordination of research in foreign affairs.

GAO also found that the State Department had a very small external research program and depended largely on other agencies to support research bearing on foreign policy. GAO expressed the view that the Department should establish a research program of a scope commensurate with its responsibilities in foreign affairs and recommended that the Secretary of State develop a comprehensive statement of the Department's external research policy. The Department responded that it had increased external research from \$72,000 obligated in fiscal year 1970 to \$724,000 in fiscal year 1971 and that it was hoping to further increase its funding of external research. (Report to the Congress, B-171564, May 27, 1971)

149. Administration of Contracts and Grants for Cancer Research.—

The National Cancer Institute (NCI), Department of Health, Education, and Welfare (HEW), conducts cancer research at its own laboratories and clinics and supports research through contracts and grants-in-aid. In reviewing the system of administering and funding the research, GAO observed that the system had resulted in delays in the approvals and funding of contracts and grants which, according to NCI officials and others, had made the start of some research projects uncertain and could cause problems for the research institutions in attracting and retaining qualified researchers.

The contracts awarded during 1970 required an average of about 7 months for review and approval. About 1½ months of this time resulted from reviews by the National Institutes of Health (NIH) which duplicated those made by NCI. These duplicative reviews had been made because the Secretary of HEW had delegated contract authority to NIH but not to NCI.

A significant portion of the time taken in processing research grants—an average of about 8 months—occurred because the NIH study sections which review grant applications for scientific merit and the National Advisory Cancer Council which recommends approval of grant applications, each meet only three times a year. About 45 percent of the 1,182 grants awarded by NCI in fiscal year 1970 were for relatively small amounts—less than \$30,000 each.

As recommended by GAO, the Secretary of HEW delegated authority to NCI to enter into research contracts to avoid delays previously encountered when

NIH reviewed NCI proposals and negotiated the contracts. Also, the Secretary stated that GAO's recommendation that NCI be authorized to award research grants up to a specified dollar limit without review by NIH study sections would be considered.

Because of delays in approving HEW appropriation bills, GAO suggested that to facilitate more timely financing of new programs and projects the Congress might wish to consider enacting legislation authorizing, in the case of NCI, the making of appropriations to be available for the next fiscal year following the usual budget year. (Report to the Senate Committee on Labor and Public Welfare, B-164031(2), Mar. 5, 1971)

150. Construction and Conversion of Oceanographic Research Vessels.—During fiscal years 1960 through 1969, the National Science Foundation (NSF) provided grant funds of over \$16 million for the design and procurement of 28 oceanographic research vessels for use by educational and other nonprofit institutions. GAO's review of this grant program showed that opportunities existed for more economical use of NSF grant funds for the design, construction, conversion, or modification of oceanographic research vessels by (1) developing long-range plans in cooperation with the Office of Naval Research (ONR) which also finances the construction or conversion of research vessels for the same institutions, (2) requiring feasibility studies as a basis for deciding whether to construct new vessels or convert old ones, and (3) making greater use of existing expert services of other Federal agencies specializing in the design and procurement of research vessels.

NSF's annual budget submissions to the Congress requesting funds for the procurement of oceanographic research vessels were not based upon a long-range plan of action. Rather, NSF estimated the funds needed on the basis of proposals received and expected to be received from grant applicants. The decisions as to which institutions would be awarded grants for the procurement of research vessels were made on the basis of those institutional proposals most worthy of support after funds have been appropriated by the Congress.

GAO believed that the development of a long-range plan for the procurement of research vessels was desirable because (1) the success of a national oceanographic program requires the availability of a fleet of modern research vessels, (2) significant amounts of funds are involved, (3) a long leadtime is required to construct or convert a vessel, (4) the needs and capa-

bilities of grantee institutions during the anticipated useful life of the vessels must be considered, and (5) the research programs of other Federal agencies generally depend on the use of research vessels acquired with NSF grant funds.

In contrast to NSF, ONR maintained a 5-year plan for research vessel construction which identified the recipient institutions and showed whether the vessels were replacements or new additions. However, NSF and ONR had no procedure for formal coordination of plans for construction of new research vessels and replacement of existing research vessels.

Regarding the matter of conversion versus construction of vessels, studies conducted by the Interagency Committee on Oceanography of the Federal Council for Science and Technology have shown that the conversion of old vessels to oceanographic research vessels was, in the long run, both uneconomical and inefficient. One study by the Committee's Ships Panel concluded that, although certain immediate gains such as lower initial costs and earlier availability might be derived from the use of converted vessels, such use in any long-range program was entirely unwarranted. The Panel recommended that Federal support be restricted to financing the construction of new vessels.

NSF's grants to educational and other nonprofit institutions for the procurement of oceanographic research vessels, in the majority of cases, were for the conversion or modification of military or other type ships into research vessels. NSF, however, had not made or required the institutions to make feasibility studies to determine whether converted vessels or new vessels would best serve the interests of a particular oceanographic institution and would accomplish the objectives of the oceanographic program within available funds. Also, NSF had not made long-range plans for the orderly replacement of the converted vessels.

Also, GAO believed that in connection with financing the construction or conversion of vessels for oceanographic research, it would be desirable for NSF to avail itself of existing Government expertise in shipbuilding, especially since NSF itself did not have the in-house technical capability to advise and assist grantee institutions and to fully protect the interest of the Government. The Maritime Administration, the Naval Ship Systems Command, and the Coast Guard had in-house capability for handling all aspects of shipbuilding including designing, soliciting bids for construction or conversion contracts, contracting, inspecting, and accepting delivery of a vessel.

NSF and the Department of the Navy advised GAO that steps had been taken to coordinate long-range plans for financing vessel construction and conversion. NSF further stated that it would conduct feasibility studies to determine whether construction or conversion of research vessels was best. Also, NSF began using the shipbuilding services of other Federal agencies. (Report to the Congress, B-169941, Sept. 23, 1970)

151. Coordination of Federal Support of Research Vessel Operations.—In fiscal year 1969, the National Science Foundation (NSF) provided through grants \$8.6 million for the support of 32 research vessels and other assorted vessels operated or chartered by 18 universities and other nonprofit research institutions. NSF's level of support in recent years was slightly in excess of 50 percent of the total cost of operating these vessels, the Office of Naval Research (ONR) provided about 40 percent, and the remaining support was provided by other Federal agencies and State and local sources.

The Federal agencies providing funds to oceanographic institutions in support of research vessel operations did not formally coordinate their financial support to meet the overall objectives of the national oceanographic program. These funds were provided by the various Federal agencies principally on the basis of the needs presented by the individual institutions. Although NSF took into account the anticipated funding by other Federal agencies, it had not jointly participated with these agencies in planning for the most desirable use of the available funds for the support of vessel operations and for the optimum use of the institutions' research vessels.

The amount of funding provided by NSF to an institution generally was determined on the basis of the difference between the institution's total estimated costs of research vessel operations and that portion of the costs that the institution expected to be financed by other Federal or private sources. The practice of ONR and other Federal agencies had been to estimate for each year the amount of vessel support funds to be provided by them individually to an institution without regard to other sources of financing.

NSF and ONR officials agreed that coordinated support would be feasible and desirable and would result in better funding and administrative practices between the two agencies. Coordinated funding, in GAO's opinion, would also simplify administrative procedures at the grantee institutions by avoiding the

uncertainty as to the amount of research vessel support funds to be received and would enable the institutions to plan for more effective utilization of their vessels. GAO believed that any coordinated funding arrangement between NSF and ONR should be extended to other Federal agencies which support the operation of research vessels at oceanographic institutions.

NSF and the Department of the Navy pointed out the basic reasons for using different methods of funding the institutions' vessel operating costs. Navy stated that these different approaches might present difficulties in working out joint funding but did not preclude it. NSF believed the only alternative to the present system of multiagency support would be single agency funding with a transfer of funds from other agencies.

GAO believed that, although single agency funding would alleviate some of the administrative problems inherent in the present system, it would not eliminate the need for Federal agencies to formally coordinate their plans. Coordinated planning is needed to insure that national goals in oceanographic research are adequately considered and jointly pursued. (Report to the Congress, B-169941, Sept. 23, 1970)

152. Title to Research Vessels.—The National Science Foundation (NSF) and the Office of Naval Research (ONR) provide research vessels to oceanographic institutions on differing bases. ONR, as a matter of policy, retains title to the vessels, whereas NSF, in line with its general policy, conveys title to the vessels to grantee institutions, subject to the Government's right to reclaim the vessels in case of national emergency or when the vessels are no longer used by the institutions for oceanographic research. Because of NSF's policy of transferring title to the grantee institutions, the premiums for hull insurance on the vessels were borne by the Federal agencies financing the operating costs of the vessels.

GAO estimated that, during calendar years 1963-67, hull insurance premiums totaled about \$550,000 on 10 research vessels for which NSF had financed all or substantially all the construction or conversion costs, and that the costs of this insurance were borne for the most part by Federal agencies. If NSF retained title to the vessels for which it had financed all or substantially all the construction or conversion costs, the purchase of hull insurance could be avoided under the Government's policy of self-insurance.

Because this matter involved the oceanographic research activities financed by several Federal agencies,

GAO recommended that the Director, NSF, as a member of the National Council on Marine Resources and Engineering Development and the Federal Council for Science and Technology, present the question of ownership of research vessels to these coordinating bodies for consideration in establishing an appropriate Government policy regarding title to oceanographic research vessels purchased with Federal funds. The Director concurred with the recommendation and stated that NSF was taking steps necessary to implement it. (Report to the Congress, B-169941, Sept. 23, 1970)

153. Visitors' Use of Telescopes at the National Radio Astronomy Observatory.—The National Science Foundation's (NSF) National Radio Astronomy Observatory (NRAO)—which is operated by Associated Universities, Incorporated, under a cost-reimbursable contract—was established as a national research center to be used primarily by visiting scientists. NRAO has its principal observing site at Green Bank, W. Va., and has additional facilities at Tucson, Ariz. NRAO's policy provided that visitors be allocated 60 percent or more of the observing time on the telescope systems and that the remainder of time be for use by the resident staff.

The manner in which NRAO's policy had been carried out raised certain questions regarding the allocation of observing time between resident staff and visitors because NRAO had classified its temporary employees as visitors and on this basis considered that visitors had used about 54 percent of observing time during NRAO's 11 years of operations through fiscal year 1969. However, if temporary employees had been classified as staff, which GAO believed to be a more appropriate classification, visitors' use would have averaged only 34 percent of total observing time during this period.

The temporary staff included research associates, scientists on leave from their home institutions, and students. Temporary staff employed by NRAO in June 1969 were receiving salaries at annual rates ranging from about \$4,300 to \$14,400.

GAO's review showed that the number of visitors using the NRAO telescope system had increased substantially over the years; however, the amount of observing time used by them had not increased proportionately. While the average number of telescope hours used by staff observers varied considerably during the 1959-69 period, since 1962 the average number of

hours used by visitors steadily declined from 983 to 122 hours in 1969.

In GAO's opinion, the policies and practices followed in allocating telescope time may not be adequate to insure that NRAO fully served its mission as a national center primarily for the benefit of visiting scientists.

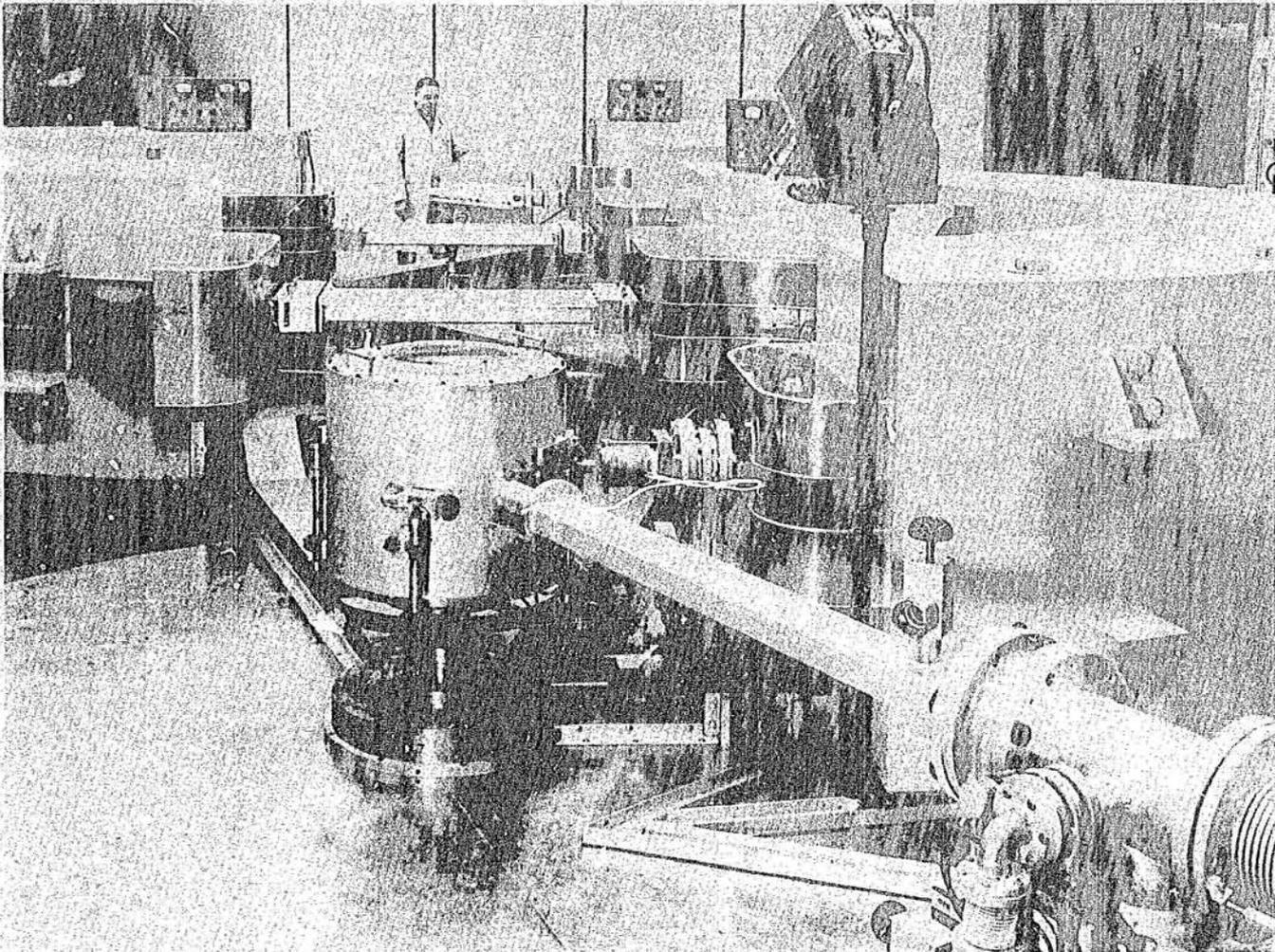
NSF indicated that NRAO's classification of its temporary staff as visitors was appropriate and did not consider that a study of visitor participation as suggested by GAO was necessary. In support of this view, NSF explained that NRAO's permanent staff supported projects requiring long-term research whereas temporary staff generally supported projects requiring a more limited amount of time and that it was not intended that visitors function as staff or even as a complement to the permanent staff.

GAO noted that, although temporary staff might generally be concerned with projects requiring a more limited amount of time, several 1-year appointments to temporary staff were extended to 2 years and that temporary staff, in some cases, complemented the permanent staff in its research efforts. Therefore, in GAO's view, it did not seem appropriate to classify all salaried temporary staff as visitors for purposes of determining compliance with the 60 to 40 user policy.

GAO recommended that NSF, in cooperation with the contractor, undertake a study of visitors' use of NRAO's telescopes to determine what action, if any, was needed to insure that NRAO fully served its mission. NSF, in a letter dated August 18, 1971, to the chairman of the House Committee on Government Operations, reaffirmed its position that a study of visitors' use of the NRAO telescopes was not necessary at this time. NSF agreed, however, that there was an apparent inconsistency concerning salaried appointments and work assignments of some temporary staff employees which it planned to review and clarify. (Report to the Director, NSF, B-133338, June 15, 1971)

154. Cost Sharing in Federally Financed Research.—Appropriation acts for fiscal year 1970 covering the major research agencies variously (1) made no provision for cost sharing, (2) required cost sharing on grants only, or (3) required cost sharing on both grants and contracts except for research specifically solicited by the Government.

A GAO report on the results of its case study of the management of federally financed research by the University of Michigan pointed out that the three different statutory policies governing cost sharing in federally



Government-owned 83-inch cyclotron located in the University of Michigan's Cyclotron Laboratory on the North Campus. This equipment weighs about 325 tons and cost about \$1.9 million.

financed research were in direct conflict with the concept of a consistent policy of cost sharing which GAO believes is both feasible and desirable for Federal research agencies and which was advocated in Senate Report 91-521 on the bill which became Public Law 91-126. Public Law 91-126, approved November 26, 1969, includes the appropriations for the National Aeronautics and Space Administration and the National Science Foundation.

Also, the existence of different statutory standards for cost sharing lays the groundwork for controversy with agency regulations which may go beyond these standards. The impact of these different standards will be felt most by those organizations which do research for several agencies whose appropriations are included in two or more of the related appropriation acts for 1970. These organizations include, particularly, educational institutions such as the University of Michi-

gan, which conduct research under grants and contracts for most, if not all, the major Federal research agencies. In addition, the implementation of three different policies and related agency regulations will undoubtedly add to the administrative burden of the educational institutions as well as other organizations similarly situated.

GAO recommended that the Congress consider legislation to prescribe a consistent Government policy for cost sharing in federally financed research for all Federal agencies. The Bureau of the Budget (now the Office of Management and Budget) specifically endorsed this recommendation; none of the research agencies covered in the study (the Department of Defense; the Department of Health, Education, and Welfare; the Atomic Energy Commission; the National Aeronautics and Space Administration; and the National Science Foundation) opposed it. At the request

of the Subcommittee on Intergovernmental Relations, Senate Government Operations Committee, GAO submitted a draft of a bill to establish a consistent policy of sharing by recipients in the cost of research financed by the Federal Government. (Report to the Congress, B-117219, Sept. 25, 1970)

155. Funding Research Projects.—GAO's report on the case study at the University of Michigan also noted that Federal agencies use two general methods to fund the university for costs incurred on research projects—advance payments and reimbursement of costs. Under the latter method, the university uses its own funds pending reimbursement by the individual agencies. A test for a 6-month period showed that the university used about \$3.6 million of its own funds monthly to cover costs incurred under federally financed research projects.

The method by which the university received payment for research supported by Federal agencies appeared to be dependent primarily upon the type of contractual instrument used and the particular agency involved.

University officials stated that, since the university was allowed neither a fee on contracts and grants nor recovery of interest lost on university funds used to finance Government cost-type contracts, the agencies should provide the university with sufficient advance payments to cover all costs of research projects. GAO concluded that, since the university did not receive a fee, profit, or interest, the use of its own funds to finance Federal research was in effect additional cost sharing.

GAO recommended that the Director, Office of Management and Budget, in collaboration with other concerned Federal agencies, study the feasibility of adopting a uniform system of providing universities with sufficient advance funds for programs financed by all agencies. Such a system should be designed with an aim toward reducing the administrative burdens of the universities and of the agencies in handling payments.

Except for the Atomic Energy Commission, which did not express its views, all the agencies covered in the study concurred in the objective of this recommendation. The Bureau of the Budget (now the Office of Management and Budget) advised GAO that it was giving specific attention to policies and procedures for providing funds in a new circular, then in draft form, on certain aspects of the administration of research projects. The Bureau of the Budget also noted that this matter would be considered in an interagency study of standardizing administrative requirements of grant-in-aid programs under the President's Federal Assistance Review program. (Report to the Congress, B-117219, Sept. 25, 1970)

156. Distribution of Indirect Costs.—The report on GAO's case study at the University of Michigan further noted that the use of provisional rates, rather than predetermined rates, for allocating indirect costs to research projects was of concern to university officials. GAO believes that there is merit in a suggested method of using predetermined fixed rates, with a provision for "rolling forward" to the next period the difference—plus or minus—between the estimated costs and actual costs. GAO recommended that the Director, Office of Management and Budget, consider the roll-forward concept and pursue this matter further with the various Federal agencies and educational institutions.

The Bureau of the Budget (now the Office of Management and Budget) noted that it was considering the use of the roll-forward concept to permit the equitable application of predetermined indirect-cost rates in more cases and had drafted a revision of its Circular No. A-21 to incorporate this and other matters. Except for the Atomic Energy Commission, which opposed the roll-forward technique, all the research agencies covered in the study endorsed the recommendation directly or by implication. (Report to the Congress, B-117219, Sept. 25, 1970)

INTERNAL MANAGEMENT PRACTICES AND RELATED CONTROLS

Accounting and Fiscal Matters

157. Financing and Accounting Policies.—During fiscal year 1970, as was the case in fiscal year 1969, the contingent liabilities reported by the Export-Import Bank of the United States (Eximbank) as loan maturities sold subject to contingent repurchase commitments included participations in specific loans in support of which Eximbank issued to the purchaser instruments called "certificates of beneficial interest." GAO believes these instruments should be considered as borrowing or financing transactions rather than sales of assets because:

The buyer of a certificate does not actually take possession of the loan instrument executed by the original borrower.

The buyer is not free to dispose of the instrument without restrictions.

Eximbank disagreed with GAO's views but is seeking new methods of handling its certificates of beneficial interest.

GAO noted that Eximbank finances its operations, in part, by borrowing in the private market rather than through the Treasury—apparently because Eximbank believes that this type of financing results in benefits in computing the overall Federal budget surplus (or deficit) and relieving pressures on the statutory debt limit. GAO believes that these benefits are questionable and that Eximbank's private borrowing results in substantially increased interest costs when compared to the costs of direct Treasury borrowing. During fiscal years 1962 through 1970, private financing cost \$43.2 million more than borrowing through the Treasury would have cost, and additional costs of \$29.6 million will be incurred over the remaining life of Eximbank's own securities.

Eximbank and the Department of the Treasury agreed with the facts concerning the additional costs the Eximbank incurred by borrowing in the private market. The Treasury did state, however, that the policy changes implied in the recommendation to increase Eximbank's borrowing from the Treasury might

have considerable impact on the debt ceiling, the Federal budget, and the adequate funding of Eximbank's operations. GAO, therefore, brought this matter to the attention of Congress in case it might wish to consider requiring Eximbank to obtain its funds from the least costly source.

Also, arrangements in effect for some years permit Eximbank to borrow substantial amounts from the Treasury at reduced rates. Had the Treasury charged Eximbank interest rates approximating the full cost of the funds, Eximbank's interest and other financial expenses would have increased by about \$16.8 and \$6.9 million in fiscal years 1970 and 1969, respectively. Eximbank's justification for the reduced interest rates is that they serve to compensate Eximbank for actions taken in furtherance of overall Government policy. After this matter was brought to their attention, Eximbank and the Treasury entered into a new agreement related to the reduced-rate borrowing. In GAO's opinion the effect of this new agreement will partially eliminate Eximbank's low-cost borrowing from the Treasury. Further action is required to fully eliminate the low-cost borrowing.

GAO also stated that Eximbank should document and describe in its annual reports to the Congress any activities performed in the national interest that would not be performed in the ordinary course of its business. Eximbank's annual financial statements would be more informative if the financial results of such activities were disclosed separately in the statements. Although Eximbank pointed out that it had informed Congress of national interest transactions in the past, Eximbank agreed with GAO that such transactions and their effects should be disclosed in Eximbank's annual report to Congress.

GAO also noted that Eximbank's current procedures do not measure with certainty the potential long-term benefits derived from individual transactions under the export expansion facility which provides financial support for U.S. exports involving greater than normal risks. This program would be more effective if long-term trade goals of the United States were identified

on a geographical and/or industrial basis and if only transactions which met these goals were approved. (Report to the Congress, B-144823, June 21, 1971)

158. Activities at the Regional Finance and Data Processing Center, Paris, France.—A report was submitted to the Department of State on the results of GAO's survey of activities at the Regional Finance and Data Processing Center in Paris, France. GAO identified three possibilities for improving the activities at the Paris Center. These improvements consisted of (1) making a current appraisal of automatic data processing equipment requirements at the Center so that excess equipment capacity could be eliminated, (2) tightening controls over the issuance of erroneous checks, and (3) modifying the Center's practices in the management of foreign currency bank accounts so that exchange losses could be reduced.

The report also stated that the Department should give immediate consideration to the desirability of eventually controlling overseas financial transactions under a common data processing system for all the foreign affairs agencies, using the planned common system facility at Washington for any processing to be performed centrally under the system. One of the recognized opportunities for utilizing the facility as a part of a common system is in the centralized processing of payrolls—an activity now conducted on a regional basis by the Paris Center.

GAO made the following suggestions to the Department of State:

A current appraisal should be made of the automatic data processing equipment requirements at Paris.

The Center should make a critical review of its internal controls over the issuance of checks, strengthen them wherever necessary, and establish a program for recording, reviewing, and taking actions to prevent the recurrence of each continuing discrepancy as it is identified.

Consideration should be given to the development of modified approaches to the management of foreign currency bank accounts.

The Department should proceed to formulate the concepts that will best serve all the foreign affairs agencies under a common data processing system, so that procedures within the Paris region can be revised on a basis consistent with those concepts.

The Department agreed with GAO's objectives, but differed as to the means, timing, and assignment of

responsibilities to assure movement toward those objectives. (Report to the Assistant Secretary of State, Bureau of Administration, B-146703, Mar. 22, 1971)

159. Cost Accounting for Maintenance Operations.—The Department of Defense spends about \$7 billion a year for depot-level maintenance operations—the major overhauling or rebuilding of military equipment. GAO reviewed the cost accounting systems for depot-level maintenance of aircraft engines.

The cost accounting systems differed among the three services, and among installations within each service, making impossible any meaningful comparisons between facilities performing similar work. For example:

The Army and Navy used job order systems but in different ways; the Air Force used an entirely different system—one based on hours of work.

All three services had a procedure for determining cost of "exchange material"—a charge for rebuilt parts taken from stock less an allowance for the unserviceable parts returned to stock in exchange; however, the Army used a substantially different formula from that of the Navy and Air Force for determining the allowance for the unserviceable parts returned.

Fuel, used in considerable quantities for testing overhauled engines, was treated as a direct material cost by the Navy and an indirect cost by the Army and Air Force.

Fringe benefits, such as annual and sick leave and Government contributions to life and health insurance and to retirement, were treated as indirect cost by the Air Force and an integral part of labor cost by the Army and Navy.

GAO proposed that the Secretary of Defense issue instructions that would insure that the cost accounting systems provide complete, comparable, and accurate information on the operations and accomplishments of depot-level maintenance. The Department of Defense agreed that there were inconsistencies in cost reporting and that there were some areas requiring more explicit instructions; however, the Department believed that a more strict compliance with existing directives and instructions would generally insure the desired uniformity in cost information.

The GAO report also cited the need for an effort within the Government to establish cost accounting standards for Government activities comparable to those to be developed by the congressionally established

SECTION I

Cost Accounting Standards Board for industry (Public Law 91-379, dated Aug. 15, 1970). (Report to the Congress, B-159797, Feb. 2, 1971)

160. Status, Progress, and Problems in Federal Agency Accounting.—In December 1970, GAO issued its second annual report on the status of Federal agency accounting and the progress being made and problems encountered during calendar year 1969 by Federal agencies in developing improved accounting systems for submission to and approval by the Comptroller General.

The report, which was prepared in response to a recommendation of the House Committee on Government Operations, contained the following observations:

Federal agencies, with a few exceptions, continued to maintain their increased interest and activity.

Eight systems designs and 21 statements of principles and standards were approved during the year for civil and international departments and agencies. At yearend 65 systems designs had been approved of a total of 144 subject to approval, as well as 95 statements of principles and standards, and 11 of 42 segments of systems subject to approval. In the Department of Defense, three systems designs and eight statements of principles and standards were approved during the year.

The concept of accrual accounting had been generally agreed to throughout the executive branch of the Government. Current problems relate primarily to application of the concept and maintenance of adequate systems.

Although many agencies were making significant efforts to improve their financial management practices in general and their accounting systems in particular, GAO was not satisfied with their overall progress and felt that agencies' efforts should be maintained and accelerated.

Property accounting and cost accounting were two areas where improvements were needed in the accounting systems of the executive agencies. Both property accounting and cost accounting are integral parts of an accrual accounting system.

(Report to the Congress, B-115398, Dec. 31, 1970)

161. Controlling and Accounting for Sight Drafts.—GAO examined into the procedures followed by the Commodity Credit Corporation (CCC) for controlling and accounting for sight drafts issued in Agricultural Stabilization and Conservation Service

State and county offices as payments to farmers and others under conservation, price support, and production adjustment programs. In one year these offices issued about 7.4 million sight drafts totaling about \$6.1 billion.

The examination showed deficiencies in preparing and issuing drafts, in safeguarding drafts, and in accounting for unissued and missing drafts. Also, information on issued drafts was not being furnished for timely recording in the accounts. CCC informed GAO of certain actions it had taken or proposed to take to correct the deficiencies. (Report to the Congress, B-114824, Jan. 15, 1971)

162. Deposit of Funds in Federal Reserve Banks.—During fiscal year 1969, U.S. district courts maintained a monthly average of about \$35 million of registry account funds on deposit in commercial banks of which about 15 percent were earning interest. If the funds had been on deposit in Federal Reserve banks, the Government could have reduced its borrowing requirements and interest costs. Each district court decides whether the funds are to be deposited in Federal Reserve banks or in commercial banks. Of the 93 district courts, 75 had deposits exclusively in commercial banks or in both commercial banks and Federal Reserve banks. GAO estimated that the Federal Government could have realized savings of about \$1.8 million during fiscal year 1969 if all the district courts had deposited registry account funds exclusively in Federal Reserve banks.

GAO recommended that the Judicial Conference of the United States, a policymaking body for the judicial branch, consider establishing a policy requiring the courts to deposit registry account funds in Federal Reserve banks exclusively and requiring the Administrative Office of the U.S. Courts to issue instructions to the clerks of the court, to transfer registry account funds on deposit in commercial banks to Federal Reserve banks. (Report to the Congress, B-133322, Oct. 8, 1970)

163. Internal Control Procedures.—GAO's review at three U.S. district courts, judicial branch, showed that internal control procedures needed to be strengthened to provide assurance that funds and other items of value were properly accounted for, safeguarded, and disposed of in a timely manner.

In all three districts some personnel received cash, recorded its receipt, and made bank deposits; in two districts cash drawers were sometimes left open and

unattended and control lists were not prepared for cash received by mail; and in one district vault combinations had not been changed in several years. Court exhibits of narcotics and rare coins valued at \$750,000 and \$200,000, respectively, were not adequately safeguarded in one district because the vault's combination lock was inoperative. In addition, certain funds eligible for transfer as miscellaneous receipts to the U.S. Treasury after 5 years had not been transferred although more than 5 years, and in some instances nearly 9 years, had elapsed.

Fundamental internal control procedures were needed including (1) separating cash-handling and accounting responsibilities, (2) locking cash drawers when not attended, (3) changing vault combinations periodically, (4) preparing control lists for mail receipts and making daily deposits, and (5) making timely required transfers to the U.S. Treasury.

GAO recommended that the Judicial Conference of the United States consider instructing the Director, Administrative Office of the U.S. Courts, to provide the clerks of the courts with detailed internal control procedures for funds and other items of value and to insure that the procedures were implemented. (Report to the Congress, B-133322, Oct. 8, 1976)

164. Unauthorized Retention of Money Accumulated for Earned Leave of Transferred Employees.—GAO reported that the National Bureau of Standards, Department of Commerce, augmented its working capital fund without authority of law because it did not return to the Treasury, money accumulated for earned annual leave of transferred employees. The Bureau treated the reduction in the liability for accrued annual leave of 757 transferred employees as an increase in donated capital. Of the reduction, \$432,589 represented accrued annual leave expense which had been recovered by charges to customers and retained in the fund. Inasmuch as the Bureau did not agree to pay the \$432,589 into the general fund of the Treasury as GAO had recommended, GAO reported the matter to the Congress for its consideration.

GAO also recommended that the Department of Commerce's financial systems staff establish specific guidelines to be followed when accounting for assets and liabilities involved in significant transfers of functions between agencies, as occurred in this case. Subsequently, the Department began to establish such guidelines. (Report to the Congress, B-149858, Mar. 10, 1971)

165. Accounting System Deficiencies (Farmers Home Administration).—The financial statements of the Emergency Credit Revolving Fund—a fund used by the Farmers Home Administration (FHA), Department of Agriculture, to make emergency loans to farmers and ranchers in natural disaster areas—did not present fairly the financial position of the fund at December 31, 1968, or the results of the fund's operations. Specifically:

The net loss from operations and the accumulated net deficit were understated materially.

FHA's estimates of future losses on emergency loans and related receivables were not adequately supported. FHA's accounting system did not provide adequate information with which to evaluate the collectibility of outstanding loans.

Several account balances, including cash, were significantly misstated because transactions had not been recorded promptly or had not been classified properly.

FHA's basis for determining the administrative expenses chargeable to the fund was not sound and resulted in distortion of the reported costs of operations.

FHA's accounting procedures and practices did not provide full and accurate disclosure of the financial results of the emergency loan program, adequate financial information for management purposes, or reliable accounting data for reports required by the Treasury Department. Because the procedures and practices applied also to FHA's other loan programs, the financial reports on those activities might have been similarly affected.

FHA took steps to improve its financial management system in line with GAO's recommendations. Also, the Office of the Inspector General (OIG) revised its instructions in line with GAO's recommendation that OIG establish a program for testing the accuracy of FHA's financial reports and consult with FHA to insure that FHA's system, as designed, will comply with accepted accounting principles and standards and will contain adequate audit trails. (Report to the Congress, B-114873, Dec. 30, 1970)

166. Accounting System Deficiencies (Immigration and Naturalization Service).—A review of the accounting system of the Immigration and Naturalization Service (INS), Department of Justice, revealed a number of areas in need of improvement. GAO reported that only limited use was made at the Wash-

SECTION I

ington level of cost reports providing cost information by major organizational segments and by budget programs or activities because the reports did not meet the needs of management. No cost reports were developed for use below the major organizational level, even though operations within the functional or activity classifications were readily identifiable.

GAO recommended that the Commissioner, INS, provide that adequate and timely cost reports be developed for each management level in Washington and in the field for which cost targets have been established so that INS management may have an effective means of administering and controlling programs within cost targets or estimates.

Also, there was a need to simplify fund controls by (1) reducing from 14 to five the number of INS allotments of funds and (2) placing the authority and responsibility for central office allotments at the highest practical level consistent with assignments of responsibility. Contrary to requirements of the INS manual, annual and sick leave accruals for INS central office employees were not recorded each month. (Report to the Attorney General, B-157162, Aug. 5, 1970)

167. Accounting System Deficiencies (U.S. Coast Guard).—A review of aspects of the centralized automated reserve pay and retirement point accounting system of the U.S. Coast Guard, Department of Transportation, revealed a number of areas in need of improvement. GAO reported that because the information contained in the data base for the system was, in many instances, inaccurate and/or incomplete, it was necessary for the Coast Guard to determine retirement points manually before establishing retirement benefits. Also, a required monthly summary report on reserve unit activities was prepared manually at headquarters from data submitted by the districts although the same information was also recorded on the master tape containing the data base.

The Coast Guard agreed with GAO's recommendations for corrective action and established a study group to recommend interim measures to relieve some of the problems with the existing system and to design a new system. (Report to the Commandant, U.S. Coast Guard, Nov. 30, 1970)

168. Accounting System Deficiencies (Urban Mass Transportation Administration).—In a review of selected financial transactions of the Urban Mass Transportation Fund, Urban Mass Transportation Administration (UMTA), Department of Transporta-

tion, covering the period July 1, 1968, through December 31, 1969, GAO observed that interagency agreements entered into between UMTA and other Government agencies were not accounted for properly in UMTA's books of account, and the accounts payable balance shown on the June 30, 1969, financial statements did not represent bona fide liabilities.

GAO believed that UMTA needed to establish, in manual form, appropriate procedural instructions for the guidance of personnel responsible for accounting operations. UMTA agreed and stated that appropriate corrective action had been initiated. (Report to the Administrator, UMTA, Jan. 27, 1971)

169. Accounting System Deficiencies (Atomic Energy Commission).—At the request of the Joint Committee on Atomic Energy, GAO reviewed selected aspects of the Atomic Energy Commission's (AEC) high energy physics program relating to high energy accelerators.

GAO noted that the laboratories had not reported accelerator operations and research subactivity cost data to AEC on a uniform basis. This lack of uniformity was caused, in part, by the different interpretations placed on AEC's definitions of operations and research. In addition, the accounts used by the laboratories for accumulating such data were not documented with detailed written account descriptions.

AEC agreed to (1) redefine the operations subactivity in a more precise manner so as to provide for more uniform cost reporting by the accelerator laboratories, (2) require the laboratories to report separately the costs of operating and maintaining facilities and major equipment relating to the performance of experiments at the laboratories which are not a part of the operations subactivity, and (3) require the laboratories to develop written account descriptions. (Report to the chairman, Joint Committee on Atomic Energy, B-159687, Feb. 8, 1971)

170. Budget and Cost Improvements.—At the request of the Joint Committee on Atomic Energy, GAO reviewed selected aspects of the Atomic Energy Commission's (AEC) high energy physics program relating to high energy accelerators.

In allocating high energy physics funds among program activities, decisions made by AEC regarding the specific amounts included in the various budget documents were reached by AEC officials on the basis of the input from the laboratories and their scientific judgment, knowledge of program needs and priorities,

and personal experience. Alternatives considered in arriving at specific allocations of funds generally were not documented. GAO believed that more information should be available as to the costs of operating the accelerators at various levels to enable AEC to more fully evaluate the effects of alternative funding decisions.

GAO studied the possibility that AEC could develop, through management cost analysis or other techniques, standards which might provide for a more efficient allocation of funds within the budgets provided by the Congress.

In the study, GAO adjusted the cost data to achieve greater uniformity and developed information regarding the cost of operating accelerators at various levels of beam output. GAO stated that this information could be useful to AEC (1) in considering alternative allocations of available funds, (2) in comparing expected operating costs and output with those actually achieved, and (3) in analyzing variances and taking corrective action, if needed.

AEC agreed that additional data concerning operations costs and beam output at various levels of accelerator operation might be useful in program administration and implemented procedures requiring the laboratories to provide the appropriate data on a trial basis. (Report to the chairman, Joint Committee on Atomic Energy, B-159687, Feb. 8, 1971)

Management Information Systems

171. Adequacy of Data Base, Reports, and Procedures.—As the result of a review, GAO made several recommendations for improvement in the operation and administration of the computerized management information system established by the Economic Development Administration (EDA), Department of Commerce. Inasmuch as reports generated by the system were, in some instances, inaccurate, untimely, and incorrectly programmed, GAO recommended that EDA review the usefulness of the reports, revise reporting requirements where necessary, and centralize responsibility for evaluating the reporting function. Other recommendations dealt with the (1) accuracy, reliability, and completeness of the data base and (2) desirability of having operating personnel prepare the forms required to request information from the system, thus permitting trained system personnel to devote full time to the system's operation and maintenance. EDA agreed to take action on all of GAO's

recommendations. (Report to the Assistant Secretary for Economic Development, Department of Commerce, Aug. 21, 1970)

Management Practices—General

172. Increased Screening of Registrants with Medical Conditions at Local Draft Boards.—GAO's review at 30 selected local draft boards showed that 37 percent of the registrants rejected because of medical conditions had either (1) submitted to their local boards doctors' statements which indicated that they had the medical conditions for which they were later disqualified or (2) been examined previously and rejected for the same reason.

The report pointed out that these registrants (or their case files) could have been sent to the local boards' medical advisors for screening and, if warranted, rejected for military service without being sent for preinduction examinations. In addition, the report pointed out that there was a need for a Selective Service System (SSS) procedure which would permit the local boards to send registrants' files to examining stations to see if preinduction examinations were needed. GAO estimated that nationwide savings of \$1 million in transportation and examination costs might have been realized by screening these registrants at the local boards.

The SSS agreed to have local boards send cases to medical advisors (1) if the registrants were examined previously at the examining stations and the stations requested them to return and (2) if the registrants had physical defects that the medical advisors could determine without laboratory tests and X-rays. The SSS did not say if additional instructions would be issued to local boards and medical advisors or if it was willing to have local boards send registrants who had submitted doctors' statements as evidence of disqualifying medical conditions to medical advisors.

The Department of the Army informed GAO that Armed Forces Examining and Entrance Stations were currently screening registrants' files when requested to do so by local boards and were prepared to expand the service in areas where local boards could not obtain a sufficient number of medical advisors. (Report to the Congress, B-162111, Nov. 9, 1970)

173. Juror Selection and Utilization.—Although the U.S. district courts, judicial branch, had been informed of the benefits to be derived from the automa-

SECTION I

tion of juror selection procedures, the three districts included in GAO's review had taken little, if any, action to implement such automation. In two districts which used computers, annual savings were estimated to be from \$27,500 to \$42,000. GAO believed that all districts meeting the criteria established by the Administrative Office of the U.S. Courts, the administrative arm of the judicial branch, should automate the primarily manual procedures to bring about efficiencies and economies. Two of the three districts included in GAO's review met the criteria in 1969 and the other district was expected to meet it in 1971.

Also, GAO believed that the number of prospective jurors summoned to appear at the district courts for impanelment but not selected to serve on juries could be reduced. In one of the three districts, about 60 percent of the prospective jurors who appeared during 1968 were not impaneled or challenged. GAO estimated these unutilized prospective jurors were paid about \$75,000 in fees and travel costs.

GAO recommended that the Judicial Conference of the United States, a policymaking body for the Federal judicial system, consider requiring that:

Target dates be established for completion of automation by all districts that meet the criteria.

The Administrative Office (1) assist and encourage the district courts that meet the criteria to achieve automation of juror selection procedures, (2) design records to be maintained by clerks of courts which would provide complete data on the prospective jurors from the time they were summoned until the jury impanelments were completed, and (3) develop guidelines and instructions to provide the district courts with a more realistic basis for estimating the number of prospective jurors required to complete jury impanelments under various circumstances.

(Report to the Congress, B-133322, Oct. 8, 1970)

174. Policy Covering Locations for Holding Court.—The U.S. district courts in some judicial districts hold court at some locations infrequently and for short periods of time. This situation has resulted in (1) lost time to the judges, due to the need for travel and disruption to their schedules, (2) low usage of courtroom facilities which could be made available to other Government agencies, and (3) increased cost of transporting court employees and records. The substantial volume of work which faces the courts emphasizes the need to explore means for carrying out

the courts' responsibilities more efficiently and economically.

In the three districts reviewed, GAO found that two of the three were authorized to hold court at more than one location. One of these districts held court continuously at three locations, for 2-week periods twice a year at each of two other locations, and not at all at three additional locations. GAO estimated that if the two locations where court was held intermittently were consolidated with the three locations where court was held continuously, an estimated \$46,000 could be saved annually through (1) making the vacated Government-owned space available to Federal agencies who leased space at two locations and (2) eliminating court travel costs.

GAO recommended that the Judicial Conference of the United States consider: (1) evaluating the need to hold court at locations where the volume of cases requires that court be held infrequently and for only short periods of time, (2) consolidating or otherwise reducing the number of locations for holding court, and (3) sponsoring the necessary legislation, if legislative action is required, to accomplish all or part of the objective. (Report to the Congress, B-133322, Oct. 8, 1970)

175. Policy for Improving Court Administration.—GAO found in its review of administrative and financial activities of U.S. district courts, judicial branch, that the Administrative Office of the U.S. Courts could provide additional assistance to the Judicial Conference of the United States in improving the operations of the courts by increased participation in determining, coordinating, and bringing about needed improvements in the courts' administrative and financial activities. Although the Director, Administrative Office, is the administrative officer of the district courts, neither he nor the Office has been delegated, by law or the Judicial Conference, the authority to require the implementation of recommended policy or procedure changes.

GAO's review revealed a number of areas where it believed opportunities existed for improved administration. The Judicial Conference had also recognized the need for some of these improvements and its committees had proposed recommendations for improvements. In certain of these areas, limited progress had been made toward bringing about the desired and needed improvements.

GAO believed that strengthening the role of the Director, Administrative Office, by providing him not

only with the authority to recommend improvements in the clerks' operations but also the means necessary to insure their consideration and implementation, where applicable, could serve to diminish the necessity for the clerks to look to the district judges for direction on administrative matters and thereby would allow the judges to devote a greater portion of their time to judicial matters.

GAO recommended that the Judicial Conference consider issuing a policy statement setting forth the specific duties and responsibilities of the Director, Administrative Office, and authorizing him to require the clerks of the courts to implement his instructions and recommendations concerning administrative and financial activities of the courts. (Report to the Congress, B-133322, Oct. 8, 1970)

176. Use of Electronic Traffic Counters.—Electronic vehicle and pedestrian counting devices installed by the Immigration and Naturalization Service (INS), Department of Justice, at ports of entry in Maine and Vermont were inaccurate and frequently inoperative. Inexpensive hand-operated counters were used at other border-crossing stations, were more reliable than the electronic devices, and were preferred by INS personnel. In view of the maintenance and operating problems experienced with electronic counters, their significantly higher costs compared to other types of traffic counters, and the INS Administrative Manual provision allowing estimates of the count of border crossers admitted, GAO recommended that INS reevaluate the use made of installed electronic counters and determine whether INS needs would be served by using less costly and more reliable types of traffic counters.

On July 26, 1971, INS advised GAO that plans for new port of entry stations would make provisions for more suitable and reliable counting devices—inductive loop counters for vehicles and turnstile counters for pedestrians. (Report to the Commissioner, INS, Apr. 30, 1971)

177. Use of Manpower and Machines at Mechanized Post Offices.—GAO's review at selected large mechanized post offices showed that the Post Office Department had not made the best use of its manpower and machinery in processing mail. GAO reported that:

Because most mailings occur at the end of each business day, the Department's efforts to process first-class mail within 90 minutes of receipt by postal facilities resulted in costly machines standing idle for long periods after the peak mail volume had been

processed and in nearly three-fourths of the clerks and mailhandlers working during evening premium pay hours. Such expeditious processing was not necessary to meet mailers' needs.

Postal employees sorted substantial volumes of letter mail by hand while letter-sorting machines stood idle. GAO estimated that more effective use of such machines could result in savings of about \$487,000 a year.

The Department could save about \$500,000 a year if mail being hand sorted at smaller post offices in the Detroit, Mich., area were funneled into the Detroit post office for machine processing.

Canceling stamps and postmarking letters by hand costs \$360,000 a year in Detroit. A possibility for reducing hand cancellation is the use of precanceled stamps.

Recruiting weaknesses, slow and burdensome hiring practices, outdated wage and advancement policies, and uncertain work schedules for new employees caused a serious labor turnover problem. In 1969, employee turnover cost the Department about \$17 million, primarily for recruiting and training.

Substantial sums could be saved by consolidating or eliminating certain management reports.

GAO recommended that the Department (1) expedite its study of a priority classification of first-class mail and initiate appropriate changes to the existing mail-processing system, (2) reassess the possibility of using machines to sort letters now being hand sorted, (3) expand, where feasible and as rapidly as possible, its program under which mail from smaller post offices is consolidated at mechanized post offices for processing, (4) explore alternatives to existing procedures for hand-canceling and postmarking mail, and (5) expedite its review of management reports, eliminate unnecessary ones, and simplify reporting requirements.

The Postmaster General generally agreed with GAO's findings and cited various actions being taken to correct the matters discussed in the report. (Report to the Congress, B-114874, May 27, 1971)

178. Use of Value Engineering Studies in Vessel Construction.—In the construction and repair of its vessels, the U.S. Coast Guard, Department of Transportation, encourages private shipbuilders, by the terms of their contracts, to develop acceptable value engineering studies which will promote cost savings to be shared by both parties. A large volume of value engineering studies are developed each year in connec-

SECTION I

tion with the construction and repair of the Navy's vessels. Navy regulations provide that copies of these studies be forwarded to other interested Government agencies, including the Coast Guard.

GAO reported that the Coast Guard had not established written procedures for the review and evaluation of the Navy studies; in many instances, officials responsible for the Coast Guard's vessel construction program had not reviewed Navy studies that had been received; and in those instances where the studies were reviewed, the Coast Guard's evaluation and disposition of the studies were accomplished in an informal manner.

As a test of the potential value of the use of Navy studies in the Coast Guard, GAO selected 55 of the studies for review and discussion with Coast Guard officials. These officials agreed that 20 of the 55 studies were suitable for use in Coast Guard vessel construction and repair activities.

GAO concluded that because the Coast Guard had plans to construct several new vessels and had a substantial continuing vessel repair and alteration program, the adoption of a more effective procedure for reviewing Navy value engineering studies was warranted.

In response to GAO's recommendation, the Coast Guard established a review procedure which, if properly carried out, should insure that such studies are properly evaluated and implemented, where appropriate, on a timely basis. (Report to the Commandant, U.S. Coast Guard, Dec. 8, 1970)

179. Government Self-Insurance, and Performance and Payment Bonds.—The Government generally follows a policy of self-insurance. The U.S. Coast Guard, Department of Transportation, has not followed this policy and has required that contracts for the construction of vessels provide for insurance. As a result the contract prices for vessel construction during fiscal years 1964-66 were increased by about \$918,000. GAO estimated that if the Coast Guard continued to require such insurance, related premium costs of as much as \$5 million could be incurred on planned construction.

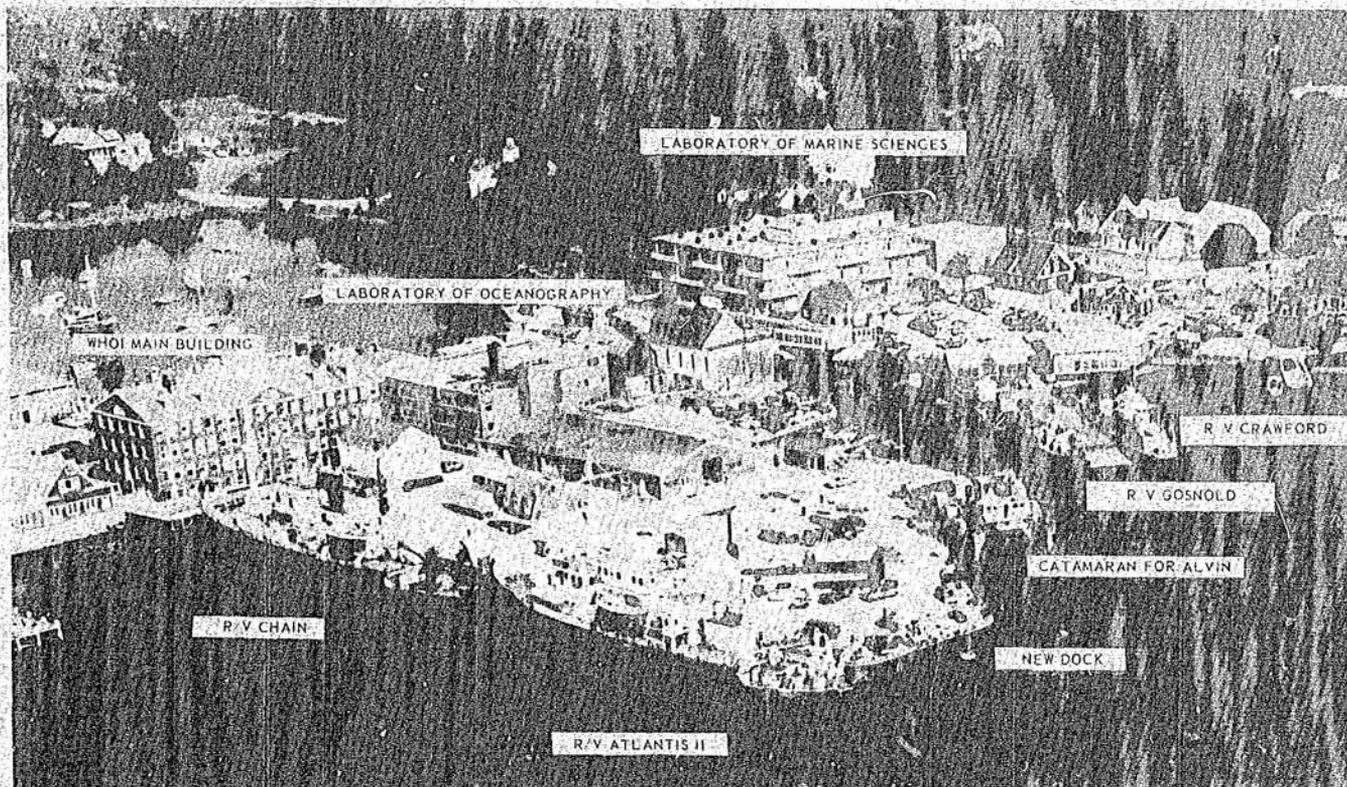
Also, although the statutory requirement for performance and payment bonds may be waived on Coast Guard contracts, no waivers had been made up to the time of GAO's review in April 1969. GAO estimated that the Coast Guard could save as much as \$900,000 by waiving this requirement for vessel construction then in the planning stage.

The Department informed GAO that the Coast Guard would revise its policy of requiring private shipbuilders to bear the risk of loss or damage to Government-owned property in their possession by adopting a policy of self-insurance in connection with contracts awarded for the acquisition of vessels over 100 feet in length. Also, the Department agreed that savings were likely on ship construction contracts through judicious waiver of the requirement for performance and payment bonds and informed GAO that this requirement had been waived in its latest shipbuilding award. In its award of a \$53 million contract in August 1971 for the construction of a new icebreaker, the Coast Guard followed a self-insurance program. (Report to the Congress, B-114851, Aug. 12, 1970)

180. Administration of Grants for Construction of Oceanographic Shore Facilities.—National Science Foundation (NSF) grants for constructing shore facilities at oceanographic institutions were administered by three separate program offices in the Foundation. Their policies and procedures varied. In GAO's opinion, two of the offices did not have adequate formalized procedures for the management of construction projects by institutions receiving the grants. The two offices had determined requirements for the award and administration of a grant on a case-by-case basis. The Foundation would have greater assurance that grants were properly awarded and administered if the two offices would adopt formalized procedures like those of the third office. The adoption of uniform procedures would also eliminate the varied requirements imposed upon grantees.

Also, NSF did not have criteria which clearly distinguished between specialized research and graduate-level research facilities. As a result, similar oceanographic facilities had not been consistently classified and the extent of NSF's participation in the construction cost had varied significantly. Grants for construction of specialized facilities might be for their total cost, while grants for construction of graduate-level facilities were limited to an amount equal to that provided by the institution.

NSF pointed out basic differences between the programs administered by its three program offices but agreed that certain differences in procedures could be eliminated and that adequate guidelines to grantees were needed. NSF officials said they would seek uniformity of policies and procedures, including the pos-



Major facilities of the Woods Hole Oceanographic Institution.

sibility of centralizing administrative responsibility for construction grants within the Foundation, as recommended. Subsequently, in October 1970, NSF incorporated, among other things, oceanographic facilities support into a new function entitled the National Oceanographic Laboratory System with the objective of maximizing research output from funds made available for academic oceanographic research. (Report to the Congress, B-169941, Sept. 23, 1970)

181. Improvements Needed in Evaluating Hospital Construction and Modernization Design Requirements.—GAO reported that the Veterans Administration (VA) had not made adequate and timely investigations of architect-engineers' cost-reduction proposals for the use of less costly construction materials and methods to determine whether their use should have been made a part of the VA design criteria applicable to all hospital construction.

GAO's review of four architect-engineers' cost-reduction proposals, which VA had accepted in connection with the construction of three hospitals, showed that it took VA from 1 to 4 years to incorporate the items in its design criteria. GAO estimated that VA might have saved about \$486,000 if it had required the

inclusion of the four cost-reduction items, where appropriate, in nine contracts which it subsequently awarded for hospital construction.

In response to GAO's recommendation, VA formalized procedures for incorporating cost-reduction proposals in its design criteria for prompt application, as appropriate, to future construction projects.

GAO reported also that VA had canceled four modernization construction projects during development or shortly after completion of the working drawings and specifications, which cost about \$338,000. The projects were canceled because the planned construction would not have satisfied the needs of the hospitals, would have taken needed hospital beds out of service, or would have cost more than VA had estimated and such cost could not be justified. GAO expressed the belief that VA had enough information on these matters to have raised serious questions about the modernization projects before it authorized the working drawings and specifications.

VA informed GAO that it had changed its procedures to incorporate architect-engineers' cost-reduction proposals in its design criteria for future construction and had strengthened its review practices before award of architect-engineer contracts for hos-

SECTION I

pital modernization projects. (Report to the Congress, B-133044, Dec. 29, 1970)

182. Improvements Needed in Management Control Over the Identification and Reporting of Excess Land.—GAO reported that at eight of the 14 Veterans Administration (VA) stations visited, about 832 acres of land, with an estimated value in 1969 of about \$26 million, were identified as being excess to current and established future needs of the respective stations based on VA's landholding standards and the wide dispersal of buildings.

GAO stated that the retention of excess land was attributable to (1) station officials' reluctance to report unused land as excess, anticipation of future transfer of the land to outside VA, or fear of undesirable development on the land if it were declared excess and (2) a lack of coordination among the VA central office, the stations, and the General Services Administration (GSA). The central office did not question annual real property reports when land being retained by field stations significantly exceeded VA's landholding standards.

GAO stated that improved management controls would result in more timely identification of land which is excess to VA's needs so that it could be made available either for use by other Federal, State, or local entities or for sale by GSA.

In response to GAO recommendations, VA stated that guidelines would be developed for evaluating current landholdings and that specific consideration would be given to the land parcels identified in the GAO report. VA stated also that (1) justifications

submitted by field stations for retaining land in excess of VA landholding standards would be reviewed by central office officials and (2) landholdings at field stations would be reviewed during visits of central office officials. In addition, VA instituted procedures which require that the annual survey reports sent to the central office by the field stations be supplemented with annotated land plot plans showing land use. (Report to the Congress, B-133044, Nov. 12, 1970)

183. Preservice Physical Examinations of Enlisted Personnel.—At the request of a member of the Senate Committee on Armed Services, GAO made a review of the activities of the Armed Forces Examining and Entrance Stations and of the U.S. Army Recruiting Command to determine the experience of the military departments in discharging enlisted personnel because of physical defects which existed prior to entrance into military service. Because of preservice physical defects, about 20,000 enlisted personnel were discharged in fiscal year 1968, and about 19,400 in fiscal 1969. GAO estimated that about \$17.9 million was expended in fiscal year 1969 for personnel discharged because of preservice physical defects after having served for a year or less.

GAO noted that some improvements were being implemented at the examining stations. These included (1) specialized training for military medical officers, (2) development of an automated medical examination system, and (3) upgrading of the facilities at some of the examining stations. (Report to Senator Schweiker, B-146986, July 27, 1970)

PAY, ALLOWANCES, AND EMPLOYEE BENEFITS

Alcoholism Program for Federal Civilian Employees

184. Establishment of Program.—As a result of a study made at the request of the chairman, Special Subcommittee on Alcoholism and Narcotics, Senate Committee on Labor and Public Welfare, GAO reported in September 1970 that substantial cost savings could be realized by the Federal Government through establishing a program for identifying, preventing, and treating alcoholism among its employees. Data were not available on the number of Federal civilian employees suffering from the illness or on the resultant cost to the Federal Government in terms of lowered worker efficiency and morale, absenteeism, bad decisions, early retirements, and related loss areas. Therefore, in conducting its study, GAO relied on information provided by individuals in Federal agencies, State governments, and industry and by others who had studied the problem of alcoholism to arrive at estimates of the prevalence of alcoholism in the Federal Government, the employer costs incurred as a result thereof, and the cost savings that might result from an effective Government-wide alcoholism program.

GAO estimated that the prevalence of alcoholism among the 2.8 million civilian employees in the Federal work force at June 30, 1970, ranged from 4 percent (112,000 employees) to 8 percent (224,000 employees) and resulted in employer costs to the Federal Government ranging from \$275 million to \$550 million annually.

Since about 54 of every 100 alcoholic employees would be likely to recover as a result of an alcoholism program, GAO estimated a net cost savings to the Government ranging from \$135 million to \$280 million a year after deduction of the estimated \$15 million cost of the program.

GAO pointed out that an effective Government-wide alcoholism program would not only bring about substantial employer cost savings, but also, by helping reduce the number of alcoholics in the total population, would contribute to the economic and social benefits which the Federal Government and society as

a whole would obtain from alcoholism programs in general. Such benefits would take the form of reductions in, for example, traffic accidents, crime, and the need for welfare and medical services attributable to the misuse of alcohol.

In conclusion, GAO expressed the view that a program aimed at salvaging the alcoholic Federal employee would attend to a part of one of the Nation's major health problems and, at the same time, would give a group of sick Federal employees a greater chance to recover and live decent lives.

GAO's report was used by the subcommittee in its deliberations on proposed legislation which led to the enactment of Public Law 91-616, approved December 31, 1970, which provides that the Civil Service Commission, in cooperation with the Secretary of Health, Education, and Welfare and with other Federal agencies and departments, shall be responsible for developing and maintaining alcohol abuse and alcoholism prevention, treatment, and rehabilitation programs for Federal civilian employees. On July 7, 1971, the Commissioner issued guidelines for use by Federal agencies in establishing and maintaining alcoholism programs. (Report to the chairman, Special Subcommittee on Alcoholism and Narcotics, Senate Committee on Labor and Public Welfare, B-164031(2), Sept. 28, 1970)

Federal Employees' Health Insurance

185. Administration of the Government-Wide Service Benefit Plan.—GAO examined into the Civil Service Commission's administration of the Government-wide service benefit plan operated by the Blue Cross and Blue Shield organizations and noted the following areas in need of improvement.

Instead of promptly investing all cash not needed for discharging the Plan's obligations, substantial amounts of cash had been kept in non-interest-bearing checking accounts. As a result, as much as \$400,000 of interest income had been lost annually.

SECTION I

Several hundred thousand dollars of Plan funds collected from local hospitals had been retained by a local plan for long periods before being remitted to the Plan's Operations Center with the result that the funds were not available for investment by the Plan.

The Operations Center had advanced funds to certain local plans, apparently in excess of the amounts needed by these plans to meet current obligations, thus reducing funds available for investment. This happened because a formula used for computing the needed amounts overstated the number of days required by the local plans to obtain reimbursement.

The laws of some States require local plans to maintain contingency reserves in addition to their other reserves, and the Commission's contract authorized annual allowances to local plans to satisfy these requirements. The equity of continuing to make such allowances was questionable because the contingency reserves maintained by the Commission and the carriers were adequate for protecting the interests of the Plan's enrollees.

Investment income had been allocated among the reserves of the high and low insurance options of the Plan and taken into consideration in establishing premium rates for the different options. The balances of the special reserves for the high options were understated and the balances for the low options were overstated, because the method of allocating interest income among the reserves had not resulted in distributing interest income in proportion to the sources of the funds invested to earn such income.

GAO's proposals to the Commission for improving administration of the Plan related to:

Increasing the interest income earned by the Plan by insuring that (1) all funds not immediately needed to discharge Plan obligations are promptly invested, (2) local plans promptly remit to the Operations Center all Plan funds collected from hospitals, and (3) advances of funds to local plans do not exceed the amounts needed by them to meet current Plan obligations.

Making a study to determine the reasonableness of and the necessity for continuing to make allowances to local plans for the purpose of assisting them in meeting State contingency reserve requirements.

Requiring that interest income be allocated to the reserves of the different options in proportion to the source of funds used in earning such income.

In October 1970 the Plan's Operations Center adopted a revised procedure for reimbursing local plans which resulted in freeing about \$7.5 million for investment. The Center's operating costs will be increased by about \$25,500 annually as a result of the revised procedure. GAO estimates that the investment of the additional funds should produce net interest income of about \$107,000 a year for the Plan.

The Commission was generally receptive to GAO's other proposals and either took action or agreed to take action in line with such proposals. (Report to the Congress, B-164562, Oct. 20, 1970)

Government-Furnished Housing

186. Rental Rates.—GAO's followup review concerning rental rates charged occupants of Government-owned quarters at certain Veterans Administration (VA) field stations disclosed that the VA was losing \$590,000 a year in rental income because rents charged employees at 13 VA hospitals were too low. To the extent that similar conditions existed at those hospitals which were not visited by GAO, an even larger amount of income was being lost nationwide. This income could reduce the amount of appropriated funds needed to operate VA's medical care program.

The VA had deviated from Office of Management and Budget criteria for establishing rental rates for Government-owned quarters. The criteria provided that basic rents should be based on prevailing rates for comparable private housing; if no housing was available for comparison, the rents were to be based on the income a property would produce taking into account its fair market value. The Federal Housing Administration (FHA) appraised the VA quarters included in the GAO review and recommended the rental rates. Approval of the FHA-recommended rates was the responsibility of VA field station directors.

GAO recommended that VA (1) specify the data field stations should obtain in support of FHA appraisals of VA quarters and (2) direct field station officials to review and evaluate appraisal reports and supporting data. In addition, to help insure that rental rates are properly established, VA Central Office officials should evaluate on a timely basis appraisal reports and supporting data and make selective evaluations of activities relating to the approval of rents in the field.

The VA agreed to (1) coordinate with FHA or other appraisers to insure that VA obtained enough information to enable its personnel to make meaningful evalua-

tions of rental appraisals, (2) revise its appraisal record form to include the data necessary to make such evaluations, and (3) more carefully review the appraisal record forms submitted to the VA Central Office and obtain reappraisals where indicated. In May 1970, FHA issued revised instructions on FHA appraisals of Federal employee quarters.

In subsequent discussions, VA officials informed GAO that the VA Central Office would review all appraisals in detail for compliance with Office of Management and Budget criteria. VA officials also agreed that reviews of rental rate activities would be made by VA internal auditors and by other VA Central Office representatives during their visits to field stations. (Report to the Congress, B-133044, Sept. 21, 1970)

Pay, Allowances, and Benefits—General

187. Maintenance of Attendance and Leave Records.—During fiscal year 1969, salaries of about \$53 million were paid to officers and employees, exclusive of judges, of the courts of appeals and the district courts. During the 1968 leave year, a total of about \$227,000 in lump-sum leave payments was made to 363 former court employees. Under the courts' payroll system, the payrolls were not supported by time and attendance records and the certifications of employees' entitlements were not supported by proper evidence.

In its review at three district courts, GAO found instances where (1) time and attendance records were not being maintained for members of the judges' staffs on the leave system and for some employees of the clerks' staffs, (2) some members of the judges' staffs and some employees of the clerks' staffs were maintaining their own leave records, (3) evidence was not available to support some lump-sum leave payments made to former members of the judges' staffs, (4) errors had been made in computing employees' leave, and (5) some employees had been advanced leave in excess of the amount that would have accrued to their credit during the leave year.

GAO recommended that the Judicial Conference of the United States consider requiring the Director, Administrative Office of the U.S. Courts, to provide for the maintenance of standard or uniform time and attendance records and leave records for all court employees, except judges. (Report to the Congress, B-133322, Oct. 8, 1970)

188. Overtime Claims.—Investigators of the Im-

migration and Naturalization Service (INS), Department of Justice, claimed as compensable uncontrollable overtime travel time to and from places where official business was transacted outside the normal workday and in excess of the basic 40-hour workweek. INS policy provided certain conditions under which travel time was considered as hours of employment. Inasmuch as INS officials have interpreted the instructions on the matter in various ways, GAO recommended that the instructions be clarified.

On July 26, 1971, INS informed GAO that there was no variance in the application of instructions regarding the crediting of uncontrollable overtime and that under no circumstances was uncontrollable overtime allowed for time in travel status away from the official station or for time in transit between the last investigative contact of the day and the employee's residence.

Based on its findings, GAO planned further discussions with INS to resolve this matter. (Report to the Commissioner, INS, Apr. 30, 1971)

189. Maintenance of Attendance and Leave Records.—The Office of the Secretary, Department of Commerce, processes payroll and leave records for about 4,000 employees. During an audit, GAO found a high error rate—about 26 percent of the records sampled contained one or more errors. Clerical errors and lack of knowledge of leave regulations and procedures appeared to be the primary causes. In response to GAO's recommendations, agency officials agreed to (1) establish a continuing series of classes for timekeepers with emphasis being placed on the need for accuracy and conformance with regulations, (2) schedule a series of unannounced audits of payroll and leave records to insure control and review by payroll personnel, and (3) train a specialist to maintain the retirement records. (Report to the Director, Office of Financial Management Services, Office of the Secretary, Department of Commerce, Sept. 23, 1970)

190. Allowances and Differentials Paid to Civilian Employees Overseas.—The Department of State establishes regulations for the payment of allowances and differentials to its own and other agencies' civilian employees located at overseas posts. GAO reviewed the establishment of the various allowances and had certain observations on their payment and administration.

GAO found that savings could be achieved by giving greater consideration to the cost of Department of Defense-operated and American-sponsored overseas

SECTION I

schools when establishing certain education allowance rates. GAO also found a lack of uniformity in providing transportation expenses for dependent children going away to school and suggested that the State Department clarify the regulations regarding reimbursement for these costs.

GAO noted certain conditions existing which would appear to be appropriate for consideration in establishing the living quarters allowances and suggested that they be examined in more detail. The conditions included (1) employees residing in high cost areas for personal reasons rather than for official purposes, (2) employees leasing quarters in excess of adequate needs, and (3) employees reporting estimated expenses in excess of actual costs.

It was also noted that the current standards and weights assigned to the hardship factors in establishing post differential rates were established in 1951, and, with very few changes, had remained the same. GAO concluded that the weights assigned to the different factors needed to be reexamined and may require some changes as a result of changes in values and living conditions to be found at the various posts. Department officials stated that a task force would be established to review the existing criteria and update the standards and weights, as appropriate.

GAO found that the leased housing program at several posts had resulted in substantial costs in excess of the authorized living quarters allowance which would have been provided in lieu of leasing quarters. In some instances, the leased quarters appeared to be in excess of normal needs. Accordingly, GAO suggested the adoption of uniform housing standards, the establishment of housing boards at posts, and the improvement of coordination on housing matters among Government agencies to help hold down the escalating rental costs resulting from the competition between agencies' employees for adequate residential living quarters.

On July 29, 1971, the Department of State advised that it agreed with the proposals stated in the report and has taken and will continue to take corrective actions for improving management procedures. It also stated that steps are being taken to clarify the regulations to provide additional guidelines to implement the procedures. (Report to the Deputy Under Secretary of State for Administration, Apr. 27, 1971)

191. Employee Entitlement to Pay and Leave.—GAO's examination into selected payroll records of centrally paid American employees of the Agency for

International Development (AID) indicated that the Agency's methods of determining employee entitlement to pay and leave needed to be improved in three major areas. GAO found that (1) unreconciled differences between employee rolls maintained for payroll and personnel purposes prevented management from insuring that all payrolled persons were authorized employees of AID, (2) the established method of controlling the time and attendance of transferred employees while they were in an in-transit status had been ineffective, and (3) primary reliance on the work of individual timekeepers for the computation of employee leave balances had resulted in two different sets of leave balances for most of the employees, neither of which was a reliable record of employee entitlement to leave.

Based on the results of GAO's examination as a whole, it was concluded that the design of the payroll system was ineffective because it was based on a concept which did not provide for sufficient controls to insure that valid data had been taken into account in determining employee entitlement to pay and leave. GAO believes that the system relied too heavily on the compilation of unverified data generated by numerous individuals throughout AID and on centrally directed efforts to monitor the work of those individuals on an after-the-fact basis.

GAO recommended that (1) the system be redesigned to place primary reliance on controls exercised by organizational units within AID and on automatic controls applicable to the data compiled by the organizational units and (2) immediate action be initiated to establish the organizational unit controls and the reporting requirements needed for the planned redesigned system.

As a result of GAO's recommendations AID initiated corrective action needed for the planned redesigned system. (Report to the Controller, AID, July 13, 1970)

192. Accounting for Military Leave.—Inaccurate accounting for military leave in the Army has been a continuing problem and has been the subject of a number of GAO's earlier reports. The weaknesses in accounting for leave have persisted despite the adoption of additional procedures and controls by the Army. Military personnel are paid for the unused leave at the time they are separated from military service. Inaccurate balances of unused leave have been a major factor contributing to improper payments by the Army to its military personnel. In April 1971 GAO issued a report to the Congress on its current review of the problem.

Based on the incidence of the errors GAO found in the followup review, estimated annual overpayments of about \$23 million and underpayments of about \$3 million could result. This was a conservative estimate. The ultimate improper payments could be at considerably higher rates of pay because of subsequent longevity and statutory pay increases and promotions. GAO estimated that, should the military personnel choose to use their erroneous leave balances rather than receive payment at the time of separation, a net loss of about 4,600 man-years of manpower availability could result.

The following conditions contributed to the high incidence of errors:

Prescribed records were not used to establish dates servicemen arrived at installations and leave taken while in travel status was not charged.

Leave taken in connection with intrapost transfers (leave taken between completion of training and reassignment to another unit at the same installation) was incorrectly treated as routine delay en route.

Attendance records were not used as the source for recording leave.

The work of pay clerks was inadequately supervised.

Little or no internal audit of leave had been performed by either local internal review staffs or the Army Audit Agency.

GAO recommended that the Secretary of the Army:

Direct that local internal review staffs be increased and that they and the Army Audit Agency regularly conduct reviews of pay and allowances with emphasis on military leave.

Order a study of the Army's leave practices to insure that the leave data input to the military pay system will be more accurate.

Direct that travel orders be endorsed by appropriate officials to show dates of arrival and departure at all military locations to which the individuals traveled, including intermediate points, and that these endorsements be used with the travel voucher to compute the chargeable leave.

The Army concurred, in general, with the findings and conclusions and accepted the first two recommendations. With respect to the third recommendation, the Army expressed doubt that endorsement of travel orders would reduce the error rate significantly. (Report to the Congress, B-125037, Apr. 2, 1971)

193. Full-Time Graduate Education Programs for Military Officers.—A memorandum issued by the Joint Chiefs of Staff in 1964 established criteria for determining graduate education requirements for military officer positions. During fiscal year 1969, over 4,200 officers were enrolled in full-time graduate education programs at an estimated cost of at least \$70 million.

In a report issued to the Congress in August 1970, GAO pointed out that the criteria for identifying military officer positions requiring graduate education, and the ways in which the criteria were applied, were so broad and permissive that almost any officer positions could be certified as requiring such education. Positions were certified as requiring graduate education although the need for such education had not been established. Certifications were requested and approved without adequate consideration of:

Work experience or short training courses as alternatives to full-time graduate education.

Inconsistencies between the official job descriptions, which did not require graduate education, and the job descriptions submitted for certification of graduate education requirements.

Use of civilians in the positions where possible.

Inconsistencies among the services concerning need for graduate education in similar or identical positions.

Essentiality of graduate education for performing duties of the position.

Furthermore, many officers with graduate education were not assigned to positions requiring their specialized education.

GAO suggested that the Secretary of Defense:

Issue a policy statement expressing more clearly the objectives of the graduate education program.

Order revision of the existing criteria to limit the broad, permissive interpretations.

Obtain the advice of the Civil Service Commission or another qualified body in developing the new criteria.

Require uniform application of the new criteria by the military services.

Consider using civilians in positions requiring graduate degrees.

Review the assignment policies and practices of the military services for insuring maximum use of personnel having specialized graduate education for the jobs having such education as a prerequisite.

SECTION I

The Department of Defense noted that GAO had failed to take into account the intangible accepted values and benefits of graduate education. GAO pointed out that the criteria of the Joint Chiefs of Staff did not justify the program on these generalized bases but on the requirements of specific positions.

The Department of Defense position indicated little early corrective action in response to GAO's findings and suggestions. GAO suggested that, in view of the Department's position and the announced plans of the military services to expand the graduate education program, the Congress might wish to consider limiting the full-time, fully funded graduate level education program to (1) those positions for which such education is essential for the satisfactory performance of duty and (2) only those officers who can be used primarily in those positions. (Report to the Congress, B-165558, Aug. 28, 1970)

194. Management at the U.S. Armed Forces Institute.—The mission of the U.S. Armed Forces Institute is to provide educational services and materials to members of the Armed Forces on subjects normally taught in civilian academic institutions. The annual budget of the Institute is about \$6 million. To determine the effectiveness of the Institute's education programs and its management of field inventories, GAO reviewed the completion rates experienced in the correspondence and group-study programs and the control over educational materials issued to field installations.

The Institute had experienced low course-completion rates in recent years—about 10 percent in the correspondence program and about 31 percent to 39 percent in the group-study program. Internal auditors of the Department of Defense reviewed the programs in 1965 and, in a report on the review, expressed concern with respect to the low completion rates and made recommendations for improvement. When GAO began its review in 1969, GAO found no evidence that the Institute had taken action on the recommendations. However, during the course of the review the Institute took action to deal with the low completion-rate problem, including a study to provide an information base on dropouts and student nonstarts (students who, after enrolling, do not submit lessons).

Also, prior to July 1969, the Institute was issuing from its Madison, Wis., inventory more than a million dollars' worth of educational materials annually to field installations, but was not keeping records of the location, quantities on hand, or disposition of the

materials. This condition contributed to the Institute's denying enrollment to servicemen in courses when the Madison inventory had stock shortages. Institute officials informed GAO that, when Madison had stock shortages, in all probability stock was available at field installations and could have been provided to at least a portion of the applicants. In July 1969 the Institute introduced procedures intended to improve its control of inventories at field installations.

GAO recommended that the Secretary of Defense take action to insure that (1) the study to provide an information base on student dropouts and nonstarts is completed in a timely manner and that the corrective action suggested by the study is taken and (2) the inventory control procedures initiated during GAO's review are properly employed and that attention is also given to other areas that appear to warrant management attention. GAO recommended also that procedures be established to provide the Institute with information, for management purposes, on future trends in course enrollments and completion rates. The Deputy Assistant Secretary of Defense (Manpower and Reserve Affairs) stated that the Department of Defense was taking corrective actions. These actions appear to be responsive to the GAO recommendations. (Report to the Congress, B-169062, Oct. 8, 1970)

195. Conversion of National Guard Technician Positions to Federal Positions.—The National Guard Technicians Act of 1968 converted Army and Air National Guard technicians from State to Federal employee status, effective January 1, 1969. One of the principal purposes of the legislation was to provide an adequate and uniform retirement and fringe benefit program.

National Guard technicians are civilian employees whose employment generally requires them to be members of the Guard also. Prior to the conversion they were considered employees of the States although their salaries were paid out of Federal funds.

As stated in its report issued to the Congress in April 1971, GAO's review of the records of over 1,000 technicians selected at random in 12 States showed that, in general, the conversion had been carried out in accordance with the act and implementing regulations and instructions. With few exceptions, the grades, rates of compensation, leave balances, and annual leave accrual categories recorded at the time of conversion were proper. There were many discrepancies, however, in data pertaining to service prior to conversion, attributable primarily to clerical errors, omission of data,

and misinterpretation of instructions. The erroneous data had no significant effect on the status of the technicians at the time of conversion and generally will not have any significant effect as long as they are employed by the Federal Government. But the errors could have an effect on the technicians' retirement rights and benefits and the related cost to the Government.

GAO recommended that the Secretary of Defense require the National Guard Bureau to review, in cooperation with the States, the personnel records of all technicians converted to Federal employee status to insure the accuracy of the data recorded. The Assistant Secretary of Defense agreed in general.

Three of the 12 States had separate personnel offices for the Army National Guard and the Air National Guard. (The other nine had, or were planning to have, consolidated personnel offices.) Consolidation offers

the advantages of centralized authority, uniformity of operations, and possible savings in personnel costs. GAO was subsequently informed by the Department of Defense that the personnel offices in all the States had been consolidated by the end of calendar year 1970.

Under the act of 1968, many of the technicians elected to be covered by the Federal civil service retirement system. There is a question as to the status of those Federal contributions remaining in the State systems which are not committed to pay retirement benefits to such technicians. The Senate Committee on Armed Services requested the Department of Defense to resolve this matter with the States. The Department assigned this responsibility to the National Guard Bureau. (Report to the Congress, B-20748, Apr. 29, 1971)

AUTOMATIC DATA PROCESSING SYSTEMS

Acquisition

196. Evaluation of Alternative Means for Acquiring Automatic Data Processing Equipment.—

The Government Printing Office (GPO) rents automatic data processing (ADP) equipment directly from the manufacturer. GAO reported that commercial leasing firms offered rental arrangements that provided opportunity for saving about \$1.2 million in rentals, over a 5-year period, on an ADP system installed at GPO in 1969. GAO also reported that savings were possible by purchasing two leased ADP systems installed in earlier years, if GPO foresaw long-term usage of these systems.

GPO subsequently informed GAO that the planned retention periods for the existing ADP systems ruled out conversions from lease to direct purchase but that it planned to relinquish certain ADP peripheral equipment and satisfy these needs under short-term leases with commercial leasing firms. (Report to the Congress, B-114829, Nov. 24, 1970)

197. Multiyear Leasing and Government-Wide Purchasing of ADP Equipment.—

Multiyear leasing is a more economical alternative than short-term rentals when automatic data processing (ADP) equipment cannot be purchased. An analysis indicated that Government rental costs for ADP equipment might be reduced during the lease periods by as much as \$70 million under 3-year leases and by as much as \$155 million under 5-year leases. In many cases, however, agencies are barred by law from entering into multiyear leases because equipment acquisitions must be financed from 1-year funds.

The General Services Administration (GSA) has an ADP fund (revolving) to assist in carrying out its responsibilities for the efficient and economical acquisition of the Government's ADP equipment. The fund can be used when agencies are barred from entering into multiyear leases, but unless GSA is given authority to contract on a multiyear basis without obligating the total anticipated payments at the time of entering

into the leases as is now required by law, the fund will have to be substantially increased.

In addition the Government was not making maximum use of its ADP equipment purchase funds because purchases were made by agencies on the basis of their individual funding capabilities rather than from a Government-wide viewpoint.

GAO suggested that the Congress might wish to consider legislation authorizing GSA to contract on a multiyear basis through the ADP fund without the necessity of obligating the total anticipated payments. GAO recommended also that Federal departments and agencies make sure that maximum practicable use is made of multiyear leases and that competition is obtained.

GAO recommended that GSA take a more active role in contracting for ADP equipment to make sure that multiyear leases are used and that GSA and the Office of Management and Budget (OMB) request additional capital for the ADP fund and use a Government-wide, best-buy approach on purchases.

GSA and OMB agreed with the findings and recommendations and took action to implement them. (Report to the Congress, B-115369, Apr. 30, 1971)

198. Acquisition and Use of Software Products for Automatic Data Processing Systems in the Federal Government.—

Software is a term that has come into use with automatic data processing (ADP) systems to identify computer programs, procedures, and related documentation and to distinguish such features from the hardware components of the systems. It is estimated that Federal agencies are spending between \$2 billion and \$3 billion a year for acquisition and in-house development of software.

Many broad management problems were found during the GAO study. One important problem that was not receiving adequate management attention involved the change which was taking place with regard to the way computer services were being marketed to the Federal Government by the computer vendors. The acquisition of software from computer manufacturers

has usually been an unidentifiable part of the total price of a computer system.

During the past few years, many changes in marketing practices by computer manufacturers have occurred. These included the separate pricing (unbundling) of software products, the introduction of diverse contractual arrangements for acquiring software, the advent of general-purpose proprietary software packages, and the licensing of the use of software products with overly restrictive provisions. The Federal Government has had no centrally guided or unified approach for dealing with these changes.

GAO found that Federal users, for the most part, acquired their needed computer software without centralized direction or guidance. As a result, they:

Procured computer programs unnecessarily since they were already available at other data processing locations within the Government.

Procured software products with overly restrictive use provisions and thereby required additional software procurements in multiuse instances.

Acquired similar computer programs at varying prices within a relatively short period of time.

Deprived the Government of an opportunity to benefit from quantity procurements.

Used various criteria and techniques for selection and evaluation of computer software which resulted in the acquisition of many variations (some being better than others) of the same product.

Duplicated unnecessarily technical evaluations of computer programs.

GAO believes that, to better manage the vast resources invested in data processing facilities, the Federal Government needs a master plan. Such a plan would include agreed upon goals or objectives against which quality and progress could be measured. It would provide resource planning, implementation procedures, and appraisal and feedback procedures.

GAO recommended that the Director, Office of Management and Budget, arrange for the formulation of a master plan for the acquisition and use of software and the structure needed to implement the plan. GAO recommended also that OMB Circular A-54 be amended to include specific policy guidance to user agencies for the acquisition, management, and use of software throughout the Federal Government.

Relative to the guidance and leadership necessary for the procurement of software, GAO recommended further that the:

Director, Office of Management and Budget, pro-

vide coordinated management and central policy direction to users for determining the most economical and efficient means for obtaining computer software.

Administrator of General Services employ the single-purchaser concept, use formally advertised procurement contracts, strive to obtain nonrestrictive or license-free contractual arrangements for software with rentals based on use, consider buying outright software products that would be widely used throughout the Government, and maintain an inventory of computer software.

Director of the National Bureau of Standards establish and maintain a reference index of computer programs, make detailed technical evaluations of computer programs for use by all Federal ADP installations, and promulgate Federal standards for computer languages and program documentation.

In addition, GAO recommended that, pending the issuance of more specific policy guidance, the operational and cost factors described in its report be used by Federal agencies in reaching decisions on software needs. (Report to the Congress, B-115369, June 30, 1971)

Utilization

199. Redistribution of the Government's ADP Equipment.—The General Services Administration (GSA) is responsible for providing an efficient and economical system for the utilization and disposal of Government property. Regulations issued by GSA require agencies to report Government-owned and Government-rented excess automatic data processing (ADP) equipment. An ADP management information system was established to assist GSA in the redistribution of excess ADP equipment.

GAO reviewed the redistribution of excess ADP equipment and observed instances where excess Government-owned equipment was not being used, although, between August 1967 and June 1970, similar equipment was rented from suppliers at a cost of \$920,000. The equipment was idle because (1) agencies had not given GSA sufficient notice as to when the equipment would be released, (2) agencies had not released the equipment to GSA for redistribution, and (3) GSA had relied on excess equipment bulletins rather than the ADP management information system to identify opportunities to redistribute excess equipment.

SECTION I

GAO recommended that the Administrator of General Services improve the ADP management information system reports and that he emphasize the use of the system to identify opportunities to redistribute excess ADP equipment. The Administrator agreed and advised GAO of the steps GSA was taking to implement GAO's recommendations. (Report to the Congress, B-115369, June 15, 1971)

200. Improvement in Management Controls Over the Scientific Use of Computers.—Following a survey of the National Aeronautics and Space Administration's (NASA) Ames Research Center, GAO pointed out a need for the Center to revise its procedures to encourage efficient use of automatic data processing facilities and to insure that they were used only for properly approved purposes.

The NASA Center Director agreed with GAO's findings and took responsive corrective action. (Report to the Director, Ames Research Center, Oct. 27, 1970)

201. Automated System for Insurance Programs.—The Federal Crop Insurance Corporation's automated system for insurance programs was well designed and provided generally accurate information to management. However, GAO pointed out improvements that could be made to increase its efficiency and effectiveness:

Costs could be reduced by identifying, through analyses, those field offices and conditions responsible for erroneous input data and by taking appropriate corrective action.

Considerable savings could be achieved by changing from a matching control based on surnames and first initials to a control using a more positive basis, such as social security numbers, to protect against the issuance of multiple insurance contracts to the same producer or the issuance of insurance contracts to ineligible producers.

Procedures needed to be strengthened to provide assurance that programs and changes in programs were fully documented.

The Department of Agriculture subsequently informed GAO of corrective actions taken or to be taken. (Report to the Secretary of Agriculture, B-114834, Aug. 28, 1970)

202. Case Studies of Auditing in a Computer-Based Systems Environment.—In response to the growing need for effective and efficient means for auditing computer based systems, GAO conducted a

number of studies to explore the impact of computers on auditing activities in the Federal Government. These studies dealt primarily with batch-processing-type computer operations or those systems that require input data to be coded and collected into groups or batches for processing. Particular attention was devoted to:

Internal auditing of computer-based systems—to determine whether effective independent reviews and appraisals were being made.

System documentation—to determine whether current and complete documentation was maintained.

Use of computer techniques to audit computer-based systems—to assist other Government auditing organizations in auditing computer-based systems.

In individual Federal agencies, internal audit coverage of agency computer operations varies from comprehensive system testing to practically no work at all. Although some internal audit groups have recently shown increased interest, auditors in the past have tended to shy away from comprehensive reviews of computer-based systems. Even though computer systems are increasingly becoming an integral part of agency management and control, independent reviews and appraisals are generally not made to assist managers in establishing effective controls over complex computer systems.

GAO believes it is important for an independent group to review and evaluate agency computer operations, especially those systems which affect agency management and control operations as well as those involving the disbursement of billions of dollars every year. In the absence of independent evaluations of computer-based systems, the computer operation is vulnerable to undetected error, misuse, and possibly fraud. GAO believes that Federal agency managers should require internal auditors or a similar group to devote more attention to computer systems than is currently being done.

A related problem centers on the fact that most Federal agencies have not developed or implemented agencywide documentation standards for computer-based systems. Generally, documentation being produced is incomplete and inadequate. Documentation may be used by management not only to monitor and control the computer facility resources of an organization, but also as a check on performance and compliance with established goals and standards for such resources. Consequently, GAO believes that Govern-

ment-wide documentation standards should be developed and promulgated by the executive branch to guide all Federal agencies in maintaining an adequate level of system documentation. GAO also believes that the heads of Federal agencies, as an interim measure pending adoption of Federal standards by the executive branch, should take necessary action to assure that their computer systems documentation meets the standards listed in this report.

New computer auditing techniques have been developed to assist the auditor in reviewing computer systems and computer-generated records. These techniques permit the auditor to use the computer's speed and accuracy to:

- Search files and select data for examination.
- Make special analyses or summarization of data.
- Perform computations.
- Identify unusual transactions.
- Test check processing accuracy.

Several techniques used successfully by GAO include generalized computer audit programs, custom designed computer audit programs, test decks, and detailed reviews of selected computer programs. GAO's report contains a discussion of each technique and a reference to case studies for the reader interested in further study. (Report to the heads of Federal departments and agencies, B-115369, June 1971)

PROPERTY MANAGEMENT

Control Over Property

203. Government-Owned Property Used by a Contractor.—GAO's review of the control and utilization of plant equipment and facilities owned by the National Aeronautics and Space Administration (NASA) and used by a NASA contractor, revealed a need for (1) revisions in computing rent for use of the facilities in commercial work, (2) adjustments in arriving at value bases for rentals, and (3) improvements in accounting for and in the use of Government-owned plant equipment.

Use of an incorrect method in computing rent for use of Government-owned facilities for commercial work resulted in an understatement of rental payments of about \$54,000 over a 4½-year period. In addition, the base upon which the rental was determined was understated by an undeterminable amount because no consideration was given to transportation, installation, rehabilitation, improvement costs for equipment, and the cost of land used by the contractor.

In accounting for Government-owned plant equipment, the contractor was not maintaining the appropriate records to either record and/or identify the location of equipment amounting to about \$478,000. Further, GAO's review showed that apparent unneeded equipment was not being identified to determine whether it should be retained or disposed of.

NASA took steps to strengthen contractor control over Government-owned plant equipment but more work was needed with respect to other matters revealed in the GAO review. (Report to the Administrator, NASA, B-158390, July 31, 1970)

204. Improved Accounting Control Over Equipment.—The Kennedy Space Center of the National Aeronautics and Space Administration (NASA) did not establish accountability for equipment costing over \$320 million until as long as 4 years after it was received. This delay in recording equipment in its financial and detailed property records was generally due to the absence of unit cost data needed to record the items when they were received by Kennedy.

In some cases receiving reports needed to establish accounting control were not furnished to the accounting department. In other cases transfer documents were not furnished to Kennedy by the Manned Spacecraft Center or Marshall Space Flight Center when equipment was shipped to Kennedy. This was because these centers, like Kennedy, had not complied with NASA requirements for establishing control over property. GAO's review showed also that physical inventories were not being taken as frequently as required by NASA instructions.

GAO suggested that:

All receipts and transfers of equipment be handled through a central receiving and shipping department.

Documents acknowledging receipt of equipment contain all the information necessary for identification and valuation purposes.

All documentation on equipment transactions be processed through the accounting and property management offices.

Physical inventories be taken or supervised by someone other than the custodian of the equipment being counted.

Physical inventories be taken by counting all equipment in a given area rather than by using listings of equipment.

Complete physical inventories of all equipment in the custody of NASA be taken at least once every 3 years.

Survey reports for missing or damaged equipment be promptly prepared and processed.

A task force be established to review equipment accountability at the Marshall Space Flight Center and the Manned Spacecraft Center and to report the extent of the deficiencies, their basic causes, and the corrective action needed.

The NASA-wide requirements for taking physical inventories be revised to include specific guidelines on the means, methods, and personnel to be used.

NASA took corrective action in response to all of GAO's suggestions except for two pertaining to phys-

ical inventories. GAO believed that further action was necessary to improve physical inventory procedures. (Report to the Congress, B-169658, Aug. 11, 1970)

205. Accuracy of Inventory Records.—Following a GAO report on inventory controls in the Department of Defense issued to the Congress in 1967, the Department prescribed new procedures to improve the accuracy of recorded inventories. GAO reviewed the Army inventory procedures in the continental United States and in Europe to determine the effectiveness of the new procedures.

Although the Army was attempting to schedule and take physical inventories on a regular basis and its depots appeared to be doing a good job, significant improvement in the accuracy of inventory records had not been achieved. The Army's inventories of about \$3 billion in the continental United States required adjustments amounting to \$830 million in 1969 to reflect quantities based on physical counts—downward adjustments of \$439 million for inventory that did not exist and upward adjustments of \$391 million for inventory the Army did not know it had. The \$830 million represented an adjustment ratio of 27.7 percent as compared with the ratio of 23.5 percent GAO had found in 1966. The Army's inventories of about \$1.1 billion in Europe required even greater adjustments in 1969: downward adjustments of \$648 million and upward adjustments of \$768 million for a total of \$1.4 billion. These adjustments exceeded the average inventory value by about \$300 million.

Accuracy of records was not improved because the Army had underestimated the magnitude of the task. The manpower and automatic data processing equipment provided for the task were inadequate and not effectively applied.

GAO made a series of recommendations designed to strengthen procedures and improve accuracy of the Army's inventory records. The Army generally agreed with GAO's findings and conclusions and initiated action on each of the recommendations. The Army's actions, if effectively implemented and pursued on a continuing basis, should bring about substantial improvement in accuracy of the inventory records. (Report to the Congress, B-146828, Feb. 26, 1971)

206. Projections of Future Requirements for Major Items of Military Equipment.—The Army relies on two computerized management information systems for information as to (1) its major equipment

needs for aircraft, combat vehicles, tactical and support vehicles, communications and electronic equipment, missiles, and weapons and (2) equipment of these types already on hand. GAO tested the accuracy of these two systems since information derived from them must be dependable for the Army to make accurate and timely decisions for budget preparation and procurement requests.

GAO found significant weaknesses in both information systems. As a result of inadequate data, the validity of fiscal year 1970 budget and procurement actions was highly questionable. Unless there is significant improvement, equipment imbalances may affect seriously the Army's ability to perform its mission effectively.

Inaccuracy in data on equipment needs resulted from lack of adequate controls to insure that all pertinent data were considered. For example:

Some valid equipment requirements for entire Army units were excluded from the system's computations.

Requirements were included for units that did not need the equipment.

Requirements were included for units scheduled for deactivation.

Some requirements were considered more than once.

Some activities were not revising their equipment requirements to reflect current needs.

Changes to requirements took an inordinate length of time to process for approval through the various Army commands.

Inaccuracy in data on equipment on hand resulted from weaknesses in reporting. For example:

Army units did not report accurately the equipment in their possession.

Quantities of equipment were "lost" in the Army system and not reported at all.

Acceptable substitute equipment was not reported as available assets.

At one depot GAO found that 100 cargo trucks, valued at \$1.5 million, had been in storage for almost a year but had not been included in the Army's computations of available equipment. Because of questionable validity of the data, some inventory managers refused to use the data on equipment on hand as derived from the information system. Instead, the inventory managers used data, also of questionable validity, that they developed through estimates or personal knowledge.

SECTION I

GAO recommended that the Army:

Establish a procedure to insure that all appropriate data are considered in determining equipment needs.

See that processing of changes to equipment authorizations is accelerated.

Require internal auditors to validate equipment requirements periodically and to review the accuracy of units' reports of equipment on hand.

Continue with the plan to revise the asset information system through the reporting of major items of equipment by serial numbers.

Direct that procedures be revised so that all major equipment on hand will be included in asset reports.

The Army concurred in the recommendations and stated that it had taken, and would continue to take, corrective action against the problems cited in GAO's report. GAO believes that the Army's actions—completed, begun, or planned—should bring improvements. (Report to the Congress, B-163074, June 8, 1971)

207. Low-Cost, Low-Usage Items in Supply Systems.—In a report issued to the Congress in October 1967, GAO pointed out that substantial savings could be achieved by eliminating some 1.2 million low-cost, low-usage items from the Department of Defense (DOD) supply system. The Department agreed and cited a program undertaken for that purpose.

GAO's followup to evaluate the effectiveness of the program showed that there were still as many as 900,000 low-cost items in the supply system that were seldom, if ever, needed. It has been estimated that the annual carrying cost of inventories is from 20 to 25 percent of the value of the inventories.

GAO proposed that DOD improve its program for elimination of items from the supply system by insuring that:

Stock retention policies of inventory management organizations do not restrict the systematic identification and elimination of low-cost *inactive* items.

Inactive items are promptly eliminated unless there are valid future needs that cannot be met readily and economically by purchase or fabrication of stocks as needed.

Provision is made for periodic identification and elimination of low-cost, *slow-moving* items that can be obtained readily and economically by purchase or fabrication as needed.

All inventory management organizations give the program a high priority.

The Acting Assistant Secretary of Defense (Installations and Logistics) agreed, in general, with the findings and proposals. He reported a number of corrective actions, taken or planned, which GAO believes will eliminate unneeded stocks in the supply system if carried out effectively. (Report to the Congress, B-133118, Mar. 31, 1971)

208. Duplicate Stocks.—The Marine Corps managed and stored large numbers of items that either had been designated for management under a single manager within the Department of Defense or were managed and stored for all Government users by the General Services Administration. In a report issued to the Congress in November 1970, GAO pointed out that this resulted in a sizeable duplicate investment in inventories and in substantial additional costs in supply management. As of June 30, 1969, the Marine Corps Supply Activity had 265,000 items valued at \$280.5 million on hand and on order. About 185,000 items (70 percent) valued at \$148 million were also managed by the Defense Supply Agency, the Army Tank-Automotive Command, or the General Services Administration.

Although the Marine Corps and the Department of Defense had been aware of this duplication for several years, the Marine Corps had resisted efforts to require it to relinquish its management and stockage of the duplicated items.

GAO proposed that the Secretary of Defense either:

Require the Marine Corps to reduce existing duplicated stocks and to direct using activities to requisition directly from the designated managers or

Direct the Defense Supply Agency and the Marine Corps to develop a plan which would retain the duplicated stocks at Marine Corps depots but under the management of the Defense Supply Agency.

The Assistant Secretary of Defense (Installations and Logistics), although agreeing with the intent of the first alternative, said that neither of the proposals would be immediately implemented. He did not comment on the second alternative but stated that a materiel management system would be developed for the Marine Corps to support deployable forces effectively and economically. GAO believes that the proposed action is not responsive to the problem and that prompt and aggressive action is necessary. (Report to the Congress, B-146828, Nov. 10, 1970)

209. Laboratory Equipment.—As a result of GAO's earlier findings and subsequent hearings before the House Committee on Government Operations, the committee made certain recommendations in October 1967 to the Department of Defense and the General Services Administration designed to improve management of laboratory equipment. GAO made a review in the Department of Defense (DOD) to determine how effectively the committee's recommendations had been carried out.

Although DOD had taken certain actions on the recommendations, some of the weaknesses in management continued to prevail. At the six laboratories included in GAO's review, there was no formal, systematic procedure requiring top management to walk through the laboratory and identify unneeded or little-used equipment. (GAO's partial walk-throughs with agency representatives turned up excess equipment with an acquisition cost of about \$1.7 million.) Four of the six laboratories had equipment pools but they were not operated efficiently; one had no equipment pool; and one had an inventory listing of equipment which it contended—and GAO disagreed—served the same purpose as an equipment pool. (A major benefit of equipment pools is the elimination of duplicate purchases.) Elapsed-time meters—useful in obtaining usage data for calibration scheduling and

for identifying little-used equipment—were not being used in four of the six laboratories.

GAO recommended that DOD:

Require laboratory management to conduct systematic, documented walk-throughs to identify unneeded and little-used equipment and make it available for redistribution or declaration as excess.

Require the use of equipment pools.

Provide guidance on the use of elapsed-time meters for equipment management purposes.

GAO recommended also that the military audit agencies include verification of these procedures in their scheduled reviews.

DOD was in general agreement with the recommendations and outlined the actions being taken to implement them. (Report to the Congress, B-160140, Nov. 24, 1970)

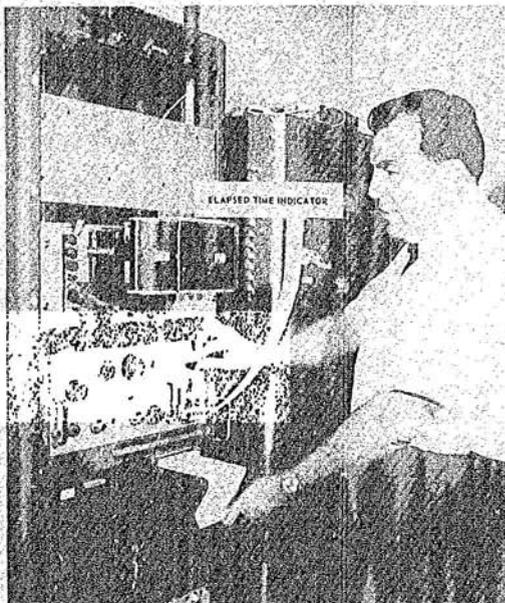
Construction, Maintenance, Repair, and Overhaul

210. Maintenance and Repair of Office Machines.—GAO's review of 13 Veterans Administration (VA) stations showed that, where office machines were serviced under annual maintenance contracts, station officials had not studied cost and use factors to determine alternative service methods which could have been used. GAO estimated that savings of about \$38,000 could have been realized if machines at these stations had been serviced on a per-call basis. GAO also estimated that, if the same conditions existed at VA's other field stations, savings of as much as \$400,000 annually could be realized through greater use of the per-call service method.

GAO recommended that the Administrator of Veterans Affairs (1) establish procedures requiring field stations to determine the most economical maintenance and repair service method for office machines, (2) require that field stations document reasons for using more costly maintenance and repair service, and (3) establish appropriate followup procedures to insure that field stations comply with requirements.

VA agreed with GAO's recommendations and took steps to implement them.

Because of potential Government-wide significance, GAO suggested that the General Services Administration (GSA) reemphasize to Federal agencies the importance of reviewing their methods for obtaining maintenance and repair services to ascertain whether the most economical method was being used.



GAO also recommended that GSA closely monitor Federal agencies' compliance with the pertinent GSA policies. GAO suggested that GSA consider requiring the agencies to report periodically the number of office machines and the percentage serviced under annual maintenance contracts and per-call arrangements.

GSA brought this matter to the attention of all Federal agencies and established procedures to notify individual agencies where additional economies in servicing office machines could be realized. (Report to the Congress, B-160419, Oct. 5, 1970)

211. Maintenance of Mail-Handling Equipment.—The Post Office Department could reduce its maintenance costs on its bulk belt and tray transport systems, without adversely affecting the operation of the equipment, by reducing the frequency of certain routine preventive maintenance and by reducing the time prescribed by the Department for performing such maintenance.

GAO's review showed that, generally, there was no more repair and breakdown of the systems at post offices that did little or no routine preventive maintenance than at post offices that performed such maintenance in complying with established requirements. GAO estimated that, if the maintenance were performed at reduced levels, the annual cost of preventive maintenance at the five post offices included in GAO's review would be about \$318,000 less.

GAO recommended that the Department (1) evaluate its routine preventive maintenance requirements for the bulk belt and tray transport systems and other mechanized mail-handling equipment to eliminate unnecessary maintenance routines and reduce time allowances for performing maintenance work and (2) establish procedures requiring periodic evaluations of maintenance routines.

The Postmaster General concurred with GAO's recommendations and stated that a comprehensive review of the Department's maintenance management system would be made. (Report to the Congress, B-114874, Dec. 31, 1970)

212. Repair/Replacement Policies for Mail-Handling Equipment.—Excessive repair costs may have been incurred on certain portable conveyors because the Post Office Department did not have specific guidelines for use in determining when equipment should be replaced instead of repaired. The lack of such guidelines resulted in the conveyors being repaired rather than replaced. GAO cited instances

where the cumulative repair costs, within a 1-year period, had exceeded both the original acquisition cost and the latest replacement cost for the conveyors. The Department's repair/replacement policies did not require consideration of cumulative repair costs in making repair/replacement decisions and the maintenance management reporting system did not provide for reporting such costs to postal management.

GAO recommended that the Department (1) provide post offices with more specific repair/replacement guidelines, including the requirement that the cumulative, as well as the one-time, repair and maintenance cost be considered in making repair/replacement decisions and (2) establish procedures that specify when repair costs should be reported to appropriate officials so that they can take action to replace equipment before excessive repair costs are incurred.

The Postmaster General advised GAO that the Department concurred with GAO's first recommendation and would modify its instructions to post offices accordingly. He stated, however, that the Department already had specific procedures for reporting excessive repair costs but that the need for closely adhering to these procedures would be reemphasized. (Report to the Postmaster General, B-114874, Dec. 3, 1970)

213. Maintenance of Helicopters.—Because of large quantities of helicopters, engines, and components awaiting repair at the Army Aeronautical Depot Maintenance Center, and the unusual military need for the equipment, GAO reviewed the Army's helicopter maintenance program.

The backlog of equipment awaiting repair had increased substantially during the 18-month period preceding January 31, 1970, because of increased military operations and insufficient use of maintenance capabilities. At that date 200 helicopters valued at about \$63 million and large quantities of engines and components with an original cost of about \$88 million were awaiting repair and overhaul. At the same time, the Army had on order or was planning to buy about 1,700 helicopters and large quantities of engines and components.

In a report issued to the Congress in December 1970, GAO concluded that the Army could attain the same or increased availability of helicopters at less cost by expanding its maintenance program and reducing or stretching out its procurement program. The Army had sufficient physical plant and equipment available to expand its maintenance program. Additional funding was needed, however, for personnel costs involved

in establishing a second work shift and, if necessary, a third shift.

GAO proposed that the Army:

Reappraise its maintenance program to take full advantage of both in-house and contractor maintenance capabilities to reduce the backlogs of aircraft, engines, and components awaiting overhaul.

Review the supply status of aircraft, engines, and major components to reevaluate both the need for those on order and their delivery schedules.

The Army agreed with these recommendations and stated that overhaul programs had been or would be increased, and that procurement requirements for some of the new items had been reduced. Subsequently the Army reduced its planned procurement of helicopter engines and components by about \$113 million. (Report to the Congress, B-146888, Dec. 7, 1970)

214. Maintenance of Commercial Vehicles Overseas.—In August 1970 GAO issued a report to the Congress on a review of the Department of Defense management of commercial vehicle maintenance in Europe.

The costs to the Army and the Air Force of maintaining their commercial vehicles in Europe during the fiscal year 1969 were about \$7 million, or \$2.8 million higher than planned. Factors contributing to higher costs included frequent and large volumes of repetitive repairs, excessive preventive maintenance and inspections, and excessive time spent on repairs and inspections. Neither the Army nor the Air Force was using established standards for direct and indirect labor to measure efficiency and productivity of the maintenance operations.

As of January 1, 1969, about 23 percent of the commercial vehicles of the Army qualified for replacement. Replacements were not available, however, and the Army approved about \$234,000 for expenditure on repairs to vehicles which were considered to be uneconomical to repair.

The Army stocked a large inventory of vehicle repair parts at Frankfurt, Germany, in addition to stocking similar parts at six maintenance centers and at 48 motor pools in Germany. The Frankfurt inventory was unnecessary and its elimination would save about \$475,000 annually—principally in salaries.

A single purchasing office for commercial vehicle parts, serving both the Army and the Air Force, would have been feasible and could have resulted in reduc-

tion of administrative costs and in larger discounts for quantity purchases.

GAO suggested that:

The Secretary of Defense reemphasize to the Army and the Air Force the need to use and enforce labor standards to measure and improve efficiency and productivity of the maintenance operations.

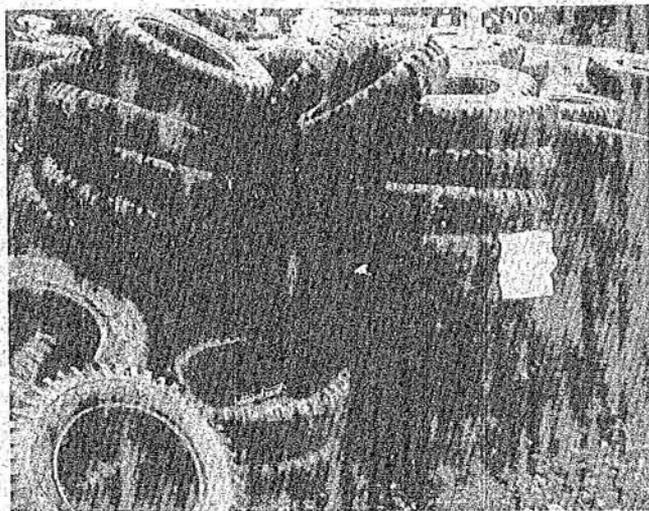
The Army in Europe report to higher headquarters the uneconomical effect of the lack of new replacement vehicles and the repair of old vehicles beyond economical repair, and that the reports be used by the Secretary of Defense as the basis for requests for additional funds for replacement.

The Army consider eliminating the Frankfurt automotive parts center and having the six equipment support centers order directly from the manufacturers' distributors.

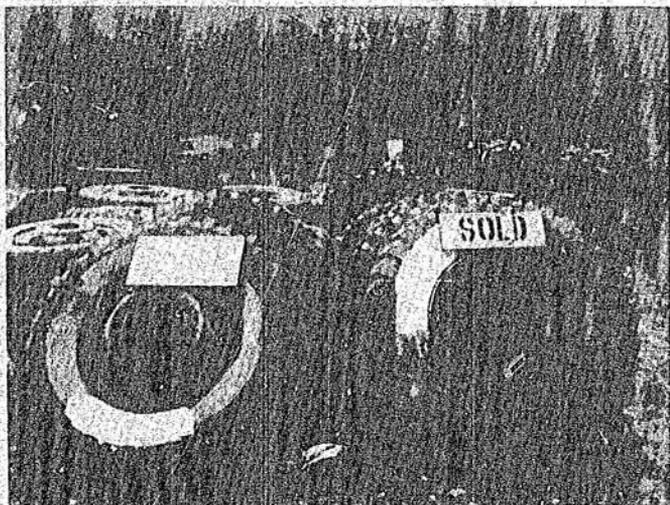
The Army and the Air Force consider establishing a single purchasing office for automotive parts to serve both services.

The Department of Defense cited the actions taken or planned with respect to these suggestions. One of the actions taken—elimination of the inventory at Frankfurt—resulted in annual savings of about \$175,000. (Report to the Congress, B-133244, Aug. 11, 1970)

215. Rebuilding of Tires.—In a report issued to the Congress in January 1971, GAO estimated that about \$1 million could have been saved in Europe during fiscal year 1969 if the motor vehicle tire-rebuilding programs of the Army and Air Force had been more effective. Significant quantities of used tires that



Examples of tires reclaimed from disposal activities for rebuilding.



Examples of tires found in disposal activities.

could have been rebuilt were sold to scrap dealers at nominal prices. Neither the Army nor the Air Force had surveillance systems to monitor the programs.

GAO suggested to the Secretary of Defense that the programs could be improved by:

Inspection of tires on vehicles during vehicle maintenance to insure removal at the required time for rebuilding.

Inspection, periodically, of condemned tires in disposal yards to insure that tires which can be rebuilt and used are not scrapped.

Initiation of operational standards and a reporting system that would measure the performance of the tire-rebuilding program at each base.

The Department of Defense concurred and stated that a program similar to one instituted for aircraft tires would be initiated. (Report to the Congress, B-159200, Jan. 8, 1971)

216. Spectrometric Oil Analysis in Maintenance of Engines.—Spectrometric oil analysis is a technique for measuring worn metal particles in oil taken from engine-lubricating systems. The measurement gives an indication of the wear sustained by engine parts and provides a means of identifying parts needing repair or replacement and predicting failures of parts.

In a report issued to the Congress in October 1970, GAO presented its findings that, despite a triservice agreement to insure coordination of the program within the Department of Defense (DOD), the military departments:

Were operating analysis laboratories independently of each other.

Differed in their criteria for the frequency of analysis.

Planned separate acquisition of 357 additional analysis laboratories, at an estimated cost of \$7.1 million, which would have increased the DOD inventory to 428 such laboratories.

At GAO's suggestion the Secretary of Defense had an *ad hoc* group study the program and, as a result of the study, a new program (Equipment Oil Analysis Program) was established under the direction of the Navy. The new program provides for only 110 laboratories. On the basis of cost projections by DOD, GAO estimated that savings of \$5.3 million will result through reduced procurement of equipment and annual savings of \$18.1 million through reduced operating costs. (Report to the Congress, B-162313, Oct. 27, 1970)

Utilization and Disposal of Property

217. Avoiding Accumulation of Excess Spare Parts.—During 1967 the Federal Aviation Administration (FAA), Department of Transportation, declared spare parts which had cost about \$9 million as excess, in order to reduce quantities on hand at the Aeronautical Center Supply Depot (Center), Oklahoma City, Okla., to newly established 5-year stockage limits. The parts had been purchased for use in maintaining FAA's network of air traffic control and air navigational aid facilities. The disposal was prompted, in part, by a 1966 presidential memorandum directing that inventories be reviewed and that excess quantities be disposed of. GAO made a review to evaluate the bases for a disposal program of such magnitude and to ascertain whether, following the disposals, FAA found it necessary to procure a significant quantity of any of the previously disposed of items.

GAO concluded that FAA needed to improve the Center's procedures for determining whether items in the spare-parts inventory should be retained or declared excess. Under the inventory management system, estimated future needs for spare parts were based solely on quantities issued during the preceding 12 months and the current month without also considering data on the types and number of facilities in operation for which particular parts were needed and on the expected remaining useful lives of such facilities.

GAO found that new requirements arose during

the 23 months following fiscal year 1967 for significant quantities of spare parts identical to those which had been declared excess during April, May, and June 1967 when parts which cost about \$3.8 million were declared excess. It was estimated that the newly acquired parts would cost about \$473,900.

GAO recommended that FAA assemble and organize into appropriate form information pertaining to (1) the types and numbers of facilities in use, (2) the particular spare parts needed to maintain each type of facility, and (3) the expected useful life of the facilities.

GAO also recommended that FAA (1) establish procedures designed to insure that such information is appropriately used in inventory management decisions and (2) in the interim, declare spare parts excess only after it has been determined that they are obsolete or unfit for use or that continued retention would become economically impracticable.

The Department acknowledged that FAA's inventory management procedures could be improved. (Report to the Congress, B-16497(1), July 22, 1970)

218. Use and Redistribution of Excess Materiel in the Pacific Area.—To obtain maximum use of the materiel in the Pacific area the Department of Defense established a special program, conducted by the Pacific Command Utilization and Redistribution Agency, Okinawa, to promote redistribution of excess materiel within and among the military services in the Pacific area. GAO reviewed the program to evaluate its adequacy and effectiveness.

During fiscal year 1969, excess materiel costing \$603 million was reported and about \$23 million worth of these excesses was redistributed. GAO found that more excess materiel could have been redistributed had there been greater participation in the program. Air Force contractors and some military activities had not reported their excesses to the Agency nor had they used the Agency as a possible source of supply for their requirements. Since the Government received only about \$0.075 on each \$1 worth of materiel sold as surplus, greater effort should have been made to use excess items rather than to sell them as surplus.

The Agency served merely as an information center. The management responsibility was fragmented and no one organization had an overview of the entire program. Also, the military services did not have clear criteria for defining excess materiel, and some of the materiel reported as excess was not actually excess

and could not be delivered when redistribution was requested.

GAO made a number of suggestions to the Secretary of Defense to improve the effectiveness of the Pacific Command Utilization and Redistribution Agency and to clarify and improve criteria for identifying excess materiel. The Department of Defense stated that the Army had been directed to improve the effectiveness of the operations. (Report to the Congress, B-169427, Aug. 14, 1970)

219. Use and Redistribution of Excess Materiel in Europe.—To obtain maximum use of the materiel in the European theater, the Department of Defense established a special program, conducted by the Materiel Asset Redistribution Center, Europe, to promote redistribution of excess materiel among the military services in Europe. GAO reviewed the program to evaluate its adequacy and effectiveness.

From inception of the program in July 1967 through October 1969, about \$199 million worth of excess materiel was reported to the Center and about \$20 million worth was redistributed. However, not all of the Navy organizations and none of the Air Force contractors in Europe had reported their excesses to the Center or had used the Center as a possible source of supply for their requirements. GAO estimated that full participation by Navy organizations and Air Force contractors in Europe could have resulted in additional redistribution of \$684,000 worth of excess materiel in the 12-month period ended December 1, 1969, and comparable amounts in subsequent years.

GAO found also that:

Excesses were released by the Center for disposal after the period of screening against requirements—generally 90 days from the time the excesses were first reported—even though some of the items had a potential for redistribution and were in fact needed shortly after they were released for disposal.

Substitute and interchangeable excesses were not considered for redistribution even though computer equipment capacity had been provided to include information on such items and an audit in 1968 by the Office of the Secretary of Defense indicated that use of substitute and interchangeable excesses would have increased redistribution by about \$1.5 million in the 15-month period covered in the audit.

Excesses redistributed to Army requisitioners to meet permissive overstockage may have deprived organizations with a more urgent need and resulted,

SECTION I

in some instances, in the subsequent reporting of the same stocks as excess.

GAO recommended that the Secretary of Defense:

Require full participation in this program by the military services and contractors.

Reevaluate the screening cycle to prevent premature disposal of needed items.

Require the resolicitation of organizations, whose excesses were recently released and are subsequently needed, to determine whether the excesses are still available for redistribution.

Insure that the program for considering substitute and interchangeable items is carried out as previously recommended by the Department of Defense audit.

Establish procedures to hold requisitions for permissive overstockage in abeyance so that if requisitions for current operating stockage are received during the screening period, they can be filled first.

The Department of Defense concurred in general with GAO's conclusions and recommendations. (Report to the Congress, B-140389, Feb. 3, 1971)

220. Reclamation of Usable Parts From Excess Aircraft.—Excess aircraft not needed by the military services are mothballed at the Military Aircraft Storage and Disposition Center in Arizona. When there is no longer any foreseeable need for them, they are scrapped. Since many of the components and parts of these aircraft can be used in repairing operational aircraft, they are reclaimed before the aircraft are scrapped. During fiscal year 1969 the Center reclaimed, from aircraft which were to be scrapped, items which had originally cost about \$83.5 million. GAO made a review of the reclamation program to test the effectiveness with which the military services were recovering needed components and parts and were reducing their purchases accordingly.

GAO's review of two reclamation projects of the Navy, in which items costing \$3.1 million were to be reclaimed from 144 aircraft scheduled to be scrapped, showed that additional items, costing \$410,000, were needed and should have been included in the reclamation projects. The Navy purchased \$252,100 worth of new parts to cover its need for the parts that should have been included in the reclamation projects. The Navy criteria excluded the following categories of items from consideration for reclamation even though requirements for them may have existed: (1) those for maintenance demands related to models of aircraft

other than the ones being scrapped, (2) slow-moving, low-demand consumable items, (3) consumable items with a unit price under \$10, and (4) consumable items designated as having a shelf life.

GAO's review of another aircraft disposal program of the Navy showed that the aircraft had been scrapped without a reclamation project having been established for the disposal. These aircraft contained items costing about \$507,000 which the Navy needed. Had the Navy reclaimed the items, it would have avoided purchasing \$120,800 worth of new items.

The reclamation criteria and procedures of the Air Force and the Army were generally effective in identifying needed items to be reclaimed. Minor areas in which improvements could be made were brought to the attention of local officials.

GAO found also that the controls of the three services did not insure that items to be obtained from reclamation were considered in making decisions to procure needed stock. As a result, new items were procured unnecessarily.

GAO proposed that the Secretary of Defense require the Navy to consider the following criteria for reclamation of parts from excess aircraft:

Needed items, regardless of whether there is a maintenance demand recorded for the particular model of aircraft being disposed of.

Needed slow-moving, low-demand items.

Needed low-unit-price items where (1) total quantities available or needed are great enough to warrant the effort of reclamation or (2) unit prices have changed considerably.

Needed, although unserviceable, shelf-life items that can be economically restored to serviceable condition.

GAO also proposed that the Secretary of Defense require that (1) all excess aircraft being disposed of be screened for total reclamation requirements and (2) the military services establish appropriate procedures to insure consideration of the items to be obtained from reclamation before purchases are made.

The Department agreed with these proposals and cited the actions taken to implement them. (Report to the Congress, B-157373, Aug. 6, 1970)

221. Excess Inventories of Industrial Materials.—GAO's review at four of the 10 naval shipyards showed that about 30 percent of the inventories of industrial materials at the four yards were excess to their needs. The excess material—valued at over \$17

million—had not been reported to the naval supply system for redistribution or for disposal, and the yards did not have an adequate program for identifying excess material. GAO estimated that disposal of the excesses at the four yards would eliminate holding costs of about \$3.4 million annually.

Much of the accumulation of the excess material resulted from the ordering of material far in advance of actual need and from the establishment of stock levels on the basis of inaccurate demand and use data.

GAO noted also that the yards were not making maximum use of Navy procedures to reduce the cost of requisitioning high-use, low-value items. These procedures provide for requisitioning of such items in bulk, and placing them in bins in the work areas, rather than requisitioning them in small quantities as needed. Elimination of unnecessary requisitioning at the four yards could reduce costs by about \$1.3 million annually.

Internal audits and studies at shipyards had iden-

tified similar conditions but the recommended corrective measures had not been fully implemented.

In response to GAO's suggestions for improvement, the Navy stated that inventories at the 10 naval shipyards had been reduced by about \$28 million in the period January through September 1970—and the trend was continuing—and cited a number of related actions taken or planned to:

- Improve requisitioning of material.

- Develop revised stocking criteria.

- Establish guidelines for placing material in inventory.

- Dispose of excess material and set up annual inventory and reporting requirements.

- Increase to \$10 the unit value of material which may be bulk issued.

The Navy stated also that the Inspector General would provide surveillance of the implementation of audit report recommendations. (Report to the Congress, B-125057, May 28, 1971)

OTHER GOVERNMENT ACTIVITIES

Transportation

222. Centralized Control of Overseas Air Passenger Transportation.—In a report to the Congress, GAO cited the need for centralized control over procurement of overseas air passenger transportation to eliminate unnecessary purchase by the Department of Defense (DOD) of seats on commercial flights. GAO had proposed in three previous reports to the Congress that the Secretary of Defense designate a single authority to exercise such control.

GAO found, however, that effective centralized control had not yet been established and that commercial transportation had been used by DOD personnel the same time that space was available on aircraft controlled by the Military Airlift Command (MAC). GAO estimated that savings of \$4 million in DOD's cost of commercial air transportation could have been realized during fiscal year 1968 if the passenger capability of MAC had been used more effectively.

DOD agreed that centralized control of overseas air passenger transportation had not been established at the time of GAO's review, but reported that a joint regulation had been issued establishing such control for air travel after January 1, 1970. The amount of savings that will be realized in future years could not be determined by GAO from available data. (Report to the Congress, B-133371, July 21, 1970)

223. Reduced Paperwork in Procuring Bus Transportation.—In July 1970, GAO reported to the Congress that the number of Government transportation requests (TR's) issued by the Department of Defense (DOD) to procure bus transportation and the related paperwork could be reduced significantly through greater use of the bulk purchase program. Under this program, DOD is authorized to use a single TR to procure quantities of bus tickets.

DOD has agreed with GAO's findings and is taking corrective action.

GAO did not attempt to measure the savings in paperwork in terms of dollars because the cost of issuing and processing TR's differed significantly at

various installations and military departments. However, the Joint Agency Transportation Study Group in a recently released report conservatively estimated that it cost about \$2 to issue and process a TR. The group qualified its estimate by saying that a number of agencies believe the cost should be at least \$5. On the basis of these figures, annual savings between \$300,000 and \$800,000 will result from GAO's effort. (Report to the Congress, B-125283, July 27, 1970)

224. Unused Cargo Space on Aircraft Controlled by the Military.—On several previous occasions, GAO had reported to the Congress that the cargo capacity of aircraft controlled by the Military Airlift Command (MAC) had not been fully used and GAO had made several recommendations designed to improve aircraft utilization.

In August 1970, GAO again reported to the Congress and stated that although use of the airlift capability had improved significantly since its earlier reviews, optimum use of cargo and passenger flights still had not been achieved, and available cargo capacity in the belly compartments of aircraft had been left largely unused. GAO estimated that the unused space in the belly compartments of aircraft controlled by MAC would have accommodated an additional 20 million pounds of cargo annually. The cost of procuring an equivalent amount of cargo airlift would have been about \$11 million.

The Department of Defense (DOD) agreed with GAO's findings and stated that newly established terminal handling procedures had already increased the average belly compartment load. It also indicated that previous restrictions on the use of unaccompanied baggage as filler cargo had been removed. DOD officials said they will continue to review the program to further improve the effectiveness of DOD's airlift system.

Because of the sharp reduction in cargo shipments to Southeast Asia and the related decrease in the number of cargo flights, GAO was not able to estimate the savings that will result. (Report to the Congress, B-133025, Aug. 19, 1970)

225. Airlifting of Military Service Newspapers.—About 15 tons of *Pacific Stars and Stripes* and other service newspapers are airlifted daily from a Government-owned printing plant in Japan to Southeast Asia by a commercial jet aircraft chartered especially for that purpose. The cost of chartering the aircraft is about \$5 million annually.

In March 1971, GAO reported to the Congress that the Department of Defense (DOD) could save about \$3.8 million annually by contracting with a commercial firm to print the newspapers in Bangkok, Thailand. Instead of airlifting about 15 tons of newspapers daily, only the printing negatives (about 25 pounds) would be shipped by air. Less costly surface transportation would be used to move the common newsprint to the printing facility which was nearer to the ultimate readers. DOD agreed that the commercial printing concept was feasible and stated that negotiations were planned to try the concept for the relatively few copies distributed in Thailand. DOD added that the printing of the Thailand copies would be a valuable trial run and, if successful, could be extended to other areas in Southeast Asia.

GAO believed that more immediate action was needed and recommended that DOD begin negotiating with qualified firms in Southeast Asia for the required printing service. GAO recommended also that the printing be shifted as expeditiously as possible where costs are favorable.

A task force established by DOD to study GAO's recommendations reported that the commercial printing firm GAO had identified as having the capability to print the *Stars and Stripes* had subsequently merged with another firm and no longer had the facilities to do the required printing. Officials of the new organization indicated that in view of the continuing reduction of U.S. forces in Southeast Asia they would now require a 4-year contract before making any initial financial outlay for new equipment.

Primarily because of the 4-year requirement, the task force recommended that the printing of the *Stars and Stripes* not be shifted. But, it recognized the necessity of reducing expenses being incurred to airlift the newspapers and it is currently studying less expensive means of delivery. (Report to the Congress, B-165683, Mar. 10, 1971)

226. Chartering Practices of the Military Sealift Command.—In January 1971, GAO reported to the chairman of the House Committee on Merchant Marine and Fisheries on the study it had made at his

request concerning the comparative economies of using berth service (regular commercial service) and chartered vessels for the ocean movement of military cargo. The study was directed primarily to determining whether the Military Sealift Command was complying with the provisions of the Wilson-Weeks Agreement in its decisions to charter ships. The Wilson-Weeks Agreement is an agreement between the Department of Commerce and the Department of Defense (DOD) which, among other things, provides priorities for the use of commercial and Government-owned shipping capabilities in the transportation of military cargo.

GAO informed the chairman that on the basis of its analysis of the cargo carried on a limited number of charter voyages, berth service would have been less costly. But, GAO made it clear that its estimate of the cost of berth service was based on the lowest berth rates on file and that there was no guarantee that service could be obtained for such rates. In fact, GAO found that there was generally insufficient berth service available to meet the needs of the Military Sealift Command.

With respect to the Wilson-Weeks Agreement, GAO found that the Military Sealift Command's procedures for procuring ocean transportation provided reasonable assurance that the terms of the agreement were complied with. In essence, use of Government-owned shipping capability had been limited to the extent possible and the remainder of DOD's shipping needs had been satisfied through the use of the U.S. Merchant Marine.

In addition to the report furnished the chairman, GAO prepared a statement on this same topic which was delivered by the Assistant Comptroller General on March 9, 1971, before the House Committee on Merchant Marine and Fisheries. (Report to the House Committee on Merchant Marine and Fisheries, B-145455, Jan. 22, 1971)

227. Consolidation of Household Goods Activities in Hawaii.—In December 1967, GAO had recommended that the Commander in Chief, Pacific, consider consolidating five separate military household goods shipping offices on Okinawa into a single office, and that he reevaluate an earlier study concerning similar consolidations in Hawaii. GAO believed the consolidation would result in more economical use of administrative personnel and in improved carrier operations.

The plan for Hawaii was approved by the Department of Defense (DOD) in May 1970 and the Joint Office was activated on February 1, 1971. GAO's subsequent review showed that the consolidation was in-

SECTION I

complete and the Joint Office was merely superimposed on existing service offices. Rather than reducing costs, the consolidation resulted in significantly higher costs to accomplish the same functions.

In April 1971, GAO reported to the Secretary of Defense and recommended that he reexamine the tasks now being performed by the separate shipping offices in Hawaii to determine if they could be performed more economically and with greater efficiency by the Joint Office. GAO also recommended that the Secretary reexamine the household goods activities on Okinawa to determine if a joint office there would benefit the Government.

In response, DOD stated that the GAO review had been premature and that some of the problem areas had been corrected subsequent to the issuance of the GAO report. DOD indicated that the GAO report will assist in the overall management of the personal property movement program. (Report to the Secretary of Defense, B-172376, Apr. 26, 1971)

228. Air Parcel Post Shipments of Supplies.—

In a report issued to the Congress in May 1971, GAO stated that supply depots of the military services were using air parcel post to a greater extent than necessary because local controls had not been established, in all cases, to insure selection of the most economical, yet timely, methods of shipment. Use of alternative methods could save about \$520,000 annually at three of the seven installations included in GAO's review. About \$450,000 is being saved annually at two other installations as a result of adoption of controls GAO recommended.

Alternatives to air parcel post include Navy and Air Force contractor-operated, domestic cargo airlift systems; special types of lower-cost airlift postal services to overseas areas; and surface transportation.

GAO recommended that:

The Secretary of Defense see that procedures at military supply installations are revised to insure consideration of all acceptable means of delivery and selection of the least costly means that will permit delivery in the required time.

The Navy adopt a mail-monitoring program at the Navy fleet post offices to select the least costly means of sending official mail overseas.

The Department of Defense issue policy guidance, similar to that of the Army, requiring all military services and other Government activities using the military postal system to indicate delivery dates or

similar information on supply parcels so as to facilitate the screening process at the postal gateways.

The Department of Defense agreed with the first two recommendations and stated that the third recommendation—the requirement that delivery dates be indicated on supply parcels—would be considered in connection with its special review of the military mail concepts, operations, and procedures. (Report to the Congress, B-157476, May 6, 1971)

229. Use of Air Taxi Service To Transport Mail.—

GAO's review of the Post Office Department's mail transportation policies and practices for converting surface transportation modes to air transportation modes, with emphasis on air taxi mail service, showed that:

The Department exceeded its legal authority in its use of "emergency" contracts for air taxi service for transport of mail.

During the early months of the air taxi mail service program, which started in 1967, the Department awarded a number of air taxi mail service contracts without obtaining formal competitive bids and without adequate assurance that bidders were qualified.

Questionable contract rate increases were granted because the Department did not have adequate procedures for evaluating and processing air taxi operators' requests for rate increases until almost 2½ years after the program started.

Transporting first-class mail by air taxis was more costly than by scheduled commercial airlines or available surface transportation. Also, discontinuance of unneeded Sunday night air taxi mail service would save at least \$569,000 annually.

In response to GAO's recommendations, the Department took action to reduce the number of emergency contracts and agreed to furnish the Civil Aeronautics Board (CAB) with copies of all future emergency contracts, in recognition of CAB's responsibility for regulating air transportation, and to state explicitly in each such contract the details of the emergency which gave rise to the contract. The Department also initiated action to (1) eliminate unneeded Sunday night air taxi mail service, (2) discontinue nonessential air taxi mail routes, and (3) restructure and consolidate other air taxi routes. The Postmaster General reported that, as of June 30, 1970, these actions had reduced the annual expenditure rate for the air taxi mail service program by about \$1,158,500 or 13 percent. (Report to Senator Gordon Allott, B-166772, Oct. 22, 1970)

Government Claims

230. Progress and Problems in Implementing the Federal Claims Collection Act of 1966.—The Federal Claims Collection Act of 1966 became effective on January 15, 1967. This was the first general statutory authority to give Federal agencies broad administrative power to compromise and terminate collection action on claims. To implement the act the Comptroller General and the Attorney General of the United States issued joint standards for the guidance of all Government agencies and, under these standards, agencies were required to (1) issue internal regulations, (2) collect, compromise, or terminate collection action on claims, and (3) report those claims which could not be settled by the agency to the GAO for further collection action.

The act was designed to reduce the collection workload of the Department of Justice and to ease the burden of the courts. Placing the responsibility of routine collection work at the administrative level was to enable the U.S. attorneys to devote more time to litigate those claims for which the prospects of collection were such as to justify the increased costs and efforts of court action.

Prior to enactment of the act, most agencies had no authority to compromise or terminate collection action on claims but were required to refer all administratively uncollectible claims to GAO for further action. Similarly, GAO had no compromise authority and settlements could not be negotiated until the claims were finally sent to the Department of Justice.

In its report to the Congress, GAO pointed out that many agencies did not issue internal regulations promptly. Several agencies had not issued their regulations more than a year after the effective date of the act, even though they were allowed a period of 6 months after its passage to do so.

Agency regulations which were issued often did not provide for the collection procedures required by the act and the standards. They did not prescribe the intervals between demands, conditions under which and the times at which a compromise should be solicited, and conditions under which collection action should be suspended or terminated.

Due to a lack of implementing agency instructions or regulations and uncertainty regarding the proper procedures to be followed, GAO found that backlogs of claims developed in many departments and agencies. In attempting to dispose of these backlogs, collection action on a large number of claims was improperly

terminated during the first 12 or 18 months after the legislation became effective.

Despite the problems which arose in issuing regulations and in carrying out the requirements of the Federal Claims Collection Act, departments and agencies did make substantial progress in compromising claims and in terminating collection action at the administrative level. Undoubtedly the necessity for private relief acts by the Congress was substantially reduced and the Department of Justice noted a significant elimination of unnecessary litigation since the act became effective.

GAO helped the departments and agencies by (1) suggesting ways to improve collection operations, (2) assisting in the establishment of a checklist of procedures to be used in the debt collection process, (3) providing sample letters that had been used effectively by GAO in making collections, and (4) recommending procedures to be followed so that prescribed demand actions could be taken promptly.

The departments and agencies reacted favorably to GAO's suggestions. For example, the Army Finance Center at Indianapolis, Ind., and GAO have been co-operating closely in an effort to reduce a large backlog of claims. Several meetings have been held and GAO personnel have been assigned temporarily to the Center in a further effort to provide assistance. Substantial reductions have been made in the backlog.

GAO reported that its reviews demonstrate that there are many revisions still necessary in the administrative regulations of the various agencies to make them conform with the act and the joint standards and that therefore GAO will continue to make reviews to determine agency compliance and will render such assistance as needed.

GAO informed Congress that it could not state how many claims are presently outstanding in the Government, or how much money is involved, but statistics furnished by only a few agencies indicate that hundreds of millions of dollars are involved. In spite of the amount of money due the Government, the impression which GAO gathered during its reviews was that agencies have a tendency to curtail debt work whenever there is a budget cut, since there is little likelihood of protests being made over delays in collection. It is GAO's opinion that all agencies should allot reasonable shares of their resources to their debt work. (Report to the Congress, B-117604(3), July 23, 1970)

231. Improvements Needed in Guidelines and Procedures.—GAO reviewed that portion of the De-

SECTION I

partment of State's Foreign Affairs Manual which established general criteria for implementation of the Federal Claims Collection Act and the joint standards promulgated thereunder. GAO also reviewed the guidelines which the Department of State issued for use in conjunction with the manual. The guidelines provided that (1) if a review indicated there was no possibility that the debtor could pay now or in the future, the debt could be terminated and (2) in such category, it would be desirable to have financial information regarding the financial status and physical condition of the debtor, but if such information was not available through inability to locate it, and even though the "statute of limitation" does not run against a Federal claim, the law would permit termination of the debt.

GAO pointed out in its report that there is a statute of limitations applicable to certain claims of the Government. This statute provides, in part, that except as otherwise provided by Congress, every action for money damages brought by the United States or an officer or agency thereof which is founded upon any contract express or implied in law or fact, shall be barred unless the complaint is filed within 6 years after the right of action accrues or within 1 year after final decisions have been rendered in applicable administrative proceedings required by contract or by law, whichever is later. GAO further pointed out that inability to locate a debtor is not sufficient reason to terminate collection action under the joint standards issued to implement the Federal Claims Collection Act.

GAO also reviewed the Department's procedures for settling debts, and in its report recommended that (1) adequate controls be established to insure timely processing of demand letters, (2) the final demand letter include a statement that in the absence of payment or satisfactory arrangements for payment, the debt would be referred to GAO for further collection action, (3) compromises be solicited, when appropriate, and (4) in deceased cases, development action be undertaken to ascertain whether the decedent left an estate.

The Department of State agreed to make the necessary changes in its guidelines but noted that the Department does not have adequate manpower to process letters on the basis set out in the joint standards. (Report to the Secretary of State, B-117604(8), Oct. 29, 1970)

232. Collecting Claims Payable to the Government.—In its report to the Administrator of Veterans Affairs, GAO listed the following deficiencies noted in

the Denver and Newark Regional Offices on claims payable to the Government: (1) collection action not being promptly initiated or pursued in an aggressive and timely manner, (2) suspension and termination of collection action without positive evidence to support the determination, (3) failure to refer claims to the GAO when administrative suspension or termination action would not be proper under the Federal Claims Collection Standards, and (4) failure to solicit compromises, when such action would be appropriate. GAO noted, however, that the major portion of the omissions and noncompliances occurred prior to the date on which the Veterans Administration (VA) took action to correct similar deficiencies disclosed in a previous GAO review at the Philadelphia Center.

The Veterans Administration issued a revision of agency collection policies and procedures which reflects the intent of the Federal Claims Collection Act of 1966 and the implementing joint standards. Emphasis was placed on procedural matters designed to correct deficiencies found by GAO and internal reviews. (Report to the Administrator of Veterans Affairs, VA, B-114859, Dec. 18, 1970)

233. Settling Debt and Payment Claims.—The review by GAO of the Defense Supply Agency's (DSA) Manual containing instructions for settling claims against the Government (payment claims) disclosed that it was generally adequate and in conformity with the GAO Policy and Procedures Manual for Guidance of Federal Agencies. Four recommendations for clarification were made. One of these stressed the importance of protecting the interest of persons unfamiliar with the provisions of the 10-year barring act (31 U.S.C. 71a). This is done by referring immediately to GAO's Claims Division all claims received for which the right of payment accrued 8 years or more prior to the date of receipt and which cannot promptly be approved and paid by the agency in the full amount claimed.

GAO reviewed actual operations at four activities of the Defense Supply Agency which are all located in Philadelphia. At one of these activities, GAO noted that appeals for reconsideration or adjustment of a claim were not always forwarded to GAO after an administrative denial. The GAO Manual provides that reclaims of items previously denied by the administrative agency must be forwarded to the Claims Division, GAO, unless it is determined administratively that the action taken in denying the claim was clearly in error and properly can be corrected by the agency.

DSA officials took prompt action to insure the correct processing of payment claims administratively denied.

Recommendations were also made to improve, in the field offices, procedures for collecting debts payable to the Government (debt claims).

DSA has taken action to make revisions in its manual and to improve its processing of both debt and payment claims. It has also established new controls and initiated an internal reporting system that will insure prompt management reaction to in-house claims problems. (Report to the Director, DSA, B-117604(10), May 28, 1971)

Manpower Utilization

234. Ceilings on Employment of Civilian Personnel.—Before fiscal year 1969, civilian personnel ceilings for the executive departments and agencies generally were established on the basis of annual budgets and were administered by the Bureau of the Budget (now the Office of Management and Budget). On June 28, 1968, the Congress enacted the Revenue and Expenditure Control Act of 1968 which imposed restrictions on the hiring of civilian employees. These restrictions superseded the ceiling system previously imposed by the Bureau of the Budget. On July 22, 1969, the restrictions on hiring imposed in the act were repealed and the earlier ceiling system imposed by the Bureau of the Budget was reinstated. GAO reviewed the effect of the personnel ceilings and hiring restrictions on the management of civilian personnel.

In GAO's opinion, personnel ceilings or hiring restrictions, whether imposed by statute or by the Office of Management and Budget, do not provide the most effective management control over civilian personnel. They tend to be:

Arbitrarily applied because of the difficulty of making them fit program requirements.

Inflexible because they do not allow for changes in skills as needed in changed programs.

Uneconomical when they permit accomplishment of programs through use of overtime labor at premium pay.

Ineffective in controlling expenditures since, as an alternative, programs may be accomplished through contracting with firms or institutions for personal services.

GAO believes that personnel levels can be better con-

trolled through budget and program planning procedures.

GAO proposed that the Director of the Office of Management and Budget permit departments and agencies to accomplish their programs without restrictions on numbers of personnel—being limited only by the availability of funds. In December 1970 the Director agreed to eliminate employment ceilings in the Department of Defense for a 1-year trial period. GAO recommended that the Secretary of Defense establish a centralized group of officials to assess the effectiveness of fiscal and program constraints on employment levels during the test period.

GAO suggested also to the Secretary of Defense that substantial improvements in the management of total personnel resources could be achieved through continuous evaluation by officials independent of the component organizations of the Department of Defense. GAO proposed that he establish a group of high-level officials, responsible to him, for continuing objective evaluation of missions, programs, and activities of the component organizations within the Department. The Department of Defense did not agree that establishment of such a group would significantly improve its existing review process and pointed out that virtually every level of management was making maximum effort to achieve the savings necessary to meet budget reductions. (Report to the Congress, B-165959, Apr. 30, 1971)

235. Use of Enlisted Personnel.—At the time of GAO's review of the use of Army enlisted personnel, there were about 1 million trained enlisted personnel assigned to Army units—divided about equally between continental United States installations and overseas installations. GAO found that about 10 percent of the personnel at the four continental United States installations included in the review were assigned to duties for which they had not been trained. Information obtained in other reviews at overseas installations showed that the rate overseas was even higher.

GAO recognized that personnel turbulence—the number of men entering and leaving the Army and the number being assigned and reassigned—has increased significantly in recent years and has added to the problems of personnel management. The Army needs a personnel management system capable of coping with the varying degrees of turbulence. The existing system, with some revisions and adequate enforcement, may afford the Army the potential for effective personnel management. But the adequacy of the sys-

SECTION I

tem could not be evaluated because the Army failed to strengthen and enforce it and continued to circumvent it.

Some of the problems in personnel management stemmed from inaccuracies in the data accumulated under the Army's personnel statistical and accounting system. Others resulted from practices which circumvented the normal operation of the personnel management system. These practices included "bulk filling" of requisitions for personnel (assignment of personnel in groups rather than on the basis of the requisitioned skills and skill levels of the individuals) and mandatory levies (a practice, outside the normal requisitioning procedures, which directs installations to transfer personnel to fill vacancies at other installations).

GAO recommended that the Army:

Enforce existing personnel management policies and procedures at all levels of command and refrain from initiating at headquarters level such actions as "bulk filling" and mandatory levies.

Strengthen existing personnel management policies and procedures rather than introduce new programs or changes which add to reporting requirements and complicate the operation of the system.

Give priority attention to the manpower requirements for the personnel management career field and stabilize the tours of such personnel as soon as practicable.

The Department of the Army agreed with the general thrust of GAO's report and stated that increased attention to the personnel management area had been programmed by the Army Audit Agency. (Report to the Congress, B-146890, May 6, 1971)

236. Readiness of Naval Air Reserve Units.—Naval Air Reserve units at the four naval air stations GAO visited were not achieving their primary purpose of having trained units and suitable equipment available for active duty in the Armed Forces in time of war or national emergency. These units had aircraft which lacked certain equipment needed to perform assigned primary missions; there were various types of supply and maintenance problems; and there were shortages of aircraft and maintenance support equipment which impaired training.

In two recent readiness/administrative inspection reports GAO examined, little emphasis was placed on the material readiness of the units, and no mention was made of needed improvement in the management of aircraft maintenance support equipment. The priority

being given to furnishing the Active Navy with equipment resources was a contributing factor to the low-readiness status of the Naval Air Reserve units; however, the substantial costs incurred to maintain Reserve units suggested a need to determine whether alternative courses of action are advisable.

In April 1969 the Navy approved the development of a 5-year plan to improve the readiness of the Naval Air Reserve. As of June 30, 1970, however, the plan had not been fully developed. The development and implementation of the plan would provide a sound basis for the corrective actions needed.

Assuming that the present Naval Air Reserve force level is to be maintained, GAO suggested two alternatives to the Secretary of Defense: (1) allocation of additional resources to upgrade the readiness status of the Reserves or (2) maintenance of the status quo and assumption of the risk of reduced operational capacity in the event that mobilization of the Reserves is required. The Navy generally concurred with the first alternative.

On other matters noted in the review, GAO recommended that the Naval Air Reserve inspectors give increased emphasis to the reporting of material readiness and that the Secretary of Defense give attention to the completion and implementation of the 5-year plan to improve the readiness of the Naval Reserve.

The Navy generally concurred with GAO's findings and evaluation of readiness and in its suggestions and recommendations for improvement. (Report to the Congress, B-146964, Nov. 30, 1970)

237. Employment of Consultants and Experts.—In a report issued to the Department of Health, Education, and Welfare (HEW) and the Civil Service Commission relating to the use of consultants and experts, GAO stated that neither HEW's procedures for controlling their hiring and use nor the Commission's procedures for monitoring other agencies' procedures were effective enough to insure compliance with laws and instructions governing their employment.

HEW indicated that GAO's recommendations for corrective action would receive consideration in planned changes in its procedures. Also, the Commission agreed with GAO's recommendations and advised that appropriate changes would be made in its instructions and operating practices. (Report to the Secretary, HEW, and the Chairman, CSC, B-164031(1), Apr. 1, 1971)

238. Transfer of Regional Activities to Local Post Offices.—The Congress, concerned about the amount of expenditures and the size of the staffs of the Post Office Department's regional offices, had placed ceilings on the staffing of such offices. Subsequently, in November 1967, the Department transferred 15 activities and related positions from its regional offices to local post offices although the activities were essentially regional ones and the post office employees engaged in them were under the technical supervision of the regional offices.

GAO reported that the transfers did not appear to be consistent with congressional intent regarding ceilings on regional staffing and costs, and that there was a loss of efficiency in the regional offices.

GAO recommended that the Department discontinue its practices of having local post office employees perform regional activities and of charging the cost of the salaries and fringe benefits of such employees to the appropriation for operating post offices.

The Postmaster General said that the transfers were part of a move toward a decentralization of operating functions and were not designed to avoid the congressional ceilings on staffing and expenditures for regional offices. He stated also that the Department had concluded that certain of the transferred work could be performed more efficiently in the regional offices. The Department arranged for the return to the regional offices of 143 positions nationwide, which were related to four of the 15 activities previously transferred to local post offices, but it stated that regional office personnel ceilings prevented returning more positions. (Report to the Congress, B-159768, Nov. 13, 1970)

User Charges

239. Assessment and Collection of Postage for Second-Class Mail.—GAO noted that the Post Office Department appeared to place almost complete reliance on information provided by publishers in determining the amount of postage due for second-class mail. In examining into the matter further, GAO found that the Department had undercharged postage of at least \$700,000 annually on 176 of the 334 publications examined by GAO, which were mailed at second-class rates.

These undercharges occurred because (1) publishers were charged the lower second-class postal rates although the publications failed to meet the legal or regulatory requirements for second-class mail privi-

leges, (2) the Department had not established adequate specific criteria to guide publishers and employees in classifying certain free copies of publications for postal-rate purposes, and (3) examinations of publishers' records were neither timely nor effective—consequently, certain copies of some publications which had been improperly classified by publishers were not detected and a second-class postal rate, lower than that required by postal regulations, was charged.

GAO recommended that the Department (1) revoke or suspend second-class mailing permits for ineligible publications and establish a policy of charging postage at the appropriate rate on all copies of publications mailed after the date that such publications first fail to meet second-class mail eligibility requirements, (2) revise its regulations to clearly define sample (free) copies and establish time limits during which samples may be mailed to the same person at second-class rates, and (3) strengthen its internal management review to insure effective and timely examination of publishers' records for publications mailed at second-class postal rates.

In response to GAO's report, the Postmaster General ordered, on a high priority basis, a complete examination of all pertinent regulations, including the administration thereof, and the specific provisions of the second-class mail privileges discussed in GAO's report. The Department study was completed in January 1971 and the resulting report contained many recommendations for improving the administration of second-class mail.

Pending completion of its study, the Department issued instructions in October 1970 to all postmasters to make a thorough review of procedures for computing postage on second-class mailings and to make recomputations and appropriate adjustments if postage had been incorrectly charged. The Department also took various positive actions to strengthen controls over second-class mail revenue, including improved procedures and increased frequency in examining publishers' records.

The Postmaster General stated that the only viable long-term solution to some problems relating to second-class mail was a drastic redesign and simplification of the existing rate classification structure and that proposals to accomplish this would be presented to the Postal Rate Commission created under the Postal Reorganization Act, Public Law 91-375, approved August 12, 1970 (84 Stat. 719). (Report to the Congress, B-161568, Sept. 18, 1970)

SECTION I

240. Unrecovered Postage and Handling Costs for Processing Mail With Insufficient Postage.—

The Postmaster General was required by law to collect postage due for mail without sufficient prepaid postage and to recover the cost of handling such mail from the addressee. He could, however, waive the handling charge when he deemed it to be in the interest of the Government.

The Post Office Department had waived the collection of the handling charge since August 1958—a condition which GAO believed was not intended by the Congress. Also, GAO found that some mail with insufficient postage was not being detected by the Department. If the conditions noted in 13 postal facilities covered by GAO's review were typical, the Department was incurring significant losses nationwide. The Department did not have an effective policy to prescribe the methods and responsibility for detecting mail with insufficient postage.

GAO made several recommendations designed to help solve this problem, including a recommendation that the Department return mail with insufficient postage to senders rather than forward such mail to the addressees.

The Postmaster General stated that, to better appraise the problem and the solutions available, a cost-benefit analysis would be made and that this analysis would generally recognize GAO's recommendations. (Report to the Congress, B-161568, Mar. 31, 1971)

241. Establishment of User Charges for Special

Services.—After reviewing the research associate program conducted by the National Bureau of Standards, GAO questioned whether the Bureau had followed its established policy of consistently charging research associate sponsors for overhead costs of the program and whether certain sponsors received preferential treatment by not following the policy. Based on comments made by the Department of Commerce, GAO concluded that there was sufficient justification for not charging sponsors for overhead costs when appreciable benefits can be expected to accrue to the Bureau from the research.

GAO recommended, however, that the Bureau determine on a case-by-case basis whether the work of research associates is likely to provide a benefit to the Bureau which is at least commensurate with the costs incurred. In those instances where the Bureau does not receive substantial benefits, GAO believes that the Bureau should establish an appropriate user charge to assess the sponsors for services provided by the Bureau.

The Bureau subsequently determined that, under the four new agreements signed in fiscal year 1971, it would receive substantial benefits from the work of the research associates.

GAO recommended also that, if overhead costs rise substantially as a result of future increases in the number of research associates, further consideration be given to establishing accounting procedures to avoid charging overhead costs to users who will not benefit from the program. For fiscal year 1971, however, the Bureau stated that the number of research associates declined rather than increased. (Report to the Assistant Secretary for Science and Technology, Department of Commerce, July 30, 1970)

242. Fees Charged for Special Benefits.—

In view of the concern expressed by the Senate and House Appropriations Committees that the Government was not receiving sufficient return for all the services rendered to special beneficiaries by certain regulatory agencies, GAO undertook to determine how effectively the agencies were implementing the law in that regard.

Title V of the Independent Offices Appropriation Act, 1952, provides that Government activities resulting in special benefits or privileges for individuals or organizations be financially self-sustaining to the fullest extent possible, that regulations prescribing fees be as nearly uniform as practicable, and that fees be fair and equitable, taking into consideration direct and indirect costs to the Government, value to the recipient, public policy or interest served, and other pertinent facts.

The Bureau of the Budget (now the Office of Management and Budget) issued policy guidance (Circular No. A-25) to agencies for implementing those requirements. The circular broadly defines services that provide special benefits and establishes guidelines on the types of costs to be considered in setting fees and charges.

GAO found that the fee policies of seven regulatory agencies—the Civil Aeronautics Board (CAB), the Federal Communications Commission (FCC), the Federal Maritime Commission (FMC), the Federal Power Commission (FPC), the Federal Trade Commission (FTC), the Interstate Commerce Commission (ICC), and the Securities and Exchange Commission (SEC)—were not as uniform as practicable, did not take all costs to the Government into consideration in determining the amounts of assessments, and did not provide for fees to be charged in all appropriate instances.

Subsequent to GAO's review, five agencies—FCC, ICC, CAB, FPC, and SEC—took steps to change their fee schedules. However, because actions taken by the agencies individually may not result in the uniformity intended by the law, GAO recommended that the Office of Management and Budget reexamine (1) the policies and practices of the regulatory agencies in establishing their fees and (2) the language of Circular No. A-25 to determine whether it provided adequate guidance to the agencies in implementing title V of the Independent Offices Appropriation Act, 1952.

The Office of Management and Budget agreed generally with GAO's conclusions and recommendations and said that it would conduct a broad review of user-charge policies. (Report to the Congress, B-145252, Oct. 23, 1970)

243. Rental Charges for Occupying Space in Government Buildings.—As required by law, funds for financing the operations of the Office of the Comptroller of the Currency are obtained by assessments against the national banks which it regulates and supervises. However, rent-free space is being provided in Government-owned buildings. At June 30, 1969, the Office occupied 151,917 square feet of space—72,911 square feet of rent-free space in Government-owned buildings and 79,006 square feet of space in privately owned buildings at an annual rental of about \$390,000.

GAO believed that it was inconsistent for the Office of the Comptroller to bear the cost of leased space in privately owned buildings and not bear the cost of space occupied in Government-owned buildings. As a result of GAO's suggestion that the Office of the Comptroller be required to pay for the fair rental value of space occupied in Government-owned buildings, the Department of the Treasury advised the Comptroller that effective July 1, 1970, the Department planned to charge the Office of the Comptroller rent for space it occupied in the Treasury Building and the Treasury Annex in Washington, D.C.

Officials in the Office of the Comptroller advised GAO in May 1970 that they agreed with the principle of paying fair rental for space occupied in Government-owned buildings and that some minor details in the Department of the Treasury's computation of rent were being further negotiated. They stated also that they would negotiate rental fees when contacted by other agencies furnishing space. GAO was advised that as of June 30, 1971, final agreement had not been reached with the Department of the Treasury

or with the other agencies—the Post Office Department and the General Services Administration. (Report to the Congress, B-168904, Aug. 24, 1970)

Miscellaneous

244. Collection of Supplemental Duties on Imported Merchandise.—As part of its function of assessing and collecting duties on merchandise imported into the United States, the Bureau of Customs, Department of the Treasury, permits importers to pay an estimated amount of duty on incoming merchandise pending final determination of the amount of duty to be assessed. When the determination is made, overpayments are refunded and importers are billed for the amount of underpayments (supplemental duties). A surety bond is previously filed by the importer to insure payment for the supplemental duties. Under the terms of the bond the surety and the importers are jointly liable without regard to time limits. Under the Bureau's billing procedures supplemental duties not paid within 30 days are considered delinquent and if not paid within 75 days a demand for payment notice is sent to the responsible surety. Department of the Treasury regulations provide for revocation of the bonding authority of sureties for inexcusable, prolonged, or repeated failure to honor demands for payment.

GAO noted that the Bureau was not taking aggressive collection action against delinquent sureties, certain collection practices could be improved, and a more effective monitoring program for evaluating field office collection procedures was needed. Out of about \$6.7 million of supplemental duties outstanding at April 30, 1970, about \$4.9 million, or 73 percent, was delinquent, including about \$3.8 million which was more than 60 days old.

GAO suggested that more effort by the Bureau's national office officials would be an effective way of improving collections from the sureties. Such action was undertaken against one surety company—the largest writer of Customs' bonds—with a demand for payment of about \$1.4 million. Shortly thereafter most of this amount was paid by the importers or the surety company. Also, the Bureau stated that it had issued revised instructions for collecting delinquent duties. (Report to the Secretary of the Treasury, B-114898, Jan. 27, 1971)

245. Federal Assistance for Presidential Transitions.—GAO reported that the amounts and/or

SECTION I

period of availability of funds authorized by the Presidential Transition Act of 1963 and the Former Presidents Act of 1958 do not appear to be adequate to carry out the objectives of the laws. The Office of Management and Budget supported GAO's conclusions.

The Congress appropriated \$900,000 for the General Services Administration to finance the 1968-69 transition between the incoming and the outgoing administrations. Although the transition act is silent on the matter of the division of the funds between the administrations, the legislative history reflects an expectation that they be divided equally. This was done in the case of the 1968-69 transition.

GAO was informed by President-elect Nixon's representative on transition matters that "approximately \$1.5 million was required to defray the expenses of the incoming administration for such items as the rental of temporary office space, telephone and other communications, travel, expenses of task forces, disbursements in connection with interviewing applicants, and a myriad of other expenses necessarily incurred during the interregnum." It is apparent that the \$450,000 in Federal transition funds made available to the incoming Nixon administration was clearly inadequate to cover all of President-elect Nixon's transition expenses.

Transition funds are made available to the outgoing President and Vice President for a period of 6 months after they leave office for use in winding up the affairs of their offices. GAO found that former President Johnson still had a heavy workload 18 months after he left office.

While the Former Presidents Act sets an overall limitation on salaries that can be paid to a former President's office staff, the maximum salary that can be paid to any member of his staff is tied in with the executive schedule pay rates. The overall limitation has not been amended as frequently as pay rates have been raised in recent years. It is thus apparent that the unbalanced movement of pay rates and overall limitations can cause problems in paying the salaries of the former President's staff.

GAO suggested that the Congress might wish to consider:

The desirability of increasing the amount of funds authorized under the Presidential Transition Act for the incoming President and Vice President.

The need for an extension of the time during which Presidential Transition Act funds are available to the former President and Vice President.

The need to amend the Former Presidents Act to provide for adjustment of the overall limit on compensation of the former President's staff, in line with pay raises in general. Or, perhaps, in view of the uncertain purpose for the limitation on total salaries within the total appropriations available, the limitation could be safely eliminated.

(Report to the Congress, B-149372 and B-158195, Nov. 16, 1970)

246. Management and Operation of Communications Systems.—In 1960 the Department of Defense (DOD) established the Defense Communications System and the Defense Communications Agency to supervise the System. Although some progress had been made toward the integrated communications system envisioned at that time, much remained to be done. GAO found significant problems in organization and management which appeared to hamper accomplishment of the objective.

Other than the Secretary of Defense there was no one person or office serving as a focal point with authority and responsibility to coordinate all aspects of communications. There was a lack of coordination among the organizations involved in communications, including the staff in the Office of the Secretary of Defense, the Joint Chiefs of Staff, the Defense Communications Agency, and the military departments. GAO found many examples of the costly effects attributable, at least in part, to fragmented and uncoordinated management. Some of the examples follow.

An uncoordinated program, begun in 1965, to procure data subscriber terminal equipment (equipment at the end of transmission circuits used to send or receive data) required more than 1,000 changes in specifications at a cost of \$29 million. These changes delayed delivery, and additional millions of dollars were spent to lease equipment.

The uncoordinated development of Project Advent, under the satellite communications program, resulted in duplications, inefficiencies, and delays. About \$170 million had been spent on this project when it was canceled. Despite that experience, current satellite projects were being developed with an organization similar to that of Project Advent.

Lack of coordination, between the Defense Communications Agency which manages the main trunk lines of the Automatic Voice Network (DOD's main voice system) and the users who control the access lines to the Automatic Voice Network, was the chief reason

for an inadequacy of access lines and a low rate of completed calls—45 to 53 percent in a sample 6-month period.

In early November 1969, a reorganization plan prepared by the Deputy Secretary of Defense proposed establishment of the position of Assistant to the Secretary of Defense (Communications). GAO recommended that, in the proposed reorganization, consideration be given to removing the Defense Communications Agency from the chain of command under the Joint Chiefs of Staff and making the Director of the Defense Communications Agency responsible directly to the new Assistant. This would permit greater autonomy in the functions of the Defense Communications System. GAO recommended also that consideration be given to making the position of Director of the

Defense Communications Agency a civilian post. This would remove any question of the Director's partiality toward his own military department.

On May 21, 1970, DOD established a new position of Assistant to the Secretary of Defense (Telecommunications) and appointed a civilian to fill the position. DOD stated that the new Assistant would consider the first recommendation. With respect to the second recommendation, DOD did not agree that the directorship of the Defense Communications Agency should be a civilian post. DOD felt that, since the Agency is a military organization, the Director should have military experience. GAO believes that the Agency and its directorship should be free from influence by the Joint Chiefs or a particular military service. (Report to the Congress, B-169857, Oct. 19, 1970)

SECTION I

INDEX BY GOVERNMENT AGENCY

<i>Agency</i>	<i>Item</i>
AGRICULTURE, DEPARTMENT OF	2, 94, 99
Agricultural Stabilization and Conservation Service	1, 105
Commodity Credit Corporation	3, 96, 105, 161
Export Marketing Service	105
Farmers Home Administration	42, 43, 44, 45, 46, 47, 48, 165
Federal Crop Insurance Corporation	201
Foreign Agricultural Service	95
Forest Service	39, 40
Rural Electrification Administration	42
APPALACHIAN REGIONAL COMMISSION	37
ATOMIC ENERGY COMMISSION	6, 7, 120, 128, 169, 170
CIVIL SERVICE COMMISSION	60, 185, 237
COMMERCE, DEPARTMENT OF	90, 95, 189
Economic Development Administration	9, 171
Maritime Administration	122
National Bureau of Standards	164, 241
DEFENSE, DEPARTMENT OF	60, 80, 85, 88, 92, 93, 100, 101, 102, 108, 110, 111, 112, 113, 118, 120, 127, 130, 131, 132, 133, 137, 145, 147, 183, 193, 194, 195, 207, 208, 209, 214, 215, 216, 218, 219, 220, 222, 223, 224, 225, 226, 227, 228, 234, 246
Air Force, Department of the	96, 98, 102, 144, 145, 159, 214, 215
Army, Department of the	96, 98, 99, 126, 143, 145, 146, 159, 183, 192, 205, 206, 213, 214, 215, 218, 235
Corps of Engineers (Civil Functions)	78, 79
Defense Contract Audit Agency	119
Defense Supply Agency	233
Navy, Department of the	102, 109, 126, 138, 139, 140, 141, 142, 145, 150, 151, 152, 159, 178, 221, 236
U.S. Marine Corps	208
DISTRICT OF COLUMBIA GOVERNMENT	121, 134
ENVIRONMENTAL PROTECTION AGENCY	72, 73
EXECUTIVE OFFICE OF THE PRESIDENT	
Economic Opportunity, Office of	10, 11, 54
Management and Budget, Office of	106, 130, 197, 234
EXPORT-IMPORT BANK OF THE UNITED STATES	157
GENERAL SERVICES ADMINISTRATION	114, 130, 197, 199, 210
GOVERNMENT PRINTING OFFICE	196
HEALTH, EDUCATION, AND WELFARE, DEPARTMENT OF	21, 22, 23, 26, 27, 28, 32, 38, 56, 62, 63, 237
Education, Office of	12, 13, 14, 15, 16, 17, 18, 19, 20
National Institutes of Health	149
Social and Rehabilitation Service	24, 25, 29, 30, 31
Social Security Administration	25, 64, 65, 66, 135
HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	49, 50, 51, 52, 67, 68, 69, 70

<i>Agency</i>	<i>Item</i>
INTERIOR, DEPARTMENT OF THE	74
Mines, Bureau of	8
National Park Service	39
Reclamation, Bureau of	75, 76, 77, 78
JUDICIAL BRANCH	162, 163, 173, 174, 175, 187
JUSTICE, DEPARTMENT OF	166, 176, 188
LABOR, DEPARTMENT OF	9, 53, 54, 55, 56, 57, 58, 59, 71, 90
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION	113, 115, 116, 117, 120, 125, 129, 200, 203, 204
NATIONAL CREDIT UNION ADMINISTRATION	10
NATIONAL SCIENCE FOUNDATION	150, 151, 152, 153, 180
OVERSEAS PRIVATE INVESTMENT CORPORATION	107
POST OFFICE DEPARTMENT	136, 177, 211, 212, 229, 238, 239, 240
RAILROAD RETIREMENT BOARD	65
SELECTIVE SERVICE SYSTEM	172
SMALL BUSINESS ADMINISTRATION	41
STATE, DEPARTMENT OF	80, 81, 83, 84, 85, 89, 90, 91, 93, 99, 103, 106, 148, 158, 190, 231
Agency for International Development	81, 82, 83, 84, 85, 86, 87, 97, 101, 104, 106, 107, 191
TRANSPORTATION, DEPARTMENT OF	
Federal Aviation Administration	4, 5, 217
Federal Highway Administration	33, 34, 35, 36
Federal Railroad Administration	123, 124
U.S. Coast Guard	120, 167, 178, 179
Urban Mass Transportation Administration	61, 168
TREASURY, DEPARTMENT OF THE	106, 157, 243, 244
VETERANS ADMINISTRATION	181, 182, 186, 210, 232
MULTIAGENCY FUNCTIONS	120, 154, 155, 156, 160, 184, 198, 202, 230, 242, 245

INDEX BY FUNCTIONAL CLASSIFICATION OF THE FEDERAL BUDGET

<i>Code</i>	<i>Function</i>	<i>Item</i>
050	NATIONAL DEFENSE:	
051	Department of Defense—Military	60, 88, 92, 93, 96, 98, 99, 100, 101, 102, 109, 110, 111, 112, 113, 118, 119, 120, 126, 127, 131, 132, 133, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 159, 172, 183, 192, 193, 194, 195, 205, 206, 207, 208, 209, 213, 214, 215, 216, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 233, 234, 235, 236, 246
057	Military assistance	80, 84
058	Atomic energy	6, 7, 128, 169, 170
150	INTERNATIONAL AFFAIRS AND FINANCE:	
151	Conduct of foreign affairs	89, 90, 91, 101, 103, 104, 148, 158, 190, 191, 231
152	Economic and financial assistance	80, 81, 82, 83, 84, 85, 86, 87, 88, 94, 97, 105, 107, 108, 157
154	Food for Peace	106
250	SPACE RESEARCH AND TECHNOLOGY:	
251	Manned space flight	115, 116, 117, 125, 129, 203
259	Supporting space activities	200
350	AGRICULTURE AND RURAL DEVELOPMENT:	
351	Farm income stabilization	1, 2, 3, 42, 45, 161, 165, 201
352	Rural housing and public facilities	43, 44, 46, 47, 48
400	NATURAL RESOURCES:	
401	Water resources and power	72, 73, 74, 75, 76, 77, 78, 79
402	Land management	39, 40
405	Recreational resources	39, 40
500	COMMERCE AND TRANSPORTATION:	
501	Air transportation	4, 5, 217
502	Water transportation	122, 167, 178, 179
503	Ground transportation	33, 34, 35, 61, 123, 124, 168
505	Postal service	136, 177, 211, 212, 229, 238, 239, 240
506	Advancement of business	41, 95, 164, 189, 241
507	Area and regional development	9, 36, 37, 171
508	Regulation of business	242
550	COMMUNITY DEVELOPMENT AND HOUSING:	
551	Concentrated community development	10, 11, 67
552	Community environment	68, 69, 70
555	Low and moderate income housing aids	50, 51
556	Maintenance of the housing mortgage market	49, 52
600	EDUCATION AND MANPOWER:	
601	Elementary and secondary education	12, 13
602	Higher education	14, 15, 16, 17, 18, 19, 20
604	Manpower training and employment services	53, 54, 55, 56, 57, 58, 59, 237
605	Science education and basic research	150, 151, 152, 153, 180
609	Other manpower aids	8, 71

<i>Code</i>	<i>Function</i>	<i>Item</i>
650	HEALTH:	
651	Development of health resources	38, 149
652	Providing or financing medical services	21, 22, 23, 24, 25, 26, 27, 28, 29, 62, 63, 64, 65, 66, 135, 185
700	INCOME SECURITY:	
702	Public assistance	32
703	Social and individual services	30, 31
800	VETERANS BENEFITS AND SERVICES:	
804	Hospital and medical care for veterans	181, 182, 186, 210
809	Other veterans benefits and services	232
900	GENERAL GOVERNMENT:	
901	Legislative functions	196
902	Judicial functions	162, 163, 173, 174, 175, 187
903	Executive direction and management	245
905	General property and records management	114, 130, 197, 199, 204
908	Law enforcement and justice	166, 176, 188
909	National capital region	121, 134

SECTION II

FINANCIAL SAVINGS ATTRIBUTABLE TO THE WORK OF THE GENERAL ACCOUNTING OFFICE, FISCAL YEAR 1971

Collections and Other Measurable Savings

(000 omitted)

	Collections	Other measurable savings	Total
DEPARTMENTS			
Army	\$1,394	\$143,395	\$144,789
Navy	555	1,766	2,321
Air Force	146	4,055	4,201
Defense	72	3,114	3,186
Agriculture		23,559	23,559
Commerce	1	78	79
Health, Education, and Welfare	2,596	987	3,583
Housing and Urban Development		333	333
Interior	4	1,366	1,370
Labor	3	60,000	60,003
Post Office	2,200	262	2,462
State (including AID, Peace Corps, and USIA)	147	653	800
Transportation		393	393
AGENCIES			
Civil Service Commission		851	851
National Aeronautics and Space Administration		1,248	1,248
Office of Economic Opportunity	17		17
Selective Service System		110	110
Veterans Administration		857	857
Total for departments and agencies	7,135	243,027	250,162
Transportation audit	14,848		14,848
General claims work	2,900		2,900
Total	24,883	243,027	267,910

¹ Includes \$1,000,000 resulting from reviews of Defense international activities.

Details of Other Measurable Savings

Details of other measurable financial savings including additional revenues attributable to the work of the General Accounting Office during the fiscal year 1971 totaling \$245,027,000 are listed below. Approximately \$64 million of the savings or additional revenues are recurring in nature and will continue in future years. The items listed consist largely of realized or potential savings in Government operations attributable to action taken or planned on findings developed in GAO's examination of agency and contractor operations. In most instances, the potential benefits are based on estimates and for some items the actual amounts to be realized are contingent upon future actions or events.

<i>Action taken or planned</i>	<i>Estimated savings</i>	<i>Action taken or planned</i>	<i>Estimated savings</i>
Supply Management:			
Reduction in procurement of helicopter engines and components made possible by more expeditious repair of items already in the supply system—Army (nonrecurring)	\$113, 000, 000	Savings resulting from award of firm fixed-price-type contract rather than a time-and-materials-type for certain repair and overhaul services—Air Force (estimated annual savings)	\$208, 000
Cancellation of requisitions for unneeded supplies which otherwise would have been shipped to Vietnam from the United States—Army (nonrecurring)	7, 300, 000	Redistribution and sale of excess aircraft spare parts to the U.S. Air Force, Navy, a NASA center, and others—National Aeronautics and Space Administration (nonrecurring)	208, 000
Reduction in procurement of transceivers as backup in helicopters based on studies that showed such use was not cost effective—Army (nonrecurring)	7, 031, 000	Cancellation of requisitions for supplies in excess of needs—Army (nonrecurring)	140, 000
Revision of mileage criteria permitted transfer of more-used vehicles to the Vietnamese Armed Forces and avoidance of procurement of new vehicles—Army (nonrecurring; additional savings will continue during the U.S. troop withdrawal)	6, 100, 000	Savings resulting from elimination of duplicated data bank services—Navy (estimated annual savings, \$100,000; nonrecurring, \$20,000)	120, 000
Transfer of ammunition in excess position in the Marine Corps to satisfy a requirement in the Army (nonrecurring)	4, 122, 000	Savings resulting from consolidation of procurement activities and photographic laboratories in Germany—Army (estimated annual savings, \$74,000) (estimated annual savings)	106, 000
Identification and transfer of unneeded laboratory equipment to other users—Defense (nonrecurring and indeterminable future savings)	1, 100, 000	Savings resulting from adoption of procedures to reduce the reject rate in reworking components for rocket launchers—Army (nonrecurring)	96, 000
Contract price reductions resulting from reviews of prices negotiated for supplies—Army \$606,000; Air Force \$452,000 (nonrecurring)	1, 058, 000	Storage charges to the Government were reduced because the Commodity Credit Corporation agreed to pay storage, at its more favorable terms, on dairy products transferred to other agencies rather than require the agencies to assume such charges—Agriculture (estimated annual savings)	45, 000
Increased redistribution of excess materiel resulting from greater participation in the program of the Materiel Asset Redistribution Center, Europe, by the Rota Naval Station—Navy (estimated annual savings)	323, 000	Cancellation of plans to repair unneeded equipment—Army (nonrecurring)	41, 000
Cancellation of procurement resulting from disclosure of errors in computation of requirements for aircraft engine spare parts—Air Force (nonrecurring)	267, 000	Unrecorded supplies of the Armed Forces Institute identified at field installations—Defense (nonrecurring)	40, 000
		Savings realized from repair and reuse rather than disposal of aircraft propellers—Army (nonrecurring)	27, 000

SECTION II

<i>Action taken or planned</i>	<i>Estimated savings</i>	<i>Action taken or planned</i>	<i>Estimated savings</i>
Supply Management—Continued		Transportation:	
Savings resulting from a contract provision requiring manufacture of suspension lugs in larger production lots—Air Force (nonrecurring)	\$11,000	Savings resulting from adoption by the Military Sealift Command of a self-insurance policy of war risk coverage for time-charter ships—Navy (nonrecurring and indeterminable future savings)	\$1,250,000
Construction, Repair, and Improvement Costs:		Savings by reducing the paperwork involved in the procurement of bus transportation for DOD personnel—Defense (estimated annual savings)	300,000
Construction costs for federally financed residential projects will be reduced through action by the Department of Labor under the Davis-Bacon Act to establish minimum wage rates for residential projects on the basis of prevailing wages for similar privately financed projects. Rates previously used were the higher ones for commercial and industrial-type construction—Labor (estimated annual savings)	60,000,000	Savings resulting from reduced sheathing of ammunition vessels—Defense (estimated annual savings)	210,000
Reduction in price under the defective pricing clause of a construction contract—Army (nonrecurring)	120,000	Savings resulting from elimination of environmental and morale flights from Clark Air Base, Philippines, to Bangkok, Thailand, and Taipei, Taiwan, which did not meet criteria for such flights—Air Force (estimated annual savings, \$156,000; nonrecurring, \$34,000)	190,000
Savings resulting from enforcement of warranty provisions of contracts for painting of facilities where specifications had not been met—Army (nonrecurring)	59,000	Savings resulting from use of surface rather than air transportation for shipments of unaccompanied baggage of military personnel—Defense (estimated annual savings)	130,000
Payments to Government Employees and Other Individuals:		Savings resulting from reclassifying parcels mailed by <i>Pacific Stars and Stripes</i> as surface mail rather than military ordinary mail which resulted in the parcels being commercially airmailed—Defense (estimated annual savings)	76,000
Savings resulting from amendment of Joint Travel Regulations to reduce per diem rates for military personnel on temporary duty assignments of 60 days or more—Army \$4,131,000; Air Force \$2,822,000 (nonrecurring and indeterminable future savings)	6,953,000	Cancellation of requisitions for household goods containers by the U.S. Naval Supply Center, Pearl Harbor, Hawaii—Navy (nonrecurring)	73,000
Contracting Policies and Practices:		Savings resulting from shipping unaccompanied baggage of Army personnel from Germany to the United States by commercial air freight rather than military ordinary mail—Army (estimated annual savings)	65,000
Savings resulting from use of surplus U.S. butter rather than purchasing European butter—Defense (nonrecurring)	800,000	Household goods containers located and reused rather than procuring new ones—Defense (nonrecurring)	40,000
Cancellation of a proposed contract amendment that would have granted an excessive allowance to the insurer for administrative expenses under the Government-wide Indemnity Benefit Plan of the Federal Employees Health Benefits Program—Civil Service Commission (nonrecurring)	444,000	Interest Costs:	
Savings resulting from use of American-made buses rather than foreign-made buses at overseas locations—Defense (estimated annual savings)	218,000	Placing cash resources of the Veterans Canteen Service field offices in Treasury facilities rather than in commercial depositories provided funds to the Government which could be productively used in reducing public borrowing—Veterans Administration (estimated annual savings)	90,000
Savings resulting from use of more economical personal service contracts for overseas personnel—Agency for International Development (nonrecurring)	27,000	Funds advanced before they were needed for upgrading utilities were recovered, thus preventing unnecessary interest expense—Housing and Urban Development (nonrecurring)	7,000

<i>Action taken or planned</i>	<i>Estimated savings</i>	<i>Action taken or planned</i>	<i>Estimated savings</i>
Interest Income:			
Recognition of the interest factor on those funds used for construction of the Yellowtail Unit, Missouri River Basin Project, which were allocated to the municipal and industrial water supply, will result in better return of interest to the Government for the cost of financing the project—Interior (nonrecurring)	\$918,000	Recovery of unused grant funds and the disallowance of expenditures which were not authorized by Teacher Corps guidelines—Health, Education, and Welfare (nonrecurring)	\$67,000
Additional interest income to be earned by the Federal Employees Health Benefits program as a result of investing funds made available under revised procedures for reimbursing local Blue Cross-Blue Shield plans—Civil Service Commission (estimated annual savings)	407,000	Reduction in Medicare funds paid for drug and medical supply costs at two hospitals, because of changes made to comply with the Social Security Administration's prescribed method for computing such costs—Health, Education, and Welfare (nonrecurring)	26,000
Change in the interest rate criteria will result in the recognition of more realistic interest costs applicable to the power facility investment of the Government and thereby provide a basis for the ultimate recovery from the users of power facilities of a proper interest amount as well as the Federal investment in such facilities—Interior (1st year estimate and indeterminable future savings)	200,000	Decrease in grant which had been approved in an excessive amount because of the Economic Development Administration's acceptance of overvalued assets as a portion of project costs—Commerce (nonrecurring)	18,000
Automatic Data Processing Systems:			
Reduction in magnetic tape cost at Goddard Space Flight Center through greater use of rehabilitated tape—National Aeronautics and Space Administration (nonrecurring)	543,000	Utilization of U.S.-Owned Foreign Currencies:	
Savings resulting from combining business and scientific data processing operations—National Aeronautics and Space Administration (estimated annual savings, \$325,000; nonrecurring, \$65,000)	390,000	Savings resulting from the restoration of Indian rupees erroneously charged to the tourist conversion account and made available for purchase by U.S. civilian and military personnel and their dependents—State Department (nonrecurring)	378,000
Savings by having ADP system maintenance done by organizations specializing in such maintenance—Veterans Administration (nonrecurring)	97,000	Savings resulting from the sale of excess U.S.-owned local currency to a U.S. financed contractor in India—Agency for International Development (nonrecurring)	200,000
Loans, Contributions, and Grants:			
Avoidance of excessive claims for Federal reimbursement for costs in administering public assistance programs in Pennsylvania—Health, Education, and Welfare (nonrecurring)	894,000	Savings resulting from payment of international postal debt with U.S.-owned excess foreign currency—Post Office Department (nonrecurring)	48,000
Cancellation of proposed procurements of buses and related equipment and services under an urban mass transportation demonstration grant, because the time remaining in the testing period was not sufficient under the guidelines to develop patronage for experimental routes—Transportation (nonrecurring)	270,000	Manpower Utilization:	
		Conversion of 75 Coast Guard military billets not requiring military skills or military duties to civilian positions—Transportation (estimated annual savings)	123,000
		Revenues:	
		Increase in interest revenues resulting from change made by the Commodity Credit Corporation in its basis for computing interest on agricultural price-support loans—Agriculture (nonrecurring and indeterminable future savings)	570,000
		Additional revenue from revised rates for transmitting non-Federal power over the Federal power transmission system—Interior (estimated annual savings)	167,000
		Implementation of increased billing rates to recover full cost of services rendered under open-heart surgery sharing agreements with medical schools and hospitals—Veterans Administration (estimated annual savings)	82,000

SECTION II

<i>Action taken or planned</i>	<i>Estimated savings</i>	<i>Action taken or planned</i>	<i>Estimated savings</i>
Revenues—Continued			
Additional revenues derived from revised policies and procedures for appraising and selling marginal timber used for low-grade plywood or pulpwood—Interior (estimated annual savings)	\$70,000	Disposal of the case files of registrants aged 35 years or over who are no longer liable for service in the Armed Forces, resulting in savings in personnel costs, warehouse space, and equipment—Selective Service System (estimated annual savings)	\$110,000
Increase in fees charged nongovernment customers by the National Bureau of Standards for electronic calibration services—Commerce (nonrecurring and indeterminable future savings)	60,000	Reduction in operating costs and investment in equipment by consolidating calibration and repair activities at the Madrid, Spain, tracking facility—National Aeronautics and Space Administration (estimated annual savings, \$25,000; nonrecurring, \$50,000)	75,000
Other Items:			
Adoption of a different policy and revision of procedures for establishing rice export subsidy rates—Agriculture (nonrecurring and indeterminable future savings)	22,900,000	Savings in electric power costs in Germany by installation of devices to reduce reactive current—Defense (estimated annual savings)	50,000
Cancellation of four new open-heart surgery centers because of insufficient caseloads to provide heart surgery teams with the work to develop and maintain their skills at the highest level—Veterans Administration (estimated annual savings, \$328,000; nonrecurring, \$260,000)	588,000	Discontinuance of practice of purchasing title evidence on home properties managed and sold for the Department of Defense—Housing and Urban Development (estimated annual savings)	46,000
Recognition by the Corps of Engineers of reimbursable power costs, which had not been included in the Government's power investment, to be repaid to the Government—Army (nonrecurring)	344,000	Savings by discontinuing leases on little-used telecommunication terminals—Army \$11,000; Air Force \$24,000 (estimated annual savings)	35,000
Revisions of operating procedures and construction specifications resulted in increased effectiveness of property rehabilitation programs in Pennsylvania—Housing and Urban Development (nonrecurring and indeterminable future savings)	280,000	Recovery of a contractor's unearned target fee, and elimination of its unearned incentive fee—National Aeronautics and Space Administration (nonrecurring)	32,000
Discontinuance of surety bond premium costs and a corresponding reduction in administrative expense resulting from the Post Office Department becoming a self-insurer for mail losses by its customers—Post Office Department (estimated annual savings)	262,000	Reduction of subsidy payments under the sugar program, through establishment of reliable procedures for determining what constitutes a farming operation and through improved monitoring of farm constitutions (a farming operation would be subsidized at a greater rate if the operation were constituted as separate farms rather than as a single one)—Agriculture (estimated annual savings)	28,000
Declaration of a tender and various items of floating plants by the Corps of Engineers as excess, thus saving maintenance and replacement costs—Army (nonrecurring)	170,000	Increase in revenues from the sale of cotton as a result of basing the minimum acceptable sales price for extra-long staple cotton on the loan rate in effect for the State in which the cotton is stored—Agriculture (estimated annual savings)	16,000
Savings resulting from elimination of unnecessary forwarding to Denver, Colo., for audit of medical service claims paid by contractors of the Office of Civilian Health and Medical Program—Defense (estimated annual savings)	150,000	Cost of refurbishing the Office of the Secretary of the Interior was limited to the maximum amounts allowable under the Federal Procurement Regulations and the Federal Property Management Regulations—Interior (nonrecurring)	11,000
		Savings resulting from more effective utilization of leased family housing—Air Force (nonrecurring)	7,000
		Total other measurable savings	243,027,000

Additional Financial Savings Not Fully or Readily Measurable

Many significant financial benefits to the Government, either one-time savings or recurring savings, that are attributable to the work of the General Accounting Office are not fully or readily measurable in financial terms. These benefits result from actions that are taken or that are to be taken by the Congress or the departments and agencies to eliminate unnecessary expenditures or to otherwise correct deficiencies brought to light in GAO's audit reports. Some examples of these actions identified during the fiscal year 1971 are described below.

Reduction in Costs of the Medicare Program Due to a Change in the Method of Apportioning Hospital Costs

In a review of the Medicare program, GAO noted that some fiscal intermediaries had delayed making final settlements with hospitals for reimbursement costs under Medicare. Fiscal intermediaries serve under contract with the Social Security Administration (SSA), Department of Health, Education, and Welfare (HEW), to make Federal payments to institutions for health services provided to Medicare patients.

Delays in making final settlements with hospitals were due in part to questions raised concerning the use by hospitals of the combination method—one of two methods for apportioning Medicare costs. Use of the combination method resulted in the inclusion of private room costs, not covered under the program, and certain delivery room costs, not applicable to Medicare patients. In response to questions raised by the intermediaries, the HEW Assistant General Counsel for Health Insurance in November 1967 pointed out to SSA that the inclusion of private and delivery room costs in the reimbursement formula was inconsistent with the law.

GAO's analysis of a sample of cost reports for hospitals in 32 States and Puerto Rico showed that use of the combination method resulted in reimbursements amounting to about 4 percent higher than reimbursements under the other method. GAO estimated that elimination of the use of this method would reduce Medicare payments to hospitals by between \$100 million and \$200 million annually.

In a February 1970 report to SSA, the HEW Audit Agency recommended that the combination method be eliminated or modified, but in April 1970 SSA replied that although it would study the matter, it did not

agree with the recommendation because of the imprecision of any apportionment method.

At their request, GAO furnished congressional committee staffs with its analysis of the difference in costs resulting from use of the two reimbursement formulas, and on February 19, 1970, in public hearings before the House Subcommittee on Intergovernmental Relations, HEW witnesses were questioned about the GAO findings. Also, on February 26, 1970, in public hearings before the Senate Finance Committee dealing with serious cost overruns under the Medicare program, HEW officials were further questioned about their justification for the continued use of the combination method in view of GAO's findings.

The method continued to be authorized, however, and in June 1970 GAO informally proposed that the Secretary of HEW discontinue or modify its use. HEW responded in a letter dated September 28, 1970, that SSA had been intensely studying the combination method as part of its complete reexamination of Medicare cost reimbursements.

GAO's findings were also made available to the Senate Finance Committee which was then considering Medicare reimbursement matters in connection with its deliberation on proposed Social Security amendments. In its December 11, 1970, report the Senate Finance Committee stated that:

Both the Comptroller General of the United States and the HEW Audit Agency have recommended that the use of the combination method should be eliminated because certain pediatric and obstetrical costs are included in the total ancillary service costs against which the Medicare portion of charges are applied to arrive at program reimbursement * * * There are no rational grounds for preserving the unintended reimbursement of such costs where it is feasible to avoid such payments. Furthermore, the statute requires that Medicare pay only for the actual costs associated with the elderly.

SECTION II

In January 1971, HEW advised GAO that, in accordance with an agreement with the Senate Finance Committee, a decision had been made to discontinue the use of the combination method for larger institutions. In testimony before a subcommittee of the House Committee on Appropriations, HEW estimated that the change would save \$100 million in Medicare costs for fiscal year 1972.

GAO's review of formulas for reimbursing institutions under the Medicare program and its assistance to the Congress in the matter contributed substantially to the estimated annual savings of \$100 million in Medicare costs. However, the exact amount attributable to GAO's efforts is not readily measurable.

Cancellation of Plans To Procure Four Deep Submergence Rescue Vehicles

In 1964 the Chief of Naval Operations authorized the development of the deep submergence rescue vehicle (DSRV) and established a requirement for six vehicles. At the time of GAO's review, the Navy had purchased two vehicles and was planning to request funds to purchase four more. GAO questioned whether the cost of the four additional vehicles was warranted by the marginal increase in effectiveness of rescue operations the vehicles would provide and, in May 1969, proposed that the Secretary of Defense evaluate the estimated cost of the four vehicles in relation to their estimated usefulness. GAO's findings were considered in congressional hearings on the military budget, and the issue of need for the additional vehicles was also raised by the Subcommittee on Economy in Government of the Joint Economic Committee.

Subsequently the Navy informed GAO that it was conducting a study of the matter. In its report of December 3, 1970, the study group concluded that only the two vehicles already purchased were needed and the Navy canceled its plans to purchase the four additional vehicles. The Navy estimated that the four vehicles would have cost nearly \$300 million to purchase and about \$17 million annually to operate.

Significant Reduction in Production of Materiel Prior to Completion of Development and Testing

The production and operational use of new materiel by the military departments prior to completion of development and testing is commonly referred to as concurrent development and production, or simply concurrency. In the Army, concurrency is authorized

by a "limited production" (LP) classification. Items still under development are so classified when there is an urgent operational requirement for the item which cannot be met by an existing item. The LP classification and subsequent renewals authorize procurement only in the quantities and for the purposes approved by the responsible element of the Army General Staff.

GAO found that howitzer ammunition under development, which had been given an LP classification for 1 year, was still being procured 3½ years later without the required authorization to continue procurement under the LP classification. GAO noted also that the LP classification was not limited to items for which there were urgent operational requirements. In June 1969 GAO suggested that the Army review all LP items controlled by the Army Munitions Command, enforce its regulation requiring that LP items be procured and used only for the specific urgent requirements for which procurement had been approved, and enforce its requirement for justification of need to renew LP authorizations.

In response to the suggestions, the Army informed GAO that it was conducting a special review of LP procurements. Subsequently the Army informed GAO that the funding for LP procurements had dropped from \$990.3 million in fiscal year 1969 to \$72.1 million in fiscal year 1971—a reduction of \$918.2 million. Although the phasedown of activities in Vietnam reduced the sense of urgency and was a contributing factor in the reduction of LP procurements, the Army stated that GAO's suggestions were a major factor in the reductions.

Reduction in Procurement of the Shillelagh Missile

The annual report of the Comptroller General for the fiscal year 1970 pointed out that congressional consideration of GAO's findings in a review of the development and production of the Sheridan weapon system (a tank-like, armored, reconnaissance/airborne assault vehicle) was an important contributing factor in the reduction of \$57.6 million in the fiscal year 1970 appropriation of funds for continuing production of the Sheridan weapon system.

The Sheridan was designed to fire several types of 152mm ammunition, including the Shillelagh missile. The Army advised GAO that because of the cutback in production of the Sheridan, the fiscal year 1971

procurement of the Shillelagh missile had been reduced by \$37.9 million.

Savings in Transportation Costs by Avoiding Unnecessary Shipments of Supplies to Vietnam

GAO's continuing review of the phasedown of U.S. military activities in Vietnam showed many opportunities for savings in transportation costs by avoiding unnecessary shipments of supplies to Vietnam from the continental United States or from intermediate supply points. In response to GAO's recommendations, new procedures were established or existing procedures were strengthened for (1) canceling requisitions issued by units being inactivated or redeployed, (2) intercepting requisitions issued by units scheduled to be inactivated or redeployed (by senior officers with advance information on planned schedules), and (3) insuring maximum consideration by the Military Assistance Command in Vietnam of the excess supplies and equipment already on hand in Vietnam and available for transfer to meet the requirements of the Vietnamese Armed Forces.

Production of the Army's Tactical Fire Direction (TACFIRE) System Deferred Pending Completion of Test and Evaluation

At the request of the chairman of the House Committee on Appropriations, GAO made a review of the Army's acquisition of its Tactical Fire Direction (TACFIRE) system. Under the terms of the total package procurement contract for the TACFIRE, the Army was committed to make a decision, at a point in time which would not have permitted completion of test and evaluation, as to whether to proceed with production. (A "total package procurement" is the acquisition of equipment under a single contract which contains price, performance, and schedule commitments for the development, production, and spare-parts support of the equipment.) In its report to the chairman of the House Committee on Appropriations, GAO suggested the possibility of modifying the contract to defer the production decision until after completion of test and evaluation.

The Army included \$17.5 million for the production of the TACFIRE in its budget request for fiscal year 1971. These funds were appropriated. However, the House Committee on Appropriations directed the Army to defer its decision on production of the TACFIRE until fiscal year 1972.

Increased Effectiveness of the Central File of Active Research and Technological Work Maintained by the Defense Documentation Center

The Department of Defense (DOD), through its Defense Documentation Center, maintains a central file of active research and technological work. The central file was established to provide project managers, scientists, and engineers in DOD with current information on the work in process in DOD and the National Aeronautics and Space Administration in order to avoid costly duplication of unnecessary research efforts and to speed the development and improvement of defense material and equipment. Most of the data are first processed into machine-readable form at data banks of the Army, Navy, and Air Force and then forwarded to the central file.

GAO noted that the file did not have information on all research and technological work being actively performed by DOD and that much of the data in the file was out of date because changes in the status of the work had not been reported on a current basis. GAO recommended that the Secretary of Defense require the issuance of guidelines which would help the organizations reporting to the Defense Documentation Center to establish a method of monitoring the data reported to insure that such data are current and complete. The Office of the Director, Defense Research and Engineering, advised GAO that DOD concurred in the recommendation and outlined the implementing steps taken or planned. The Navy's implementation of local procedures reduced its percentage of work that had not been updated from 66 percent in October 1969 to 6.5 percent in July 1970.

Savings Through the Use of Government Motor Pools in Lieu of Rented Cars

GAO's review of about 3,200 travel vouchers for commercial car rentals in the Navy showed that, in 77 percent of the cases, it would have been more economical to have used cars from the motor pools of the General Services Administration (GSA). One of the deterrents to such use was the Civil Service Commission requirement that the Government traveler have a driver's identification card to obtain a car from a GSA motor pool. GAO recommended that the Secretary of Defense request the Civil Service Commission to waive the requirement. The Civil Service Commission complied and in January 1971 amended the Federal Personnel Manual to permit a Government traveler to operate a GSA car without a driver's identi-

SECTION II

fication card provided he has a valid State driver's license.

Cancellation of a Program To Train Senior Military Officers To Fly Rotary Wing Aircraft

GAO questioned the need of a program, instituted by the Army, to train selected senior officers (generals, colonels, and lieutenant colonels) for rotary wing flight training at the same time that the Army was reducing its program for training of regular helicopter pilots. This matter was brought to the attention of the House Committee on Appropriations. The committee deleted all funds for this purpose (\$1 million) from the 1971 appropriation bill and directed the Army to cease training senior officers to fly rotary wing aircraft.

Discontinuance of Improper Transportation Payments to Navy Personnel

Navy personnel assigned to a ship being *overhauled* at a place other than the home port, and whose dependents reside at the home port, are entitled to periodic round-trip travel to the home port (37 U.S.C. 406b). GAO noted that 108 men assigned to the U.S.S. YORKTOWN were paid \$6,200 for round-trip travel from Boston, Mass., where the ship was being *inactivated*, to Norfolk, Va., the ship's home port. The Congress did not intend that this benefit be extended to personnel assigned to ships being inactivated.

The Comptroller General advised the Secretary of Defense that there was no legal basis for such payments and that no further payments should be made. In February 1971 the Secretary of the Navy instructed Navy commands that personnel are not entitled to transportation to their home ports when their ships are being inactivated.

Utilization of Cargo Space on Aircraft Controlled by the Military Airlift Command

In August 1970, GAO reported to the Congress that optimum utilization of cargo and passenger flights controlled by the Military Airlift Command had not been achieved and available cargo capacity in the belly compartments of aircraft had been left largely unused. GAO estimated that there had been sufficient unused space in the belly compartments of aircraft to accommodate an additional 20 million pounds of cargo annually. The cost of procuring an equivalent amount of cargo airlift would have been about \$11 million.

The Department of Defense agreed with GAO's findings. But, because of reduced cargo movements to

Southeast Asia, GAO could not determine the savings that will result.

Savings Through Centralized Control Over Procurement of Overseas Air Passenger Transportation

GAO reported to the Congress in July 1970 that there was a need for the Department of Defense (DOD) to establish centralized control over the procurement of overseas air passenger transportation to eliminate the unnecessary purchase of seats on commercial flights. GAO estimated that savings of \$4 million could have been realized during fiscal year 1968 if DOD travelers had used the unused passenger capability of the Military Airlift Command instead of commercial air transportation.

DOD agreed with GAO's finding and stated that corrective measures had been taken. The amount of future savings that will result from such corrective measures could not be determined from available data.

Development of Official Data on Rice Exports for Use in the Administration of the Rice Export Program

The Commodity Credit Corporation (CCC), in administering the Rice Export Program, needed to obtain from Federal sources information on domestic rice production, sales, and inventories, by major types of rice—long-grain, medium-grain, short-grain, and mixed rice. In the absence of Federal information of this type, CCC relied primarily on unofficial estimates and inadequate information for decisions as to the types of rice to be included in the Public Law 480 export program. GAO found that increased export program costs resulted from the lack of needed information.

GAO estimated, that, in crop years 1965 and 1966, about 6.4 million cwt. (hundredweight) and about 2.3 million cwt., respectively, of the more costly long-grain rice was shipped to foreign countries under the Public Law 480 export program, although according to information obtained by GAO, most Public Law 480 foreign recipients preferred medium-grain rice. The average cost for long-grain rice under Public Law 480 was about \$1 per cwt. higher than medium-grain rice for the same years. Also, the export subsidy rates for long-grain rice were about twice as high as those for the medium-grain type. GAO believed that the availability of official data on rice exports by types could have been of assistance in reducing the amounts of the more costly long-grain rice which were actually exported to the Public Law 480 foreign recipients.

Following GAO's inquiry, the Administrator, Foreign Agricultural Service, recommended to the Director, Bureau of the Census, Department of Commerce, that the monthly report of domestic exports of rice from the United States be revised and that subclassifications be established and reported monthly for long-grain, medium-grain, short-grain, and mixed rice. In GAO's opinion, improved administrative decision-making and substantial savings would be realized through availability of the requested official rice export statistics. The amount of such savings, however, is not readily determinable.

GAO was informed that the Bureau of the Census began to report rice exports as requested and, in addition, export sales reports from CCC's Kansas City office became available on a timely basis.

Potential Economies Through Use of Government Supply Sources by HEW Grantee Institutions

Grantees of the Department of Health, Education, and Welfare (HEW) had not been authorized to use General Services Administration's (GSA) supply sources in the procurement of equipment and supplies needed for the activities financed under the grant. In several instances GAO's reviews of various grant programs administered by the National Institutes of Health indicated that savings could have been realized if the grantees had used the GSA supply sources for supplying and equipping the grant project.

Because of the potential economies, GAO brought the matter to the attention of HEW. In October 1970, HEW authorized grantees to make use of GSA sources of supply or services when it was in the best interest of the Government and the grantee.

Improved Local Capacity To Plan, Develop, and Manage the Model Cities Program

GAO noted, as a result of its review of Federal agency coordination and participation in the Model Cities program, that certain city demonstration agencies (CDAs) were reporting project data (work progress and accrued costs) to the Department of Housing and Urban Development (HUD) only on projects funded totally, or in part, with HUD supplemental funds and were not collecting data and reporting on projects which were funded from other Federal, State, and/or local sources. GAO noted also that there had not been established at the Federal headquarters level an interagency group to assist CDAs in obtaining

from the local operating agency level pertinent information on model neighborhood related projects.

GAO believed that data on model neighborhood related projects—regardless of funding source—were essential to the local decisionmaking process and would be of assistance to CDAs in the formulation and implementation of a truly comprehensive demonstration-type program, as was contemplated under the basic model cities legislation.

HUD stated that it would take several actions relative to the GAO recommendations. These actions included the (1) implementation of a large-scale management assistance program to provide sustained onsite help to model cities, (2) issuance of a memorandum to model cities reemphasizing the importance of maintaining information on all projects—regardless of funding source, and (3) exploration of the feasibility of establishing a more effective interagency working group.

Strengthened Procedures Concerning Economic Feasibility Determinations of Rental Housing Projects Approved for Mortgage Loan Insurance

In a survey of the mortgage insurance program for rehabilitation of housing projects at the Department of Housing and Urban Development (HUD) Area Office, Boston, Mass., GAO noted that (1) projects did not include a sufficient number of contiguous row-house properties (the cost of rehabilitating scattered structures has been estimated to cost from \$2 to \$3 per square foot more than projects containing a number of contiguous structures), (2) requests for construction changes had been submitted for approval after work was completed, (3) homemaker-training programs were not developed for residents of rehabilitated projects, (4) required annual physical inspections of completed rehabilitation projects generally were not accomplished, (5) documents did not contain a notation that the "as is" value of acquired property did not exceed the fair market value as determined by comparable studies, and (6) the files for some completed rehabilitation projects did not contain the annual statements of profit and loss as well as income and operating expense analysis documents.

The HUD Regional Administrator advised that the Area Office will direct its efforts toward the development and insurance of projects with contiguous buildings when required, and accepted the other GAO recommendations. Savings resulting from the changes in policies and practices cannot be readily determined.

SECTION II

Conversion of Military Billets to Civilian Positions

GAO proposed that the Coast Guard implement a program that would convert military billets, essentially civilian in character, to positions that could be filled by civilian personnel. GAO estimated that there were 361 positions that could be filled by civilian personnel in accordance with Coast Guard's criteria. Conversion of these military billets to civilian positions could eventually result in considerable savings and would make military personnel available to fill military billets.

As a result of GAO's review, the Coast Guard converted 75 of the 361 military billets to civilian positions. (See p. 147.) Additional conversions were planned for fiscal year 1972.

Instructions Issued To Evaluate Agency Need for Landholdings

GAO noted that the Coast Guard had been retaining a considerable amount of land which appeared to be excess to its needs and that a program for systematically reviewing its landholdings had not been developed. It was proposed that each Coast Guard district office set up a review program to evaluate the continuing need for landholdings and that Coast Guard Headquarters furnish the necessary guidelines for implementing such a program. GAO proposed also that the Commandant dispose of land cited in the report which, upon review, proved to be excess to Coast Guard needs.

As a result of GAO's review, the Coast Guard issued guidelines for implementing a program for systematically and continuously reviewing its landholdings and began to dispose of the property.

Improved Management of Equipment

In a review of the management of equipment by Atomic Energy Commission (AEC), GAO noted that the Commission's onsite reviews at some field locations were too limited in number and/or scope to permit an adequate evaluation of equipment management activities of AEC field offices and contractors.

In response to GAO's recommendation, AEC requested its field office managers to place more emphasis on onsite reviews. Consequently, AEC operations office managers have been personally conducting frequent walk-through inspections.

According to AEC these inspections along with increased overall emphasis on equipment management activities have had a significant impact on identification

and disposal of equipment considered excess to contractors' needs. This identification of excess equipment can preclude the purchase of similar equipment by other contractors.

Adjustment of Reserves for Federal Employees Health Insurance

Pursuant to the Civil Service Commission's contract, the carriers of the Service Benefit Plan—Blue Cross and Blue Shield for Federal Employees—maintain a special reserve to provide for possible future operating losses. Because changes in premium rates are based, in part, on the balances in the special reserve, the carriers maintain separate special reserve accounts for the high and low insurance options.

GAO's review of the special reserves indicated that the balances for the high options were understated and that the balances for the low options were overstated because the carriers' method of allocating investment income among these reserves had not resulted in distributing investment income in proportion to the sources of funds invested to earn such income. GAO proposed that the Commission initiate action toward the adoption of an allocation method that would result in reasonable and equitable distributions of investment income between the high- and low-option reserves and suggested that this revised method take into consideration the estimated amounts required for payment of future benefit claims and the estimated amounts of premium income earned but not received from the Commission.

The Chairman of the Commission stated that GAO's suggested allocation method had been discussed with the carriers who had agreed to use it commencing with calendar year 1969. GAO later suggested to a responsible official of the Commission that the revised allocation method should be applied retroactively for each year since inception of the plan, because premium rates would otherwise continue to be based, in part, on the prior inequitable allocations of investment income. The official agreed to discuss the matter further with the carriers and, in a letter to GAO dated June 29, 1971, he stated that the carriers had retroactively adjusted the reserves for all prior years by transferring a total of \$5,928,670 from the low-option reserves to the high-option reserves.

A precise determination cannot be made of the ultimate effects of the transfers between the low-option and high-option reserves, because many factors in addition to reserves are taken into consideration in establishing premium rates. GAO noted that the transfers

were made prior to the end of calendar year 1970, but after premium rates had been established for 1971. GAO noted also that at December 31, 1970, the low-option reserves had a balance of \$75.4 million and that the high-option reserves had a deficit of \$84 million. Consequently, the transfers from the low-option reserve should have the effect of either reducing or curtailing increases in the 1972 high-option premium rates, about 40 percent of which are payable by the Federal Government.

More Effective Use of Grant Funds for Constructing Municipal Sewage Treatment Plants

GAO's examination into the effectiveness of the Environmental Protection Agency's (EPA) (formerly the Federal Water Quality Administration) construction grant program for abating, controlling, and preventing water pollution showed that the program had been administered for the most part on a first-come-first-served or readiness-to-proceed basis. Little consideration had been given to the immediate benefits to be attained by the construction of individual treatment plants. As a result, the benefits were not as great as they could have been because waste treatment facilities had been constructed on waterways into which nearby major polluters continued to discharge untreated or inadequately treated wastes.

During fiscal years 1957 through 1971, EPA awarded more than 11,000 grants totaling \$2.2 billion for the construction of waste treatment facilities estimated to cost \$10 billion. At June 30, 1971, the Congress was considering proposed legislation that would authorize Federal grants totaling \$6 billion over the next 3 years for the construction of facilities estimated to cost \$12 billion.

In a report to the Congress, issued in November 1969, GAO recommended that the States, in establishing priorities for the construction of waste treatment facilities, and EPA, in approving grants for such construction, give consideration to (1) the benefits to be derived from the construction of the facilities and (2) the actions to be taken, or planned to be taken, by other polluters on the waterways.

The Agency agreed with GAO's recommendations and revised its regulations in July 1970 to require that no Federal grant be made for a municipal waste treatment project unless that project is included in an effective basin-wide plan for pollution abatement consistent with water quality standards. The basic objectives of this revision are to provide a cost effective abatement plan for protecting existing and projected

water uses, to provide an overview of the total water and related land resources of the basin, and to insure that the investment will be supplemented by actions to abate other sources of pollution.

Improved Operation and Maintenance of Municipal Waste Treatment Plants

During fiscal years 1957 through 1971, the Environmental Protection Agency (EPA) (formerly the Federal Water Quality Administration) awarded grants to States, municipalities, and intergovernmental agencies of about \$2.2 billion for the construction of about 11,000 waste treatment projects having a total estimated cost of about \$10 billion. In addition, it is estimated that over \$200 million is expended annually by local governments to operate and maintain waste treatment plants.

In September 1970, GAO reported that operation and maintenance problems for municipal waste treatment plants had been widespread for many years and had resulted in inefficient plant operations. These problems resulted from a lack of qualified operating personnel, inadequate controls over industrial wastes, and inadequate design or lack of adequate equipment.

The Agency amended its regulations to require assurances from (1) grant applicants that possible harmful industrial wastes receive pretreatment prior to discharge into municipal sewage systems and (2) State water pollution control agencies that newly completed facilities would be inspected at least annually for the first 3 years and periodically thereafter. The Agency also prepared guidelines dealing with plant design and operation and maintenance, and established an operation and maintenance function in each region to assist the States in developing their own programs.

GAO believes that the improved operation and maintenance of existing municipal waste treatment facilities may, in some cases, improve performance enough so as to eliminate the necessity of additional capital expenditures to obtain higher pollutant removal rates. In addition, the requirement that industry pretreat its wastes which could be harmful to municipal treatment plants should preclude the need for Federal grant funds to provide the pretreatment at the municipal plants.

Utilization of the ADP Management Information System To Identify Opportunities To Redistribute Excess ADP Equipment

Public Law 89-306, approved October 30, 1965, established a Government-wide program for the effi-

SECTION II

cient and economical use of automated data processing (ADP) equipment under the General Services Administration (GSA) subject to fiscal and policy control of the Office of Management and Budget. In April 1967 a Government-wide ADP management information system was established to provide information needed in meeting the requirements of Public Law 89-306.

In a review of GSA's activities in the redistribution of the Government's excess ADP equipment, GAO noted that GSA was relying on the use of excess equipment bulletins to identify opportunities to redistribute equipment rather than the ADP management information system.

Using data in the ADP management information system, GAO pointed out instances where between

August 1967 and June 1970, ADP equipment was rented at a cost of \$920,000 while similar excess Government-owned ADP equipment was not being used. GAO suggested that GSA emphasize the use of the ADP management information system to identify opportunities to redistribute excess ADP equipment rather than rely on agencies' requests for equipment advertised in the excess equipment bulletins.

GAO was informed in January 1971 that an ADP management information system report had been prepared showing the ADP equipment rented from one major supplier. In May 1971, GAO was informed that the initial report had been found to be quite helpful for redistributing excess ADP equipment and that other reports showing equipment rented from seven additional suppliers had been prepared.

Savings and Benefits to Others

Savings and benefits to others consist of realized or potential benefits other than those directly to the Government, which are attributable to action taken or planned on findings developed in GAO's examination of agency and contractor operations. The more significant savings or benefits to others identified during the fiscal year are described below.

Balance-of-Payments Benefits Achieved Through an Increased Agricultural Barter Program

Economic betterments are benefits to the U.S. economy. An example of this type of benefit is described in a report to the Congress in May 1968. GAO recommended to the Department of Agriculture that existing administrative constraints on barter transactions be relaxed in order to permit an increase in agricultural exports which would benefit the U.S. balance-of-payments position.

In a followup report to the Congress in February 1971, GAO stated that the Department of Agriculture had taken certain actions to increase agricultural exports through the barter program. These actions included (1) increasing the barter program by increasing the barter premium that the Department was willing to pay, (2) including additional free market stocks to the list of commodities eligible for barter, and (3) revising the destination list to which these commodities could be exported. As a result of relaxing the barter constraints by the Department, barter contracts for the first half of fiscal year 1971 had reached the highest dollar amounts in the history of the program.

For fiscal year 1970 there were \$429 million worth of barter contracts awarded, and for the greater part of fiscal year 1971 the amount was \$885 million. A comparison with the fiscal year 1969 total of \$181 million shows an advantage to the U.S. balance-of-payments position of about \$952 million during the fiscal years 1970 and 1971.

Elimination of Unnecessary Handling of Butter

GAO noted that large quantities of butter offered for sale to the Commodity Credit Corporation (CCC) under the price-support program were located in warehouse cooler or freezer space. After purchase, CCC

was required to pay handling charges ranging from 17 cents to 30 cents a hundredweight to transfer the butter to Government freezer space. The handling charges could have been avoided if vendors had directed the butter to Government freezer space before offering it for sale to CCC.

In response to GAO recommendations, CCC revised its price-support regulations, effective April 1, 1970, to provide for reimbursing vendors who had placed butter directly in Government freezer space, in an amount not to exceed the in-and-out handling cost that CCC would otherwise be required to pay. This change enabled the vendor, by placing butter directly in Government freezer space, to avoid the in-charge which he would have incurred by placing butter in cooler or freezer space before offering it to CCC for purchase.

CCC purchases of butter at warehouse locations during the 8-month period subsequent to the change totaled about 102 million pounds. Most of the butter was located in Government freezer space at the time offered for sale and did not require subsequent handling. The elimination of the subsequent handling consequently reduced the cost to the dairy industry at no increase in cost to CCC. GAO estimated that annual savings to the dairy industry would total about \$152,000, which represented the approximate cost of extra handling that was eliminated. In addition, the revision resulted in several improvements that directly benefited CCC operations; however, the related dollar savings of these benefits were not readily determinable.

Reducing the Cost of Insurance to Servicemen Under the Servicemen's Government Life Insurance Program

The law authorizing the servicemen's group life insurance program (38 U.S.C. 701) provides that mem-

SECTION II

bers covered by the program bear the cost of normal mortality claims and that the Government bear the cost of mortalities traceable to the extra hazards of war.

GAO's review of the Government's extra hazard costs under the program showed that although the Veterans Administration computed the Government's extra hazard costs in accordance with the formula prescribed by law, the application of the formula resulted in servicemen contributing about \$15 million during fiscal year 1968 for the costs of death claims

traceable to the Vietnam conflict. The legislative history of the authorizing legislation showed that the Congress intended that the Government bear all mortality costs traceable to the extra hazards of war. Therefore, GAO recommended that, in order to implement the intent of the legislation, the Congress should consider amendatory legislation changing the formula contained in the law.

Public Law 91-291, approved June 25, 1970, contained a provision to assure that the Government bear all mortality costs traceable to the extra hazards of war.

AUDIT REPORTS ISSUED DURING THE FISCAL YEAR 1971

	Reference	Addressee and date issued	
		Congress	Committees or Members of Congress
CIVIL DEPARTMENTS AND AGENCIES			
Department of Agriculture:			
Agricultural Research Service:			
Settlement of accounts of accountable officers:			
Eastern Administrative Division.....			10-15-70
Finance Office, Minneapolis, Minn.....			1-25-71
Finance Division, New Orleans, La.....			3-15-71
Selected activities of the Plant Protection Division.....			5-18-71
Agricultural Stabilization and Conservation Service and Commodity Credit Corporation:			
Objectives of the feed grain program not attained because of inclusion of nonagricultural land.....	114824	1-12-71	
Audit of Commodity Credit Corporation for fiscal year 1970.....	114824	1-15-71	
Need for stronger control over sight drafts prepared by State and county offices.....			7-16-70
Guides needed for audit of administrative operations in State and county offices.....			9- 1-70
Farmers Home Administration:			
Savings available to the Government by timing advances of loan and grant funds with actual cash requirements.....	114873	7- 6-70	
Improvements needed in financial statements of the Emergency Credit Revolving Fund.....	114873	12-30-70	
Procedures and policies on the use of independent auditors should be strengthened.....	170874	1-22-71	
Financial feasibility of rural water and sewer systems should be checked more thoroughly.....	114873	4-21-71	
Nonenforcement of requirements designed to insure the financial soundness of loans to grazing associations.....	114873	5-27-71	
Information regarding the FHA recreation loan program (request of Congressmen William Clay, Robert N. C. Nix, Charles C. Diggs, Jr., Augustus F. Hawkins, John Conyers, Jr., Adam C. Powell, and Congresswoman Shirley Chisholm).....	114873		8- 5-70
Need for more specific requirements regarding the types of accounts and records which organization-borrowers should maintain.....			7-30-70
Loan and grant funds provided under the water and sewer program to an ineligible borrower.....			8- 7-70
Need to revise procedures for appraising nonfarm land for rural housing loans.....			8-28-70
Need to revise instructions to prevent unnecessary interest credits to borrowers receiving rural housing loans.....			12- 7-70
Loan management practices and management information system to be improved.....			2- 9-71
Practices followed in establishing and accounting for allowances for losses on uncollectible loans.....			2-25-71
Need for closer adherence to existing instructions by county and district supervisors in making recreational loans to individuals.....			3-15-71

SECTION III

Reference	Addressee and date issued		
	Congress	Committees or Members of Congress	Agency officials

CIVIL DEPARTMENTS AND AGENCIES—Continued

Department of Agriculture—Continued

Federal Crop Insurance Corporation:

Audit for fiscal year 1970.....	114834	1-13-71	
Opportunities for improving automated system for insurance programs.....	114834		8-28-70

Forest Service:

Problems related to restricting the use of motorized equipment in wilderness and similar areas (relates also to National Park Service, Department of the Interior).....	125053	10-29-70	
Funds appropriated for roads and trails could be used more effectively.....	125053	11-20-70	
Increase in annual fees for summer-home-site permits in San Bernardino National Forest (request of Congressman Richard T. Hanna).....	152490		7- 9-70
Alleged nonpayment of wages to employees for contract work performed (request of Congressman Wayne N. Aspinall).....	171001		12-31-70
Settlement of accounts of accountable officers:			
Forest Products Laboratory, Madison, Wis.....			6-28-71
Region 1, Missoula, Mont.....			3- 8-71
Region 4, Ogden, Utah.....			2-23-71
Regional Office, Milwaukee, Wis.....			7-10-70

Soil Conservation Service:

Settlement of accounts of accountable officers:

State offices:

California.....			2-22-71
Colorado.....			2-11-71
Georgia.....			10- 9-70
Kentucky.....			9-21-70
Mississippi.....			4-12-71
South Carolina.....			10-21-70
Wisconsin.....			10- 7-70

Headquarters, Washington, D.C.:

South Regional Technical Service Center, Fort Worth, Tex.....			8-13-70
Cartographic Division, Hyattsville, Md.....			7-24-70
Cartographic Division, Hyattsville, Md.....			6-10-71

Distribution of Hatch and Smith-Lever Act funds to land-grant institutions (request of Congresswoman Shirley Chisholm).....

170667		11-10-70	
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Department of the Army, Corps of Engineers (civil functions):

Opportunities for improvement in the development and evaluation of design alternatives for Federal water resources projects, including projects of the Bureau of Reclamation, Department of the Interior.....	125045	4- 6-71	
Adherence to the Small Business Administration's set-aside provisions in awarding dredging contracts (request of Congressman Wendell Wyatt).....	169513		9-21-70
Need to compute interest expense on net additions to the Federal investment in water resources projects.....			7- 6-70
Need to revise procedure for determining the Federal contribution for partnership water resources projects.....	167941		7-30-70
Settlement of accounts of accountable officers.....			10-14-70
Need to improve accounting for financial activities of the Missouri River Basin integrated projects.....			2-25-71
Improvements to be made in accounts and accounting procedures for Corps of Engineers multipurpose projects in Federal Columbia River Power System.....			3- 4-71

Department of Commerce:

Office of the Secretary:

Need for strengthening administrative procedures and controls over maintenance of leave and retirement records.....			9-23-70
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Reference	Addressee and date issued		
	Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued			
Department of Commerce—Continued			
Economic Development Administration:			
	More reliable data needed as a basis for providing Federal assistance to economically distressed areas (relates also to Manpower Administration, Department of Labor).....		
133182	5-10-71		
	Need for improvement in the management information system.....		
			8-21-70
	Improvement needed in the management of construction activities.....		
			10-14-70
Environmental Science Services Administration:			
	Sale of personal property under exchange-sale authority (request of chairman, Special Studies Subcommittee, House Committee on Government Operations).....		
169903		7-27-70	
National Bureau of Standards:			
	Unauthorized retention in working capital fund of money accumulated for earned leave of transferred employees.....		
149858	3-10-71		
	User charges should be established for benefactors of the research associate program.....		
			7-30-70
National Oceanic and Atmospheric Administration:			
	Administration of payroll, leave, and related functions.....		
			12- 8-70
Department of Health, Education, and Welfare:			
Office of the Secretary:			
	Action taken to collect certain salary overpayments (request of Senator Charles E. Goodell).....		
164031		10-27-70	
	Status of construction of new Howard University teaching hospital (request of Congressman Garner E. Shriver).....		
164031(1)		3- 8-71	
	Procedures and practices for employment of consultants and experts need improvement (relates also to procedures of Civil Service Commission).....		
164031(1)			4- 1-71
Food and Drug Administration:			
	Settlement of accounts of accountable officers, Dallas District Office.....		
			6-14-71
Health Services and Mental Health Administration:			
	Government funds used to develop a computer system for hospitals (request of Congressman Robert McClory).....		
170688		1- 8-71	
	Opportunities for savings in cost of medical and surgical care for Indian patients by use of Federal hospitals.....		
			7- 9-70
	Portland Area Office actions for increased use of Federal hospitals for care of Indian patients.....		
			8- 1-70
	Opportunities for reducing indirect costs under medical research grants.....		
			10-30-70
	Questionable disclosure of information developed through use of Federal grant funds.....		
			1-12-71
Settlement of accounts of accountable officers:			
	Aberdeen Area Office, Indian Health Service.....		
			3-29-71
	Public Health Service Hospital, New Orleans, La.....		
			10-21-70
National Institutes of Health:			
	Information gathering and dissemination activities of the National Library of Medicine.....		
164031(2)	11-30-70		
	Training grant awarded to the University of California at Los Angeles (request of Congressman Charles M. Teague).....		
164031(2)		9-18-70	
	Cost incurred in connection with a rock concert sponsored by the Vietnam Moratorium Committee (request of Congressman William J. Scherle).....		
168527		10-14-70	
	Funds withheld from fiscal year 1970 appropriations for extramural programs (request of chairman, Senate Committee on Public Works).....		
164031(2)		10-21-70	
	Administration of contracts and grants for cancer research (request of chairman, Senate Committee on Labor and Public Welfare).....		
164031(2)		3- 5-71	

SECTION III

	Reference	Addressee and date issued		
		Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued				
Department of Health, Education, and Welfare—Continued				
National Institutes of Health—Continued				
Use of Federal grant funds at a university (request of Senator Robert C. Byrd).	164031(2)	6-	8-71	
Training grant awarded to the University of California at Los Angeles.				9-22-70
Settlement of accounts of accountable officers, Headquarters, Bethesda, Md.				5-18-71
Refund due on research grant awarded to a university.				6-21-71
Office of Education:				
Improvement needed in administration of the Federal program of aid to educationally deprived children in Ohio.	164C31(1)	12-	28-70	
Improved administration needed in New Jersey for the Federal program of aid to educationally deprived children.	164031(1)	4-	7-71	
Examination of financial statements of the Student Loan Insurance Fund for fiscal year 1969.	164031(1)	4-	12-71	
Assessment of the impact of the Teacher Corps program at the University of Miami and participating schools in south Florida.	164031(1)	4-	16-71	
Assessment of the Teacher Corps program at Northern Arizona University and participating schools on the Navajo and Hopi Indian Reservations.	164031(1)	5-	13-71	
Assessment of the Teacher Corps program at Western Carolina University and participating schools in North Carolina.	164031(1)	5-	20-71	
Review of certain activities of the Florida School Desegregation Consulting Center (request of Congressman William C. Cramer).	164031(1)		8-18-70	
Expenditures of Federal funds granted to a university under the community service and continuing education programs (request of Senator Norris Cotton).	164031(1)	12-	7-70	
Need to improve policies and procedures for approving grants under the emergency school assistance program (request of chairman, Senate Select Committee on Equal Educational Opportunity).	164031(1)	3-	5-71	
Basis used for classifying contracts as competitive or noncompetitive (request of chairman, Special Subcommittee on Education, House Committee on Education and Labor).	164031(1)	3-	30-71	
Settlement of accounts of accountable officers, Washington, D.C.				7-14-70
Debt collection activities under the Guaranteed Student Loan Program.	117604			1- 5-71
Need for improvements in the administration of the Teacher Corps program.				3- 5-71
Policies and procedures of the Office of Education in awarding a contract to the Consortium of Professional Associations for Study of Special Teacher Improvement programs.	164031(1)			4-22-71
Social and Rehabilitation Service:				
Problems in approving and paying for nursing home care under the Medicaid program in California.	164031(3)	7-	23-70	
Continuing problems in providing nursing home care and prescribed drugs under the Medicaid program in California.	164031(3)	8-	26-70	
Improvement needed in the administration of the Iowa and Kansas Medicaid programs by the fiscal agents.	164031(3)	10-	20-70	
Controls over Medicaid drug program in Ohio need improvement.	164031(3)	11-	23-70	
Ways to reduce payments for physician and X-ray services to nursing home patients under Medicare and Medicaid.	164031(3)	2-	2-71	
Control needed over excessive use of physician services provided under the Medicaid program in Kentucky.	164031(3)	2-	3-71	
Problems in providing proper care to Medicaid and Medicare patients in skilled nursing homes.	164031(3)	5-	28-71	
Observations of test of simplified method for determining eligibility of persons for adult public assistance programs (request of chairman, Senate Committee on Finance).	164031(3)	8-	5-70	

Reference	Addressee and date issued		
	Congress	Committees or Members of Congress	Agency officials

CIVIL DEPARTMENTS AND AGENCIES—Continued

Department of Health, Education, and Welfare—Continued

Social and Rehabilitation Service—Continued

Examination into certain practices relating to nursing home operations in the Baltimore, Md., area (request of chairman, Subcommittee on Long-Term Care, Senate Special Committee on Aging).....	164031(3)	12-	4-70
Certain aspects of research grant programs administered by the Children's Bureau.....	164031(3)		7-31-70
Need for better accountability of Federal funds for child care costs of Work Incentive program.....		8-	4-70
Problems relating to overdue redeterminations of eligibility and computations of cost sharing for medically needy persons under the Medicaid program in Massachusetts.....		8-	17-70
Need for improved administration and control of activities under title III of the Older Americans Act.....		9-	23-70
Opportunities for improving administrative controls over payments for medical services to indigent persons under the Medicaid program in Illinois.....		10-	9-70
Incorrect payment of child care allowances noted in California and Pennsylvania.....		3-	11-71

Social Security Administration:

Improvements needed in processing Medicare claims for physicians' services in Texas.....	164031(4)	12-	31-70
Opportunity to reduce Medicare costs by consolidating claims processing activities, Department of Health, Education, and Welfare and Railroad Retirement Board.....	164031(4)	1-	21-71
Lengthy delays in settling the costs of health services furnished under Medicare.....	164031(4)	6-	23-71
Medicare payments for services of supervisory and teaching physicians at Herman Kiefer Hospital, Detroit, Mich. (request of chairman, Senate Committee on Finance and House Committee on Ways and Means).....	164031(4)	8-	21-70
Payments to hospitals and extended-care facilities for depreciation expense under the Medicare program (request of chairman, Senate Committee on Finance).....	142983	8-	21-70
Medicare payments for services of supervisory and teaching physicians at Massachusetts General Hospital, Boston, Mass. (request of chairman, Senate Committee on Finance and House Committee on Ways and Means).....	164031(4)	9-	30-70
Medicare payments for services of supervisory and teaching physicians at Jackson Memorial Hospital, Miami, Fla. (request of chairman, Senate Committee on Finance and House Committee on Ways and Means).....	164031(4)	11-	13-70
Medicare payments for services of supervisory and teaching physicians at Wayne County General Hospital, Eloise, Mich. (request of chairman, Senate Committee on Finance and House Committee on Ways and Means).....	164031(4)	12-	4-70
Medicare payments for services of supervisory and teaching physicians at the Dallas County Hospital District, Dallas, Tex. (request of chairman, Senate Committee on Finance and House Committee on Ways and Means).....	164031(4)	12-	22-70
Information concerning Medicare payments for care provided in hospitals and in extended-care facilities (request of Congressman James A. Burke).....	164031(4)	3-	24-71
Information pertaining to changes in ownership of certain hospitals in California from proprietary to nonprofit institutions (request of chairman, House Committee on Ways and Means).....	164031(4)	5-	27-71
Overreimbursement to hospitals for costs under the Health Insurance for the Aged program.....		7-	6-70
Administrative costs of the Medicare program can be reduced by authorizing contractors to use Government sources of supply.....	164031(4)	7-	21-70

Reference	Addressee and date issued	
	Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued		
Department of Health, Education, and Welfare—Continued		
Social Security Administration—Continued		
		10-29-70
		12-21-70
		12-29-70
		12-31-70
		2- 1-71
		3-18-71
		6-28-71
		6-28-71
		6-30-71
Department of Housing and Urban Development:		
Department-wide:		
		8-11-70
		3-29-71
Settlement of accounts of accountable officers:		
		4- 5-71
		1-18-71
		3-31-71
Housing Assistance Activities:		
114863	8- 4-70	
118718	3-19-71	
114860	8- 7-70	
118718	12- 8-70	
118718	12-14-70	
170838	12-31-70	
118718	4-21-71	
173037	6-25-71	
		7-30-70
Metropolitan Development Activities:		
168174	6-16-71	
168174	8- 4-70	
170971	11-30-70	

Reference	Addressee and date issued		
	Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued			
Department of Housing and Urban Development—Continued			
Model Cities Activities:			
			Propriety of expenditures and benefits derived from planning the Model Cities program in Cleveland, Ohio (request of Congressman Charles A. Vanik).....
171500		6-18-71	Procedures followed by the Seattle City Demonstration Agency in disbursing Model Cities grant funds.....
			Collecting and reporting data on Model Neighborhood projects.....
			4- 8-71
			4-16-71
Mortgage Financing Activities:			
			Examination of financial statements of the Government National Mortgage Association for fiscal year 1969 and of the Federal National Mortgage Association for 2-month period ended Aug. 31, 1968.....
114828	10-15-70		Tighter control needed on occupancy of federally subsidized housing.....
114360	1-20-71		Examination of financial statements pertaining to insurance operations of the Federal Housing Administration, fiscal year 1970.....
114860	5- 7-71		Examination of financial statements of the Government National Mortgage Association for fiscal year 1970.....
114828	6-14-71		Rehabilitation of Clifton Terrace Apartments in Washington, D.C. (request of Congressman Joel T. Broyhill).....
168191		9-23-70	Review of Frontier Heights housing project, Snohomish County, Wash. (request of Congressman Lloyd Meeds).....
171630		4- 2-71	Propriety of rental increases authorized at two projects in New Jersey (request of Congressman Dominick V. Daniels).....
171308		4-16-71	Improvements needed in administering the rehabilitation of housing projects, Boston, Mass.....
			2-12-71
Urban Renewal Activities:			
			Opportunity to improve allocation of program funds to better meet the national housing goal.....
118754	10- 2-70		Examination into the Ferry Oaks Concentrated Code Enforcement project in Salem, Oreg. (request of Senators Mark O. Hatfield and Robert W. Packwood).....
169208		2-26-71	Review of activities of a plumber in Bayonne, N.J. (request of chairman, Government Activities Subcommittee, House Committee on Government Operations).....
170980		4-19-71	Weaknesses in planning and managing a housing code enforcement project in St. Louis (request of Congressman William Clay).....
167655		6- 3-71	Need to strengthen administration of the workable program for community improvement.....
			10-19-70
			Need to strengthen administration of the Neighborhood Facilities Grant program.....
			2-12-71
Department of the Interior:			
Office of the Secretary:			
			Refurbishing of offices (request of Senators Quentin N. Burdick, Henry M. Jackson, Lee Metcalf, and George Murphy, and Congressmen H. P. Gross and John J. McFall).....
169502		8-12-70	
Bonneville Power Administration (including construction and operating activities of Army Corps of Engineers and Bureau of Reclamation):			
			Examination of financial statements of Federal Columbia River Power System for fiscal year 1970.....
114858	12-21-70		Examination of accounting records and practices for fiscal year 1970.....
			3- 4-71
Bureau of Mines:			
			Problems in implementation of the Federal Coal Mine Health and Safety Act of 1969 (request of chairman, Subcommittee on Labor, Senate Committee on Labor and Public Welfare).....
170686		5-13-71	

SECTION III

	Addressee and date issued			
	Reference	Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued				
Department of the Interior—Continued				
Bureau of Reclamation:				
Assurances needed that cost of the Celilo-Mead transmission line project will be recovered	164064	8- 5-70		
Savings available under the program for relocating roads and bridges at the Auburn Dam and Reservoir in California	125045	5- 7-71		
Capitalization of interest during construction of power facilities	170816			10-23-70
Review of accounts and accounting procedures for multipurpose projects				3- 4-71
Recommended action to improve accounting for operation of Missouri River Basin integrated projects				3- 8-71
Accounting matters relating to reimbursable cost of power for Missouri River Basin project				4-12-71
Settlement of accounts of accountable officers				4-21-71
Federal Water Quality Administration:				
Need for improved operation and maintenance of municipal waste treatment plants	166506	9- 1-70		
Controlling industrial water pollution—progress and problems	166506	12- 2-70		
Decision to retroactively increase the amount of certain Federal grants awarded for the construction of municipal waste treatment facilities	166506			8- 7-70
Settlement of accounts of accountable officers				9-14-70
National Park Service:				
Granting of access rights to the George Washington Memorial Parkway in exchange for certain privately owned property (request of Senator William B. Spong, Jr.)	159104		11-20-70	
Settlement of accounts of accountable officers, Western Service Center, San Francisco, Calif.				1- 5-71
Office of Territories:				
Financial management of Virgin Islands Government needs substantial improvements	114808	3- 2-71		
Need for departmental surveillance and on-site reviews of the accounts of the Trust Territory of the Pacific Islands				12-15-70
Department of Justice:				
Office of Attorney General:				
Improvements needed in collection practices of U.S. Attorney's office, Portland, Oreg.				1- 6-71
Bureau of Prisons:				
Federal Prison Industries, Inc.:				
Examination of financial statements (1970)	114826	1-19-71		
Review of certain financial management activities:				
Correctional Institution, Danbury, Conn.				12-18-70
Correctional Institution, Tallahassee, Fla.				1-20-71
Penitentiary, McNeil Island, Wash.				12-28-70
Penitentiary, Seagoville, Tex.				1-12-71
Penitentiary, Terminal Island, Calif.				12-16-70
Settlement of accounts of accountable officers, Penitentiary, Atlanta, Ga.				1- 4-71
Need to revise certain accounting, procurement, and other practices	114826			4-14-71
Immigration and Naturalization Service:				
Review of accounting system	157162			8- 5-70
Accelerated inspection system at Seattle-Tacoma International Airport				9-21-70
Settlement of accounts of accountable officers, Northeast Regional Office, Burlington, Vt.				2-24-71
Selected administrative operations of the Northeast Regional Office				4-30-71

Reference	Addressee and date issued		
	Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued			
Department of Labor:			
			Practices of Regional Administrative Office, San Francisco, Calif. 4-12-71
Manpower Administration:			
			The Special Impact program in Los Angeles is not meeting goal of providing jobs for the disadvantaged. 168560 10- 7-70
			Need to enhance the effectiveness of on-the-job training in Appalachian Tennessee. 146879 11-13-70
			Opportunities for improving training results and efficiency at the East Bay Skills Center, Oakland, Calif., under the Manpower Development and Training Act, Departments of Labor and Health, Education and Welfare. 146879 2-10-71
			Evaluation of results and administration of the Job Opportunities in the Business Sector program in five cities. 163922 3-24-71
			Certain information concerning activities of Youth Pride Economic Enterprises, Inc. (request of chairman, House Committee on the District of Columbia, and Congressman Joel T. Broyhill). 164537 10-28-70
			Operation of a Neighborhood Youth Corps project sponsored by the Caddo Electric Cooperative of Binger, Okla. (request of Senator Henry L. Bellmon). 130515 11- 6-70
			Federal funds expended for operation of the Federal/State employment service and the Interstate Conference of Employment Security Agencies (request of chairman, Subcommittee on Employment, Manpower, and Poverty, Senate Committee on Labor and Public Welfare). 133182 11-13-70
			Contingent fees paid by contractors for contracts awarded under Federal manpower programs (request of Congressman William A. Steiger). 168560 3-26-71
			Need to strengthen administration of on-the-job training program in Milwaukee, Wis. 10- 8-70
			Opportunities to enhance effectiveness and strengthen management of the Manpower Development and Training Act programs in Oregon and Washington. 10-12-70
U.S. Training and Employment Service:			
			Information regarding the Cooperative Area Manpower Planning System. 5-28-71
Wage and Labor Standards Administration:			
			Construction costs for certain federally financed housing projects increased due to inappropriate minimum wage rate determinations. 146842 8-12-70
			Settlement of accounts of accountable officers, Regional Administrative Office, Chicago, Ill. 6-10-71
Post Office Department:			
			Better controls needed over assessment and collection of postage for second-class mail, a money loser. 161568 9-18-70
			Transfer of regional activities to local post offices inconsistent with congressional intent. 159768 11-13-70
			Economies available by reducing preventive maintenance requirements for certain mechanized mail-handling equipment. 114874 12-31-70
			Postage due and handling costs for processing mail with insufficient postage are not being recovered. 161568 3-31-71
			More effective use of manpower and machines recommended in mechanized post offices. 114874 5-27-71
			Procedures followed by the Postal Inspection Service in charging postal employees with mail losses (request of chairman, Senate Committee on Post Office and Civil Service). 168446 8- 6-70
			Use of air taxi service for transportation of mail (request of Senator Gordon Allott). 166772 10-22-70
			Certain matters concerning the discontinuance of the Evansville-St. Louis highway post office (request of Senator Gordon Allott). 166772 11- 5-70

	Reference	Addressee and date issued		
		Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued				
Post Office Department—Continued				
Leasing of mail-handling trailers in the New York City area (request of chairman, Subcommittee on Treasury, Post Office, and Executive Office, House Committee on Appropriations).....	114874		11-27-70	
Savings expected from centralization of the procurement and storage of vehicle repair parts (request of chairman, Subcommittee on Government Procurement, House Select Committee on Small Business).....	114874		2-17-71	
Leasing versus buying small and medium size post office buildings (request of chairman, Subcommittee on Treasury, Post Office, and Executive Office, Senate Committee on Appropriations).....	145650		3-12-71	
Need for improvement in determining wage rates for truck drivers on star routes.....				10-13-70
Fourth-class mail operations at the Chicago Post Office.....				10-21-70
Administration of Postal Service Management Institute.....				11-18-70
Potential interest savings by depositing postal funds directly in Federal Reserve banks.....	114874			11-18-70
Policies for repairing or replacing materials-handling equipment.....	114874			12- 3-70
Need to improve administration of travel activities in the Bureau of Research and Engineering.....				12- 4-70
Payment of Sunday premium pay.....				12-14-70
Possible need for changing the postal money order system.....	114874			1-12-71
Need to establish accounting records and controls to safeguard philatelic stamp material.....				2- 5-71
Management of reporting systems.....				3-31-71
Settlement of accounts of accountable officers:				
Postal Data Center, Minneapolis, Minn.....				10-12-70
Postal Data Center, St. Louis, Mo.....				5-14-71
Department of Transportation:				
Federal Aviation Administration:				
Improvements needed in procedures for determining excess spare parts.....	164497 (1)	7-22-70		
Airport safety inspection program needed to improve flight safety of civil aircraft.....	164497 (1)	1-15-71		
Improved surveillance needed over production of critical parts for civil aircraft.....	164497 (1)	2-25-71		
Evaluation of selected aspects of landing field use agreements at Washington's national and international airports and at certain other airports (request of Senator William B. Spong, Jr.).....	159719		7-14-70	
Cost of civil supersonic transport development program (request of Senator William Proxmire).....	159141		11-18-70	
Federal Highway Administration:				
Questionable basis for approving certain auxiliary route segments of the Interstate Highway System.....	163714	7-31-70		
Improvements needed in management of highway safety rest area program.....	164497 (3)	6- 2-71		
Federal participation in costs incurred by States for certain landscaping activities.....	118653			9-16-70
Need to reevaluate experimental emergency communication systems installed on sections of the Interstate Highway System.....				1-28-71
Settlement of accounts of accountable officers:				
Region 3, Atlanta, Ga.....				8-25-70
Region 9, Denver, Colo.....				10-26-70
Region 5, Kansas City, Mo.....				6-21-71
Federal Railroad Administration:				
Administration of Metroliner and Turbo-Train Projects.....	164497 (5)	1-27-71		
Inquiry concerning proposed rate increase by the Alaska Railroad (request of Senator Mike Gravel).....	171707		4-21-71	

Reference	Addressee and date issued		
	Congress	Committees or Members of Congress	Agency officials

CIVIL DEPARTMENTS AND AGENCIES—Continued

Department of Transportation—Continued

Federal Railroad Administration—Continued

Need to improve certain contract award and administrative practices for research and development projects..... 8-21-70

Saint Lawrence Seaway Development Corporation:

Audit of financial statements for calendar year 1969..... 125007 8-26-70

Urban Mass Transportation Administration:

Need to strengthen and improve accounting and reporting for program activities..... 1-27-71

Improvements needed in determining net cost of projects to be financed in part with Federal grant funds..... 169491 6-30-71

U.S. Coast Guard:

Opportunity to reduce cost of vessel construction by not requiring shipbuilders to buy insurance and performance and payment bonds..... 114851 8-12-70

Utilization of the high endurance cutter fleet (request of chairman, House Committee on Merchant Marine and Fisheries)..... 114851 11-20-70

Operation of the family housing program in the 11th District..... 11-18-70

Need to strengthen the centralized automated reserve pay and retirement point accounting system..... 11-30-70

Need for more effective review procedures in evaluation and implementation of Navy value engineering studies..... 12- 8-70

Settlement of accounts of accountable officers, Headquarters, Washington, D.C..... 1-14-71

Review of military pay and allowances..... 4- 7-71

Utilization of the Coast Guard Yard for vessel repairs and alterations..... 4-20-71

Department of the Treasury:

Office of the Secretary:

Providing rent-free space in Government-owned buildings to the Office of the Comptroller of the Currency..... 168904 8-24-70

Raise in minimum denomination of Treasury bills (request of chairman, Legal and Monetary Affairs Subcommittee, House Committee on Government Operations)..... 169231 8-12-70

Bureau of Accounts:

Use of time deposits to compensate banks for fiscal services..... 133179 10-12-70

Settlement of accounts of accountable officers:

Birmingham Disbursing Center..... 3-24-71

Chicago Disbursing Center..... 4-16-71

Bureau of Customs:

Opportunities for improving operation of the accelerated inspection system at Seattle-Tacoma International Airport..... 9-21-70

Need to strengthen management controls over merchandise imported into foreign trade zones and class B warehouses..... 10- 9-70

Need to strengthen inventory controls over seized and abandoned property, Philadelphia, Pa..... 10-13-70

Collection of supplemental duties on imported merchandise..... 114898 1-27-71

Services performed by Federal agencies in the importation process..... 6- 9-71

Accounting for import duties..... 6-28-71

Bureau of the Mint:

Savings available through combined mailings of order blanks for proof and uncirculated coin sets..... 8-19-70

Settlement of accounts of accountable officers, U.S. Mint, Denver, Colo..... 9-10-70

SECTION III

	Addressee and date issued			
	Reference	Congress	Committees or Members of Congress	Agency officials
CIVIL DEPARTMENTS AND AGENCIES—Continued				
Department of the Treasury—Continued				
Internal Revenue Service:				
Need for more effective comparisons of service center operations				10-30-70
Settlement of accounts of accountable officers:				
Southeast Regional Office, Atlanta, Ga.				6-24-71
Southwest Regional Office, Dallas, Tex.				5- 4-71
Office of the Treasurer:				
Examination of financial statements of the accountability of the Treasurer of the United States for fiscal years 1968 and 1969	114802	7-27-70		
Need to improve methods and controls for processing fit and unfit currency				8-19-70
Cancellation, destruction, and accounting for currency unfit for circulation:				
Federal Reserve banks:				
Little Rock Branch				3-12-71
Philadelphia, Pa.				5-21-71
Seattle Branch				4- 2-71
U.S. Secret Service:				
Audit of payroll and leave records				10-15-70
INDEPENDENT AGENCIES				
American Battle Monuments Commission:				
Settlement of accounts of accountable officers				6- 2-71
Appalachian Regional Commission:				
Highway program shows limited progress toward increasing accessibility to and through Appalachia	164497(3)	5-12-71		
Atomic Energy Commission:				
Problems in developing the Fast Flux Test Facility	164105	9-23-70		
Proposed revisions to the price and criteria for uranium enrichment services (request of chairman, Joint Committee on Atomic Energy)	159687		7-17-70	
Matters requiring increased management attention prior to initiation of quantity production of nuclear weapons (request of chairman, Joint Committee on Atomic Energy) (secret)	165546		9-14-70	
Selected matters concerning nuclear weapons produced for the Department of Defense (request of chairman, Joint Committee on Atomic Energy) (classified)	165546		12- 3-70	
Progress and problems in programs for managing high-level radioactive waste (request of chairman, Joint Committee on Atomic Energy)	164052		1-29-71	
Use and operating costs of high energy accelerators (request of chairman, Joint Committee on Atomic Energy)	159687		2- 8-71	
Price increase and change in criteria for uranium enrichment services (request of chairman, Joint Committee on Atomic Energy)	159687		2- 9-71	
Operation and management of the new production reactor (request of chairman, Joint Committee on Atomic Energy) (secret/restricted data)	164105		3- 3-71	
Management of fuel requirements for the liquid metal fast breeder reactor program				3-15-71
Settlement of accounts of accountable officers:				
Chicago Operations Office				3-12-71
Grand Junction Office				3-24-71
Oak Ridge Operations Office				7-24-70
San Francisco Operations Office				11-23-70
Pittsburgh Naval Reactors Office				3-22-71
Richland Operations Office				5-10-71

	Addressee and date issued		
	Reference	Congress	Agency officials
INDEPENDENT AGENCIES—Continued			
Atomic Energy Commission—Continued			
Administration of certain programs for developing space nuclear auxiliary power systems.....	164105		6- 3-71
Civil Service Commission:			
The Government-wide Service Benefit Plan—Blue Cross and Blue Shield for Federal employees—needs improved administration.....	164562	10-20-70	
Information concerning the financial practices of the Blue Cross and Blue Shield organizations and their Washington, D.C., affiliate, Group Hospitalization, Inc. (request of Congressman Page Belcher).....	164562		8-24-70
Information regarding application for Federal employment (request of Senator John V. Tunney).....	172846		5-24-71
Settlement of accounts of accountable officers, Philadelphia Regional Office.....			3- 9-71
Commission on Obscenity and Pornography:			
Costs incurred (request of chairman, Subcommittee on Postal Operations, House Committee on Post Office and Civil Service).....	163867		12- 1-70
District of Columbia Government:			
District-wide:			
Estimated Federal assistance to the District of Columbia for fiscal years 1970, 1971, and 1972 (request of chairman, Subcommittee on the District of Columbia, Senate Committee on Appropriations).....	118638		3- 5-71
Open-market procurement practices.....			1- 6-71
Followup review of selected areas of financial and property administration of Federal City College (request of Senator William B. Spong, Jr.).....	167006		3-15-71
Department of General Services:			
Procedures and practices in awarding negotiated contracts for services.....			4-30-71
Department of Sanitary Engineering:			
Improvements needed in financial accounting and reporting on the Metropolitan Area Sanitary Sewage Works Fund.....			6-30-71
Environmental Protection Agency:			
Federally assisted air pollution control programs in the Chicago metropolitan region (request of Senator Charles H. Percy).....	166506		4-20-71
Water Quality Office:			
Review of waste water discharges of sugar and potato plants at Easton, Maine (request of Senator Edmund S. Muskie).....	165456		6-22-71
Equal Employment Opportunity Commission:			
Controls over office equipment at Atlanta office (request of Congressman Fletcher Thompson).....	171777		4-16-71
Executive Office of the President:			
Office of Economic Opportunity:			
Opportunities for improving the Neighborhood Health Services program for the poor administered by St. Luke's Hospital Center, New York City.....	130515	6-15-71	
Progress being made and difficulties being encountered by credit unions serving low-income patients.....	164031(4)	6-17-71	
Activities of VISTA Volunteers in Sisseton, S. Dak., area (request of chairman, Senate Committee on Government Operations).....	130515		7-10-70
Grants by Economic Opportunities Development Corporation of San Antonio and Bexar County, Tex. (request of Congressman Henry B. Gonzalez).....	130515		7-23-70

SECTION III

	Reference	Addressee and date issued	
		Congress	Committees or Members of Congress
INDEPENDENT AGENCIES—Continued			
Executive Office of the President—Continued			
Office of Economic Opportunity—Continued			
Further improvements needed in the financial administration of the Committee on Training and Employment, Inc., Stamford, Conn. (Departments of Labor and Health, Education and Welfare, and Office of Economic Opportunity) (request of Congressman Lowell P. Weicker, Jr.)	130515	9-21-70	
Salary paid to the executive director of the North Richmond Neighborhood House, Inc., Richmond, Calif. (request of Senator George Murphy)	130515	9-23-70	
Use of consultants and specialists on technical assistance contracts (request of chairman, Subcommittee on Manpower and Civil Service, House Committee on Post Office and Civil Service)	130515	12- 7-70	
Grant to George Washington University for operation of the Urban Law Institute (request of Congressman Mark Andrews)	130515	4-13-71	
Findings as to certain activities of the Montgomery Community Action Committee, Inc., Montgomery, Ala. (request of Congressman William L. Dickinson)	130515	5-17-71	
Financial and management activities of the Lummi Indian Business Council, Marietta, Wash. (relates also to Economic Development Administration, Department of Commerce) (request of Senator Henry M. Jackson and Congressman Lloyd Meeds)	170214	6-24-71	
Selected activities of the War on Poverty Committee of Tennessee			2-23-71
Activities managed by Community Action Migrant Program, Inc., Fort Lauderdale, Fla.	130515		6-16-71
Office of Emergency Preparedness:			
Settlement of accounts of accountable officers and audit of pay and leave records			11- 5-70
Office of Management and Budget:			
Settlement of accounts of accountable officers			10-23-70
Federal Deposit Insurance Corporation:			
Examination of financial statements for year ended June 30, 1970	114831	12-29-70	
Audit for year ended June 30, 1970	114831	2-18-71	
Federal Home Loan Bank Board and Corporations Supervised:			
Audit of financial statements of the Federal home loan banks for year ended Dec. 31, 1969	114827	8-10-70	
Examination of financial statements of the Federal Home Loan Bank Board for year ended Dec. 31, 1969	114827	9- 2-70	
Audit of Federal Savings and Loan Insurance Corporation for year ended Dec. 31, 1969	114893	11-12-70	
General Services Administration:			
Department-wide:			
Settlement of accounts of accountable officers, Kansas City Accounting Center			5-11-71
Audit of payroll and leave records of Central Office and Region 3			6- 7-71
Federal Supply Service:			
Need to reevaluate packing specifications for cabinets, lockers, and wardrobes	160817	2-19-71	
Multiyear leasing and Government-wide purchasing of automatic data processing equipment should result in significant savings	115369	4-30-71	
Opportunities to improve the redistribution of the Federal Government's excess automatic data processing equipment	115369	6-15-71	
Cost of supplying vehicles for Director, FBI (request of Congressman John D. Dingell)	164935	5-21-71	
Management controls over repair of warehouse equipment to be improved			7-16-70

	Addressee and date issued			
	Reference	Congress	Committees or Members of Congress	Agency officials
INDEPENDENT AGENCIES—Continued				
General Services Administration—Continued				
Federal Supply Service—Continued				
Improved effectiveness in meeting the supply requirements of overseas U.S. agencies.....	114807			12- 9-70
Use of federally funded ADP equipment by grantees in California.....				6-11-71
National Archives and Records Service:				
Use of 8" x 10½" stationery by the Federal Government (request of Senator Charles H. Percy).....	169391		12-29-70	
Public Buildings Service:				
Proposed construction of a Federal records center in San Francisco, Calif. (request of chairman, House Committee on Government Operations).....	i69990		8-10-70	
Property Management and Disposal Service:				
Sale of real property at Camp Kilmer, N.J. (request of Congressman Edward J. Patten).....	171136		12-30-70	
Procedures for determining the fair market value of real property exchanged (request of Congressman John M. Murphy).....	165868		1- 6-71	
Transportation and Communications Service:				
Potential savings by replacing Government-owned sedans each year.....	158712	6- 9-71		
Purchase of collision insurance on automobiles rented by the Government (request of Senator William Proxmire).....	158712		5-10-71	
National Aeronautics and Space Administration:				
Improved accounting control over equipment at the Kennedy Space Center.....	169658	8-11-70		
Overstatement of contract target cost for first stage of Saturn V launch vehicle....	161366	10-26-70		
Overstatement of contract target costs for F-1 rocket engines for Saturn V launch vehicle.....	167838	12-30-70		
Opportunities for savings by increasing competition in procurement of commercial equipment.....	164018	2-26-71		
Utilization of consultants and facilities (request of Senator Margaret Chase Smith).....	168033		11- 6-70	
Information regarding the public's rights in the product Vivonex (request of Senator William Proxmire).....	164031(2)		2- 9-71	
Building authorized to provide office space at Manned Spacecraft Center redesigned to provide laboratory space (request of chairman, Senate Committee on Aeronautical and Space Sciences).....	165118		3-29-71	
Cost escalations on civil agency projects (relates also to projects of various other civil agencies) (request of chairman, House Committee on Armed Services)....	159835		5-11-71	
Acquisition and utilization of T-38 jet aircraft by Manned Spacecraft Center (submitted to selected committees of the Senate and the House).....	172171		5-28-71	
Progress in combining automatic data processing operations at Jet Propulsion Laboratory (request of chairman, House Committee on Science and Astronautics).....	162407		6- 9-71	
Analysis of changes in estimated cost of the Skylab program (submitted to various committees of the Congress).....	172192		6-17-71	
Government-owned plant equipment in possession of Space Division, North American Rockwell Corp.....	158390			7-31-70
Automatic data processing activities at Ames Research Center.....				10-27-70
Settlement of accounts of accountable officers, Ames Research Center, Moffett Field, Calif.....				4- 2-71
Administration of cost-plus-award-fee-type contract for aircraft maintenance support services at the Manned Spacecraft Center.....	133394			4-14-71
National Credit Union Administration:				
Applying a uniform policy with respect to rental charges for credit unions.....	164031(4)	2-17-71		

SECTION III

	Reference	Addressee and date issued	
		Congress	Committees or Members of Congress
INDEPENDENT AGENCIES—Continued			
National Science Foundation:			
Need for improved administration of Federal support of shore facilities and vessels for research activities at oceanographic institutions (relates also to Office of Naval Research, Department of the Navy).....	169941	9-23-70	
Grant of funds to support the Midwest Regional Conference on Science, Technology, and State Government (request of Senator William Proxmire).....	171679		5- 3-71
Settlement of accounts of accountable officers.....			12-30-70
Opportunities to improve administration of the research program at the National Radio Astronomy Observatory.....	133338		6-15-71
National Transportation Safety Board:			
Arrangements for charges to the public for transcripts of hearings (request of Congressman John Conyers, Jr.).....	170479		8-19-70
Regulatory Agencies:			
Need to improve administration of fees and charges.....	145252	10-23-70	
Securities and Exchange Commission:			
Review of status of appropriated funds.....			5-11-71
Selective Service System:			
Savings through increased screening of registrants with medical conditions at local draft boards.....	162111	11- 9-70	
Personnel management policies and procedures.....			9-16-70
Settlement of accounts of accountable officers:			
State Headquarters:			
Columbus, Ohio.....			4-27-71
Des Moines, Iowa.....			5-24-71
Frankfort, Ky.....			4-27-71
Indianapolis, Ind.....			4-27-71
Jackson, Miss.....			5- 5-71
Madison, Wis.....			12-10-70
St. Paul, Minn.....			2-19-71
Springfield, Ill.....			4-12-71
Small Business Administration:			
Expenditures for regional conference in Chicago, Ill. (request of chairman, House Select Committee on Small Business).....	169163		7- 8-70
Additional information regarding foreclosure action on loan (request of Congressman John Dellenback).....	168307		7-28-70
Need to improve documentation and evaluation of borrowers' eligibility for business loans.....			2-18-71
Smithsonian Institution:			
Improvement needed in financial management activities.....	133332	7- 1-70	
Observations on the sale and exchange of paintings by National Collection of Fine Arts (request of Congressman Hastings Keith).....	168120		7-16-70
National Gallery of Art:			
Settlement of accounts of accountable officers.....			11- 3-70
Tennessee Valley Authority:			
Examination of financial statements for fiscal year 1970.....	114850	3-31-71	

INDEPENDENT AGENCIES—Continued

Veterans Administration:

	Reference	Addressee and date issued	
		Congress	Agency officials
Continued loss of revenue because of low rents charged for personnel quarters.....	133044	9-21-70	
Need to determine the most economical method for obtaining maintenance and repair of office machines.....	160419	10- 5-70	
Need for improved controls to insure the identification and reporting of excess land.....	133044	11-12-70	
Improvements needed in evaluating design requirements for construction and modernization of hospitals.....	133044	12-29-70	
Audit of financial statements of the Veterans Canteen Service for fiscal year 1970.....	114818	1- 7-71	
Specification for fire alarm equipment in hospital construction (request from office of Congressman James B. Utt, deceased).....	169445	8-19-70	
Consolidation of the Manchester and White River Junction hospitals' laundry operations (request of Senator Thomas J. McIntyre).....	133044	12- 4-70	
Flight training schools approved for the enrollment of veterans and servicemen (request of chairman, House Committee on Veterans' Affairs).....	170819	12-30-70	
Reemployment of returning veterans at the Veterans Hospital, Seattle, Wash. (request of chairman, House Committee on Veterans' Affairs).....	171434	2-26-71	
Statements made concerning the Veterans Administration's method of awarding Federal supply schedule contracts for chemical reagents (request of various Senators and Congressmen).....	171649	6-10-71	
Improvements needed in management of flight training program.....			7-14-70
Need for consolidating adjudication operations of VA regional offices.....			8-24-70
Improved procedures needed for collecting debts incurred by career residents.....			9- 2-70
Improvements needed in evaluating and reporting on automatic data processing systems.....			11-30-70
Claims settlement activities in Denver and Newark regional offices.....	114859		12-18-70
Settlement of accounts of accountable officers:			
Regional Offices:			
Atlanta, Ga.....			9- 3-70
Little Rock, Ark.....			1- 5-71
VA Centers:			
Biloxi, Miss.....			3-17-71
Johnson City, Tenn.....			4-29-71
Wadsworth, Kans.....			8-24-70
VA Hospitals:			
Little Rock, Ark.....			2- 9-71
Shreveport, La.....			2- 9-71

LEGISLATIVE BRANCH

Architect of the Capitol:

House Restaurant (June 29, 1969, to June 27, 1970).....	114891	11-13-70	
Senate Restaurants (June 29, 1969, to June 27, 1970).....	114871	11-25-70	

Government Printing Office:

Savings possible by buying automatic data processing equipment or by leasing it from commercial leasing firms.....	114829	11-24-70	
Examination of financial statements for fiscal year 1970.....	114829	2-26-71	

House of Representatives:

Sergeant at Arms (1970).....	114854	10-26-70	
Recording Studio revolving fund (1970).....	114842	11-13-70	
Stationery revolving fund (1970).....	114862	1- 8-71	

SECTION III

	Reference	Addressed and date issued		
		Congress	Committees or Members of Congress	Agency officials
LEGISLATIVE BRANCH—Continued				
House of Representatives—Continued				
Finance Office, financial transactions and accounts (1970).....	114864		1-18-71	
Office equipment service.....	114865		2- 4-71	
Beauty Shop (1970).....	162878		6- 9-71	
Library of Congress:				
Settlement of accounts of accountable officers.....				8- 6-70
Senate:				
Verification of accountability of the acting financial clerk, July 31, 1970.....	114849		9-25-70	
Recording Studio revolving fund (1970).....	125079		11-18-70	
Barber Shop (calendar year 1970).....	133046		6-18-71	
Joint Committee on Atomic Energy:				
Audit of financial transactions for fiscal years 1969 and 1970 (request of chairman, Joint Committee on Atomic Energy).....	114800		5- 5-71	
JUDICIAL BRANCH				
Administrative Office of the U.S. Courts:				
Audit of payroll and leave records.....				10- 9-70
U.S. District Courts:				
Opportunities for improvement in the administrative and financial operations ...	133322	10-	8-70	
U.S. Tax Court:				
Settlement of accounts of accountable officers.....				8-31-70
Audit of payroll and leave records.....				10-14-70
MILITARY DEPARTMENTS				
Department of Defense:				
Potential savings by centralized control of overseas air passenger transportation ...	133371	7-21-70		
Opportunity for savings by reducing paperwork involved in bus travel.....	125283	7-27-70		
Questionable waivers of preaward audits of contractors' noncompetitive price proposals.....	39995	8- 3-70		
Improvements needed in reclaiming usable parts from excess aircraft.....	157373	8- 6-70		
Reduction of cost by improving management of vehicle maintenance in Europe.....	133244	8-11-70		
Action required to improve career program for procurement personnel.....	164682	8-13-70		
Need for improving the program for use and distribution of excess materiel in the Pacific area.....	169427	8-14-70		
Use of advertised contracting in military construction.....	133316	8-18-70		
Actions taken or planned to improve use of cargo space on aircraft operated under contract.....	133025	8-19-70		
Improvements needed in determining graduate education requirements for military officer positions.....	165558	8-28-70		
Management improvements needed at the U.S. Armed Forces Institute.....	169062	10- 8-70		
Improvements needed in management of communications.....	169857	10-19-70		
Savings from joint use of spectrometric oil analysis equipment by the military departments.....	162313	10-27-70		
Need for improved laboratory equipment management procedures.....	160140	11-24-70		
Need for strengthening management controls over the procurement of munitions under development, such as 105-mm ammunition.....	169675	12- 7-70		

MILITARY DEPARTMENTS—Continued

Department of Defense—Continued

Reference	Addressed and date issued		
	Congress	Committees of Congress	Agency officials
Effectiveness of revised procedures implementing the Truth-in-Negotiations Act	39995	12-29-70	
Opportunity for improving results of tire-rebuilding programs in Europe	159200	1- 8-71	
Opportunity to reduce costs and improve aircraft through prompt processing of engineering change proposals	152660	1-20-71	
Fair prices paid for small purchases	162313	1-29-71	
Potential for improvements in maintenance activities through better cost accounting systems	159797	2- 2-71	
Program for redistribution of materiel in Europe—opportunities for improvement	140389	2- 3-71	
Application of "should cost" concepts in reviews of contractors' operations	159896	2-26-71	
Printing of military service newspapers in Southeast Asia instead of airlift from Japan could mean substantial savings	165683	3-10-71	
First review of phasedown of U.S. military activities in Vietnam	171579	3-15-71	
Defense industry profit study	159896	3-17-71	
Acquisition of major weapon systems	164058	3-18-71	
More competition in emergency procurements found possible	171561	3-25-71	
Potential savings through elimination of duplication in tactical reconnaissance development program (secret)	171801	3-29-71	
Need to remove more low-cost, low-usage items from inventories	133118	3-31-71	
Improvements being made in the controls over Government test equipment acquired by contractors	140389	4- 9-71	
Measures needed to insure compliance with contract specifications in construction of military facilities	171496	4-16-71	
Effective conversion of National Guard technician positions to Federal positions	20748	4-29-71	
Impact of employment ceilings on management of civilian personnel	165959	4-30-71	
Savings available through reduced use of air parcel post shipments	157476	5- 6-71	
Improvements needed in management of training under the Government Employees Training Act	70896	5-25-71	
Nonappropriated fund operations at various installations in the United States and overseas (request of chairman, House Committee on Appropriations) (4 reports)	148581		Various
Pricing methods of the Defense Contract Administration Services (request of chairman, Military Operations Subcommittee, House Committee on Government Operations)	162313	7- 7-70	
Management of automatic data processing systems (request of chairman, House Committee on Appropriations)	163074	8-13-70	
Controls over pilferable items at military depots (request of chairman, Military Operations Subcommittee, House Committee on Government Operations)	164071	10- 8-70	
War gaming activities conducted on automatic data processing equipment (request of chairman, House Committee on Appropriations)	163074	11-27-70	
Contract award by the Army/Air Force Exchange Service (request of chairman, House Committee on Armed Services)	171182	12-28-70	
Acquisition of computers for World-Wide Military Command and Control System (request of chairman, House Committee on Appropriations)	163074	12-29-70	
Analyses of various air-to-ground missile programs (request of chairman, Senate Committee on Armed Services) (secret) (4 reports)	160212	12-31-70	
Comments on House Report on military supply systems (request of chairman, Military Operations Subcommittee, House Committee on Government Operations)	168454	1-18-71	
Procurement and maintenance of passenger automobiles (request of chairman, House Committee on Armed Services)	131418	1-21-71	

Reference	Addressee and date issued	
	Congress	Committees or Members of Congress

MILITARY DEPARTMENTS—Continued

Department of Defense—Continued

Comparative cost of berth space and time charters for ocean movement of military cargo (request of chairman, House Committee on Merchant Marine and Fisheries).....	145455		1-22-71
Computer simulations, war gaming, and contract studies (request of chairman, House Committee on Appropriations).....	163074		2-23-71
Civilian Health and Medical Program of the Uniformed Services (request of chairman, House Committee on Appropriations).....	133142		3-16-71
Do.....	133142		4-16-71
Electronic sensor and surveillance systems in Southeast Asia (request of chairman, House Committee on Appropriations) (secret).....	163074		4- 1-71
Airlift/scalift requirements (request of chairman, House Committee on Armed Services) (secret).....	170533		4- 6-71
Identification of subcontractors in public works contracts (request of chairman, House Committee on the Judiciary).....	109181		4- 7-71
Financial capability of contractor to produce C-5A aircraft (request of several committees and Members of the House and Senate).....	169300		4-12-71
Contracts with universities and other organizations to employ experts and consultants (request of chairman, House Committee on Appropriations).....	169457		4-13-71
Tactical data systems (request of chairman, House Committee on Appropriations) (secret).....	163074		4-30-71
World-Wide Military Command and Control System (request of chairman, Government Activities Subcommittee, House Committee on Government Operations).....	163074		5- 6-71
Defense Supply Agency's Standard Automated Materiel Management System (request of chairman, House Committee on Appropriations).....	163074		6- 4-71
Cost and effectiveness of electronic sensor and surveillance systems (request of chairman, Joint Economic Committee).....	163074		6-10-71
Purchases of lettuce (request of chairman, Subcommittee on Agricultural Labor, House Committee on Education and Labor).....	167896		6-24-71
Propriety of subcontractor's charges for labor (request of Senator William Proxmire).....	168678		7-23-70
Discharge of military personnel because of preservice physical defects (request of Senator Richard S. Schweiker).....	146986		7-27-70
Control of petroleum products in Southeast Asia (request of Senators William Proxmire and Joseph M. Montoya).....	163928		7-28-70
Detention of carrier-owned rail cars and demurrage charges incurred (request of Senator James B. Pearson).....	167724		8-14-70
Plans to contract for commissary items on a 6-month basis (request of Senator William Proxmire).....	146875		8-19-70
Projected costs of the Indochina War (request of Congressman Sidney R. Yates).....	169832		8-28-70
Workloads of Armed Forces Examining and Entrance Stations (request of Senator Richard S. Schweiker).....	146986		9- 8-70
Equipment at Defense Industrial Plant Equipment Center (request of Senator William Proxmire).....	160233		9-18-70
Characteristics of the F-14 and F-15 aircraft (request of Congressman William S. Moorhead).....	168664		9-21-70
Contractor's complaint of unfair treatment (request of Congressman Martin B. McKeenally).....	168687		10-14-70
Government participation in national rifle matches (request of Congressman Charles A. Vanik).....	139134		11- 2-70
Diversification of defense-oriented contractors to nonmilitary production (request of Congressman Richard T. Hanna).....	164912		11- 9-70

MILITARY DEPARTMENTS—Continued

Department of Defense—Continued

	Addresser and date issued			
	Reference	Congress	Committees or Members of Congress	Agency officials
Selection of air carriers for transporting military cargo (request of Congressman Lowell P. Weicker, Jr.)	162840		11-12-70	
Community civil defense shelter program (request of Senator John J. Williams)	148054		12-10-70	
Research project performed by a university (request of Congressman Odin Langen)	168463		12-22-70	
Costs related to Arlington National Cemetery (request of Senator Quentin N. Burdick)	162804		12-30-70	
Participation in the Federal Summer Employment Program (request of Congressman Odin Langen)	161935		12-31-70	
Delayed payment of a contractor's invoices (request of Congressman Joel T. Broyhill)	170968		1-15-71	
Subcontracting for technical services (request of several Members of the Congress)	169295		1-25-71	
Contractors' independent research and development costs (request of Senator William Proxmire)	164912		3- 8-71	
Sale of a surplus milling machine (request of Senator William Proxmire)	171563		3-10-71	
Costs related to Arlington National Cemetery (request of Senator Robert P. Griffin)	162804		4-15-71	
Production contract for the C-5A aircraft (request of Senator Edward W. Brooke)	169300		4-23-71	
Profits of defense contractors (request of Congressman William S. Mailliard)	159846		5-13-71	
Closing of an office of the Military Traffic Management and Terminal Service (request of Congressman Melvin Price)	171602		5-20-71	
Operations of military home town news centers (request of Congressman Fred B. Rooney)	146830		5-27-71	
Control of petroleum products in Southeast Asia (request of Senator William Proxmire)	163928		6- 3-71	
Joint Civilian Orientation Conference (request of Congressman Henry S. Reuss)	169242		6-29-71	
Contract and contract administration audits:				
Pricing of traveling-wave tubes on basis of catalog prices	162180			10-19-70
Contract awards for restroom paper products	170063			12- 7-70
Preaward surveys of prospective contractors	166159			12-31-70
Uses made of contract fees paid not-for-profit corporations				1-22-71
Surveys of contractors' procurement systems				2- 8-71
Contracts for administration of Government property in Thailand	159451			3-17-71
Award of multiyear contracts under Public Law 90-378	165069			3-30-71
Pricing of a subcontract by a prime contractor				6- 4-71
Performance and delivery incentive provisions in contracts	171644			6-24-71
Military construction:				
Cost estimates prepared for internal use in connection with invitations for bids and award of construction contracts	170337			7-21-70
Determinations of requirements for family housing at military installations	170403			8- 6-70
Use of standard plans in planning new construction				9-17-70
Cost-effectiveness studies of designs for bachelor officer quarters	133316			11- 9-70
Civilian pay audits:				
Continental United States installations		5 reports		Various
Audits of disbursing officers' accounts:				
Continental United States installations		7 reports		Various
Other audits and reviews:				
System for exchange of information on active research and technological work	163391			7-13-70
Management of shelf-life supplies	161319			9-16-70
Food processing operations at military installations	146700			9-21-70
Use of automated procedures for processing small purchases	162394			2- 9-71

SECTION III

Reference	Addressee and date issued	
	Congress	Agency officials

MILITARY DEPARTMENTS—Continued

Department of Defense—Continued

Other audits and reviews—Continued

Use of Federal Telecommunications System telephone network at military installations.....	146864		2-18-71
Management of the Defense Retail Interservice Logistics Support program.....	171896		2-23-71
Delay in terminating a construction project.....	171617		4- 1-71
Reorganization of household goods shipping administration in Hawaii.....	72376		4-26-71
Operation of hometown news centers by the military services.....	146830		5-27-71
Administration of debt and payment claims.....	117604, 109		5-28-71
Payments of dependent travel claims.....	125037		6-16-71

Department of the Army:

High turnover of managers directing major research and development projects.....	167412	8-31-70	
Savings and greater effectiveness obtainable in helicopter maintenance program.....	146888	12- 7-70	
Need to improve management of the tactical vehicles development program.....	133256	1-27-71	
Inventories—inaccuracies, effects, and ways to improve.....	146828	2-26-71	
Serious problems in accounting for military leave.....	125037	4- 2-71	
Improper use of enlisted personnel.....	146890	5- 6-71	
Determining major equipment needs—problems and suggestions for improvements.....	163074	6- 8-71	
Contract for shipwright-carpentry work (request of chairman, Military Operations Subcommittee, House Committee on Government Operations).....	168626		7-17-70
Contract for assembly of radio communication systems (request of chairman, Subcommittee on Economy in Government, Joint Economic Committee).....	165004		10- 6-70
Evaluation of a "should cost" review conducted by the Army (request of chairman, Senate Committee on Armed Services).....	163058		1- 8-71
Development of a tactical fire direction system (request of chairman, House Committee on Appropriations) (secret).....	163074		3-25-71
Support services of the Eighth U.S. Army in Korea (request of chairman, House Committee on Government Operations).....	132990		4-12-71
Development of Combat Service Support System (request of chairman, House Committee on Appropriations).....	163074		5- 7-71
Replacement of a field protective mask (request of chairman, Subcommittee on Economy in Government, Joint Economic Committee).....	171990		5- 7-71
Civilian pay operations, Frankfurt, Germany (request of chairman, House Committee on Post Office and Civil Service).....	172752		6-14-71
Conversion of heating furnaces from coal to oil at military installations in Europe (request of Congressman Daniel J. Flood).....	159868		7-14-70
Operation of melting furnaces in Vietnam (request of Senator William Proxmire).....	159451		7-27-70
Surplus equipment and supplies at a supply depot (request of Congressman Fletcher Thompson).....	162313		8- 3-70
Prices paid for specific items purchased (request of Congressman Richard C. White).....	162313		8- 6-70
Construction of bachelor officers' quarters (request of Senator Harrison A. Williams, Jr.).....	166843		8-13-70
Operations of the Louisiana Army Ammunition Plant (request of Senator William Proxmire).....	167724		8-27-70
Government-owned machinery in a contractor's plant (request of Congresswoman Martha W. Griffiths).....	161710		10-19-70
Inactivation of the Granite City Army Depot (request of Congressman Melvin Price).....	164959		10- 2-70
Construction of motel at Fort DeRussy, Hawaii (request of Congressman Sam Steiger).....	135295		11-13-70
Circumstances surrounding award of a contract (request of Congressman William H. Harsha).....	170244		11-23-70

Reference	A-11 release and date issued	
	Congress	Congress Offices or Members of Congress

MILITARY DEPARTMENTS—Continued

Department of the Army—Continued

Purchase of AN/PRC-25 radio sets (request of Congressman H. R. Gross)	156971		2-12-71
Utilization of civilian personnel in Hawaii (request of Congresswoman Patsy T. Mink)	171432		2-19-71
Operation of central meat-processing plants (request of Senator William Proxmire)	163450		4-30-71
Use of ambulance trains (request of Senator William Proxmire)	170847		5-13-71
Plan to close the Army Pictorial Center (request of Congressman Emanuel Celler)	146711		6-7-71
Contract and contract administration audits:			
Contracting procedures at Frankford Arsenal			9-21-70
Pricing of contracts awarded two contractors for production of M-16 rifles (2 reports)	164313		11-18-70
Incentive provisions in a contract for research and development	164250		11-23-70
Equipment rental rates included in a construction contract	146535		11-23-70
Pricing of ammunition items			4-20-71
Pricing of E-8 launchers			6-16-71
Civilian pay audits:			
Continental United States installations	24 reports		Various
Audits of disbursing officers' accounts:			
Continental United States installations	12 reports		Various
Overseas installations	3 reports		Various
Overseas units	4 reports		Various
Other audits and reviews:			
Construction of a golf course at a depot			7-25-70
Manpower management of support forces of the Eighth U.S. Army in Korea	132990		8-19-70
Management of communication equipment and components at a depot			9-14-70
Determinations of requirements for major items of equipment	140389		11-9-70
Management of research and development of electronics-communications equipment	165008		2-11-71
Automated management information system of the Corps of Engineers	163074		4-21-71
Operations of the Joliet Army Ammunition Plant	159396		4-22-71
Maintenance operations in Southeast Asia	165613		5-4-71
Management of programs for development of conventional weapons	172358		5-24-71
Management of programs for development and improvement of munitions	169675		6-1-71

Department of the Navy:

Savings attainable by eliminating duplicate stocks in the Marine Corps	146828	11-16-70	
Adverse effects of large-scale production of major weapons before completion of development and testing	163058	11-19-70	
Improvements needed to upgrade the readiness of the Naval Air Reserve (secret)	146964	11-30-70	
Adverse effects of producing drone antisubmarine helicopters before completion of development and tests	160877	12-31-70	
Adverse effects of producing the AN/SQS-26 surface ship sonar system for service use before completion of development and testing	160877	3-9-71	
Evaluation of information from contractors in support of claims and other pricing changes on ship construction contracts	171096	4-28-71	
Inventories at naval shipyards—excesses and improvements made	125057	5-28-71	
Problems of the deep submergence rescue vehicle program show need for improvement in management control	167325	6-3-71	
Premature production of the antisubmarine warfare directional low-frequency analysis and recording system	166377	6-4-71	
Analysis of the F-14 aircraft program (request of chairman, Preparedness Investigating Subcommittee, Senate Committee on Armed Services) (secret)	168664		8-17-70

CONTENTS

CONTENTS

	<i>Page</i>
SECTION I.—Compilation of Findings and Recommendations for Improving Government Operations	1
Contents	2
Compilation	9
Index by Government agency	140
Index by functional classification of the Federal budget	142
SECTION II.—Financial Savings Attributable to the Work of the General Accounting Office	144
Collections and other measurable savings	144
Details of other measurable savings	145
Additional financial savings not fully or readily measurable.	149
Savings and benefits to others.	157
SECTION III.—Audit Reports Issued During the Year	159
SECTION IV.—Approvals of Agency Accounting Principles and Standards, and Systems Designs	189

SECTION III

Reference	Addressee and date issued	
	Congress	Agency officials

MILITARY DEPARTMENTS—Continued

Department of the Navy—Continued

Contractual features of the S-3A aircraft program (request of chairman, Preparedness Investigating Subcommittee, Senate Committee on Armed Services)	163058	3-29-71	
Administration of project orders (request of chairman, Senate Committee on Armed Services)	171049	4-23-71	
Costs under contract for the F-14 aircraft (request of chairman, Senate Committee on Armed Services)	168664	4-27-71	
Information on the F-14 aircraft program (request of chairman, Senate Committee on Armed Services):			
Performance measurement systems	168664	6- 1-71	
Cost estimates prepared by the contractor	168664	6- 1-71	
Procurement of breechblock locks (request of Congressman Odin Langen)	164978	7- 8-70	
Internal audit at a Marine Corps base (request of Congressman David N. Henderson)	169304	7-16-70	
Plan to close the Naval Ordnance Station (request of Congressmen Harold R. Collier and Roman C. Pucinski)	168700	8-14-70	
Do	168700	11-10-70	
Condition of A-1 aircraft flown by Marine Corps pilots (request of Senator William Proxmire)	170298	8-18-70	
Contract award for construction of DD-963 class destroyers (request of Senator Margaret Chase Smith)	170269	8-26-70	
Government production of nylon rope (request of Congressman Hastings Keith)	170478	10-19-70	
Financial involvement in a research project of a private individual (request of Congressman Charles A. Vanik)	170475	10-30-70	
Automatic data processing operations at a construction battalion center (request of Senator Claiborne Pell)	168700	11-23-70	
Construction of temporary lodging units at a naval base (request of Senator Claiborne Pell)	169926	4- 9-71	
Utilization of manpower at a naval supply center (request of Congressman G. William Whitehurst)	169935	4-13-71	
Contract and contract administration audits:			
Emergency procurement procedures at a supply center			7- 1-70
Contract operation of a parts store:			
At a naval air station			11-10-70
At a Marine Corps air station			11-10-70
"Should Cost" review at a contractor's plant			11-13-70
Do			12- 4-70
Do			12-17-70
Pricing of a negotiated contract:			
Do			3- 2-71
Do			3- 9-71
Do			4-16-71
Do			4-21-71
Settlement of a contract for nuclear submarine propulsion equipment			5-28-71
Pricing of a negotiated contract			6-29-71
Civilian pay audits:			
Continental United States installations	24 reports		Various
Audits of disbursing officers' accounts:			
Continental United States installations	4 reports		Various
Overseas installations	2 reports		Various
Other audits and reviews:			
Safeguarding pillerible supplies			7- 8-70
Uniformed Services Savings Deposit Program of the Marine Corps	159854		10-29-70
Computations of requirements for materials-handling equipment			11- 5-70

A House and date issued

Reference	Congress	Committees or Members of Congress	Agency officials
-----------	----------	-----------------------------------------	---------------------

MILITARY DEPARTMENTS—Continued

Department of the Navy—Continued

Other audits and reviews—Continued

Management of surface/subsurface training	171276		12-31-71
Manning of the Fleet Ballistic Submarine Program	171681		1-27-71
Audits of military pay records at the Marine Corps Finance Center	125037		4-6-71

Department of the Air Force:

Need to strengthen management control over the basic research program administered by the Office of Scientific Research	170601	1-29-71	
Analysis of the F-15 aircraft program (request of chairman, Preparedness Investigating Subcommittee, Senate Committee on Armed Services) (confidential)	168964	7-7-70	
Tools for maintenance of C-5A aircraft (request of chairman, Subcommittee on Economy in Government, Joint Economic Committee)	162578	9-2-70	
Test program for the B-57G aircraft (request of chairman, House Committee on Armed Services)	170822	9-21-70	
Development of the Advanced Logistics System (request of chairman, House Committee on Appropriations)	163074	2-4-71	
Contractual features of the AWACS aircraft program (request of chairman, Preparedness Investigating Subcommittee, Senate Committee on Armed Services)	163058	6-30-71	
Use of Glasgow Air Force Base as an air transportation gateway to overseas destinations (request of Senator Mike Mansfield)	165902	7-27-70	
Contract award for research and development (request of Congressman Charles W. Whalen, Jr.)	169950	8-3-70	
Do.	169950	12-1-70	
Expansion of a telephone system at an Air Force base (request of Congressman John E. Moss)	169353	8-19-70	
Construction at an Air Force base (request of Congressman William J. Randall)	169353	8-25-70	
Withdrawal from an air base in Tripoli, Libya (request of Congressman Mark Andrews) (confidential)	159835	8-28-70	
Consolidation of the Air Force Communications Service and the Ground Electronics Engineering Installation Agency (request of Senator John C. Stennis)	169353	9-21-70	
Transfer of certain functions from an Air Force base (request of Senator Joseph M. Montoya)	170083	9-21-70	
Disposal of spare parts in Guam (request of Senator Frank E. Moss)	169071	10-7-70	
Administration of a subcontract for F-111 aircraft (request of Senator William Proxmire)	170489	10-7-70	
Construction at an Air Force base (request of Congressman John E. Moss)	169092	11-2-70	
Operation of an aero club at an Air Force base (request of Congresswoman Patsy T. Mink)	159007	11-19-70	
Production costs and delivery schedules of the C-5A aircraft (request of Senators William Proxmire and Richard S. Schweiker)	169300	11-19-70	
Construction of a golf course at an Air Force base (request of Senator William Proxmire)	160813	11-27-70	
Leased housing in England (request of Congressman John E. Moss)	170690	12-3-70	
Merger of certain facilities at two Air Force bases in New Mexico (request of Senator Joseph M. Montoya)	170083	12-30-70	
Housing for military personnel at an Air Force base (request of Congressmen Emanuel Celler and Alexander Pirnie)	169353	1-12-71	
Subcontract awards for temporary technical personnel (request of Senator William Proxmire)	168678	3-3-71	

Reference	Congress	Committees or Members of Congress	Agency officials
MILITARY DEPARTMENTS—Continued			
Department of the Air Force—Continued			
Contract and contract administration audits:			
			2-23-71
			3-1-71
			3-12-71
			4-21-71
			7-25-71
Civilian pay audits:			
		18 reports	Various
Audits of disbursing officers' accounts:			
		69 reports	Various
		33 reports	Various
		3 reports	Various
Other audits and reviews:			
	140896		7-30-70
	125047		2-16-71
			4-12-71

INTERNATIONAL ACTIVITIES

Agency for International Development:

Progress and problems in U.S. aid to the economic unification of Central America	100450	8-13-70	
U.S. assistance in Liberia (secret)	159380	11-6-70	
Review of administration and effectiveness of U.S. economic and military aid to Honduras (secret)	169521	12-3-70	
Examination into actions by AID to insure reasonableness of payments under contracts for rehabilitation of excess property in Okinawa (request of chairman, House Committee on Foreign Affairs)	160485	7-21-70	
Followup review of activities under contracts with the American Institute for Free Labor Development (request of chairman, Senate Committee on Foreign Relations)	161794	8-4-70	
Status of recommendations related to the civilian medical program in Vietnam (request of chairman, Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations)	159451	8-25-70	
Interim report as of June 30, 1970, on review of the U.S. relief assistance to Nigeria (secret) (request of chairman, Subcommittee on Refugees and Escapees, Senate Committee on the Judiciary)	167677	8-25-70	
Interrogation of AID Public Safety Officer in Vietnam (request of chairman, Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations)	170474	8-31-70	
U.S. public safety assistance program overseas (request of chairman, Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations)	170474	9-2-70	
Information on the movement of prisoners from Con Son Island (request of chairman, Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations)	170474	9-11-70	
Need for improvement in the control over refugee relief commodities shipped to Laos (request of chairman, Subcommittee on Refugees and Escapees, Senate Committee on the Judiciary)	133001	9-21-70	
Status of recommendation related to excessive programming and procurement of sweetened condensed milk for Vietnam (request of chairman, Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations)	179451	9-22-70	

Reference	Address and Date Issued		Agency Office
	Congress	Committee or Members of Congress	

INTERNATIONAL ACTIVITIES—Continued

Agency for International Development—Continued

Limited review of the refugee relief program in Laos (secret) (request of chairman, Subcommittee on Refugees and Escapees, Senate Committee on the Judiciary)	133001	11- 5-70	
Status of recommendations designed to improve AID Mission management and to strengthen audits and inspections of U.S. programs in Vietnam (request of chairman, Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations)	129451	11- 9-70	
Review of the civilian health and war related casualty program in Vietnam (request of chairman, Subcommittee on Refugees and Escapees, Senate Committee on the Judiciary)	133001	11- 9-70	
Continuing difficulties in assisting war victims in Vietnam (request of chairman, Subcommittee on Refugees and Escapees, Senate Committee on the Judiciary)	133001	11-20-70	
Review of the civilian health and war casualty program in Laos (request of chairman, Subcommittee on Refugees and Escapees, Senate Committee on the Judiciary)	133001	11-25-70	
Supplemental report on review of the U.S. program of relief assistance to Nigeria (secret) (request of chairman, Subcommittee on Refugees and Escapees, Senate Committee on the Judiciary)	167677	12-17-70	
Information regarding AID's relationship with the IG Charter Company (request of chairman, Senate Committee on Foreign Relations)	171526	2- 1-71	
Observations and suggestions for improvements with respect to methods of AID in determining employee entitlement to pay and leave			7-13-70
Review of the contract policies and procedures of AID in Vietnam	129451		8-27-70
Review of the arrival accounting system in Vietnam	133331		10-22-70
Three elements affecting U.S. economic assistance programs in Nicaragua (confidential)	169521		10-27-70
Need for consideration of least costly alternatives in contracting for personal services abroad			11-25-70
Procedures used to post-audit prices paid for AID-financed commodities furnished India			11- 9-70
Review of AID's procurement of Australian manufactured automobiles rather than U.S. automobiles	167196		12-18-70
Examination of vouchers and related documents of the Nigerian Mission for the months of June and July 1970			1-21-71
Review of the Agricultural Sector Loan to Chile by AID	163772		6- 8-71

Department of Agriculture:

Review of cooperator organizations' use of Foreign Agricultural Service funds on market promotion activities (request of chairman, Subcommittee on Special Studies, House Committee on Government Operations)	120605	9-28-70	
Opportunity for the Department of Agriculture to increase export sales of nonfat dry milk	114824		6-16-71

Department of Commerce:

Review of field office support in the Department of Commerce trade opportunities program			8-25-70
Export expansion potential of introducing foreign executives to U.S. products			3-23-71
Review of the Foreign Trade Zones activities administered by the Foreign Trade Zones Board	114898		4-15-71

Department of Defense:

Military Assistance Program: Problems in the administration of the military assistance training program (request of chairman, Senate Committee on Foreign Relations)	163582	2-16-71	
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	Addressee and date issued			
	Reference	Congress	Committees or Members of Congress	Agency officials
INTERNATIONAL ACTIVITIES—Continued				
Department of Defense—Continued				
Military Assistance Program—Continued				
Supplemental report on problems in the administration of the military assistance training program (secret) (request of chairman, Senate Committee on Foreign Relations)	163582		2-16-71	
Other Defense International Activities:				
A case history showing need for improvements in the management of overseas military construction contracts	159451	10-28-70		
Economic advantages of using American-made trucks abroad to transport military cargo	163869	2-4-71		
Opportunities to economize on purchases of dairy and bakery products for U.S. forces in Southeast Asia	171428	2-4-71		
Followup review shows long missing Government-owned materials in Vietnam still unaccounted for	159451	5-28-71		
Economic advantages of using American ingredients to satisfy milk requirements in Western Europe	172539	6-3-71		
Information on accidental bombings—Laos (secret) (request of chairman, Subcommittee on Refugees and Escapes, Senate Committee on the Judiciary)	133001		9-21-70	
Information on agreement between the United States and Iceland pertaining to disposal of foreign excess U.S. personal property (request of Senator William Proxmire)	172173		3-31-71	
Review of U.S. indemnification payments for war damages in Vietnam (request of Congressman Charles S. Gubser)	159451		4-9-71	
Inquiry as to the propriety of U.S. Defense contractor's agreement to sell technical data developed in the production of certain U.S. military equipment	133295			8-17-70
Review of offshore procurement of butter in Europe	114824			12-3-70
Need for improved administration of petroleum and property management activities by the U.S. civil administration of the Ryukyu Islands	133245			3-11-71
Potential savings by consolidation of military laundry facilities abroad	165629			3-15-71
Review of the economic and balance-of-payments aspects of increasing the Army's "in-house" laundry facilities in Vietnam	165629			5-17-71
Potential economic advantages of procuring U.S. peanuts in lieu of foreign peanuts for Military Exchange Service activities	114824			5-28-71
Interagency Programs:				
Food for Peace:				
Potential savings available by limiting shipment of Title II, Public Law 480 agricultural commodities donated to Turkey to only direct ports of call	152548			8-24-70
Utilization of Foreign Currencies:				
Need for increased control over local currency made available to Republic of Vietnam for support of its military and civil budgets	159451	7-24-70		
Opportunities for better use of U.S.-owned excess foreign currency in India	146749	1-29-71		
Certain information regarding the U.S. purchases of local currencies in countries which are recipients of military aid (request of chairman, Senate Committee on Foreign Relations)	165731		4-27-71	
Followup review on the opportunity to increase the use of U.S.-owned foreign currency in India and Pakistan to benefit the U.S. balance of payments	146749			4-21-71
Other Interagency Activities:				
Balance-of-payments benefits achieved by the Department of Agriculture through an increased agricultural barter program	163536	2-12-71		

Reference	Address and date issued		
	Congr	Committees or Members of Congress	Agency officials

INTERNATIONAL ACTIVITIES--Continued

Interagency Programs--Continued

Other Interagency Activities--Continued

Need for interagency consideration of applications for investment surveys and guarantees involving potential displacement of U.S. agricultural exports	166077	4-27-71	
Compilation of GAO report findings and recommendations on the administration of U.S. economic and military foreign assistance programs (request of chairman, Senate Committee on Foreign Relations)	172311		3-29-71
Status of the use of American-made buses instead of foreign-made buses abroad by the Department of Defense (request of Congressman Charles E. Chamberlain)	163839		5-17-71

International Organizations and Institutions:

Purchase commitment made to an international organization prior to availability of funds (confidential)	160154	10- 2-70	
U.S. participation in the International Labor Organization not effectively managed	168767	12-22-70	
Comments and suggestions for independent review and evaluation of international organizations and institutions (request of chairman, House Committee on Foreign Affairs)	161470		12- 4-70
Review of interest rate differentials on loans made by international financial institutions to intermediate credit institutions (request of chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations)	161470		6- 4-71
Review of Adlai E. Stevenson Memorial Fellowship Program	165161		9-14-70

Peace Corps:

Information regarding the release of a newspaper mat by the Peace Corps to counteract previous newspaper articles which had been critical of a language training course furnished to certain Peace Corps volunteers (request of Congressman H. R. Gross)	145883		4- 5-71
Information regarding a constituent's request for assistance in obtaining reimbursement from a Peace Corps contractor (request of Senator Birch Bayh)	171985		4-16-71

Department of State:

Improved financial administration and revision of fees needed--consular services program	118682	4-14-71	
Need for improved review and coordination of the foreign affairs aspects of Federal research	171564	5-27-71	
Denial by the Department of State of access to records concerning U.S. occupation costs in Berlin (secret) (report to eight congressional committees)	169960		4-20-71
Review of the administration of claims operations, Department of State	117604		10-29-70
Survey of activities at the Regional Finance and Data Processing Center in Paris, France, Department of State	146703		3-22-71
Review of payment allowances and differentials to civilian employees at overseas posts			4-27-71
Improvements needed in the planning and programming of developmental assistance programs in Latin America to meet U.S. objectives and goals	161882		6-14-71

Department of the Treasury:

Survey of disbursement procedures at the U.S. Treasury, Manila Regional Disbursing Office	118709		2-26-71
-------------------------------------------------------------------------------------------	--------	--	---------

Independent Agencies:

Audit of the Export-Import Bank of the United States, fiscal year 1970	114823	6-21-71	
Examination of the financial statements of the Export-Import Bank of the United States, fiscal year 1970	114823		8-28-70

	Reference	Address and date issued	
		Congress	Committees or Members of Congress
GOVERNMENT-WIDE AND MULTIAGENCY ACTIVITIES			
Progress and problems in implementing the Federal Claims Collection Act of 1966	117604(3)	7-23-70	
Need to improve effectiveness of contractor procurement system reviews:			
Department of Defense and National Aeronautics and Space Administration	169434	8-18-70	
Management of federally financed research by the University of Michigan--a case study	117219	9-25-70	
Federal assistance for presidential transitions	158195	11-16-70	
Status, progress, and problems in Federal agency accounting	115398	12-31-70	
Acquisition and use of software products for automatic data processing systems in the Federal Government	115369	6-30-71	
Agency compliance with reporting requirements of section 102 of the National Environmental Policy Act of 1969 (request of Congressman Benjamin B. Blackburn)	170186	9-27-70	
Substantial cost savings from establishment of alcoholism program for Federal civilian employees (request of chairman, Special Subcommittee on Alcoholism and Narcotics, Senate Committee on Labor and Public Welfare)	164031(2)	9-28-70	
Wasteful Federal expenditures (request of Congressman Hale Boggs)	159835	2-21-70	
Selected significant audit findings in the civil departments and agencies of the Government (request of chairman, House Committee on Appropriations)	106190	1-14-71	
Selected significant audit findings in the Department of Defense (request of chairman, House Committee on Appropriations)	106190	3-8-71	
GAO's authority to consider individual complaints of administrative abuse and the degree to which the authority has been exercised (request of Senator Jacob K. Javits)		6-14-71	
Federal contracts and grants awarded to the U.S. National Student Association (request of Congressman Richard C. White)	164031(1)	6-22-71	
Case studies of auditing in a computer-based systems environment	115369		June 1971

ORGANIZATIONS OUTSIDE THE FEDERAL GOVERNMENT

Government Services, Inc.:

Internal controls for safeguarding assets		12-4-70	
Audit of financial statements of Government Services, Inc., year ended Dec. 31, 1970	114820	4-1-71	
Audit of financial statements of Employee Retirement and Benefit Trust Fund and Supplemental Pension Plan, year ended Dec. 31, 1970	114820	4-1-71	
Examination of financial statements of Disabled American Veterans--National Headquarters for year ended Dec. 31, 1969, Life Membership Fund for year ended June 30, 1970, and Service Foundation for 6 months ended Dec. 31, 1969	55712	12-22-70	

APPROVALS OF AGENCY ACCOUNTING PRINCIPLES AND STANDARDS, AND SYSTEMS DESIGNS DURING FISCAL YEAR 1971

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66) requires the Comptroller General to cooperate with the executive agencies in the development of their accounting systems and to approve such accounting systems when he deems them to be adequate and in conformity with his prescribed principles and standards and related requirements. Approval is given in two stages—the individual agency's own statement of principles and standards and the design of the accounting system itself. The approvals during fiscal year 1971 of agencies' statements of their principles and standards and of accounting systems designs are listed below.

	Approval date			Approval date	
	Principles and standards	Systems designs		Principles and standards	Systems designs
CIVIL DEPARTMENTS AND AGENCIES					
Department of Commerce:					
Economic Development Administration.....	10-30-70	10-30-70			
Maritime Administration.....	1-15-71	1-15-71			
Patent Office.....	3- 5-71	3- 5-71			
Department of the Interior:					
Alaska Power Administration.....	4-21-71				
Geological Survey.....	8-21-70				
Office of the Territories:					
Director's Office.....	3-11-71				
Department of Labor:					
Federal-State Employment Security Agency.....		12-31-70			
Department of State:					
Foreign Service Retirement and Disability Fund.....	7-22-70	7-22-70			
Peace Corps.....	8-19-70				
CIVIL DEPARTMENTS AND AGENCIES—Continued					
Department of the Treasury:					
Office of the Treasurer of the United States:					
Accounting for public moneys.....			2-22-71		
INDEPENDENT AGENCIES					
Equal Employment Opportunity Commission.....					
			5-12-71		
National Credit Union Administration.....					
			9-23-70		
National Oceanic and Atmospheric Administration.....					
			10-30-70	10-30-70	
Railroad Retirement Board.....					
				2-23-71	
Small Business Administration.....					
				8-19-70	
United States Information Agency.....					
				12- 9-70	

C O N T E N T S

CONTENTS

	<i>Page</i>
SECTION I.—Compilation of Findings and Recommendations for Improving Government Operations	1
Contents	2
Compilation	9
Index by Government agency	140
Index by functional classification of the Federal budget	142
SECTION II.—Financial Savings Attributable to the Work of the General Accounting Office	144
Collections and other measurable savings	144
Details of other measurable savings	145
Additional financial savings not fully or readily measurable	149
Savings and benefits to others	157
SECTION III.—Audit Reports Issued During the Year	159
SECTION IV.—Approvals of Agency Accounting Principles and Standards, and Systems Designs	189