

**ANNUAL REPORT OF THE
COMPTROLLER GENERAL OF THE UNITED STATES**

1970

the
comptroller
general
of the
united
states



nineteen seventy
annual report

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

January 21, 1971

Dear Sirs:

In accordance with section 312(a) of the Budget and Accounting Act of 1921, I respectfully submit the annual report on the activities of the United States General Accounting Office during the fiscal year ended June 30, 1970.

A handwritten signature in dark ink, reading "Thomas B. Staats". The signature is fluid and cursive, with the first name "Thomas" written in a smaller, more compact script than the last name "Staats".

Comptroller General
of the United States

The President of the Senate

The Speaker of the House of Representatives

**COMPTROLLERS GENERAL
OF THE UNITED STATES
AND
ASSISTANT COMPTROLLERS GENERAL
OF THE UNITED STATES**

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

Comptrollers General of the United States

John R. McCarl

July 1, 1921—June 30, 1936

Fred H. Brown

April 11, 1939—June 19, 1940

Lindsay C. Warren

November 1, 1940—April 30, 1954

Joseph Campbell

December 14, 1954—July 31, 1963

Elmer B. Staats

March 8, 1966—

Assistant Comptrollers General of the United States

Lurtin R. Ginn

July 1, 1921—November 11, 1930

Richard N. Elliott

March 9, 1931—April 30, 1943

Frank L. Yates

May 1, 1943—June 29, 1953

Frank H. Weitzel

October 12, 1953—January 17, 1969

Robert F. Keller

October 3, 1969—

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The GAO Watchdog, pp. x, 6, 34; Department of Agriculture, pp. 44 and 46; Bob Fletcher, p. 44; Public Health Service, p. 44; Tom Ray Taggart, Tampa, Fla., p. 44; Wagner International Photos, Inc., N.Y., p. 44; Army Corps of Engineers, p. 48; University of Washington Primate Research Center, p. 51; Atomic Energy Commission, p. 61; U.S. Navy, p. 78; U.S. Army, p. 81; U.S. Air Force, p. 81; U.S. Marine Corps, p. 81; United Nations, p. 86; Agency for International Development, p. 89.

NOTE: Comptroller General's Annual Report contains more detailed information on the U.S. General Accounting Office. Included are (1) a compilation of suggestions for improving Government operations, (2) financial savings achieved, (3) a list of audit reports issued, and (4) a list of approvals of agency accounting principles and systems designs.



ROBERT F. KELLER ACCEPTS HIS COMMISSION
AS ASSISTANT COMPTROLLER GENERAL OF THE UNITED STATES FROM
ELMER B. STAATS, THE COMPTROLLER GENERAL.

These reports include GAO conclusions and recommendations for ways to achieve greater efficiency, as well as economy, in the management of Federal programs in order to obtain more effective results for the taxpayers who support them. There follows synopses of some typical reports.

In the Area of Consumer Protection and Health, GAO:

Examined the enforcement of sanitary and related conditions at federally inspected meat plants by the Consumer and Marketing Service (Department of Agriculture) and at plants not federally inspected but receiving Federal grading service. Among other management weaknesses, this audit showed a lack of uniformity in enforcement primarily because of the absence of clear and firm criteria for actions to be taken when unsanitary conditions are found, as was the case in 44 of the plants visited by GAO. (See Appendix, Section I, Item 23.)

Reviewed claims by the State of California for \$14.2 million in Federal funds under the Medicaid program for providing skilled nursing care to persons in institutions for the mentally retarded. GAO concluded that a substantial portion of the State's claims were questionable because they appeared to have been made on the basis of the persons' *presence* in institutions certified by the State as skilled nursing homes rather than on determinations of the persons' *needs* for skilled nursing care. (See Appendix, Section I, Item 25.)

Showed, by a broad, in-depth review, that Federal food inspection activities frequently are performed by more than one organization at the same commercial establishment, often on the same food product. The report, noting that over 14,500 people were involved in Federal food inspection activities costing over \$185 million annually, recommended that more effective and economical inspection methods be devised, including maximum standardization requirements. (See Appendix, Section I, Item 24.)

On Problems Involving National Resources and the Environment, GAO:

Advised the Congress that benefits of the program for preventing water pollution administered by the Federal Water Quality Administration (Department of the Interior) have not been as great as they could have been. GAO's review showed that many

CHAPTER ONE

HIGHLIGHTS OF ACTIVITIES FOR THE YEAR

During fiscal year 1970, the U.S. General Accounting Office increased its assistance to the Congress in two essential ways for the central purpose of improving the management of Federal programs and operations.

GAO provided assistance to congressional committees to the extent that nearly one-fifth of its professional staff of approximately 3,000 supported the needs of the Congress in meeting its constitutional responsibilities of legislative oversight.

GAO increased, on its own initiative, the number of reviews designed to evaluate the effectiveness of Federal programs in achieving the objectives intended by the Congress.

As a result of its audits and reviews in the departments, agencies, commissions, and corporations of the Federal Government in Washington, throughout the United States, and in many parts of the World, GAO issued 1,168 reports in fiscal year 1970.

203 public reports were sent by GAO on its own initiative to the Congress—a 15-percent increase over fiscal year 1969;

321 were made for congressional committees, officers of the Congress, or individual Members at their request—a 57-percent increase; and, 644 reports on less significant matters were addressed to officials of departments and agencies.

HIGHLIGHTS OF ACTIVITIES

waste treatment facilities have been constructed on waterways into which large polluters continue to discharge untreated or inadequately treated waste. (See Appendix, Section I, Item 64.)

Found that most oil and gas leases of Federal lands were awarded noncompetitively by the Bureau of Land Management (Interior). As a result of its audit, GAO recommended that the Congress amend the Mineral Leasing Act to require the use of competitive bidding to award oil and gas leases on all Federal lands. (See Appendix, Section I, Item 35.)

Undertook a series of management-type audits for the Joint Committee on Atomic Energy with respect to (1) issues relating to the possible establishment of a Government uranium enrichment enterprise, (2) development of the Janus reactor complex for biological research by the Argonne National Laboratory (see Appendix, Section I, Items 62 and 122), and, (3) proposals by the Atomic Energy Commission concerning plutonium sales policies and pricing.

On Matters of National Defense, GAO:

Audited the development of three specific weapons systems: NIKE-X antiballistic missile (now called SAFEGUARD), the Sheridan and M60 tanks, and the deep submergence rescue vehicle. As a result, GAO questioned (1) the adequacy of the Government's control over the prime contractor's technical and administrative management of NIKE-X, (2) the reasonableness of producing appreciable quantities of Sheridan and M60 tanks despite known deficiencies in essential components, and (3) the need for additional deep submergence rescue vehicles. (See Appendix, Section I, Items 116, 117, and 118.)

Made a special study of two proposed methods for increasing competition in weapons systems procurement—"parallel undocumented development" and "directed technical licensing"—and expressed its opinion to the Congress that the first method could be used advantageously in the procurement process. (See Appendix, Section I, Item 93.)

Reviewed the status of 57 selected major weapons systems and reported to Congress that (1) there was considerable cost growth (beyond programmed estimates) on many of the systems and that this was continuing, (2) current estimates of the capabilities of many of the systems varied significantly from original estimates, and (3) slippages on schedules for delivery from 6 months to more than 3 years could be expected. (See Appendix, Section I, Item 115.)

In Areas of International Activities, GAO:

Reported on improvements needed for more effective management by the United States of its participation in international organizations—the United Nations Children's Fund, the Food and Agriculture Organization, and the United Nations Development program. (See Appendix, Section I, Items 77, 79, and 78.)

Questioned the payment of taxes by the United States to foreign governments. Audits disclosed that tax costs had been incurred by the United States in Vietnam—\$28 million; Thailand—\$4 million; and West Germany—\$2.2 million; and in other countries. GAO urged a strengthening of U.S. management in dealing with foreign tax exemption problems. (See Appendix, Section I, Item 81.)

Issued six reports (five classified) on "country-wide" reviews of all types of U.S. economic assistance in single countries. These included Laos, Tunisia, Guatemala, Nigeria, Ethiopia, and Thailand. (See Chapter Six, page 89.)

Assistance to Congress

As indicated, GAO's efforts to serve the needs of the Congress increased this year, as represented by its 324 reports to the Congress as a whole, its committees, and Members. Of equal importance were various other services provided by GAO, such as drafting legislation, making special studies, supplying information, and assigning staff to work with the committees. These services are discussed in detail in Chapter Two.

During fiscal year 1970:

GAO representatives testified on 45 occasions before congressional committees.

GAO staff members were assigned to the staffs of 22 committees or subcommittees. This represents approximately 5,000 man-days of GAO staff time.

438 reports were furnished to committee chairmen on pending bills—281 to the Senate, and 157 to the House.

New Assistant Comptroller General and General Counsel

Robert F. Keller, long time career official of the General Accounting Office, was nominated by the President and confirmed by the Senate as Assistant

HIGHLIGHTS OF ACTIVITIES

Comptroller General Mr. Keller took the oath of office on October 3, 1969.

Paul G. Dembling, former General Counsel and Deputy Associate Administrator of the National Aeronautics and Space Administration, was appointed General Counsel of the General Accounting Office to succeed Mr. Keller.

Uniform Cost Accounting Standards

The General Accounting Office completed this year its study "to determine the feasibility of applying uniform cost accounting standards to be used in all negotiated prime contract and subcontract defense procurements of \$100,000 or more" and made its report to the Congress January 19.

GAO found that it is feasible to establish and apply cost accounting standards to provide a greater degree of uniformity and consistency in cost accounting as a basis for negotiating and administering procurement contracts and concluded that cumulative benefits from the establishment of cost accounting standards should outweigh the cost of implementation.

But under all the wide variety of circumstances involved in Government contracting, GAO found that it is not feasible to establish and apply cost accounting standards in such detail as would be necessary to insure a uniform application of precisely prescribed methods of computing costs for each of the different kinds of cost.

Hearings on cost accounting standards, at which the Comptroller General testified, were conducted by both the Subcommittee on Production and Stabilization, Senate Committee on Banking and Currency, on March 31 and the House Committee on Banking and Currency on June 19 in connection with legislation extending the Defense Production Act of 1950. As a result of the hearings, a new section was added to the Defense Production Act of 1950 providing for the establishment of a Cost Accounting Standards Board. The new section was included in Public Law 91-379, approved on August 15, 1970. (For further details see page 11.)

Scope of GAO's Audit Work

GAO conducted 1,837 audits and reviews in the United States and in 43 other countries during fiscal year 1970. The results of many of these will be reflected in reports to be published during the next fiscal year.

<i>Activities</i>	<i>Audits and reviews in fiscal year 1970</i>
Civil	918
Defense	647
International	236
Government-wide and multiagency	34
Total	1,837

Financial Management Improvement

Reviews of accounting systems in operation are performed as part of regular GAO audit activities and GAO cooperated with agencies in the development and approval of their accounting systems.

GAO approved the designs of nine complete accounting systems and four parts or segments of systems submitted by civil and international departments and agencies, and 12 statements of accounting principles and standards during the 1970 fiscal year. At yearend, 20 designs of complete systems, nine parts or segments of systems, and 13 statements of principles and standards submitted for approval by civil and international departments and agencies were being reviewed by GAO.

Of 145 civil and international department and agency accounting systems subject to approval, the complete accounting systems designs of 71 organizational entities had been approved as of June 30.

GAO approved two complete systems designs, the Air Force and Navy accounting systems for military construction. In addition, GAO approved three industrial fund accounting systems segment designs for the Air Force Printing and Duplicating Service; the Army Watervliet Arsenal, which is typical of similar types of Army industrial funds; and the Naval Ordnance System Command. GAO also approved 11 directives and instructions in implementation of accounting systems submitted by the Department of Defense.

In March GAO reported to the Congress that a number of problems in the implementation of the accounting system for operations in the Department of Defense had been identified and specific recommendations were made to the Secretary of Defense for correction. The review of the system was made in compliance with the direction of the Conference Report of July 1, 1968, of the House and Senate Committees on Appropriations (H. Rept. 1608, 90th Cong.).

Among other accomplishments, the Joint Financial Management Improvement Program—comprised of representatives from the Bureau of the Budget, the Civil Service Commission, the General Accounting Of-

HIGHLIGHTS OF ACTIVITIES

office, and the Department of the Treasury—completed the following projects and began implementing resulting recommendations during the year:

- Study of procedures for centralizing within the Federal Government the billing and payment of transportation charges incurred by Federal agencies.

- Survey of financial administration of Federal grants-in-aid to State and local governments.

Internal Audit

GAO continued to stress the importance of internal audit activities in the executive departments and agencies. This year reports were submitted to the Congress on the effectiveness of internal audit activities in the following departments and agencies: the Department of State, the Department of the Treasury, the Veterans Administration, and the Department of Defense.

Four additional reports on internal audit activities were submitted to agency officials.

Legal Services

Decisions prepared for issuance by the Comptroller General and other legal matters handled by the legal staff totaled 5,266. This includes 703 reports submitted to committees and Members of Congress and 63 reports to the Director of the Bureau of the Budget.

Transportation

During fiscal year 1970, GAO, in meeting its responsibility for determining the correctness of charges claimed for freight and passenger transportation services furnished the United States, audited \$2.4 billion in transportation charges, consisting of \$1.5 billion paid for 5.9 million freight shipments and \$.9 billion for 3.4 million passenger movements.

A total of 108,499 claims of overcharges by the United States against carriers were settled by GAO in the amount of \$17.7 million.

Claims against the United States by carriers numbering 13,725 were settled by GAO in the amount of \$13.1 million.

GAO also furnished assistance to the Department of Justice in 33 legal actions involving claims against the United States involving transportation charges for approximately \$704,000 covering 1,817 shipments. Twenty-one suits, the subject of reports in this or prior

years, were settled for about \$275,000, about \$332,000 less than claimed.

Carriers filed 131 suits covering 167,328 shipments. One hundred and thirteen of these suits and about 165,794 of the shipments covered overseas movement of household goods by the Department of Defense. The amount sued for is not stated in the petitions. However, two court decisions have been rendered in connection with certain issues common to the 420 household goods suits filed to date. Using these decisions and other issues raised in the case GAO estimates potential liabilities to the Government of nearly \$100 million if the courts should rule adversely for the Government on the undecided issues.

Claims Settlement and Debt Collection

General claims against the United States in fiscal year 1970 involved Government contracts, compensation to civilian personnel, pay and allowances to military personnel, retired pay, travel, transportation and per diem matters, and miscellaneous claims of Government personnel and other public creditors. General claims against and by the United States settled by GAO were as follows.

GAO settled 14,943 claims against the United States for \$55.9 million and collected 13,201 claims by the United States totaling \$2.6 million.

At the end of the year, 8,182 claims under collection represented accounts receivable in the amount of about \$4.8 million. GAO reported 1,274 claims to the Department of Justice for collection by suit. As of June 30 there were 5,266 claims under collection by that Department, representing approximately \$1.6 million in accounts receivable.

Expenses and Staffing

GAO operating expenses for fiscal year 1970 amounted to \$71.7 million. Approximately 82 percent of this amount—\$58.8 million—was required to pay salaries and other personnel costs. The staff at June 30 totaled 4,632, a net increase of 88 over 1969. Of this number, 2,906 were professional staff.

Training and Career Development

Over 1,400 members of GAO's staff were provided with special training this year through GAO internal

facilities. Over 1,000 staff members participated in training or career development programs conducted in other agency or non-Government facilities. Sixty staff members passed the CPA examination given by State boards during the year. A total of 486 members now hold the CPA certificate; 83 others who have passed the required examination will receive their certificates upon completion of their experience requirement.

Change in Format of Annual Report

For several years a special report has been issued to the Congress presenting a compilation of General Accounting Office findings and recommendations for improving Government operations for the fiscal year concerned. The report provided a convenient summary

showing by functional areas the opportunities for improved operations identified by GAO in carrying out its audit responsibilities.

This year, for the first time, a copy of the compilation report relating to fiscal year 1969 was distributed to all Members upon its issuance to the Congress (H. Doc. 91-270, Feb. 26, 1970). Because many Members commented on the usefulness to them of this comprehensive type of report it was decided to make it available as a separate appendix to the Comptroller General's Annual Report. Also included in the appendix volume are the following lists: financial savings attributable to the work of the General Accounting Office, audit reports issued during the year, and approvals of agency accounting principles and standards and systems designs. Most of the other appendices of last year's annual report are included in this volume as exhibits. (See table of contents.)



of direct assistance to the Congress in the fiscal year 1971 to about 600 man-years.

Reports made on GAO's own initiative constitute one of the primary means of assisting the Congress. The report information is intended to give the Congress, as well as agency heads, an objective appraisal of operations, particularly those which may require congressional as well as executive branch attention. The reports are also designed to assist the Appropriations Committees in considering agency budget requests, as well as other committees in performing their oversight responsibilities.

CHAPTER TWO

ASSISTANCE TO THE CONGRESS

Summary of Assistance Provided

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

The year was marked by a continuing increase in GAO's efforts to serve the needs of the Congress. About 20 percent of the professional and supporting staff resources were applied to providing direct assistance to the Congress—drafting legislation, making studies, supplying information, and staff members working on assignment with committees.

GAO anticipates that, with Government programs increasing in cost and complexity, the concern of the committees and Members will intensify and require many more man-years of GAO professional staff assistance to meet significant priorities of congressional requests principally in defense, education, manpower, pollution control, health, income security, transportation, housing, and other urban programs. To meet this need, GAO has projected an increase in its level

Reports With Classified Material

To minimize congressional problems of handling classified information, every effort is made to avoid including information in the reports to the Congress that is designated as classified material by the department or agency concerned. In those cases where it is impossible to satisfy reporting responsibilities without discussing classified material, GAO attempts to issue an unclassified report and a separate supplement containing the classified information. The chairman of the Senate Foreign Relations Committee advised GAO of his approval of these efforts to release as much information as possible and requested GAO to influence the agencies and departments to show a greater awareness of the public's right to know. GAO brought this request to the attention of the Secretaries of the Departments of State and Defense and each offered his cooperation in GAO's effort to increase the availability to the public of reports through minimizing classified materials and through separate reporting of security information.

Unauthorized Release of Draft Reports

To help insure that reports submitted to the Congress, committees, and Members are accurate, complete, and based on the most current information available on the facts and issues involved, GAO's practice is to submit draft reports for comment to the agencies concerned, to contractors, and to other parties directly affected. These drafts carry a notice that the report is subject to revision and that the contents should not be used for purposes other than official review and comment. Despite efforts of this Office to prevent premature disclosure of draft report information, it has occurred on a few occasions. The chairman of the House Government Operations Committee expressed

ASSISTANCE TO THE CONGRESS

concern (pp. 3540 and 3541, Congressional Record, Apr. 23, 1970) about premature disclosure of information from GAO's proposed reports. GAO therefore strengthened the restricted use notice on the cover of its report drafts by using larger type, printing it in a different color ink, and by specifically calling attention to this notification in transmitting copies of the draft reports.

Relating GAO Work to the Needs of the Congress

In fulfilling the obligation of furnishing effective congressional assistance it is essential that GAO relate its work closely to the interest and needs of the Congress, particularly on matters currently under consideration. An illustration of the effort to do this is the program initiated early in the year for reviewing and furnishing a special report to the Congress on the acquisition of selected major weapons systems. This was undertaken because of the concern of several committees, subcommittees, and individual Members with the large acquisition costs associated with the C-5A aircraft and other expensive defense weapons. See page 75 for details. GAO plans to continue to monitor and furnish reports to the Congress early in each session on the Department of Defense's acquisition of major weapons systems and to extend this type of review and report to the civil agencies. The House Armed Services Committee in reporting on the military procurement authorization bill for 1971 (H. Rept. 91-1022 on H.R. 17123, Military Procurement Authorization for 1971, dated Apr. 24, 1970) favorably commented on the potential usefulness of the selected acquisition reports as an aid to the committee "while development and procurement are in progress."

A great deal of thought has been given to the long term future of GAO and how it can be of greater assistance to the Congress. A number of steps have been taken in the past 4 years to gear operations to better serve the Congress. However, more effort will be required, particularly in the area of evaluations of ongoing programs and of legislative proposals.

As the Congress deals with new challenges such as those associated with pollution, supersonic transport, medical advances, and nuclear energy, it will require a greater degree of technological assessment capability. The General Accounting Office believes that in the seventies it can and should play an increasingly important role in the surveillance and monitoring of Fed-

eral programs where technological assessment is an important consideration. As program objectives become more concerned with and provide recognition of the impact of technological application, the Office will plan reviews to include more disclosures which show the impact of technology. This approach was explained to the Subcommittee on Science, Research and Development, House Committee on Science and Astronautics, during its exploratory hearings on the need for the Congress to have a technological assessment capability and again during its consideration of H.R. 17046, a bill to establish an Office of Technology Assessment, which provides for the Comptroller General to be a member of the Technology Assessment Board.

To meet the growing need of the Congress to obtain information concerning the benefits and costs of Federal programs GAO continued its efforts to develop a systems analysis capability. The systems analysis group in the Office of Policy and Special Studies provides consulting advice and assistance in this area to congressional committees, Members of Congress, and Federal agency officials, as required.

Examples of assistance to the Congress in this area during the year included:

Participation in work for the chairman of the Senate Armed Services Committee to review air-to-ground missile systems and consider whether cost/benefit studies justified the chosen missiles.

Participation in the examination into the effectiveness of the construction grant program for abating, controlling, and preventing water pollution, described in Chapter Four.

Participation in work at the request of the chairman of the House Committee on Ways and Means to monitor a special review of the program under which aid is provided to families with dependent children in New York City.

Participation in work on a request from Members of Congress which required calculations related to comparisons of the net Government costs under two Department of Housing and Urban Development programs for college housing: one, a direct loan program, and the other, an interest subsidy program.

GAO has had an actuarial staff since October 1, 1969, to provide assistance to the committees and Members of the Congress on the many legislative proposals involving insurance and annuities. Assistance provided during the year included the following:

Study of the actuarial and insurance subjects covered in legislative bills introduced in Congress. Since January 1, 1970, studies were made on the following subjects: national catastrophic illness insurance, Railroad Retirement System, Federal insurance guaranty program, group life insurance for members of the armed forces, and Federal regulation of private pension plans.

Assistance to the House Banking and Currency Committee concerning a procedure to obtain investment capital from private pension and foundation plans for the home mortgage market. The actuaries prepared illustrative mortgage amortization and accumulation tables for the use of the committee.

Review of H.R. 15733 with the staff of the Senate Committee on Labor and Public Welfare. The bill provided for an increase in pensions under the Railroad Retirement System and for a Presidential commission to study the future financing of the benefits provided by this system. Following this review, a provision was added to the bill by the Senate requiring the employment by the commission of an actuary who is qualified in the evaluation of pension plans and who is a member of the American Academy of Actuaries. The bill with the additional provision was signed into law August 12, 1970.

Preparation of a 10-year cost projection of the U.S. Mine Workers of America Welfare and Retirement Fund for the Senate Subcommittee on Labor of the Senate Committee on Labor and Public Welfare.

To provide GAO's management officials with more meaningful, comprehensive, and timely information for use in the decisionmaking involved in the planning, execution, and evaluation of its accounting, auditing, and other activities, the Office has under development a computer-based integrated management information system. This system will enable GAO to achieve more effective and efficient operations and thereby improve its assistance to the Congress. In February of this year GAO established a Data Processing Center to provide the computer services that are required to effectuate the system.

GAO Liaison With the Congress, Committees, and Members

GAO's Office of Legislative Liaison is a central coordination point for achieving the objective of providing the Congress with prompt and effective assistance.

Because of the importance of the functions of the liaison office, it was transferred during the year to the Office of the Comptroller General where it is under the direct supervision of the Assistant Comptroller General. The legislative attorneys of the liaison office maintain continuous contact with Members and the staffs of the committees to discuss matters of mutual concern and to coordinate GAO's work so that it can most effectively fulfill the varied requests of the committees. The Office of Legislative Liaison is also the central point of contact through which Members and their staffs may channel their requests and inquiries so that GAO's responses may be made with the maximum effectiveness.

The "GAO Newsletter" is distributed monthly to all Members of the Congress as a convenient means of keeping them currently informed of the highlights of GAO's reporting, legal, and other activities.

GAO received and filed in special sealed envelopes the confidential financial statements of Senators and certain officers and employees of the Senate as required by Senate Rule 44 and furnished a report relating to the receipt of the statements to the Senate Select Committee on Standards and Conduct, in accordance with the Rule.

The assistance which GAO staff renders to the Congress is furnished through several categories of services which are discussed in more detail under the following headings in this chapter:

- Reports to the Congress
- Reports to committees
- Reports on pending legislation
- Reports to individual Members of the Congress
- Staff assistance to committees
- Assistance in legal and legislative matters
- Testimony at hearings
- Assistance on House and Senate financial and administrative operations
- Recommendations for legislation

Reports to the Congress

The responsibility of the General Accounting Office for reporting to the Congress information obtained as a result of its audit and investigation work is clearly indicated in the Budget and Accounting Act of 1921 and is emphasized in the related legislative history. For this reason, a major thrust of the efforts of the Office is to fulfill this fundamental obligation by

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furnishing to the Congress reports on our findings, conclusions, and recommendations covering the wide variety of Government defense and civil activities in Washington, the field, and overseas. Special emphasis is placed on reporting the results of assessments of programs in which there has been a strong congressional interest in determining whether they have achieved the purposes intended by the Congress. Examples of such reports issued to the Congress during the year are:

Evaluation of the Navy's management of its Deep Submergence Rescue Vehicle (DSRV) program, which had significant cost overruns and delays in development, revealed an evaluation was needed of the cost effectiveness of four more deep submergence rescue vehicles before purchase. (See Appendix, Section I, Item 118.)

Survey of the NIKE-X Antiballistic Missile Development program listed a series of improvements needed in the adequacy of the Government's control over the contractor's technical and administrative management of the weapon system development of the program. (See Appendix, Section I, Item 116.)

Report on the cost reduction program in the Department of Defense, the Department of the Interior, and several other departments and agencies recommended numerous improvements in all aspects of the project. (See Appendix, Section I, Item 229.)

Report on weak enforcement of Federal sanitation standards at meat plants by the Consumer and Marketing Service and an earlier report on Federal inspection at poultry plants pointed out weak enforcement of sanitation and other consumer protection standards. (See Appendix, Section I, Items 23 and 22.)

Report on the weaknesses in the construction grant program for abating, controlling, and preventing water pollution was issued because of the substantial expenditure of Federal funds and broad congressional interest in the water pollution program. (See Appendix, Section I, Item 64.)

Report on the administration of sugar marketing quotas established by the Sugar Act of 1948 showed how a change in the deficit allocation provision could substantially benefit domestic sugar producers and reduce dollar outflow so as to improve the U.S. balance-of-payments position. (See Appendix, Section I, Item 1.)

Report on the readiness of selected reserve components of the Army revealed serious deficiencies in the units' organization, training, equipment, and management which would prevent their meeting mobilization requirements. (See Appendix, Section I, Item 172.) On the other hand, a report on the combat readiness of the Strategic Air Command showed a high state of readiness due apparently to well-developed management techniques and closer surveillance. (See Appendix, Section I, Item 171.)

Report on questionable payment of taxes to other governments on U.S. defense activities overseas informed Congress that, contrary to firm U.S. policy and foreign agreements, U.S. activities were paying to various foreign governments directly or indirectly large sums annually in property taxes, local or municipal taxes, business and trade taxes, excise taxes, and import taxes. (See Appendix, Section I, Item 81.)

Many of GAO's reports to the Congress are utilized by the committees for study, action, or further investigation in performing their oversight responsibilities. Committee interest in the work of the Office tends to strengthen the effect of this work because the departments and agencies are aware of the possibility that committee consideration may flow from the information disclosed in GAO reports. An illustration of committee action prompted by one of the reports to the Congress is the report released this year by the House Committee on Government Operations (H. Rept. 91-637, 91st Cong., Nov. 13, 1969) on deficiencies in the administration of the Federal Insecticide, Fungicide, and Rodenticide Act. This study by the committee's Intergovernmental Relations Subcommittee, which included hearings and special assistance from GAO staff, began after receiving a GAO report (B-133192, Sept. 10, 1968) to the Congress concerning the need to improve regulatory enforcement procedures involving pesticides. It disclosed serious deficiencies in the operations of the Pesticides Regulation Division of the Department of Agriculture's Agricultural Research Service.

In addition to the reports issued to the Congress on GAO's own initiative, the Congress frequently directs the Comptroller General to make special studies on subjects that are of particular current interest to the committees and Members. Thus, GAO initiated a comprehensive study prescribed by section 408 of Public Law 91-121 of the profits made by contractors and subcontractors on negotiated defense contracts. The

results of this review will be reported to the Congress early in 1971.

The General Accounting Office completed a study "to determine the feasibility of applying uniform cost accounting standards to be used in all negotiated prime contract and subcontract defense procurements of \$100,000 or more." The study was made as a result of the passage of Public Law 90-370 of July 1, 1968, directing the Comptroller General, in cooperation with the Secretary of Defense and the Director, Bureau of the Budget, to carry out the work.

On January 19, 1970, the results of the study were reported, as the law directed, to the Committees on Banking and Currency and Armed Services of the Senate and the House of Representatives. (See Appendix, Section I, Item 89a.) The report is a very significant contribution to the literature of accounting principles and standards as they relate to private industry cost accounting practices and the utilization of cost data in the negotiation and administration of contracts for Government procurement of goods and services. Its principal conclusions and recommendations are as follows:

It is feasible to establish and apply cost accounting standards to provide a greater degree of uniformity and consistency in cost accounting as a basis for negotiating and administering procurement contracts.

Under all the wide variety of circumstances involved in Government contracting, it is not feasible to establish and apply cost accounting standards in such detail as would be necessary to insure a uniform application of precisely prescribed methods of computing costs for each of the different kinds of cost.

Cost accounting standards should not be limited to Defense cost-type contracts. They should apply to negotiated procurement contracts and subcontracts, both cost-type and fixed price. They should be made applicable Government-wide.

Cumulative benefits from the establishment of cost accounting standards should outweigh the cost of implementation.

New machinery should be established for the development of cost accounting standards. The objective should be to adopt at an early date the standards of disclosure and consistency and to strive for the elimination of unnecessary alternative cost accounting practices.

Contractors should be required to maintain records of contract performance costs in conformity

with cost accounting standards and any approved practices set forth in a disclosure agreement or be required to maintain the data from which such information could be readily provided.

Hearings on cost accounting standards for negotiated contracts were conducted by both the Subcommittee on Production and Stabilization, Senate Committee on Banking and Currency, and the House Committee on Banking and Currency, in connection with legislation extending the Defense Production Act of 1950. The Comptroller General testified before the Senate subcommittee on March 31, 1970, and before the House committee on June 19, 1970. As a result of the hearings, a new section was added to the Defense Production Act of 1950 providing for the establishment of a Cost Accounting Standards Board. The new section was included in Public Law 91-379, approved on August 15, 1970.

Reports to Committees

The Comptroller General is required by the Budget and Accounting Act, 1921, to make such investigations and reports as are ordered by either House of Congress or by committees having jurisdiction over revenues, appropriations, or expenditures. Requests by all committees for special audits, surveys, and investigations are, as a matter of policy, accepted and given priority attention.

Last year GAO furnished 109 special reports on audits, investigations, and reviews in compliance with the requests of committee and subcommittee chairmen. The subject of the reports included complex defense procurements and activities, sensitive international Government operations, and program activities in the civil departments and agencies.

A close working relationship was maintained with the committees and staffs through briefing sessions on GAO audit, accounting, and investigation reviews, and by exchanging information on matters of mutual interest. GAO frequently adjusted work schedules to expedite completion of reports for use of the committees upon learning that the subject matter of audits and reviews which it had initiated was also on a committee's current oversight or legislative agenda. Briefing sessions this year with the staff of the House Appropriations Committee continued to be one of the most effective methods of providing the results of

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GAO work for use by the committee in performing its important budget review responsibilities.

GAO furnished the House Appropriations Committee the 16th annual report on significant audit findings developed during GAO's audits and other examinations in the defense and civil agencies of the Government. This report is designed to be helpful to House Appropriations Committee members in discussing the operations of the department and agency with responsible officials during the budget hearings. The extent that GAO work is used by the Appropriations Committee is indicated by the number of references to the GAO during the appropriation hearings of the First Session of the 91st Congress. There were 574 general references and 153 Comptroller General reports and decisions mentioned during the hearings of the committee.

In view of the substantial increase in the last few years of the costs to operate the military medical program, the chairman of the House Appropriations Committee requested that a comprehensive review and report be made on the program called the Civilian Health and Medical Program of the Uniformed Services - CHAMPUS . An interim report was issued for the committee's use during the hearings on the 1971 defense budget on the cost information which GAO assembled. The final report with findings, conclusions, and recommendations will be issued after further work is completed.

The chairman of the House Appropriations Committee also asked GAO to continually review the Department of Defense's development, installation, and operation of automatic data processing systems and make periodic reports of the results of these reviews. The results of one review were set forth in a report on the Army's Combat Service Support System (CS3), a mobile automatic data processing and communication system. GAO identified apparent problems concerning the system's ability to operate in combat. Because of the significant amount of money involved GAO recommended that the problems should be resolved before extending the system Army-wide. Other ADP reports issued during the year, pursuant to the chairman's request, included a review of the Army's Tactical Fire Direction System (TACFIRE), a computer system which will automate artillery functions, and a review of the Air Force's advance logistic system (ALS).

GAO also undertook a comprehensive review, at the request of the chairman, House Appropriations Com-

mittee, on the management of nonappropriated funds in the Department of Defense, as specified in the committee's report on the Military Construction Appropriation Act, 1970, H. Rept. 91-635, 91st Congress. This report will be available to the committee for use early in the hearings on the 1972 defense budget.

At the request of the chairman of the Subcommittee on District of Columbia, Senate Appropriations Committee, GAO provided considerable information for use in the hearings on the District of Columbia's 1971 budget request, including a report on a comparison of cost and expenditures for certain District of Columbia Government activities with similar activities in other cities. With respect to GAO assistance the Senate Appropriations Committee stated in its report on the 1971 fiscal year appropriation for the District of Columbia (S. Rept. 91-937, 91st Cong.) that this Office was "most helpful and the Committee has relied in many instances on the extensive reach and specialized knowledge of its personnel."

A special report was furnished to the Subcommittee on Departments of Labor, HEW, and Related Agencies, Senate Appropriations Committee, on a survey of the progress toward constructing a new teaching hospital on the Howard University campus, which was delayed by various factors including major changes in building designs and substantial escalation of estimated construction costs.

The Senate Foreign Relations Committee called on GAO for several reports relating to the sensitive field of foreign operations. For example, the Office undertook, at the chairman's request, a followup review of the study GAO completed in early 1968 of activities in Brazil and Chile under contracts between the Agency for International Development and the American Institute for Free Labor Development (AIFLD), which is an instrument for implementing U.S. labor policy and programs in Latin America. Also in response to an inquiry by the chairman, GAO examined the records of the Department of State and the Department of Defense concerning the use of U.S. funds in connection with the donation of medical supplies by the Government of Honduras to the Government of the Republic of Vietnam. After the chairman informed the Secretary of State that he intended to make public this report the Department removed the classified status of the information GAO furnished that the U.S. Air Force paid all operating expenses of the C-54 aircraft on loan to the Honduran Government and

painted Honduran Air Force colors—used to transport the supplies from Honduras to Vietnam.

In addition, the Subcommittee on United States Security Agreements and Commitments Abroad requested assistance of GAO staff in its study of several overseas military projects and was furnished several special reports. One of the latter included a review of the payments made to the Government of the Republic of the Philippines by the United States in support of the Philippine Civil Action Group (PHILCAG) in Vietnam. Because of the time-consuming screening exercised by the Departments of State and Defense in making records available for examination, GAO was required to report to the chairman that its work was seriously hampered and delayed by the reluctance of the Department of Defense and the Department of State to give access to the documents, papers, and records which were considered pertinent to GAO's review.

At the request of the chairman of the House Interior Committee GAO made a review and furnished two reports on the Government's helium program for use in conjunction with its hearings on that subject. GAO found that significant changes had occurred since the helium program was authorized in 1960, particularly that the program will not be self-liquidating over a 25- to 35-year period as required by the Helium Act and that substantially more helium will be stored than was contemplated.

The close working relationship between the General Accounting Office and the Joint Committee on Atomic Energy continued during the year. In response to requests by the committee, the Office issued seven reports on activities of the Atomic Energy Commission (AEC), covering such topics as:

- Development of warheads for the SAFEGUARD antiballistic missile system.

- Development of the Janus reactor complex for biological research by the Argonne National Laboratory.

Proposals by AEC concerning a possible revision in AEC supply policies for fuel grade plutonium sales to the European Atomic Energy Community and to Japan and a possible reduction in the sales price for such plutonium.

- Issues relating to the possible establishment of a Government uranium enrichment enterprise.

Several of GAO's reports were used by the Joint Committee in its consideration of various actions pro-

posed by AEC to revise existing operating policies and practices.

Reports on Pending Legislation

The knowledge gained by the professional staff of the General Accounting Office in reviewing and observing the programs, operations, and fiscal activities at the site of most Government agencies enables the Office to furnish independent advice and information on proposed legislation that would not otherwise be available to the committees. During the year GAO responded to 438 requests by committee chairmen for comments on bills. GAO also furnished 63 reports to the Bureau of the Budget at its request on numerous proposed bills and enrolled enactments. The advantage of furnishing views on bills to the committees and to the Bureau of the Budget is that many technical problems relating to fiscal and administrative provisions in proposed legislation can be settled prior to being finally considered by the Congress.

Some bills on which GAO was asked to report contained provisions directly affecting its operations. Many were enacted with the modifications which GAO suggested to improve or clarify the terms or provisions of the legislation. For example, in connection with hearings before a subcommittee of the Committee on the Judiciary, House of Representatives, on H.R. 7363, 91st Congress, which provided broad authority for waiver of claims of the United States arising out of overpayments of pay and allowances to members of the Armed Forces and the National Guard, GAO suggested several substantial modifications to improve the waiver procedures and to protect the interests of the Government. These suggestions were adopted in the drafting of a substitute bill, H.R. 13582, which passed the House February 16, 1970. The waivers are required to be made in accordance with standards prescribed by the Comptroller General.

Other legislation affecting the work of the General Accounting Office enacted during the 91st Congress for fiscal year 1970 is listed beginning on page 129.

In the case of many other bills, although not directly affecting GAO operations, the Office was able to furnish meaningful comments including recommendations for technical changes and other suggestions for clarifying the provisions of bills to achieve economy or efficiency or otherwise to protect the interests of the Government.

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For instance, in a report to the chairman, House Government Operations Committee, GAO recommended against favorable consideration of the bill, H.R. 12145, 91st Congress, which would amend the Federal Property and Administrative Services Act of 1949, 40 U.S.C. 481, to require Government procurement of transportation and public utility services in accordance with all applicable Federal and State laws and regulations governing carriers and public utilities. GAO advised that the measure would create many administrative problems for Federal procurement officers and that its economic benefit to the States would be slight. Another principal reason for GAO's reservation to the bill was that it seemed to unnecessarily allow Federal procurement activities to be subject to State regulatory rules and regulations.

In reporting to the chairman, House Interstate and Foreign Commerce Committee, on the bill H.R. 13352, 91st Congress, which is addressed to the problem of deteriorating rail passenger equipment and to the preservation of intercity rail passenger service, GAO suggested that it be clarified in several respects dealing with depreciation, leased facilities, and the servicing and maintenance of railroad-owned passenger equipment. GAO also pointed out the need for an access-to-records clause in subcontracts made in connection with prime contracts entered into other than under competitive bidding procedures in order to permit necessary audits by this Office and the Secretary of Transportation. Also strongly urged was clarification concerning the authority of the Secretary of Transportation to disregard general statutes governing the procedures to be followed by executive agencies in the award of Government contracts (B-107449).

Following is a table showing the number of reports on bills furnished to the committees:

Senate

Armed Services.....	1
Banking and Currency.....	5
Commerce.....	144
Finance.....	1
Foreign Relations.....	1
Government Operations.....	31
Interior and Insular Affairs.....	1
Judiciary.....	4
Labor and Public Welfare.....	47
Post Office and Civil Service.....	40
Public Works.....	6

281

House

Armed Services.....	3
Education and Labor.....	1
Government Operations.....	52
Interstate and Foreign Commerce.....	18
Judiciary.....	51
Merchant Marine and Fisheries.....	11
Post Office and Civil Service.....	12
Public Works.....	1
Science and Astronautics.....	6
Veterans Affairs.....	2

157

Total..... 438

Reports to Individual Members of Congress

Responding to requests of individual Members of the Congress is an important part of the work of the General Accounting Office. GAO believes that if a Member is concerned about a Government operation or action, the Office has an obligation to try to assist him if possible. GAO encourages Members to first attempt to obtain the information or action desired from the agency, but if this approach does not bear satisfactory results GAO will proceed to appropriately review the matter and furnish the Member a report. Frequently after consulting the Member GAO is able to reduce the amount of work involved and still satisfy his needs, thereby making it possible for GAO staff to respond to more congressional requests than would otherwise be possible. During the year the Office furnished 197 audit and investigation reports to individual Members covering the activities of nearly all of the departments and agencies.

Illustrative of this type of work are two reports furnished to Senator Mike Mansfield resulting from meetings that were initially held to discuss his interest in methods of providing controls over research financed by the Department of Defense. To clarify issues the General Accounting Office arranged and attended joint meetings between the Senator's staff and officials of the Bureau of the Budget, the Office of Science and Technology, and the Science Policy Division of the Library of Congress. The Senator proposed and obtained enactment of an amendment (similar to one proposed by Senator Fulbright) as section 203 of the 1970 Defense Procurement Authorization Act (Public Law 91-121), limiting the use of funds for research projects or studies

to those having a "direct and apparent relationship to a specific military function or operation." Subsequently, at his request, GAO made a special study and issued a report to him in December 1969 concerning the procedures adopted by the Department to implement section 203 and the impact that section would have had if enacted the previous year. A second report was issued to the Senator on June 23, 1970, pursuant to his request concerning the Department's compliance with section 203.

Another example of assistance to a Member is the work which resulted from a request in March 1969 from Congressman John Brademas that GAO examine the Army's actions in fulfilling its requirement for a fleet of 18,000 new 1 1/4-ton 4x4 trucks to cost over \$100 million. Fulfillment of the Army's requirement had generated a controversy as to whether modification to a Kaiser Jeep vehicle in the Army's supply system or acceptance of an unproven General Motors design in the initial stages of procurement would better meet the requirement. The Army had chosen the latter course of action, although the former appeared to offer appreciable savings.

GAO discussed its tentative findings with the Congressman and furnished him the information he requested for use in testifying on the proposed procurement before the House Appropriations Committee in June 1969 and during the subsequent debate on the floor of the House when the related appropriation was considered. A report was issued on November 28, 1969, simultaneously to the Congressman and to the Secretary of Defense. In February 1970, the Army advised GAO of the actions it would take, including a test of modified Kaiser Jeep vehicles and an analysis of test results considering trade-offs between truck features and cost, to be completed prior to the commitment of large scale funds on the procurement.

Another form of assistance to individual Members includes the reports GAO furnished upon request concerning claims by and against the United States such as those involving Government contracts, compensation of civilian personnel, pay and allowances of military personnel, travel, transportation, and per diem matters. During the year, 393 reports of this type were made.

Staff Assistance to Committees

An important responsibility placed upon the Comptroller General by the Budget and Accounting Act of

1921 is the obligation to direct assistants from his Office to furnish such aid and information as may be requested by the committees having jurisdiction over revenues, appropriations, or expenditures.

Staff assistance is provided, however, as a matter of policy, to all of the committees of Congress upon request of the committee chairmen, dependent upon available manpower and funds. During the year the Office responded to the request of 22 committees and subcommittees for members of GAO staff to be assigned to assist in investigations, studies, and hearings. GAO contributed 4,945 man-days of professional and technical assistance to committee efforts. Included were the loan of eight members of GAO staff to the House Committee on Appropriations to assist in the studies of its Surveys and Investigations Staff; the utilization of GAO personnel in three of its regional offices by the House Interstate and Foreign Commerce Committee in preparing for hearings on the proposed Federal Broker-Dealer Insurance Corporation legislation; and the assignment of Washington and field staff to the Permanent Subcommittee on Investigations, Senate Government Operations Committee, to assist in its numerous complex investigations, including its study of the production cost overrun problems of the F-111 airplane.

Over the past year, an average of six GAO professional staff members were assigned to assist the Subcommittee on Electrical and Mechanical Office Equipment, Committee on House Administration, in its effort to develop a program for the use of computers by the House of Representatives. In October 1969 the subcommittee adopted a "Progress Report" of the Working Group which established a plan of action for the development of such a system. The chairman of the Working Group is a GAO staff member. Other members of the Working Group were provided by the Library of Congress and the Clerk of the House. At the present time the Working Group is proceeding to determine the congressional information and analysis requirement of the system.

GAO provided staff to the Joint Committee on Atomic Energy to assist in the preparation for hearings on the future ownership of the Atomic Energy Commission's gaseous diffusion plants, the fiscal year 1971 Commission authorization bill, and proposals to revise the criteria for pricing uranium enrichment services and to increase the price of the services.

A summary of all assignments made during the year follows.

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SUMMARY OF ASSIGNMENTS OF PERSONNEL TO CONGRESSIONAL COMMITTEES—FISCAL YEAR 1970

Committee	Staff assigned			Salaries	Travel expenses	Total cost	Reimbursed by committee	Net expenditures by GAO
	Professional staff	Other	Total					
U.S. Senate								
Committee on Government Operations:								
Permanent Subcommittee on Investigations...	46	3	49	\$223,545	\$5,649	\$229,194	0	\$229,194
Committee on Armed Services:								
Preparedness Investigating Subcommittee....	2	0	2	38,663	0	38,663	\$38,663	0
Committee on the Judiciary:								
Subcommittee on Internal Security.....	6	0	6	30,559	416	30,975	30,975	0
Committee on Labor and Public Welfare:								
Subcommittee on Labor.....	2	0	2	6,945	0	6,945	6,945	0
U.S. House of Representatives								
Committee on Appropriations.....	7	2	9	89,074	10,453	99,527	10,453	89,074
Committee on Banking and Currency.....	7	0	7	16,598	0	16,598	0	16,598
Committee on Education and Labor:								
Special Subcommittee on Education.....	1	0	1	1,216	0	1,216	0	1,216
Committee on Government Operations.....	3	0	3	485	0	485	0	485
Subcommittee on Special Studies.....	4	0	4	14,698	1,607	16,305	0	16,305
Subcommittee on Intergovernmental Relations.....	7	0	7	47,860	637	48,497	0	48,497
Subcommittee on Foreign Operations and Government Information.....	1	0	1	1,514	0	1,514	0	1,514
Subcommittee on Legal and Monetary Affairs.....	1	0	1	2,401	0	2,401	0	2,401
Committee on Standards of Official Conduct.....	4	0	4	5,194	0	5,194	5,194	0
Committee on Interstate and Foreign Commerce:								
Subcommittee on Commerce and Finance.....	3	0	3	21,343	0	21,343	0	21,343
Special Subcommittee on Investigations.....	4	0	4	3,389	0	3,389	0	3,389
Committee on Armed Services:								
Special Subcommittee for Special Investigations.....	2	0	2	31,189	4,221	35,410	0	35,410
Committee on Post Office and Civil Service.....	2	1	3	42,515	0	42,515	0	42,515
Committee on Merchant Marine and Fisheries:								
Subcommittee on Fisheries and Wildlife Conservation.....	1	0	1	4,028	0	4,028	0	4,028
Committee on House Administration.....	1	0	1	721	0	721	0	721
House Office Building Commission.....	0	1	1	6,518	0	6,518	0	6,518
Joint								
Committee on Atomic Energy.....	2	0	2	8,611	0	8,611	0	8,611
Economic Committee:								
Subcommittee on Economy in Government.....	2	0	2	568	0	568	0	568
Totals.....	108	7	115	597,634	22,983	620,617	92,230	528,387

Assistance in Legal and Legislative Matters

GAO responded to many requests from committees and individual Members for advisory assistance in legal and legislative matters. Formal advisory legal opinions were rendered to committees and Members on significant problems, and GAO attorneys handled several

hundred informal requests from the staffs of various committees. Service in this area involves the drafting of legislation and furnishing of legal advice on fiscal, administrative, and contractual aspects of legislative proposals and laws, plus related agency regulations.

Examples of important congressional legal inquiries were those received from the different Members of Congress for GAO views on the propriety of the "Phila-

delphia Plan" which precipitated GAO's involvement in this important case and led to the August 5, 1969, decision that the Plan conflicted with Title VII of the Civil Rights Act of 1964. The Solicitor of the Department of Labor and the Assistant Attorney General for Civil Rights had previously advised the Secretary of Labor that the contract did not violate the act and the Attorney General of the United States in a formal opinion on September 22, 1969, concurred in their position. This divergence of views between the Comptroller General and the Attorney General was considered when the Congress subsequently decided not to adopt an amendment which the Senate had attached to the Supplemental Appropriation Bill, 1970, the effect of which would have prohibited the use of appropriated funds for contracts with "Philadelphia Plan" provisions.

In considering H.R. 14794, the fiscal year 1970 appropriation bill for the Department of Transportation and Related Agencies, the House Appropriations Committee requested advice on the legality of the "parking equalization" plan proposed by the Department of Transportation incident to the physical consolidation of its headquarters activities in two Washington, D.C., buildings. GAO concluded that the plan, whereby the Department sought to make parking privileges available to its employees at the same cost whether they are located in a Government-owned building or in a privately owned building, was legally questionable. In the same opinion, with respect to another legal question raised by the committee, it was held that appropriated funds may be used to provide space for employee parking in a Government-rented office building. The committee stated in reporting the Department of Transportation and Related Agencies Appropriation, 1971 (H. Rept. 91-1115, 91st Cong.), that "the failure of the Department and the General Services Administration to inquire about the legality of leasing the employee parking on their own initiative prior to entering the lease contract with the building owner has added considerably to the ultimate cost."

Other examples of congressional requests for decisions on important legal questions included an inquiry by the chairman of the House Committee on Veterans' Affairs as to whether a sharing agreement between the University of Arizona College of Medicine and a Veterans Administration Hospital met requirements of law. In view of the fact that the university had no hospital to operate in conjunction with the College of Medicine, GAO concurred in the conclusion of the

Veterans Administration that the agreement did come within the provisions of the law (B-166870, Jan. 19, 1970).

An inquiry was received from Senator Winston L. Prouty concerning the bill S. 1933, enacted as the Federal Railroad Safety Act of 1970, Public Law 91-158, as to whether the repeal by this act of the so-called Safety Appliance Acts might have an adverse effect on the rights of employees under the Federal Employees Liability Act. GAO's opinion to the Senator advising that the provisions of the proposed legislation would not jeopardize the employees' rights was placed by him in the Congressional Record during the debate on the bill (B-113944, Dec. 19, 1969).

Testimony at Hearings

Appearing before congressional committees to present views on legislative proposals and to furnish information concerning the results of GAO's audit and investigation activities is one of the most positive and direct methods available to GAO for effectively assisting the Congress in its oversight and legislative responsibilities. This year the Comptroller General, the Assistant Comptroller General, and other representatives of the Office appeared before committees on 45 occasions covering a wide variety of subjects. This is a substantial increase over the number of hearings in prior years, reflecting in some degree the broader scope of GAO work coverage and its relevancy to the interests of the committees.

GAO staff appeared before the Joint Committee on Atomic Energy to discuss the results of the special review GAO made at the request of the chairman concerning the possible transfer to private ownership by the Atomic Energy Commission of three gaseous diffusion plants which were constructed for defense purposes during the 1940's and 1950's at a cost of about \$2.4 billion. There is a complexity of defense and economic issues associated with the disposition of the plants whose future use will be primarily to provide enriched uranium for fuel in nuclear reactors of utilities for generating electric power. GAO was pleased by the chairman's expression of satisfaction with the information presented for the committee's consideration in determining the Government's course of action regarding its uranium enrichment enterprises. Testimony was also given before the Joint Committee on the results of GAO's continuing review of the development

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and deployment of the SAFEGUARD antiballistic missile system.

GAO staff testified on many subjects that were of special concern to the Congress during the year, such as the F-111 aircraft before the Permanent Subcommittee on Investigations, Senate Government Operations Committee; the U.S. financial participation in the United Nations development assistance activities; and the provisions of the bill H.R. 11750, to establish a wholly Government-owned corporation to operate the postal service. Representatives of the Office also appeared on legislative proposals having an important impact on GAO's own operations.

H.R. 17654, the proposed Legislative Reorganization Act of 1970, which would greatly enlarge

GAO responsibilities to assist the Congress and its committees.

H.R. 17046, a bill to establish an Office of Technology Assessment for the Congress, which provides for the Comptroller General to be a member of the Technology Assessment Board.

S. 3302 and H.R. 17880, bills to establish cost accounting standards as recommended by the Office in its special report to the Congress evaluating the feasibility of establishing cost accounting standards for certain negotiated Federal procurement contracts.

A complete list of appearances, including identification of the subject matter, follows.

APPEARANCES BY GENERAL ACCOUNTING OFFICE REPRESENTATIVES AT CONGRESSIONAL HEARINGS DURING FISCAL YEAR 1970

Committee	Date	Subject
U.S. Senate		
Finance.	July 2, 1969	Operation and status of the Medicare and Medicaid programs.
Post Office and Civil Service.	July 8, 1969	S. 2325, a bill to amend title 5, U.S.C., to provide for additional positions in grades GS-16, GS-17, and GS-18.
Appropriations: Subcommittee on District of Columbia.	July 10, 1969	Audits and reviews of District of Columbia Government management of its programs and activities.
Judiciary: Subcommittee on Antitrust and Monopoly.	July 14, 1969	GAO's evaluation of two proposed methods for enhancing competition in weapons systems procurement--directed technology licensing and parallel undocumented development.
Appropriations: Subcommittee on Legislative Branch.	July 18, 1969	General Accounting Office budget justification for fiscal year 1970.
Government Operations.	July 31, 1969	S. 1707, to establish a Commission on Government Procurement.
Government Operations: Subcommittee on Executive Reorganization.	Sept. 16, 1969	The role of GAO in reviewing the results of Federal programs.
Government Operations: Subcommittee on Intergovernmental Relations.	Sept. 17, 1969	S. 2479, S. 2035, and S. 60, Federal assistance programs.
Government Operations.	Sept. 23, 1969	Nomination of Mr. Robert F. Keller to be Assistant Comptroller General of the United States.
Post Office and Civil Service.	Oct. 16, 1969	Provisions of H.R. 11750 which proposes to establish a wholly owned Government corporation to operate the postal service.
Judiciary: Subcommittee on Separation of Powers.	Oct. 28, 1969	The Philadelphia Plan.
Armed Services: Subcommittee on Research and Development.	Mar. 9, 1970	Adequacy of control regarding independent research and development and bidding proposal expenses.

**APPEARANCES BY GENERAL ACCOUNTING OFFICE REPRESENTATIVES AT CONGRESSIONAL HEARINGS DURING
FISCAL YEAR 1970—Continued**

Committee	Date	Subject
Banking and Currency: Subcommittee on Production and Stabilization.	Mar. 31, 1970	S. 3302, to extend the Defense Production Act, and to establish uniform cost accounting standards for defense contractors.
Appropriations: Subcommittee on Legislative Branch.	Apr. 8, 1970	General Accounting Office budget justification for fiscal year 1971.
Appropriations: Subcommittee on District of Columbia.	Apr. 22, 1970	District of Columbia financial management improvements.
Appropriations: Subcommittee on District of Columbia.	Apr. 22, 1970	District of Columbia financing of capital improvements.
Government Operations: Permanent Subcommittee on Investigations.	Apr. 28, 1970	The F-111 aircraft program.
Labor and Public Welfare: Subcommittee on Employment, Manpower and Poverty.	May 5, 1970	Preliminary findings and observations on the Job Opportunities in the Business Sector (JOBS) program.
Appropriations: Subcommittee on Deficiencies and Supplements.	May 26, 1970	General Accounting Office supplemental budget justification for fiscal year 1970.
Commerce: Subcommittee on Energy, Natural Resources, and the Environment.	May 26, 1970	Information on GAO's work in the pesticides regulation activity of the Department of Agriculture. (S. 3366, to provide for more effective protection against the hazards of economic poisons.)
U.S. House of Representatives		
Appropriations: Subcommittee on Legislative.	July 15, 1969	General Accounting Office budget justification for fiscal year 1970.
Education and Labor: Special Subcommittee on Education.	July 29, 1969	Unnecessary interest costs being incurred by the Federal Government on guaranteed student loans made under Title IV, part B, of the Higher Education Act of 1965.
Post Office and Civil Service.	Aug. 8, 1969	H.R. 4, H.R. 11750, and H.R. 13123, proposals to modernize the postal establishment, and H.R. 1133 and H.R. 1134, re primarily to appointments of personnel in the Postal Establishment.
Government Operations: Subcommittee on Legal and Monetary Affairs.	Sept. 9, 1969	GAO review and evaluation of the actions taken by the Department of Justice to implement recommendations made in H. Rept. 1640 (88th Cong., 2d sess.) entitled Judgement Collection Practices and Policies of the Department of Justice.
Judiciary: Subcommittee No. 2.	Sept. 11, 1969	H.R. 1390, H. Res. 108, H.R. 13148, and H. Res. 505 silver loss claims.
Judiciary: Subcommittee No. 2.	Nov. 19, 1969	H.R. 10068 and S. 1175, to authorize the waiving of the requirement of performance and payment bonds in connection with certain contracts entered into by the Secretary of Commerce.
Government Operations: Subcommittee on Military Operations.	Nov. 20, 1969	Military supply systems.
Science and Astronautics: Subcommittee on Science, Research and Development.	Dec. 4, 1969	Role of GAO in technology assessment.

ASSISTANCE TO THE CONGRESS

APPEARANCES BY GENERAL ACCOUNTING OFFICE REPRESENTATIVES AT CONGRESSIONAL HEARINGS DURING FISCAL YEAR 1970—Continued

Committee	Date	Subject
Appropriations: Subcommittee on Legislative.	Feb. 24, 1970	General Accounting Office budget justification for fiscal year 1971.
Armed Services: Special Subcommittee on Independent Research and Development.	Feb. 25, 1970	Adequacy of controls for independent research and development, bidding and proposal expenses.
Foreign Affairs: Subcommittee on International Organizations and Movements.	Mar. 5, 1970	U.S. financial participation in the United Nations development assistance activities.
Government Operations: Subcommittee on Executive and Legislative Reorganization.	Mar. 9, 1970	President's Reorganization Plan No. 1 of 1970, establishing a new Office of Telecommunications Policy in the Executive Office of the President.
Government Operations: Subcommittee on Special Studies.	Mar. 12, 1970	A study of the utilization and operations of interagency and public advisory committees.
Judiciary: Subcommittee No. 4.	Apr. 9, 1970	H.R. 14071, audit and disclosure of information by federally chartered corporations.
Government Operations: Subcommittee on Foreign Operations and Government Information.	May 1, 1970	U.S. participation in international organizations.
Education and Labor: Select Subcommittee on Labor.	May 1, 1970	Preliminary findings and observations on the Job Opportunities in the Business Sector (JOBS) program.
Science and Astronautics: Subcommittee on Science, Research and Development.	May 20, 1970	H.R. 17046, to establish an Office of Technology Assessment.
Government Operations: Subcommittee on Government Activities.	June 4, 1970	H.R. 16443, to establish Federal policy concerning the selection of firms and individuals to perform architectural, engineering, and related services for the Federal Government.
Banking and Currency.	June 19, 1970	H.R. 17880, to amend the Defense Production Act of 1950 and to establish uniform cost accounting standards for defense contractors.
Joint		
Atomic Energy.	July 9, 1969	Possible transfer of Atomic Energy Commission's gaseous diffusion plants to private ownership.
Economic: Subcommittee on Economy in Government.	Aug. 13, 1969	Review of the qualification testing of brakes for the A-7D aircraft.
Economic: Subcommittee on Economy in Government.	Dec. 29, 1969	Various aspects of military procurement indexing the "should cost" concept of estimating costs relating to major weapons systems and implementation of the Truth in Negotiations Act.
Atomic Energy.	Feb. 16, 1970	Briefing on the GAO's review of the SAFEGUARD system. (Executive meeting).
Economic: Subcommittee on Economy in Government.	May 20, 1970	Government procurement areas including: Defense profits study, feasibility of "should cost" concepts, major acquisition review, military procurement cost index, shipbuilding claims under Navy contracts, and Lockheed's financial position.
Atomic Energy.	June 17, 1970	Proposed increases in uranium enrichment service prices.

Assistance on House and Senate Financial and Administrative Operations

GAO has a small professional audit and accounting staff at the Capitol for the purpose of performing audits, examinations, and reviews of various activities of the House and Senate. This staff also furnishes assistance requested by officers of the Congress on management, financial, and administrative problems. These requests are received practically daily and require GAO staff to work very closely with those officials on immediate problems as well as on long range plans for improving Capitol operations, including the use of computers and microfilming.

GAO has been working with the staff of the Clerk of the House of Representatives in modernizing the accounting and office procedures of the House. As a result of this cooperative effort, seven documents in the appointment process were reduced to one form, employee affidavit documents were consolidated, and accounting procedures and records were revised resulting in the elimination of a considerable amount of unnecessary work. Another improvement involved mailing of employee paychecks through computer operations rather than approximately 3,000 of the 6,500 employees of the House receiving their paychecks at the Finance Office each month. This eliminated the loss of time by the staff of the Finance Office in alphabetizing the checks and by the employees waiting in line during working hours at the Finance Office to receive their checks.

At the request of the officers of the Senate and of the House of Representatives GAO audited and reported on the following activities:

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

At the request of the House Select Committee on the House Beauty Shop an audit was made of this operation for the calendar year 1969, and assistance was given in the establishment of the Revolving Fund for the House Beauty Shop created by the Legislative Branch Appropriation Act, 1970, Public Law 91-145.

Recommendations for Legislation

The Budget and Accounting Act, 1921, requires the Comptroller General to make recommendations to the Congress "looking to greater economy and efficiency in public expenditures." In preparing audit reports to the Congress GAO carefully weighs the necessity for legislative action to correct, improve, or eliminate uneconomical practices and activities of the departments and agencies.

The Office generally makes legislative recommendations directly to the Congress in its reports, but in some cases may suggest that the agency concerned initiate the legislative action. For example, as an outgrowth of participation in the Joint Agency Transportation Study, GAO sent to the Administrator, General Services Administration, a draft bill designed to exempt transportation payments from the scope of the law enacted in 1823 (31 U.S.C. 529) prohibiting the Government from making payment in advance of the receipt of services. GAO recommended that he take the lead action to obtain approval of this modernizing legislation since his Administration is one of the principal Government shipping agencies (B-163758). He agreed to initiate the legislative action.

As part of its legislative program GAO brings proposals to the attention of the committee and staff members having jurisdiction over the subject to obtain action in the form of legislation as GAO recommended, or modified as found necessary by the committee upon further study. Legislative recommendations by the Office were the subject of several hearings during the year.

A discussion of these legislative recommendations follows.

Recommendations to the Congress During Fiscal Year 1970

1. *Review of sugar marketing quotas established by the Sugar Act of 1948, as amended.*—Statistics published by the Department of Agriculture showed that, during the 6-year period from 1963 through 1968, annual marketings of sugar by domestic producers ranged from 225,000 tons to 913,000 tons—about 4 to 13 percent—below the quotas authorized by the act. The domestic marketings below authorized quotas occurred because of continuing, long-term deficits in the sugar production of Puerto Rico and the Virgin Islands. While the Sugar Act has required that unfilled domes-

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tic quotas be allocated to foreign countries, GAO was informed that other domestic areas could provide the unfilled quotas. Substantial benefits, including a substantial increase in the income of domestic sugar producers and a reduction in dollar outflow for sugar imports, could be achieved by allocating the unfilled Puerto Rican and Virgin Islands quotas to other domestic sugar-producing areas rather than to foreign countries.

GAO recommended that the Congress in its extension of legislation—which expires on December 31, 1971—consider modification of the deficit allocation provisions of the Sugar Act of 1948, as amended, to enable the Secretary of Agriculture to allocate continuing, long-term deficits of a domestic area to other domestic areas rather than to foreign countries. (Administration of Sugar Marketing Quotas Established by the Sugar Act of 1948, as amended, B-118622, Sept. 23, 1969.)

2. *Assistance provided to persons already adequately housed or having relatively large assets.*—Under the leased housing program administered by the Department of Housing and Urban Development (HUD), some local housing authorities (LHAs) were providing assistance to persons already adequately housed while applicants on waiting lists for federally assisted housing continued to live in substandard dwellings. Also, some LHAs were providing assistance to persons who owned relatively large amounts of assets.

GAO proposed that HUD require LHAs to give priority in the leasing program to low-income persons who were not adequately housed and that LHAs be required to establish and adhere to reasonable limitations on asset holdings of applicants in determining their eligibility for Federal assistance under the leasing program.

HUD disagreed with the proposals. Consequently, GAO expressed the belief that the Congress might wish to consider whether priority should be given to low-income persons who are not adequately housed and whether asset limitations should be established for determining eligibility for assistance under the program. (Administration of the Leased Housing Program, B-118718, Feb. 4, 1970.)

3. *Mortgage loan insurance ceilings and land appraisals for large cooperative housing communities.*—In a report on the review of the procedures and practices of the Department of Housing and Urban Development (HUD) for insuring mortgage loans for large cooperative housing communities, GAO raised ques-

tions regarding insurance ceilings and land appraisals which it believed warranted congressional attention.

According to applicable law, an insured mortgage on any property of a private mortgagor cannot exceed \$20 million. By applying this limitation to each segment of a large, self-contained housing community comprising many individual but interdependent and integral property segments, HUD insured or had commitments to insure mortgages of about \$270 million on five particular communities.

Also, treatment of each segment as a separate mortgage entity resulted in substantial increases in HUD's land appraisals and increased the land prices paid to the developer by the cooperative mortgage corporations. Legislative history indicated that the principal objective of the cooperative housing mortgage insurance program was to assist in providing housing at reduced costs to the consumers and that the program was to be administered to insure that its benefits would accrue to the consumers.

GAO suggested that the Congress might wish to consider whether statutory provisions and HUD's procedures relating to mortgage loan insurance ceilings and land appraisals are appropriate for large and complex self-contained housing communities of the type discussed in the report. (Questions Regarding Mortgage Loan Insurance Ceilings and Land Appraisals for Large Cooperative Housing Communities, B-158910, Feb. 27, 1970.)

4. *Need for change in interest rate criteria for determining financing costs of Federal power program.*—The criteria used in determining the cost of financing the Federal power systems of the Department of the Interior and the Corps of Engineers—costs that are repayable from revenues obtained from the sale of power—result in the use of interest rates that are not representative of the cost of funds borrowed by the Treasury during the construction of the various power systems. Consequently, the Government's cost of financing these systems has been significantly understated.

As an example of the understatement of financing costs, the interest rates used in the Federal Columbia River Power System, although established in accordance with long-accepted criteria, have resulted in understating by about \$22 million the capitalized interest costs during construction for those major projects still under construction in fiscal year 1968 and in understating by about \$2 million the interest expense for fiscal year 1968 on the unrepaid Federal invest-

ment related to the transmission facilities of the Bonneville Power Administration.

Although recent changes by the Department and the Corps will result in significant improvements, GAO believes that neither will result in a realistic measure of the cost to the Treasury of borrowing money during the period of construction of power projects.

Accordingly, it was suggested that the Congress might wish to consider changing the interest rate criteria to provide that:

The interest costs to be capitalized as part of the Government's investment in power projects be based on an interest rate prescribed by the Secretary of the Treasury taking into consideration the average market yield, during the year in which the investment is made, on the outstanding marketable obligations which he considers to be most representative of the cost to the Treasury of borrowing money to construct the power projects.

The interest to be paid to the Treasury annually on the Government's unrepaid investment in power projects be based on a composite of the average market yields used in computing the capitalized interest costs.

(Change Proposed in Interest Rate Criteria for Determining Financing Costs of Federal Power Program, B-167712, Jan. 13, 1970.)

5. *Acquisition of land for national recreation areas containing improved properties.*—The National Park Service (NPS), Department of the Interior, had acquired or planned to acquire high-cost improved properties located on or near the boundaries of authorized national recreation areas although, in GAO's opinion, these properties could have been excluded or could be excluded from the areas without interfering with the areas' development. Changes in boundaries to exclude such properties not yet acquired would result in significant benefits to NPS, especially in those areas where authorized funds have fallen far short of the amount required to complete the land acquisition and where considerable amounts of unimproved land with lower estimated costs an acre remain to be acquired.

The Department of the Interior rejected the suggestion that consideration be given to adjusting boundaries of certain recreation areas to exclude high-cost improved properties and stated that some acquisitions of expensive properties are necessary to protect scenic, historical, and cultural values.

In enacting legislation authorizing the establishment of national recreation areas, the Congress frequently has to define boundaries before important facts, such as the cost of various tracts of land, are known. GAO therefore recommended that the Congress, in enacting such legislation, provide the Secretary of the Interior with guidelines for making changes in established boundaries when the acquisition of high-cost properties located on or near the boundaries is involved.

It was also recommended that the Congress require the Secretary to prepare an analysis of the location and estimated cost of high-cost properties on the perimeter of those authorized recreation areas for which additional funds are needed and to justify to the Congress the desirability of acquiring such properties. (Problems in Land Acquisitions for National Recreation Areas, B-1648-H, Apr. 29, 1970.)

6. *Need for guidance to establish purpose to be fulfilled by a water resources project.*—The Department of the Interior's feasibility report for the San Luis Unit, Central Valley project, submitted to the Congress in 1956, stated that an important purpose of the Unit was to replenish the ground water. In 1963 the Bureau of Reclamation amended its contract with the Westlands Water District, the largest user of water provided by the Unit, to include provisions which, if fully implemented, could prevent accomplishment of this purpose.

The contract was amended to prevent ineligible landowners (owners of more than 160 acres of irrigable land) from indirectly benefiting from the water provided by the Unit. To irrigate lands in excess of 160 acres, an ineligible owner would have to pump (use) ground water. Ineligible landowners could benefit from a rise in the water table resulting from non-use of ground water by eligible landowners and from percolation into the ground water of irrigation water applied to the lands of eligible landowners, thus resulting in a reduction of ineligible landowners' cost of pumping ground water.

To prevent these benefits, the contract was amended to provide that Westlands, when directed by the Bureau, pump ground water rather than purchase water. This could result in the Bureau's paying Westlands about \$2 million and in the Unit's losing revenues of about \$4 million.

The Department stated that it did not share GAO's concern over the financial impact of the amendment, since it believed that Westlands would not be required to pump ground water. GAO suggested, nevertheless,

that the Congress might wish to provide guidance to the Bureau as to which purpose is of primary importance--replenishing and stabilizing the ground water supply or preventing ineligible landowners from receiving benefits from project water.

GAO suggested also that, if it is determined that replenishing and stabilizing the ground water supply should be given primary consideration, the Congress might wish to consider the applicability to the San Luis service area of the provisions of several bills introduced in the 91st Congress which, if enacted into law, could have the effect of lessening the need to pump ground water. (Questionable Aspects Concerning Information Presented to the Congress on Construction and Operation of the San Luis Unit, Central Valley Project, B-125045, Feb. 12, 1970.)

7. Restriction on use of competitive bid procedures in awarding Federal oil and gas leases.—Most of the leases awarded by the Bureau of Land Management (BLM), Department of the Interior, for the development of oil and gas resources on Federal lands have been granted on a noncompetitive basis and, in many cases, at prices less than their indicated fair market value. The lands are leased noncompetitively because of the requirement of the Mineral Leasing Act (30 U.S.C. 181) that lands not located within a known geologic structure of a producing oil or gas field must be leased noncompetitively. Generally, the geologic data needed to determine whether lands offered for leasing are within such a structure are not available to the Department before leasing and drilling.

GAO believes that the Government should and could use competitive bidding to a greater extent to insure prices that more nearly approximate the land's fair market value.

Also, indications were found that the statutory right of lessees to assign to other persons oil and gas leases of Federal lands in units as small as 40 acres impedes rather than induces the development of oil and gas resources.

GAO recommended to the Congress that the Mineral Leasing Act be amended to (1) require that oil and gas leases of all Federal lands be awarded competitively unless otherwise justified and (2) increase the minimum acreage limitations applicable to the assignment of such leases. (Opportunity for Benefits through Increased Use of Competitive Bidding to Award Oil and Gas Leases on Federal Lands, B-118678, Mar. 17, 1970.)

8. Need to improve effectiveness of construction grant program for abating, controlling, and preventing water pollution.—The construction grant program for abating, controlling, and preventing water pollution has been administered by the Federal Water Quality Administration (FWQA), Department of the Interior, for the most part on a first-come-first-served or readiness-to-proceed basis with little consideration given to the benefits to be attained by the construction of individual treatment plants. Also, a serious question exists as to the attainability of the States' water quality standards by the dates in the implementation schedules because construction is proceeding at a rate well below the anticipated rate.

GAO recommended that the Secretary of the Interior require that the States, in establishing priorities for the construction of waste treatment facilities, and FWQA 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 taken, or planned to be taken, by other polluters of the waterways. It was recommended also that FWQA consider utilizing systems analysis techniques in the planning for and implementing of water pollution control programs.

The Department of the Interior agreed that a more systematic means of awarding construction grants must be found, and on July 2, 1970, the Secretary of the Interior issued regulations which require that, to be eligible for Federal aid, a new project must fit in with comprehensive river basin-wide programs for pollution abatement as well as with metropolitan and regional plans.

The Department took the position, however, that providing less than secondary treatment of waste would not be acceptable and that interim goals should not be established. GAO recommended, therefore, that the Congress consider requiring the Department to provide for interim goals and to allow communities to construct less than secondary treatment facilities when it can be demonstrated that a lesser degree of treatment will result in water quality enhancement commensurate with proposed present and future water uses.

In addition, since the Federal Water Pollution Control Act provides that priority for construction grants be given on the basis of financial as well as water pollution control needs—which could result in the award of grants that provide little benefit in terms of appreciably improving quality or uses—GAO suggested that the Congress might wish to consider amending exist-

ing legislation to provide that priorities be established on the basis of benefits to be realized. (Examination into the Effectiveness of the Construction Grant Program for Abating, Controlling, and Preventing Water Pollution, B-166506, Nov. 3, 1969.)

9. *Clarification of statutory provisions regarding Federal grants awarded for constructing municipal waste treatment facilities which benefit industrial users.*—The Federal Water Pollution Control Act of 1956 authorizes the Federal Water Quality Administration (FWQA) to award grants to State, interstate, municipal, and intermunicipal agencies for the construction of necessary waste treatment facilities to prevent the discharge of untreated or inadequately treated sewage or other waste into any waters. FWQA does not differentiate between municipal and industrial wastes and considers the term "other waste" as including industrial wastes.

FWQA has awarded grants to municipalities for the construction of facilities to treat (1) domestic wastes only, (2) industrial wastes only, and (3) domestic and industrial wastes. A large amount of Federal grant funds has been awarded for the construction of facilities to treat significant quantities of industrial wastes.

Although the Congress is aware of FWQA's policy of awarding grants to municipalities for the treatment of both domestic and industrial wastes, it is questionable whether the Congress intended that grants be awarded for the construction of facilities for the treatment of industrial wastes only. GAO therefore suggested that the Congress might wish to (1) clarify its intent as to whether Federal grants are to be awarded to municipalities for the construction of facilities to treat industrial wastes only and (2) consider other alternatives to present practices for financing the construction of facilities for the treatment of both domestic and industrial wastes.

It was suggested also that the Congress might wish to consider the information in GAO's report in view of proposed water pollution legislation in 1970 regarding the financing of municipal waste treatment facilities and the problem of financing industrial pollution control.

The Department of the Interior concurred in the need to examine existing policies and to develop new policies, where appropriate. On July 2, 1970, the Secretary of the Interior issued regulations which provide that no Federal grant may be made for any waste treatment system designed to treat industrial wastes only, and that, if industrial wastes are to be treated in a joint

domestic-industrial system, industry would have to pre-treat those wastes.

While the full import of the regulations is not clear, they do not fully cover the matters GAO suggested for consideration by the Congress. (Federal Grants Awarded for Constructing Waste Treatment Facilities Which Benefit Industrial Users, B-166506, May 8, 1970.)

10. *Disclosure of the nature and magnitude of a program to place additional layers of pavement on previously completed segments of the Interstate Highway System.*—The Federal Highway Administration has authorized placement of an added layer of pavement (overlay) to extend the design year of certain deteriorated segments of the Interstate Highway System which were authorized for construction prior to the date of the 1963 amendment to the Federal-Aid Highway Act. Prior to the amendment, Interstate highways were to be designed to carry the types and volumes of traffic forecast for the year 1975 (the design year). The amendment revised the design year from 1975 to 20 years from the date of authorization.

Although the overlay program thus far has been applied only to certain segments of the Interstate System authorized before enactment of the 1963 amendments, there will be a continuing need for periodic overlays of segments of the System, a need that will increase with the passage of time and with expected increases in weights and volumes of traffic. Also, the cost of the overlay program will vastly exceed the amount reported to the Congress in the 1968 estimate of the cost to complete the Interstate System.

Because of the long-term need for overlays and the substantial costs involved, which vastly exceed the amount reported to the Congress, and because the intent of the Congress was not clear, GAO suggested that the Congress might wish to express its intent relative to the use of Interstate funds to upgrade completed segments of the Interstate System. Also, GAO suggested that the Congress might wish to consider the long-term need for overlays in its deliberations on the funding of the Interstate System, any future expansions thereof, or any follow-on highway programs. (Problems Resulting from Deterioration of Pavement on the Interstate Highway System, B-164497, June 30, 1970.)

11. *Operations of the House Beauty Shop.*—During the audit of the House Beauty Shop for calendar year 1968, GAO suggested that the Select Committee on the House Beauty Shop seek legislation that would

provide for a revolving fund in the U.S. Treasury, make the Select Committee a permanent committee, provide for audits of the Beauty Shop by the General Accounting Office, and require surplus funds to be transferred to the general fund of the Treasury.

All of these suggestions were adopted in the Legislative Branch Appropriation Act of 1970 (Public Law 91-145) which was enacted on December 12, 1969. (Audit of the Financial Transactions of the House Beauty Shop for Calendar Year 1968. B-162878, Aug. 6, 1969.)

12. *Production of weapon systems despite known deficiencies in essential components.*—The Army purchased quantities of the Sheridan, a tank-like weapon system; M60A1E1 tank turrets; and M60A1E2 tanks which will require substantial modification before they will be fully suitable for operational use. Appreciable quantities were authorized for production despite known development deficiencies in essential components. As a result, many of these weapons were put into storage instead of being added to the combat effectiveness of the Army as planned.

GAO proposed a series of actions for application to current and future development programs to increase management effectiveness and to deploy acceptable weapon systems sooner. The Army concurred in most of the proposals and stated that major actions or improvements had been initiated which should reduce deficiencies in future program management.

Several committees and many Members of the Congress had expressed a strong interest in major weapon systems and how their development and procurement could be improved. To enable the Congress to exercise appropriate legislative controls over the funding of major defense systems, GAO suggested that the Congress may wish to require that (1) determination be made by the Secretary of Defense, prior to authorizing production of a new system or major modification of an existing system, that all of its significant components have satisfactorily met all prescribed developmental tests and (2) in any case where the Secretary of Defense considers that authorization of production is essential even though not all developmental tests have been satisfactorily completed, a certification to that effect be furnished by the Secretary of Defense to the appropriate congressional committees—such certification to include the reasons for authorizing concurrent development and production and the status of development of each significant component. (Need for Management Improvement in

Expediting Development of Major Weapon Systems Satisfactory for Combat Use, B-163058, Nov. 17, 1969.)

13. *Contractors' independent research and development costs borne by the Government.*—Independent research and development (IR&D) is that part of a contractor's total research and development program which is not conducted under a direct contract or grant but is undertaken at the discretion of the contractor. In certain cases a general agreement is negotiated with the Government establishing a dollar ceiling on the cost of IR&D which the Government will accept. Under policies of the Department of Defense (DOD) and of the National Aeronautics and Space Administration (NASA), IR&D need not be related to current or prospective Government procurement. Under the policy of the Atomic Energy Commission (AEC), the IR&D cost is allowed only to the extent that it benefits the contract work. During 1968, major Government contractors spent about \$1.39 billion for IR&D, bid and proposal, and other technical effort. The Government paid for more than half of this amount—almost entirely under DOD and NASA contracts.

GAO made a review at nine plant locations of seven contractors and at several Government agencies and identified a number of significant problem areas in the Government's participation in IR&D programs. Many of the problems had been recognized for years but had not been resolved.

Both the Senate and House Committees on Armed Services planned hearings on the subject of IR&D and related costs. In conjunction with the hearings, GAO made the following suggestions for consideration of the Congress.

Because no clear distinction can be made between IR&D, bid and proposal, and other independent technical effort, any agreed ceilings on IR&D can be avoided through description of an IR&D project under a different terminology. Therefore, all independent technical efforts of contractors should be considered as a single entity.

Unlike the AEC and NASA, DOD has separate appropriations for procurement and for research and development activities and DOD's share of contractors' IR&D costs generally is absorbed by the procurement appropriation without identification as IR&D. If the Congress authorizes continuation of the present practice of allowing the inclusion of IR&D as an acceptable cost element in negotiated

contracts, DOD should be directed to break out and identify separately in its appropriation requests the amount estimated as required for this purpose.

The policies followed by DOD and NASA on acceptability of IR&D costs differ from those of AEC which allow such costs as an element of overhead only to the extent that they provide a direct or indirect benefit to the contract work. A policy should be established by the Congress stating the extent to which, and under what circumstances, Government agencies should participate in the contractors' independent technical efforts.

GAO also identified several issues and alternatives which warranted consideration in determining the Government-wide policy, as follows.

Whether or not the present practice of allowing IR&D as an acceptable overhead cost in negotiated contracts should be replaced by a system of:

(a) Extending the use of direct research and development contracts to include those IR&D projects which the agency wishes to support fully or on a cost-sharing basis and thereby providing greater assurance that the desired work will be performed and that the Government will be entitled to information and royalty-free rights to any inventions arising therefrom, and

(b) Authorizing an allowance for a stipulated percentage of the remainder of the contractor's total IR&D effort, irrespective of the source of the funding, either as a profit factor or through acceptance as a recognized overhead cost, as an incentive to contractors to continue technical efforts beyond those directly contracted with the Government.

Whether or not allowances to contractors for IR&D should be limited to projects that have a direct and apparent relationship to a specific function of an agency.

Whether or not, if IR&D allowances by DOD and NASA are continued on the present basis and are not related directly to current or prospective Government procurement, financial support should be provided to companies with similar capabilities, which do not hold Government contracts, as a means of supporting and strengthening industrial technology.

These suggestions were considered in hearings held in March 1970 before the Senate and House Committees on Armed Services. Subsequently, the Congress included restrictions on the payments to contractors

for IR&D and bid and proposal costs under section 203 of the DOD Military Procurement Authorization Act of 1971, Public Law 91-441, enacted October 7, 1970. (Allowances for Independent Research and Development Costs in Negotiated Contracts—Issues and Alternatives, B-164912, Feb. 16, 1970.)

Actions Taken by the Congress on Recommendations Made in Prior Years

1. *Government's contribution to the cost of servicemen's group life insurance.*—The law authorizing the servicemen's group life insurance program (38 U.S.C. 701) provides that members 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 this 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.

A review of 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. GAO therefore recommended that, in order to implement the intent of the legislation, the Congress consider amendatory legislation changing the formula contained in the law.

On June 25, 1970, Public Law 91-291 was approved containing a provision to assure that the Government will bear all mortality costs traceable to the extra hazards of war. (Legislation Needed To Avoid Servicemen's Bearing Wartime Mortality Costs Under the Servicemen's Group Life Insurance Program, B-114859, May 29, 1969.)

2. *Compensatory time off in lieu of overtime compensation for employees of the Government Printing Office.*—In August 1966, GAO advised the Public Printer that it was not clear whether there was legal authority for the practice of granting compensatory time off in lieu of overtime pay and that he should obtain specific authority for this practice. The Public Printer drafted appropriate amendments to the existing law and submitted them to the Joint Committee on Printing, but the Joint Committee deferred action until after Title 44, United States Code, "Public Print-

ing and Documents," was recodified and enacted as Public Law 90-26 on October 22, 1968.

In October 1969, a bill (H.R. 14453) authorizing the Public Printer to grant an employee paid on an annual basis compensatory time off instead of overtime pay for overtime work was introduced in the House of Representatives and referred to the Committee on House Administration. In May 1970, the bill was reported with a technical amendment and committed to the Committee of the Whole House on the State of the Union. This measure was passed by the Congress and enacted as Public Law 91-369 on July 31, 1970. (Examination of Financial Statements of Government Printing Office, Fiscal Year 1965, B-114829, Aug. 29, 1966.)

3. *Economic opportunity programs.*—GAO reviews of programs and activities carried out under the Economic Opportunity Act of 1964, made pursuant to statutory directive included in section 201 of the Economic Opportunity Amendments of 1967, showed the need for revisions to provide more effective means to achieve the objectives of the act. Accordingly, GAO recommended to the Congress that revisions were needed in the programs and organizations established pursuant to the act. The results of the reviews, including GAO's recommendations, were considered by the Congress during hearings leading to the enactment of the Economic Opportunity Amendments of 1969, Public Law 91-177, approved December 30, 1969. (Review of Economic Opportunity Programs, B-130515, Mar. 18, 1969.)

Restatement of Prior Year Recommendations

1. *Clarification of law regarding use of available funds under other loan programs before use of emergency loans is approved.*—A GAO review in 14 counties which had been designated as emergency areas by the Secretary of Agriculture showed that 3-percent emergency loans had been made when substantial amounts of 5-percent Farmers Home Administration operating loan funds were available. Section 321 a) of the Consolidated Farmers Home Administration Act of 1961 requires, in part, a determination that there exists a general need for agricultural credit which cannot be met from other sources, including Farmers Home Administration programs, prior to designation of a county for emergency loan assistance. No documentation was available to show that this determina-

tion had been made prior to designation of the 14 counties.

The Farmers Home Administration contends that emergency area designations may be made before applicable Farmers Home Administration funds are exhausted and that Congress never contemplated that a disaster designation should be withheld as long as such funds are available.

GAO found no specific criteria in the enabling legislation or pertinent legislative history indicating the intent of the Congress in this matter. It was suggested that the Congress might wish to clarify the law regarding the use of funds in other loan programs before the use of emergency loans is approved.

The Department of Agriculture advised the chairman of the House Committee on Government Operations in May 1969 that (1) GAO's report correctly showed the Department's position on designating emergency areas and making 3-percent emergency loans when other program funds are available and (2) because this has been a longstanding practice without congressional objection, the Department did not see a need for legislation on this matter.

GAO continues to believe that since the law or pertinent legislative history is not sufficiently clear regarding the use of funds in other programs before emergency loan funds are used, clarification of existing legislation is needed. (Policies and Procedures for Recommending Emergency Area Designations, B-114873, Mar. 24, 1969.)

2. *Review of policies and practices for acquiring land for reservoir projects.*—The Corps of Engineers was acquiring fee title to thousands of acres of reservoir project land when less costly flowage easements would have sufficed or when no interest was required for water control purposes. GAO estimated that the additional cost of acquiring fee title to 388 selected tracts at seven reservoir projects amounted to about \$2.7 million.

It was recognized that fee acquisition may have been desirable to satisfy purposes other than water control; however, GAO found that the Corps had not identified the additional cost incurred for other project purposes, mainly recreation and fish and wildlife. The Fish and Wildlife Coordination Act indicates that the Congress desires cost information on land acquired for fish and wildlife purposes. GAO found also that the total cost of the land acquired for recreation purposes was paid for by the Federal Government even though some of these costs may have been properly financed by non-

Federal interests under the cost-sharing provisions of the Federal Water Project Recreation Act.

In response to GAO proposals, the Department of the Army stated that information on acreages and approximate costs to be incurred for such purposes as recreation and fish and wildlife could be furnished to the Congress, if it was desired. With respect to the additional financing which may have been available from non-Federal sources, the Department stated that this would tend to decrease recreational development by local interests and, at some future date, would cause substantial administrative problems.

GAO suggested that the Congress, in prescribing the nature and extent of reservoir project purposes, might wish to require that the Corps identify, for congressional consideration, the costs incurred in acquiring greater interests in land than are needed for water control purposes, the purposes for which such interests are acquired, the related acreages, and the benefits to be derived from such interests. It was also suggested that the Congress might wish to express its intent as to whether the additional costs incurred for recreation and fish and wildlife purposes should be treated as separable costs and be subject to cost sharing under the Federal Water Project Recreation Act. (Review of Policies and Practices for Acquiring Land for Reservoir Projects, B-118634, Feb. 3, 1969.)

3. Policies and procedures used in estimating costs, evaluating bids, and awarding contracts for dredging.—The law under which the Corps of Engineers awards contracts for dredging (33 U.S.C. 624) stipulates that appropriated funds shall not be used to pay for any work done by contract if the contract price is more than 25 percent in excess of the estimated cost of the Government's doing the work with its own equipment and crews.

The Corps has taken the position that it is not required to prepare in-house estimates unless a Government plant is or will be available to do the dredging. Instead, the Corps awards contracts for dredging to the contractor whose bid price is low and is not more than 25 percent in excess of the Corps' estimate of fair and reasonable cost to a contractor, exclusive of profit. GAO examination of 32 dredging contracts showed that, based on GAO's estimates of in-house cost, 11 of the contracts were awarded at prices that were about \$2.1 million in excess of the statutory limitation and about \$4.4 million in excess of the costs that would have been incurred if the work had been done by the Corps itself.

The Department of the Army disagreed with these findings and stated that the policies and practices of the Corps were in accordance with the policies and intentions of both the Congress and the Administration.

In GAO's opinion, there has been a deviation from the provisions of 33 U.S.C. 624. Therefore, GAO suggested that if the Congress should determine that the Corps' policies and procedures applicable to its dredging operations were to be continued, consideration be given to revising or repealing 33 U.S.C. 624. (Need for Improving Policies and Procedures for Estimating Costs, Evaluating Bids, and Awarding Contracts for Dredging, B-161330, Aug. 7, 1967.)

4. Questionable statutory interpretation by EDA as basis for awarding certain grants.—The Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3121), authorizes a loan and grants program to provide financial assistance to States and other entities for public works and related facilities. Basic grants up to 50 percent of project costs and supplementary grants that do not increase the total Federal contribution beyond 80 percent of project costs are authorized. Section 101(c) of the act requires that, in determining the amount of any supplementary grant, the Economic Development Administration (EDA), Department of Commerce, consider the relative needs of the area, the nature of the project, and the revenues which the project could be expected to generate in excess of those which amortize the local share of initial costs and provide for its successful operation and maintenance (including depreciation).

Although EDA's established policy requires consideration of project revenues in determining the amount of a grant supplementary to a basic grant by EDA, it did not require consideration of project revenues where the basic grant was by another Federal agency and the combined grants would not exceed 50 percent of project cost. Consideration of revenue data for three such projects included in the 18 projects GAO reviewed indicated that, during a 30-year period, net revenues of about \$4.6 million could reasonably have been expected to be available to support loans in lieu of the \$363,200 supplementary grant assistance approved for the projects.

Because of the impact of the EDA policy on amounts of grant assistance provided to applicants and in the interest of providing financial assistance to as many needy projects as possible, GAO suggested that the Congress might wish to express its views as to whether EDA should consider project revenues when an EDA

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grant supplementary to a basic grant by another Federal agency does not result in the total Federal grant contribution's exceeding 50 percent of project costs. (Improvements Needed In Procedures for Determining Supplementary Grant Assistance for Public Works and Development Facility Projects, B-153449, Feb. 4, 1969.)

5. *Opportunities for reducing interest costs to the Government on certain types of Federal income tax refunds.*—Under the Internal Revenue Code of 1954, taxpayers who claim refunds by correction of or amendment to their income tax returns receive a consideration, in the form of interest at the rate of 6 percent, not accorded to taxpayers who claim refunds at the time they file their returns.

For refunds claimed on initial returns, interest is not allowed if the refunds are paid within 45 days following the due date for filing the return or the date the return is actually filed, whichever is later. For those refunds claimed by correction of or amendment to returns, interest usually accrues for the period from the prescribed due date for filing the return until the refund is certified for payment. Returns may be corrected or amended up to 3 years after they are required to be filed.

GAO suggested a change in the Internal Revenue Code to provide that interest on refunds resulting from taxpayers' furnishing additional information to correct or amend their initial income tax returns accrue from the dates the claims for such refunds are filed and that the Internal Revenue Service (IRS) be authorized to establish a reasonable period after such claims are filed within which interest-free refunds may be made. The Treasury Department disagreed primarily on the basis that the Congress has recognized that interest should be paid because the Government has had use of the taxpayers' money. Also, the Department believed that, if this proposal were adopted, similar legislation might be required which would make it unnecessary for taxpayers to pay interest on tax deficiencies until the expiration of a reasonable period after being notified of the deficiency. GAO did not agree with the Department because the Congress had previously made various changes in the Code to provide that interest not be allowed on certain refunds when justified by existing circumstances even though the Government had use of the taxpayers' money during the retention period.

GAO suggested that the Congress might wish to consider amending the Code to provide that interest on refunds resulting from taxpayers' furnishing addi-

tional information to correct or amend their initial income tax returns accrue from the dates the claims are filed, except that IRS be authorized to establish a reasonable period after such claims are filed within which interest-free refunds may be made. It was suggested that, if the Code were changed in this regard, the Congress might also wish to consider making the change applicable to excise, employment, and estate tax refunds. (Proposed Revision to the Internal Revenue Code Governing Interest Payments on Certain Types of Federal Income Tax Refunds, B-137762, Sept. 19, 1968.)

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

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

GAO suggested that the Congress might also wish to consider similarly amending statutory provisions concerning interest payments on refunds attributable to investment credit carrybacks, foreign credit carrybacks,

and unused deductions of life insurance companies. (Opportunities for Reducing Interest Costs on Refunds Attributable to Net Operating Loss Deductions. B-137762, May 26, 1967.)

7. *Proposed revision of law governing financing of salary costs of retired civil service annuitants reemployed by Federal agencies.*—GAO recommended that the Congress consider amending the provision of the civil service retirement law relating to the payment of annuities and salaries to reemployed retired employees (5 U.S.C. 8344) to provide that amounts equivalent to the annuities allocable to the period of actual employment, which are deducted from reemployed retired employees' salaries, be transferred by the employing Federal agencies to the Civil Service Retirement and Disability Fund.

Amending the civil service retirement law as proposed would result in the full salary costs of reemployed annuitants being financed by the employing agencies rather than a portion of such costs being financed by the retirement fund. (Proposed Revision of Law Governing Financing of Salary Costs of Retired Civil Service Annuitants Reemployed by Federal Agencies. B-130150, May 28, 1968.)

8. *Cost of providing retirement, disability, and compensation benefits for Federal Deposit Insurance Corporation employees.*—The Federal Deposit Insurance Corporation (FDIC) is required to contribute to the Civil Service Retirement and Disability Fund on salaries paid to its employees after June 30, 1957. However, the law does not require FDIC to pay into the fund the Government's share of the cost of providing retirement and disability benefits for FDIC employees from the creation of the Corporation through June 30, 1957. Neither does the law require the Corporation to make any payments into the employees' compensation fund nor to bear any portion of the cost of administering the civil service retirement system or the Employees' Compensation Fund.

GAO has recommended in several annual audit reports that the Federal Deposit Insurance Act be amended to require FDIC to pay its share of the above costs. GAO believes that adoption of the recommendation would result in a more equitable allocation of the cost of retirement, disability, and compensation benefits between the Federal Government and FDIC. (Audit of Federal Deposit Insurance Corporation for the Year Ended June 30, 1969, B-114831, Mar. 19, 1970.)

9. *Audits of the Federal Deposit Insurance Corporation on a calendar year basis.*—GAO has recommended in several annual reports on its audits of the Federal Deposit Insurance Corporation (FDIC) that section 17(e) of the Federal Deposit Insurance Act be amended to require that GAO audits of FDIC be made on a calendar year basis rather than on a fiscal year basis as provided in the act. Adoption of this recommendation would eliminate the inconsistency between the periods covered by GAO's audit reports and by FDIC's annual reports. (Audit of Federal Deposit Insurance Corporation for the Year Ended June 30, 1969, B-114831, Mar. 19, 1970.)

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

It is believed that the Accounting and Auditing Act of 1950 and the Budget and Accounting Act, 1921, provide ample authority for the General Accounting Office to review the General Supply Fund when determined necessary or when requested to do so by the Congress. In the absence of the specific audit requirements of the 1949 act, GAO would have the same freedom of choice under the broad general audit authority given to it under the 1950 and 1921 acts in selecting the period and scope of financial reviews that it has in other areas in the General Services Administration and in other agencies in general.

A bill, S. 1767, that would implement the recommendation was introduced in the Senate in May 1967, but no further action was taken prior to the close of the 90th Congress. At June 30, 1970, a similar bill had not been introduced in the 91st Congress.

11. *Need to clarify intent as to whether competitive negotiation requirements apply to the negotiation of architect-engineer contracts.*—In April 1967 GAO reported to the Congress that in contracting for architect-engineer services the major Federal construction agencies were soliciting proposals only from the architect-engineer firm selected on the basis of various qualifications and without consideration of price. Public Law 87-653 requires that, in all negotiated procurements in excess of \$2,500, proposals be solicited from the maximum number of qualified sources and

that discussions be conducted with all responsible offerors whose proposals are within a competitive range, price and other factors considered.

In GAO's opinion, the procurement of architect-engineer services was and should be subject to the competitive negotiation requirements of Public Law 87-653. GAO suggested that (1) in view of past administrative practices in the procurement of such services, it was important that the Congress clarify its intent as to whether the competitive negotiation requirements of the law are to apply to such procurements and (2) if the Congress determined that it was not so intended, the law should be amended to specifically provide for an exemption for this type of procurement.

Bills were introduced in the 91st Congress which, if enacted into law, would have the effect of exempting procurements of architect-engineer services from the competitive negotiation requirements of Public Law 87-653 and the Federal Procurement Regulations and would legalize present practices of the agencies.

H.R. 16443 was one such bill and, on June 4, 1970, the Comptroller General testified before the Subcommittee on Government Activities, House Committee on Government Operations, in connection with its hearing on that bill. On September 10, 1970, the committee reported the bill favorably.

There was included in Public Law 91-511, the Military Construction Authorization Act, 1971, approved October 26, 1970, a provision which requires the military services to continue awarding contracts for architect-engineer services "in accordance with presently established procedures, customs, and practice." (Government-wide Review of the Administration of Certain Statutory and Regulatory Requirements Relating to Architect-Engineer Fees, B-152306, Apr. 20, 1967.)

12. Repeal of present statutory fee limitation on architect-engineer fees.—The major construction agencies were contracting for architect-engineer services at fees in excess of the statutory provisions which limit the fees payable to architect-engineers to 6 percent of the estimated cost of construction. Generally, these agencies interpreted the limitation as applying only to that portion of the total fee relating to the production and delivery of designs, plans, drawings, and specifications. Under such interpretation, most of the architect-engineer contracts under which the total fee exceeded 6 percent would be in compliance with the limitation. In GAO's opinion, however, the military

procurement statute and the Federal Property and Administrative Services Act of 1949 impose the 6-percent fee limitation on all architect-engineer services, including such services as soil borings, supervision and inspection of construction, master planning, and the preparation of technical operating and maintenance manuals, as well as the production of designs, plans, drawings, and specifications.

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

The present requirements for competitive negotiation and the submission and certification of cost or pricing data, if properly applied to contracts for architect-engineer services, should provide adequate assurance of reasonable fees. Therefore, GAO recommended that the Congress repeal the 6-percent limitation imposed on architect-engineer fees by 10 U.S.C. 2306(d), 4540, 7212, and 9540 and by section 304(b) of the Federal Property and Administrative Services Act of 1949, as amended (41 U.S.C. 254(b)). A bill to implement this recommendation, S. 2039, 90th Congress, was introduced in July 1967 but was not acted upon. At June 30, 1970, a similar bill had not been introduced in the 91st Congress. In May 1970 GAO proposed a bill which, if enacted into law, would repeal the cited 6-percent limitation. (Government-wide Review of the Administration of Certain Statutory and Regulatory Requirements Relating to Architect-Engineer Fees, B-152306, Apr. 20, 1967.)

Legislative Proposals to Heads of Departments or Agencies

1. Proposed change in financing Bureau of the Mint operations.—GAO suggested that the Secretary of the Treasury propose to the Congress that a change be made in the method of financing the operations of

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the Bureau of the Mint which would permit greater flexibility in planning coin manufacturing operations and simplify financing procedures. It was suggested also that the proposal provide for affirmative congressional action normally associated with the appropriation process.

The Department recognized the need for improved financing of the Bureau's operations but believed that it should defer submitting any legislative proposal on the matter until the new Director of the Mint had had an opportunity to review the entire Bureau operations and until several proposed changes in the coinage laws and other acts affecting the Bureau's operations had been enacted.

GAO had recommended in a 1959 report on its audit of Bureau of the Mint operations that the Congress consider making a change in the method of financing

the Bureau's operations. Although a bill which would have changed the method of financing was introduced in 1967, it was not enacted into law. (Financial Management of Bureau of the Mint Operations Needs Improvement, B-114877, Jan. 16, 1970.)

2. *Need to revise fees for services provided by U.S. marshals.*—GAO estimated that the fees charged by U.S. marshals during fiscal year 1968 for serving processes for private litigants were insufficient by about \$470,000 to recover costs. A recommendation was made that the Department of Justice consider proposing to the Congress legislation authorizing administrative adjustment of marshals' fees or revising the fees, which are presently prescribed by law. (Need to Revise Fees for Services Provided by the Immigration and Naturalization Service and U.S. Marshals, B-125051, Oct. 7, 1969.)



CHAPTER THREE

ASSISTANCE IN IMPROVING AGENCY MANAGEMENT PRACTICES

Summary of Assistance Provided

An important part of the work of the General Accounting Office is providing assistance to the agencies of the Government in bringing about greater effectiveness, efficiency, and economy in the conduct of their programs and activities. This chapter describes GAO's work (1) in assisting agencies in establishing and maintaining their financial management information systems and improving their related management practices and (2) in certain other management areas. Further assistance to management is discussed in Chapters Four through Six with regard to GAO's findings and recommendations for corrective action resulting from its audit work and in Chapters Seven through Nine with regard to GAO assistance in the areas of transportation, claims, and legal services. Assistance to the Congress on its internal accounting and financial management is discussed in Chapter Two.

Congressional Interest in Financial Management

As an outgrowth of General Accounting Office fiscal year 1970 appropriation hearings, the House Approp-

priations Committee has been conducting an investigation and study of the usefulness and relative accuracy of accrual accounting as a Government-wide requirement and the cost of changing expenditure recording and reporting systems to the accrual basis.

The committee's action reflects its expressed concern that points of diminishing return be recognized in applying the accrual and cost accounting provisions of the Budget and Accounting Procedures Act of 1950, as amended, to individual agencies and activities. In recognition of the validity of that view and of the committee's concern, during the year, GAO published, in pamphlet form, answers in layman's language to questions frequently asked about accrual accounting in the Federal Government. That document, in addition to stating the basic purposes of accrual accounting, in more easily understood and practical terms, is geared to the current types of programs and their attendant management problems. It was distributed to interested congressional committees and departments and agencies in August 1970.

Related to the committee's concern that optimum use be made of GAO's limited manpower resources, GAO consolidated in a single staff unit the functions of cooperating with agencies in the development and approval of their accounting systems, and has limited such approvals to statements of principles and standards and to systems designs.

GAO reported to the Congress in March 1970 that it had identified a number of problems in the implementation of the accounting system for operations in the Department of Defense and was making specific recommendations to the Secretary of Defense for correction. That review and report were made in compliance with the direction of the Conference Report of July 1, 1968, of the House and Senate Committees on Appropriations (H. Rept. 1608, 90th Cong.) that GAO continue to work with the Department in implementing the system and inform the committees of the results of those efforts. (See Appendix, Section I, Item 145.)

In September 1969 GAO issued its first annual report to the Congress summarizing its findings on problems and progress relating to improvements of Federal agency accounting systems during calendar year 1968. (See Appendix, Section I, Item 144.) This annual report was recommended by the House Government Operations Committee in its report dated March 5, 1968 (H. Rept. 1159, 90th Cong.).

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Assistance in Improving Financial Management

Federal programs continue to grow and proliferate; they are marked by increasing concern with humanistic and environmental problems in addition to defense needs and international commitments. The size, diversity, and complexities of these programs; the involvement of State and local governments and private institutions; and the human and material resources committed to them accentuate and vastly expand the need for management information. There is a concomitant expansion of the need for sophisticated means, such as electronic equipment, of gathering, assessing, screening, and reporting such information.

These considerations are especially important in the financial management area, with a consequent critical impact in the form of novel and often intangible factors on the need for and value of sound and fully responsive accounting systems and effective internal controls including internal audits.

Sound budgeting and accounting provide more disciplined planning and control over the management of resources and better information for managers regarding the results attained in relation to those planned and the agencies' purposes, through the expenditure of those resources. While it is not possible, therefore, to directly measure dollar savings attributable to sound accounting systems, enlightened use of such systems is a significant contribution to the conservation of resources in the form of either actual reduced expenditures or optimum accomplishment.

Prescribing Accounting Principles and Standards

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

The establishment of accounting principles and standards is not a one-time action; revisions and additions must be made from time to time to reflect benefits gained from experience, evolution in financial management concepts, and the requirements of newly enacted legislation. A complete restatement of the accounting principles and standards prescribed by the

Comptroller General was issued on June 30, 1965, as Title 2 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, and was amended in 1967. That restatement was again amended in July 1968:

To restate the objectives of the Joint Financial Management Improvement Program.

To clarify the prescribed accounting principles and standards to harmonize with the recommendations of the President's Commission on Budget Concepts with respect to accrued revenues and expenditures, implementing instructions for which are contained in Bureau of the Budget Bulletin No. 68-10 dated April 26, 1968.

To provide for a three-stage development and approval procedure for agency accounting systems.

At the present time, Chapter 3—Review and Approval of Agency Accounting Systems—of Title 2 of the GAO Manual is being revised to reflect the action taken in October 1969 (see page 37) to limit the performance of GAO's statutory responsibility for approving agency accounting systems to approval of agency principles and standards and systems designs. The sections of that chapter concerned with agency accounting principles and standards, systems design, and the approval process are being amplified to assist the agencies in developing acceptable submissions for approval.

The improved guidance in these revisions will materially assist agencies in developing adequate principles and standards and systems designs and thus should permit more timely approval of their submissions. It also will provide a better foundation, where the system concept envisages computerization, for the concurrent, orderly consideration of automatic data processing aspects throughout all stages of systems development and implementation.

Accounting Recommendations of the President's Commission on Budget Concepts¹

The President's Commission on Budget Concepts recommended that budget expenditures and receipts be reported on an accrual basis instead of the cash basis. Specific instructions to the executive agencies for implementing the Commission's recommendations have

¹ Report of the President's Commission on Budget Concepts, U.S. Government Printing Office, Washington, D.C., October 1967.

been issued by the Bureau of the Budget (now the Office of Management and Budget) and the Department of the Treasury. Necessary refinements have also been made in the principles and standards of accounting for Federal agencies prescribed by the General Accounting Office.

Special study reports on problem areas in converting to the accrual accounting basis disclosed a wide range of major problems in accounting for (1) certain tax revenues, (2) performance under grants-in-aid to and contracts with State and local governments and institutions, and (3) constructive delivery on procurements to the Government's special order. Consequently, the Bureau of the Budget, with GAO's concurrence and that of the Treasury Department, directed that the data in the fiscal year 1972 budget will be on a modified basis, the modifications being as follows:

Budget revenues ("governmental receipts") will remain on a cash basis.

Grant-in-aid expenditures will remain on a cash basis. Unless otherwise specified, the coverage of this modification is that of Table 0-8 in *Special Analyses, Budget of the United States, 1971*.

Where accrual data for constructive delivery on procurement of made-to-order items are not available, or are only partially available, the expenditures for such items will not be on the full accrual basis, but will reflect as much of the accruals as is practicable.

Agencies experiencing difficulties in achieving acceptable standards of reliability and timeliness in the constructive delivery area (beyond the customary documentation of work in place on construction contracts, progress payments, holdbacks, etc.) may, with the specific approval of the Bureau, delay to another year the accounting and reporting of such data for selected areas of operation (e.g., appropriations or portions of appropriations) or selected types of transactions (e.g., subcontractor performance), where necessary.

Where inclusion of accruals in the accounting and reporting is deferred in the budget revenues, grants-in-aid, or constructive delivery areas, agencies are urged to concentrate on assuring that all nondeferred aspects of their accrual system are made to function properly and that efforts be continued to fully achieve the accrual basis in the deferred areas in order to obviate modifications and exceptions beyond the 1972 budget. Firm accounting support should be provided for accrual data through reliable, sound, and timely accrual accounting. All agencies also are now required

to use a cost-based presentation for appropriation requests.

In addition to its work on the above matters with the Bureau of the Budget and the Treasury Department, GAO redirected and expanded its ongoing survey of documented accrued expenditure accounting in the Department of Defense to a survey of accounting for and reporting on accrued revenues and expenditures for nongrant programs in the Department of Defense and in a number of the larger civil agencies. A study of the significance of the variations between disbursements and accrued expenditures for selected grants to State and local governments and universities was also begun in furtherance of a commitment to the Director, Bureau of the Budget, and the Secretary of the Treasury.

Cooperative Work in the Development of Accounting Systems

There are scores of agencies, hundreds of programs, thousands of geographic locations, and a wide variety of activities for which improved accounting must be accomplished. Some agencies and programs are relatively small and not too complex; others are extremely large and are very complex. Some involve many large contract operations with industry, universities, and others. Others involve substantial programs with State and local governments, universities, and nonprofit organizations. Appropriate coordination of these interlocking operations is a task of some magnitude for the larger agencies involved.

Based on a comprehensive reconsideration of its policies and practices with respect to the development, review, and approval of executive agency accounting systems, GAO made the following changes, in October 1969, to increase the effectiveness of these operations:

Formal approval operations will be limited to the two stages of (a) agency statements of principles and standards established to govern their accounting systems and (b) the proposed general designs of those systems. GAO will no longer undertake to formally approve accounting systems in actual operation.

In lieu of formally approving accounting systems in operation, GAO will devote more effort to conducting reviews of agency accounting operations from time to time, as now required by law, and will

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provide reports to agency officials and to the Congress setting forth evaluations and recommendations.

To accomplish these changes, during the year GAO consolidated in the Financial Management Staff of its Office of Policy and Special Studies all the responsibility for (1) developing GAO principles and standards and related requirements, (2) cooperating with the executive agencies in the development of their accounting systems, and (3) reviewing agency statements of accounting principles and standards and proposed accounting systems designs for formal approval.

Under these new arrangements GAO has continued to devote a substantial amount of manpower to the field of financial management, including cooperative assistance to the executive agencies in the development of improved accounting systems and procedures. Since the change, an increasing proportion of its effort has been devoted to the development and review of accounting systems designs based on approval of statements of principles and standards that set the stage for the detailed systems design and improvement effort in each agency.

GAO's manpower has been working with agency officials and staffs so that, with technical assistance and advice, the agencies may proceed to develop financial management systems that are designed in accordance with the concepts of the Budget and Accounting Procedures Act and that meet the needs of the operating and central agencies of Government. In this cooperative work, GAO keeps informed as to what each agency is doing and what problems it is encountering in order that a common understanding may be reached as to the concepts and principles to be employed. GAO's purpose is to be as helpful as possible without assuming agency management responsibilities. The head of each executive agency has the statutory responsibility for establishing and maintaining adequate accounting and financial management systems.

Review and Approval of Accounting Principles and Standards and Proposed Systems Designs

After approval of systems designs, GAO has a continuing responsibility to follow up on the timely implementation of systems designs as approved and to provide consultative assistance in regard to design refinements incident to the installation of the systems for

operation. If GAO finds that the system is not being implemented as planned or has been adversely modified, then cooperative action is taken with the agency to make the needed corrections.

During the fiscal year 1970, the Department of Defense submitted for approval one additional directive and instruction setting forth accounting principles and standards and one accounting system segment, Mechanization of Contract Administration Services, making a total of 19 submissions for consideration during the year.

GAO approved 11 Department of Defense directives and instructions in implementation of the systems of accounting for military pay, real property, foreign sales, research and development, industrial funds, material pricing, property disposal, and project orders. Also approved were two complete systems designs, the Air Force and Navy accounting systems for military construction. In addition, GAO approved three industrial fund accounting system segment designs for the Air Force Printing and Duplicating Service; the Army Watervliet Arsenal, which is typical of similar types of Army industrial funds; and the Naval Ordnance System Command. The two complete systems designs, three segment designs, and 11 directives and instructions made a total of 16 approval actions. At the close of the year three submissions were under consideration, as well as a directive, an instruction, and an accounting system segment design.

The agreement recently made with the Department of Defense on the supporting documentation to be submitted, when adjusted to GAO's revised approval operations, should facilitate this approval work by improving the documentation of systems designs at the service and Office of the Secretary of Defense levels prior to submission.

The potential number of complete accounting systems and segments of systems in use in Department of Defense activities which may require evaluation for conformance with the principles and standards established by the Comptroller General has not been specifically ascertained by the Department. However, the Department has indicated that approximately 30 different types of industrial fund accounting systems will be submitted, as well as other systems applicable to such areas as procurement, research and development, operations, and stock funds.

GAO's review and approval activities for the civil and international departments and agencies during fiscal year 1970 are summarized as follows:

	Principles and standards	Systems designs	
		Complete systems	Signments of systems
Under review, July 1, 1969 . . .	17	8	17
Submitted for review	11	21	1
Approved	12	9	4
Returned or withdrawn	3		5
Under review, June 30, 1970 . .	13	20	9

(See Appendix, Section IV.) At June 30, 1970, the designs of 71 complete accounting systems designs had been approved out of a total of 145 such systems in the civil and international departments and agencies.

Joint Financial Management Improvement Program

The Joint Financial Management Improvement Program (JFMIP) is a Government-wide cooperative effort of all Federal agencies to establish and maintain systems of financial management of maximum usefulness throughout the Federal Government. Leadership is provided jointly by the Comptroller General of the United States, the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Chairman of the Civil Service Commission.

A Steering Committee comprised of a representative of each of the central agencies coordinates the Joint Program. The Committee meets regularly to consider problem areas, start work projects, and evaluate financial management progress being accomplished throughout the Government. The principals of the program meet from time to time to receive overall reports of progress and to furnish broad policy guidance to the Steering Committee.

The principal JFMIP events and activities for the year were:

On August 12, 1969, President Nixon, in recognition of the need for improving the decisionmaking processes of the Federal Government and the need for making more effective the Federal system for delivering program services, issued a memorandum in support of the Joint Program. Among other things, the President's memorandum directed the head of each department and agency to cooperate with the Joint Financial Management Improvement Program "... to make the development of effective financial systems a high priority in strengthening administrative practices."

The Steering Committee appointed an Executive Secretary, in November 1969, so that expanded attention can be given to more frequent contact with

and assistance to agencies in dealing with financial management problems. Also, an agency JFMIP liaison group was reactivated to assist the Steering Committee and to keep the Committee more closely aware of agencies' viewpoints.

Pursuant to the goal of increasing contacts with agencies, the Committee met during the year with the Assistant Secretary for Administration, or a person of comparable rank, in the following agencies:

Department of Transportation,
Department of Commerce,
Department of the Interior,
Department of State,
Department of Housing and Urban Development,
Department of Labor,
Department of Justice, and the
District of Columbia Government.

Meetings with other agencies will be held during the coming year.

The Joint Program sponsored a workshop on auditing in June 1970 which was attended by the chief Auditor and the Assistant Secretary for Administration from each of the major agencies. Similar workshops on other subjects will be scheduled from time to time.

Tentative arrangements for a State-Federal Financial Management Conference—suggested by GAO—were made during the year. The 1½-day conference planned for October 1970 is to be jointly sponsored by the JFMIP, the Council of State Governments, and the National Association of State Auditors, Controllers and Treasurers. The conference will (1) focus on Federal-State financial relationships in the grants-in-aid area and (2) emphasize a partnership approach in carrying out grant programs and tackling mutual problems.

Two JFMIP study projects, initiated in prior years, were completed, and implementation of recommendations was underway for each.

Study of procedures for centralizing within the Federal Government the billing and payment of transportation charges incurred by Federal agencies.—The Bureau of the Budget is preparing a bulletin as a first step in implementing most of the recommendations, and the General Accounting Office and the General Services Administration are preparing legislation to remove some legal road-

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blocks to carrying out certain of the recommendations.

Survey of financial administration of Federal grants-in-aid to State and local governments.—The report of this survey was completed in September 1969 and copies distributed to selected congressional committees, heads of the major grantor agencies, and other persons and organizations interested in intergovernmental programs. Follow-on projects dealing with grants-in-aid administration, under Bureau of the Budget leadership, have been organized. An audit project, under chairmanship of the General Accounting Office, is well along toward producing a set of audit standards for federally financed grant programs. In other areas, the Bureau of the Budget's computerized inventory of the Federal administrative requirements for State and local governments holding grants or seeking grants was substantially complete at yearend.

Survey of Planning, Programming, and Budgeting Systems

In August 1965 the President notified all Federal Government departments and agencies that a planning, programming, budgeting system, commonly referred to as the PPB system, was being introduced in Government.

The system requires that agencies:

- Establish long range planning for national goals and objectives.

- Analyze systematically and present for agency head and presidential review and decision possible alternative objectives and alternative programs to meet these objectives.

- Evaluate thoroughly and compare the benefits and costs of programs.

- Present the prospective costs and accomplishments of programs on a multi-year basis.

During the fiscal year GAO made a survey of the progress and major problems of the executive agencies in implementing systems of planning, programming, and budgeting. The results of this study were made available for the use of interested congressional committees and all executive agencies.

GAO found that 20 of 21 agencies included in the survey and directed by the Bureau of the Budget to adopt a PPB system had succeeded in developing PPB program frameworks. There were differences among these frameworks and it was evident that there are

obstacles to the creation of a Government-wide structure.

In general, agencies do not have extensive written policies to guide analysts in the preparation of various PPB documents and studies. In seven larger departments and agencies, only one had written policies that dealt with assumptions related to environmental conditions. Six of the seven departments had no written policies concerning coordination of analytical work with other agencies or documentation required for PPB studies.

Communication between accounting staffs and PPB staffs has not been extensive. It seems unlikely that the full benefits of data available from agency accounting systems can be realized unless there is a closer relationship between users and suppliers of financial information.

At the time of this survey, the agencies had assigned full-time PPB responsibilities to 1,594 employees of whom 920 were in the Department of Defense. Employees spending part of their time on PPB matters were equivalent to about 880 full-time PPB employees. On the average, about 39 percent of PPB staff time is spent making analyses of program outputs and effectiveness; about 30 percent is spent on estimating and analyzing costs and resources; and about 30 percent is spent on PPB procedural matters.

Although GAO's study contains no recommendations, it does state that all agencies should give specific consideration to the potential advantages of having written instructions describing the documentary support that should be prepared for special analyses and other PPB reports. GAO also believes that significant advantages should be realized by agencies if planning and evaluation efforts pertaining to problems common to one or more agencies are coordinated by a central agency. (See Appendix, Section I, Item 157.)

Intergovernmental Programs and Operations

Because of increasing interest throughout the Federal Government in improving the administration of Federal grants-in-aid to State and local governments, during the past year GAO has expanded its efforts in this area.

Considerable work was performed with the Advisory Council on Intergovernmental Relations, the Bureau of the Budget, and the Intergovernmental Relations Subcommittees of both Houses of the Congress in order

to improve the language of the intergovernmental cooperation bills currently being considered. Improvements proposed pertain to (1) more uniform accounting and financial reporting requirements by Federal departments and agencies and (2) increased usage of audits performed by States and local agencies of government together with the development and usage of underlying audit standards.

At GAO's suggestion, the Steering Committee of the JFMIP has arranged for a State-Federal Financial Management Conference to be held in October 1970. Representatives of the Council of State Governments and the National Association of State Auditors, Comptrollers and Treasurers have indicated their interest in jointly supporting this project.

In February 1970, GAO started a project which had as its purpose the development of standards which could be used as criteria for the acceptance of or reliance on audits of federally assisted programs performed by non-Federal organizations. This project is being carried out by a working group with full-time representatives of seven other Federal agencies (those with the largest grant programs), and representatives on a part-time basis of various public interest groups representing State and local auditors, and university consultants. Other public interest groups and professional associations also are assisting.

The working group has met with the audit representatives and selected program organizations in the Federal departments and agencies. It has visited 17 State central audit and departmental internal audit operations as well as 10 county and city audit operations. It is also obtaining information by questionnaire on the characteristics of State and local audit organizations.

The group plans to develop tentative standards, together with criteria and implementation plans. These standards and criteria will be concurrently tested by State auditors in a group of 10 States and later sent for comment to the departments and agencies, the public interest groups, and the professional associations.

Target date for publication of a code of auditing standards and related criteria is mid-1971.

An increasing number of States have requested GAO to assist in the resolution of audit problems.

A series of meetings were held with Minnesota State senators and the Senate Counsel to explore possibilities of GAO assistance in the broadening of the State auditing beyond fiscal-type audits to include compliance and performance auditing.

GAO provided advice and assistance relative to the reestablishment of a legislative auditor operation by the State of Oklahoma.

GAO is serving on a Technical Advisory Board for the establishment of improved accounting and auditing operations for the Educational Agency of the State of Alabama. A grant from the Office of Education, Department of Health, Education, and Welfare, is financing the project.

GAO arranged for and assisted in a series of five 1-day seminars which were held for State auditors or their designees for the purpose of (1) describing the working relationships between Federal and non-Federal auditors who are auditing in the same areas using a common set of audit standards and (2) explaining concepts of performance auditing as related to its contributions to effective management.

The seminars were given in various parts of the country by the Oak Ridge Operations Office and the Albuquerque Operations Office of the Atomic Energy Commission. Representatives from almost 40 States attended, as well as personnel from several Federal agencies.

Automatic Data Processing

The number of electronic computers in use by Government agencies has increased greatly in recent years. Computers in use have increased from 2,412 in 1965 to nearly 5,000 in 1970 and their cost also has doubled.

The Federal Government now spends over \$2 billion annually for the purchase, lease, and operation of automatic data processing (ADP) equipment and the use of this equipment in ADP systems in carrying out Federal Government functions has had a significant impact on operations in almost every major agency of the Government. In the Department of Defense, the principal management applications are in supply and logistics programs and financial management operations. In these activities computer systems are processing millions of transactions monthly. Numerous small-scale computers are being used throughout the Department for base-level operations and extensive communication facilities are being used to transmit data between using organizations and computer centers.

In the civil agencies, many large-scale paperwork operations have been converted to automatic data processing systems. Important examples are found in

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the Treasury Department, the Social Security Administration, the Veterans Administration, the Department of Agriculture, the Post Office Department, and the Census Bureau.

GAO continued to provide advice and assistance to Federal agencies on questions involving the acquisition and use of automatic data processing systems. In carrying out its review and evaluation responsibilities, GAO reviewed with agency officials deficiencies related to the planning for and use of such systems disclosed during its audits. GAO is currently engaged in a general survey of ADP activities in civil departments and agencies throughout the Federal Government. The survey is concerned with the overall management and control of ADP activities, and the participation of internal audit groups in ADP matters.

GAO has continued to work with the Civil Service Commission and the internal audit units of the Government in providing a training program for auditing in an automatic data processing environment. This course is now being offered by the Civil Service Commission to auditors of all Federal agencies.

In addition to advising and assisting individual Government agencies, the General Accounting Office has, as a result of its continuing studies in this field, made recommendations which are directed toward achieving improvements in the management and administration of automatic data processing facilities on a Government-wide basis. Studies are now being made as a followup to earlier studies which were the subject of comprehensive reports to the Congress in June 1958, December 1960, March 1963, April 1964, August 1965, April 1968, and June 1969. Copies of these reports were widely distributed to Government agencies to assist in the development of automatic data processing programs throughout the Government.

The latest report in this series was issued on June 24, 1969, and was entitled "Study of the Acquisition of Peripheral Equipment for Use with Automatic Data Processing Systems." This report pointed out that it is common practice for Government ADP managers to obtain all required ADP equipment from computer system manufacturers even though certain items of equipment can be procured more economically from the original manufacturer or from alternate sources of supply. It identified selected computer components that are directly interchangeable (plug-to-plug compatible) with certain other system manufacturers' components and are available at substantial savings.

The report recommended that each Federal department and agency head:

Take action to implement steps requiring replacement of leased components of computer systems that can be replaced with more economical plug-to-plug compatible units.

Pending the issuance of more specific policy guidance by the Bureau of the Budget and the General Services Administration, consider the factors described in this report in evaluating alternate sources of automatic data processing equipment.

Consider third-party leasing arrangements in those cases where purchase of plug-to-plug compatible equipment is determined not to be advantageous.

In order to examine and evaluate the implications of GAO's recommendations on the Government's policies and procedures, the Bureau of the Budget sponsored a conference of Government officials concerned with ADP management and procurement at the Federal Executive Institute in Charlottesville, Va., in September 1969. GAO representatives attended the conference and participated in the formation of the conference report which, in general, supported the conclusions in the GAO report.

On February 2, 1970, the Bureau of the Budget issued its Bulletin No. 70-9 on the acquisition of peripheral components for installed ADP systems. The Bulletin requires Federal agencies to review and make decisions on whether leased peripheral equipment components in computer systems supplied by the system manufacturer should be replaced with less costly equipment available from independent peripheral manufacturers or other sources. Some agencies have completed their reviews and have made replacements which have already resulted in substantial savings to the Government. (See Appendix, Section I, Item 192.)

Reviews of Financial Management Systems

Reviews of Accounting Systems in Operation

In lieu of formally approving accounting systems in operation, GAO is now devoting more effort to reviews of agency accounting operations from time to time as required by law. These reviews are made as part of its regular audits of agency operations which are the bases

of the reports GAO submits to the Congress and agency officials.

Several reports were sent to the Congress during the year on reviews of accounting systems in operation as parts of agency financial management systems. One report showed a need for improvements in the accounting for reimbursements in the Food and Drug Administration and the Consumer Protection and Environmental Health Service of the Department of Health, Education, and Welfare. Another report dealt with improvements needed in the financial management system of the Bureau of the Mint, Department of the Treasury. A third concerned accounting by the General Services Administration for 52 Federal supply property classes for the Department of Defense, and a fourth, the Veterans Administration's medical care cost accounting. (See Appendix, Section I, Items 131, 136, 195, and 140.)

Audit and Settlement of Accountable Officers' Accounts

In August 1969 GAO notified agency heads that henceforth its audit and settlement of accounts of accountable officers would be based primarily on the adequacy and effectiveness of the agencies' financial management systems in lieu of transaction audits. Accountable officers are those Federal officials who either disburse Government funds or authorize the disbursement of funds, or collect tax or customs revenues or other funds.

In a letter to agency heads GAO stated that this change was being made in recognition of their basic responsibility for proper accounting and internal control, including internal audit, in support of the functions of their accountable officers. Since the agencies' responsibilities require that they provide adequate assurance of the legality, propriety, and correctness of disbursements and collections of public funds, their procedures and controls should include:

Adequate administrative procedures for systematically examining disbursement and collection transactions to verify their legality, propriety, and correctness at the point in time when any needed preventive or corrective action can be most effectively taken.

Reconciliation of accountable officers' accounts with agency accounting records prior to the time the accounts are made available to the General Accounting Office for audit.

The conduct of systematic, independent, internal reviews to assure that effective controls are maintained and that appropriate administrative actions are taken to obtain any necessary corrective action required.

GAO also (1) reduced agencies' requirements for reporting irregularities in accounts of accountable officers, (2) authorized them to resolve administratively irregularities amounting to less than \$150, and (3) informed them that GAO plans to discontinue the issuance of certificates of settlement where there are no outstanding exceptions.

Review of Agency Internal Auditing

The General Accounting Office, in discharging its statutory audit responsibilities and as a matter of generally accepted auditing practice, reviews and evaluates the effectiveness of departmental and agency systems of internal control, including internal audit or other methods of internal review.

In keeping with the greatly increased emphasis GAO has placed on the usefulness of internal auditing to strengthen management, the Office continued to review the audit and evaluation organizations and activities of the civil, defense, and international departments and agencies. Eight reports were submitted on these reviews: four to the Congress on the Department of State, the Department of the Treasury, the Veterans Administration, and the Department of Defense; and four to agency officials on the Department of Housing and Urban Development, the Railroad Retirement Board, and the Treasury Department's Bureau of Customs and Internal Revenue Service.

The more important matters discussed in these reports are summarized below and briefly described in Chapters Four, Five, and Six:

Need for balanced coverage of important internal audit areas (RRB, Treasury, VA).

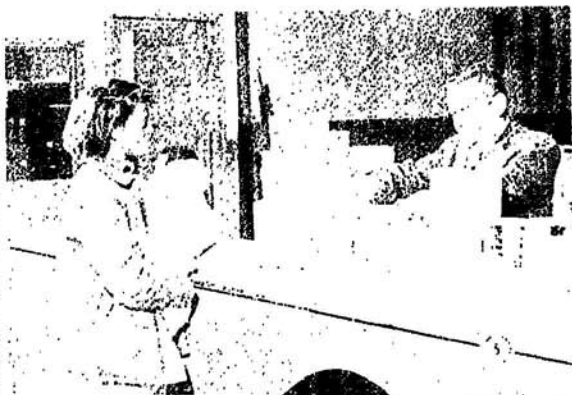
Need to improve independence of internal audit (State, Treasury).

Need to broaden scope and improve execution of internal audits (RRB, State, Treasury).

Relocation of internal audit function at a higher level needed (HUD, State, VA).

Need to establish central internal audit organization responsible to the highest practicable level (HUD, VA).

Need for better coordination among and guidance of management evaluation groups (DOD).



*Selected Federal Assistance Programs
Subject to Review by The United
States General Accounting Office*

1. Foreign Operations Programs -
Day Care
2. Medicine
3. Day Rest Homes
4. Maternal Development and
Training
5. Food and Nutrition Services
Food Stamp Program
6. Aid to the Handicapped
7. Health Facilities Planning and
Construction
8. Assistance to the Aged - Outpatient
Therapy



for accounting prescribed by the Comptroller General are included in the preceding chapter.

Department of Agriculture

Thirteen reports were submitted to the Congress on reviews of Department of Agriculture operations. Ten of these reports were submitted to the Congress as a whole and three were submitted to its Members. In addition 24 reports were issued to Department or agency officials. A significant portion of this audit effort was devoted to reviews of the enforcement of Federal sanitation and other requirements at poultry and meat plants, various aspects of the sugar program, and loan policies and procedures of the Farmers Home Administration.

In May 1970, GAO representatives testified before the Subcommittee on Energy, Natural Resources, and the Environment, Senate Committee on Commerce, in connection with reports submitted to the Congress in fiscal year 1969 on pesticides regulation activities of the Department.

One of the reports submitted to the Congress related to a review, made pursuant to the requirements of section 201 of the Economic Opportunity Amendments of 1967, concerning the administration and effectiveness of the Economic Opportunity Loan program for low income rural families administered by the Farmers Home Administration (see page 67).

Summaries of the principal matters discussed in other reports submitted to the Congress follow.

In an examination of the enforcement of sanitary and other requirements at federally inspected poultry plants—those engaged in interstate or foreign commerce—GAO identified 40 plants that were reported for repeated violations of minimum standards. Because the Consumer and Marketing Service (C&MS) did not take timely action to suspend or terminate inspection services at these plants, the consuming public was not adequately protected and the management at other federally inspected plants could infer that violations would be treated with minimum consequence. Forty-four plants were also identified that were allowed to ship poultry containing water in excess of that permitted by regulations, thus increasing the cost to the consumer.

In response to recommendations, C&MS informed GAO of certain actions it had taken or intended to take to insure adequate sanitation in inspected plants. C&MS also said that it planned actions to prevent

CHAPTER FOUR

AUDIT OF CIVIL OPERATIONS AND PROGRAMS

General

As a result of its work in the civil departments and agencies of the executive branch and in the legislative and judicial branches during fiscal year 1970, the General Accounting Office submitted 293 reports to the Congress. Of these reports, 119 were submitted to the Congress as a whole and 174 were submitted to its committees, officers, or Members on reviews made in response to their specific requests. In addition, 265 reports were submitted to department and agency officials. A list of these reports is included in Section III of the Appendix.

The following sections of this chapter describe briefly GAO's audit work in the major civil departments and agencies in the executive branch, its findings, and agency comments and action taken on its suggestions and recommendations for improvement in their operations. Detailed descriptions of findings and recommendations in all the civil departments and agencies in the executive branch are contained in Section I of the Appendix.

Comments on GAO's work in the civil departments and agencies in cooperating in the improvement of their accounting systems and in reviewing those systems and approving them when deemed to be adequate and in conformity with the principles and standards

CIVIL OPERATIONS

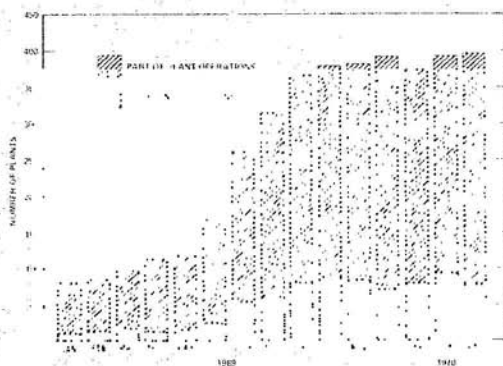
poultry from being distributed until excessive moisture had been removed. (See Appendix, Section I, Item 22.)

Another examination of the enforcement of Federal sanitation standards by C&MS at 40 federally inspected meat plants and at eight nonfederally inspected meat plants receiving Federal grading service showed that animals were being slaughtered or meat products were being processed for sale to the consuming public under unsanitary conditions at 44 of the plants. Instances of product contamination were observed at 35 of the plants.

A lack of uniformity and leniency in enforcement existed primarily because of the absence of clear and firm criteria for actions to be taken when unsanitary conditions are found. Also, weaknesses existed in the system for reporting actions taken to correct unsanitary conditions.

GAO believes that actions taken and further actions outlined by C&MS will, if fully and continuously implemented, substantially comply with GAO recommendations for improvement and will provide greater assurance to the consuming public that meat products are processed under sanitary conditions. (See Appendix, Section I, Item 23.)

NUMBER OF PLANTS WHERE OPERATIONS WERE HELD UP (REJECTED)
DUE TO UNSANITARY CONDITIONS



Number of meat and poultry plants where operations were held up (rejected) due to unsanitary conditions.

During the 6-year period prior to 1969, sugar marketings by domestic producers were about 4 to 13 percent below the quotas authorized by law because of production deficits in Puerto Rico and the Virgin Islands. GAO estimated that if the deficits in one year

had been allocated to other domestic sugar-producing areas, instead of to foreign countries as required by law, domestic producers could have realized additional gross income of about \$62 million, and outflow of dollars for sugar imports could have been reduced by about \$89 million. Because of the potential benefits each year, GAO recommended that the Congress, when considering the extension of the Sugar Act of 1948, as amended, authorize the allocation of continuing deficits of a domestic area to other domestic areas rather than to foreign countries. (See Appendix, Section I, Item 1.)

A review of the constitution of farms under the U.S. sugar program revealed instances where farms were considered as separate farms for subsidy payment purposes although they should have been considered as single farms because of common ownership and operation. Because of the sliding scale method of computing subsidy payments, farmers received larger payments for the separately constituted farms.

Also, under the national sugar beet acreage reserve program, which was designed to encourage new growers to produce sugar beets, more reserve acreage was allotted in some cases to the separate farms than would have been allotted to a single farm. Thus, fewer acres were available for other new growers.

Neither State nor county offices and committees had been making adequate reviews of farm constitutions. In response to GAO recommendations, the Administrator, Agricultural Stabilization and Conservation Service, proposed certain actions which, if effectively implemented, should minimize the overpayments and overallocations. (See Appendix, Section I, Item 2.)

In other reports to the Congress, GAO expressed its opinion on the financial statements of the Commodity Credit Corporation (CCC) and the Federal Crop Insurance Corporation for fiscal year 1969. The report on CCC also described the following actions which CCC took on suggestions GAO had made.

CCC, in July 1969, adopted a revised method of computing interest charged on grain price-support loans after GAO showed that CCC's practice had not yielded the expected average rate. The revised method will result in additional revenue of about \$570,000 in fiscal year 1971. (See Appendix, Section I, Item 45.) Also, CCC made a change in its price-support program in December 1969 to avoid an extra handling of butter at warehouses after GAO had indicated that economies could be achieved. (See Appendix, Section I, Item 3.)

A previous report stated that savings in transportation costs could be realized on shipments of butter and cheese, and possibly on other perishable commodities,

if CCC eliminated excessive protective services. CCC concurred with GAO's suggestion that an evaluation be made and issued new guidelines that resulted in considerable savings in fiscal year 1969. (See Appendix, Section I, Item 4.)

At June 30, 1968, about 14 percent of the approximately \$827 million of operating-type loans made by the Farmers Home Administration (FHA) were delinquent. Of the total number of borrowers, 30 percent were delinquent.

Although such loans are to be made only to individuals possessing training or experience sufficient to insure reasonable prospects of success in their proposed farming operations, FHA continued to make operating-type loans and provided assistance to delinquent borrowers even though they were unsuccessful and, in many cases, had no reasonable prospects of success.

Several recommendations were made for strengthening FHA's procedures for determining whether additional loans should be made and continued assistance be supplied to delinquent borrowers. The Administrator, FHA, agreed with the recommendations and cited actions he proposed to take to strengthen the procedures. (See Appendix, Section I, Item 43.)

In another report GAO recommended that FHA charge a fee for processing applications for rural housing loans. The assessment of fees, which could amount to \$6 to \$8 million a year, would help to recover program costs.

Fees are generally assessed under other Federal housing programs—notably those of the Federal Housing Administration and the Veterans Administration. Also, it is the general policy of the Government that Federal agencies charge fees for services that result in special benefits to the recipients beyond those that accrue to the public at large.

FHA also makes other types of loans which involve the acquisition of real property. No application fees were charged for these loans, which were expected to total about \$624 million in fiscal year 1970.

GAO was informed that FHA would adopt the recommendation regarding rural housing loans and that it would reappraise its position on charging fees on other loan programs. (See Appendix, Section I, Item 44.)

In a review of the conservation operations program of the Soil Conservation Service (SCS), GAO found that operating units in two States that generally followed the guides issued by SCS assisted more than twice the percentage of landowners or operators assisted in two other States where the guides were not followed.

Also, there were indications that the operating units in the two States where the guides were generally followed were more effective than the operating units in most of the States not covered in the review.

GAO proposed that all operating units be required to follow the guides in organizing, planning, scheduling, and managing their work, and that the guides be clarified to show the value and necessity of following them. SCS subsequently informed GAO that corrective action had been taken. (See Appendix, Section I, Item 59.)

Audit work in process at June 30, 1970, included reviews of such activities as the agricultural conservation program, the feed grain acreage diversion program, the water and sewer loan and grant program, loans to farmers for rural recreational facilities, procedures for allocating forest development road and trail funds, and foreign meat inspection procedures.

Department of the Army Corps of Engineers (Civil Functions)

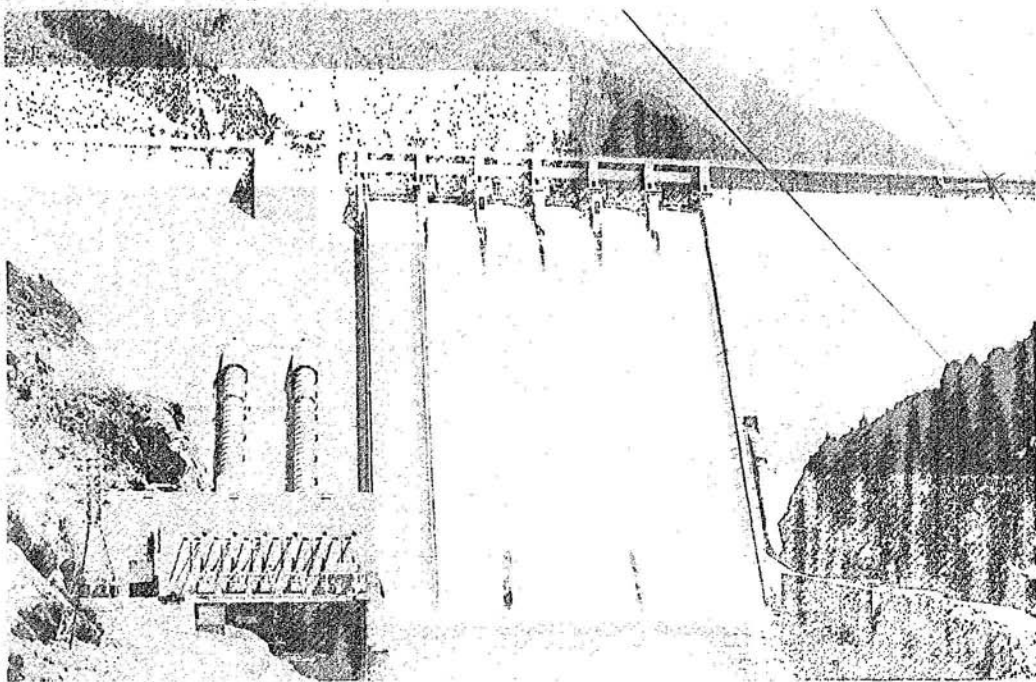
GAO submitted two reports to the Congress as a whole on reviews of activities of the Corps of Engineers. One report was submitted to a congressional committee on a review made at its request and seven reports were issued to Department or agency officials.

In GAO's opinion, the Corps uses an inappropriate basis in allocating the costs of multiple-purpose water resources projects to hydroelectric power development purposes. The Bureau of Reclamation, Department of the Interior, uses essentially the same procedures as the Corps. An equitable allocation among the several purposes is required where the cost of one or more of the purposes is to be paid for by the users.

Unless the Corps' procedures are revised, the Federal Government will not recover about \$118 million in allocated costs on the 20 Federal water resources projects reviewed, nor will it recover substantial interest charges. The procedures used have also resulted in increased Federal participation of about \$5 million in two partnership projects with States or other governmental units.

GAO recommended that the Secretaries of the Army and the Interior apply revised procedures to all current and future projects where cost allocations have not yet become final, pending establishment of uniform cost allocation standards by the Water Resources Council.

CIVIL OPERATIONS



The downstream face of the Detroit Dam on the North Santiam River, 45 miles southeast of Salem, Oreg. The Detroit Dam is a unit of the Willamette River Basin Project in the Portland, Oreg., District of the Corps of Engineers.

The Departments generally disagreed with this position. The Department of the Interior agreed, however, that the subject was worthy of further analysis and endorsed the recommendation that the Water Resources Council undertake the task of establishing uniform policies, standards, and procedures for cost allocations. (See Appendix, Section I, Item 66.)

Another report stated that the Corps needed to improve guidance for its district officials by (1) developing guidelines for determining the extent of the Government's obligation to relocate railroad facilities existing or planned for construction on land acquired for flood control projects and (2) strengthening its procedures for negotiating railroad relocation agreements. The Corps subsequently issued guidelines implementing the GAO recommendation with respect to existing facilities.

The Corps did not agree, however, with the recommendation, which GAO continues to believe should be adopted, that Federal participation in the cost of facilities planned but not constructed at the time of negotiation be limited to the increase in cost caused

by relocations and that congressional consent to bear the increase in costs be obtained. (See Appendix, Section I, Item 67.)

In reports to the Secretary of the Army or the Chief of Engineers, GAO stated, among other things, that the Corps should improve, at the field level, the review of data and calculations used in preparing proposed allocations of costs for water resources projects; consider the feasibility of furnishing fuel to its dredging contractors; include certain omitted costs in reimbursable costs of water resources projects; and review its practices relating to the level and control of warehouse inventories. (See Appendix, Section I, Items 68, 102, 126, and 194.)

Audit work in process included surveys and reviews of such activities as the allocation of benefits of water resources projects to recreational purposes, dredging, comparability of design standards for water resources projects as they relate to the Corps and the Bureau of Reclamation, and the increasing cost of multiple-purpose projects.

Department of Commerce

During the year GAO submitted 10 reports to the Congress on reviews of Department of Commerce operations. Four of these reports were submitted to the Congress as a whole and six reports were submitted to committees or Members. In addition, 10 reports were issued to Department or agency officials.

Selected activities of six major constituent agencies and offices of the Department were reviewed with GAO dividing its effort about equally between economic development activities, scientific and technological activities, and maritime activities.

One report to the Congress observed that oceanographic research and survey ships operated by the Environmental Science Services Administration (ESSA) averaged much less time at sea than did similar research ships operated by the Military Sea Transportation Service. The report concluded that, through increased usage, ESSA could carry out more missions or could release four ships and could reduce planned ship requirements by seven ships.

GAO recommended (1) ways by which increased utilization could be achieved and (2) that increased utilization be considered when construction of additional ships was planned. The Department of Commerce stated that utilization would be increased as more resources became available and that acquisition of new ships would be deferred until the present fleet reached optimum utilization. (See Appendix, Section I, Item 212.)

A review of the operation of Government-owned vessels used in support of military activities in Southeast Asia showed that, during a period of considerable reduction in sealift requirements, additional costs of about \$658,000 were incurred because vessels were placed in reduced operational status at commercial piers rather than being placed at Maritime Administration reserve fleet sites. This situation occurred because neither Maritime nor the Navy considered using reserve fleet sites even though their use would have resulted in savings to the Government. GAO was informed in March 1970 that Maritime and the Navy had reached an understanding, which is to be formalized, that all ships going into reduced operational status will be placed at a reserve fleet site. (See Appendix, Section I, Item 219.)

GAO's review of the administration by the Maritime Administration of contracts for operating and servicing the nuclear ship *Savannah* showed that (1) be-

cause of the small amount of claims paid by the underwriter compared with the premiums paid for the protection and indemnity insurance carried on the *Savannah*, it would be more economical for Maritime to adopt the policy of self-insurance and (2) several items of expense should have been excluded in determining the vessel operator's overhead allowance.

GAO recommended that the protection and indemnity insurance be discontinued and that a preaudit be made of the operator's general and administrative expenses when determining the operator's profit and overhead allowance in future years. The agency agreed to discontinue the insurance beginning in fiscal year 1971 but disagreed that a preaudit of the general and administrative expenses was needed. GAO believes that a preaudit is necessary to evaluate the reasonableness of the rates proposed by the operator. (See Appendix, Section I, Items 161 and 147.)

Fees charged by the National Bureau of Standards during fiscal years 1966 through 1968 for calibrating instruments for private industry were not high enough by about \$824,500 to fully recover operating costs, building depreciation, and departmental overhead. The Department of Defense, however, was overcharged \$806,000. After receiving a draft of a GAO report, the Bureau began on July 1, 1969, to charge revised rates which should result not only in the Bureau's recovering its costs for calibration services but in equitable charges as between Government agencies and private users.

Inasmuch as the Bureau did not include a factor for building depreciation and departmental overhead in its charges for other work performed for private industry, GAO recommended that a factor for these costs be included. Also, although the Bureau disagreed that improvements were needed, GAO recommended that the Bureau improve its accounting system to correct inequitable or inconsistent methods of allocating overhead costs. (See Appendix, Section I, Items 223 and 127.)

One report to the Secretary of Commerce commented on improvements needed in the administration of imprest funds maintained by ESSA. (See Appendix, Section I, Item 129.)

Another report to the Secretary stated that, in GAO's opinion, funds appropriated to furnish and equip a library at the U.S. Merchant Marine Academy were improperly used to supplement funds appropriated for construction and that the use of annual maritime training appropriation funds to air-

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condition the library was in violation of U.S. statutes. (See Appendix, Section I, Item 130.)

Audit work in process included reviews of the effectiveness of total Federal assistance provided to a designated redevelopment area; the eligibility requirements for grant assistance for public works and development facilities; the feasibility of consolidating certain Maritime, Army, and Navy reserve ship fleets; and the effectiveness of oceanographic surveying activities.

Department of Health, Education, and Welfare

Thirty-one reports were submitted to the Congress on reviews of Department of Health, Education, and Welfare (HEW) operations, including four reports on work experience and training projects which supplemented the summary report to the Congress on the review of Economic Opportunity Programs (B-130515, Mar. 18, 1969). Of these reports, 11 were submitted to the Congress as a whole and 20 were submitted to committees or Members of Congress. In addition, 25 reports to Department or agency officials were issued.

In the reports to the Congress as a whole and to Department or agency officials, GAO pointed out opportunities for the Department to improve the effectiveness of its operations in several areas.

A review of the methods used by the Food and Drug Administration in establishing fees for testing certain drugs and pesticides and performing other related reimbursable services for manufacturers disclosed that the fees had not been sufficient to recover full costs. The methods used to determine costs were not sound and excluded certain administrative costs. The Administration revised its policy to provide for the recovery of full costs, and increased fees applicable to its principal testing program, resulting in additional income of over \$1 million a year. Some cost allocations, however, continued to be made on the basis of unsupported estimates.

GAO recommended that HEW establish an adequate basis for allocating costs and complete its studies of the fee structure on the other testing programs. HEW responded that their new accounting system would provide for adequate support of fee determinations. (See Appendix, Section I, Item 131.)

Another review showed that the Indian Health Service, Health Services and Mental Health Administration, had obtained little or no cash or labor contribu-

tions from some Indian tribes and other beneficiaries for the construction of water supply, sewage and water disposal, and other sanitation facilities authorized by a 1959 law, although the beneficiaries are supposed to contribute and apparently could.

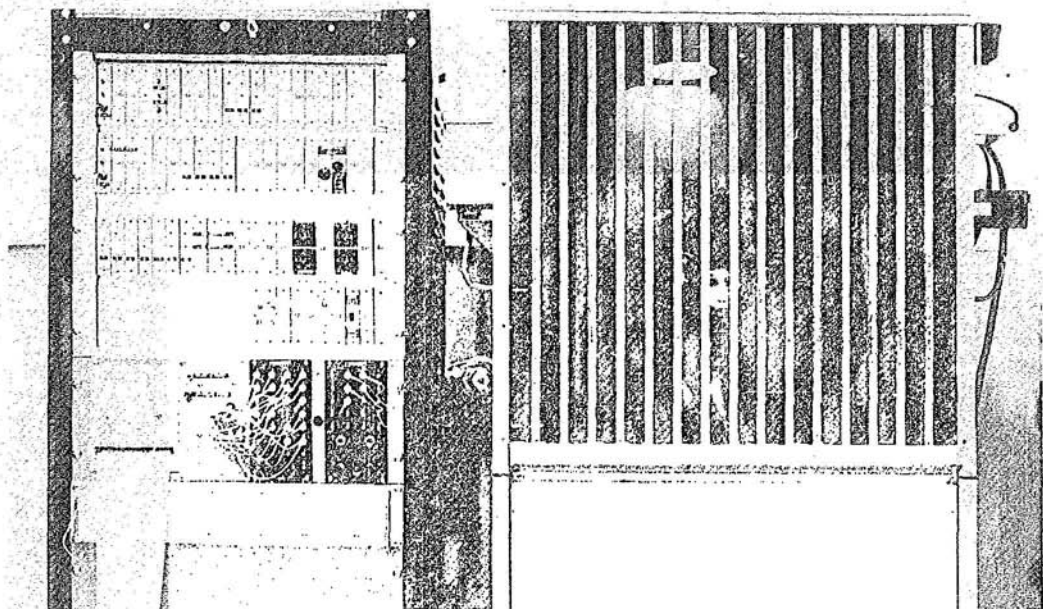
Both HEW and the Department of the Interior, which has specific responsibilities for Indian welfare, agreed to cooperate in programming tribal funds for constructing sanitation facilities. HEW did not comment, however, on GAO's recommendation that the Secretary emphasize to responsible officials the intended cooperative nature of the program which requires them to seek contributions from individual beneficiaries. This matter requires further attention. (See Appendix, Section I, Item 33.)

A review of activities at four of the seven primate research centers established by the National Institutes of Health (NIH) showed that, although NIH had discharged its administrative responsibilities in a generally satisfactory manner, certain conditions required management's attention.

At one center planned research activities were reduced in scope because, due to lack of funds, certain needed facilities had not been constructed. At another, a valuable colony of great apes was not being fully utilized. Also, the visiting scientist program, an important activity, was not being actively pursued. Other matters commented on in the report concerned disseminating information on technical innovations, scheduling periodic internal audits, insuring that operating funds are not used for construction, and negotiating an appropriate indirect cost rate with a grantee university. The report contained recommendations for improvement and the agency's comments thereon. (See Appendix, Section I, Item 121.)

GAO reviewed in several States the manner in which the Office of Education was administering its responsibilities under Title I of the Elementary and Secondary Education Act of 1965, which authorizes funds for programs designed to meet the needs of children deprived of normal educational development. A report on West Virginia disclosed that certain aspects of administration in that State could be strengthened.

Participating areas within the State were not selected in accordance with Office of Education criteria. Salaries of persons whose duties were not limited to the program were charged to the program. Equipment used in the regular school program was charged to the Title I program. Also, State audits were not of the scope contemplated by Office of Education requirements. The Office of Education agreed with GAO



A Rhesus monkey in visual training apparatus for studies of amblyopia ("fired eye") under a research program supported by the National Institutes of Health.

recommendations and said that the State had issued directives designed to correct some of these and other matters discussed in the report. (See Appendix, Section I, Item 18.)

A review of disbursement practices under the Guaranteed Student Loan program administered by the Office of Education showed that the Government, as principal loan insurer, could have reduced its interest costs by possibly \$9 million for the period November 1965 through December 1968 if the private lending institutions had disbursed the funds oftener than annually. More frequent disbursements would also reduce the risk of defaulted loans and provide other advantages.

In response to its recommendation, GAO was informed that Federal regulations would be amended to provide that disbursements are not greater than the amounts required by the students for a given semester, quarter, or term. (See Appendix, Section I, Item 48.)

In another report to the Congress GAO expressed the opinion that the financial statements of the Student Loan Insurance Fund, administered by the Office of Education, did not present fairly the financial posi-

tion of the Fund at June 30, 1968, or the results of the operations for the year then ended.

Claims made by the State of California for Federal funds under the Medicaid program for providing skilled nursing care to persons in institutions for the mentally retarded were questionable because the claims appeared to have been made on the basis of the persons' presence in institutions certified by the State as skilled nursing homes rather than on determinations of the persons' needs for skilled nursing care. A review by HEW substantiated these indications.

GAO recommended that the Secretary, HEW, insure that participating States determine, on a case-by-case basis, the types and levels of care needed by mentally retarded persons and that such persons are, in fact, receiving such care. GAO also recommended that the propriety of past claims by the State of California and seven additional States be reviewed by HEW and that appropriate adjustments of Federal payments be made.

HEW stated that it would take the actions recommended. Further, the State of California informed HEW that reviews in that State had already resulted

in the termination of billings for persons found not to need skilled nursing care. (See Appendix, Section I, Item 25.)

At the request of the chairman, House Ways and Means Committee, GAO monitored a special review of the aid to families with dependent children (AFDC) program in New York City conducted by HEW and the New York State Department of Social Services. Although the HEW-State review was performed in a competent and effective manner, GAO did not agree with HEW-State conclusions as to the reasons for the rise in the AFDC caseload, the eligibility and correctness of AFDC payments, and the problems which hinder provision of employment and self-support services to AFDC recipients.

GAO pointed out that changes were needed in the quality control system used by the States to evaluate eligibility determinations, since it did not alert responsible officials to the high rate of ineligibility found during the special review. HEW advised the chairman that a thorough review of the quality control system would be made. (See Appendix, Section I, Item 27.)

In a report to a congressional committee, GAO stated that Medicare payments of \$1.6 million had been made to an association of supervisory and teaching physicians for professional services provided to Medicare beneficiaries. According to hospital records, nearly all of the services billed in the names of these physicians had been provided by residents and interns whose salaries were reimbursable under the program. In some cases, hospital records showed no evidence that the services paid for had been provided.

On the basis of this review, the Social Security Administration determined that overpayments of \$1.1 million had been made to the association. Subsequently, the association refunded \$300,000 and agreed to refund \$800,000 by offsets against future payments due the association.

At June 3, 1970, congressional consideration was being given to amending the Social Security Act to change the basis of reimbursement for supervisory and teaching physicians. (See Appendix, Section I, Item 54.)

Other reviews made at the request of congressional committees and Members of Congress included such matters as the effectiveness of procedures established by HEW to strengthen control over donations of high cost surplus property, a comparative study of reimbursements to hospitals under Blue Cross private plans and the Medicare program, use of grant funds by a

local mental health foundation, purported abuses by scientific equipment manufacturers under the health programs, contracts for support of a laboratory of clinical pharmacology, and a survey of progress toward constructing a new teaching hospital on the Howard University campus.

Reports to Department officials related to certain aspects of the administration of Title III of the Elementary and Secondary Education Act of 1965, selected aspects of Hill-Burton grant programs for construction and modernization of hospitals and other medical facilities, opportunities for improvements in the administration of selected Children's Bureau medical care programs, allocation of administrative costs under the Medicare program, and other matters.

Audit work in process included reviews of the Department's programs related to narcotic rehabilitation, community mental health centers, Medicare and Medicaid, student financial aid, Teacher Corps, family planning, and publications activities.

Department of Housing and Urban Development

As a result of reviews of the activities of the Department of Housing and Urban Development (HUD), GAO submitted 20 reports to the Congress: six reports to the Congress as a whole and 14 to its committees or Members. In addition nine reports were issued to HUD officials. The reports dealt principally with HUD activities involving mortgage financing, housing assistance, and internal auditing.

A report to the Congress on the leased housing program for low income persons stated that greater progress could have been made in achieving the program's objectives in the early years through better administration by HUD. The report questioned whether it was appropriate to provide housing assistance to persons already adequately housed when other eligible persons on the waiting lists were living in substandard housing and whether the program should assist persons with relatively large amounts of assets.

HUD initiated some improvements in its administration of the leased housing program but did not agree with the proposals regarding priorities and asset limitations. GAO therefore expressed the belief that the Congress might wish to consider these proposals. (See Appendix, Section I, Item 49.)

In a report on inspections of concrete used in the construction of federally assisted low rent public housing projects GAO pointed out that the practices of HUD and local housing authorities were not adequate to insure compliance with contract specifications and that certain actions in addition to those proposed by HUD were needed to strengthen its controls. Accordingly, GAO recommended that HUD make more effective use of its regional representatives to insure compliance with contract specifications. (See Appendix, Section I, Item 50.)

Another report raised questions for the consideration of the Congress relating to insurance ceilings and land appraisals in connection with insuring mortgage loans for certain types of large cooperative housing communities comprising many separate but interdependent and integral property segments. By applying the statutory mortgage insurance limitation of \$20 million to each of the individual segments of such large communities, HUD insured or had commitments to insure mortgages aggregating about \$270 million on five particular communities. Application of the \$20 million limitation to individual segments of large developments may not have been envisioned by the Congress. Treatment of each segment as a separate mortgage entity also resulted in substantial increases in land appraisals. (See Appendix, Section I, Item 58.)

In other reports to the Congress, GAO expressed its opinion on the financial statements of the Federal Housing Administration for fiscal years 1968 and 1969 and the Federal National Mortgage Association for fiscal year 1968.

In a report to the Secretary of HUD, GAO stated that a single audit organization placed at the highest practicable organizational level should provide greater opportunity for more flexible use of staff resources and place the auditors in a better position to independently and objectively review and report on all HUD programs. The Secretary agreed and placed all audit functions under the Department's Office of Audit. The Office of Audit was to continue to report to the assistant Secretary for Administration on the basis of the Secretary's determination that this was the highest practicable level to which the Office of Audit should report. (See Appendix, Section I, Item 148.)

Audit work in process included reviews of HUD activities involving urban renewal, model cities, metropolitan development, mortgage financing, special insurance operations, housing assistance, and Department-wide financial administration and management.

Department of the Interior

GAO submitted 21 reports to the Congress on reviews of Department of the Interior operations. Of these reports, 13 were submitted to the Congress as a whole and eight were submitted to its committees or Members. Also, 18 reports were issued to Department or agency officials.

Summaries of findings and recommendations in the reports to the Congress as a whole and in certain other reports follow.

Water Pollution Control

The benefits of the program administered by the Federal Water Quality Administration (FWQA) (formerly the Federal Water Pollution Control Administration) for abating, controlling, and preventing water pollution have not been as great as they could have been because many waste treatment facilities have been constructed on waterways into which major polluters continue to discharge untreated or inadequately treated waste. Grants have been awarded on a first-come-first-served or readiness-to-proceed basis with little consideration being given to the benefits to be derived and the actions taken or planned by other polluters.

A more effective approach requires a coordinated and systematic effort on the part of FWQA, the States, and all polluters. FWQA and the States should be able to choose from alternatives and establish priorities on the basis of the benefits to be attained. The use of systems analysis techniques would be of substantial benefit. The Department agreed that a more systematic means of awarding construction grants must be found and, on July 2, 1970, took some action toward this end.

Although the Department did not agree, GAO recommended that the Congress (1) consider allowing the construction of less than secondary treatment facilities when this would result in water quality enhancement and (2) might wish to provide that priorities be established on the basis of benefits to be realized, a matter not fully covered in the Department's subsequent action of July 2, 1970. (See Appendix, Section I, Item 64.)

Among the grants made by FWQA are grants to municipalities for the construction of facilities to treat (1) domestic wastes only, (2) industrial wastes only, and (3) domestic and industrial wastes. A large amount of these grants have been for the construction of facili-

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ties to treat significant quantities of industrial wastes.

Although the Congress is aware that grants are made for the treatment of domestic and industrial wastes, it is questionable whether the Congress intended that grants be awarded for the treatment of industrial wastes only. Therefore, GAO suggested that the Congress might wish to clarify its intent and also consider other alternatives for financing the cost of facilities for treating both domestic and industrial wastes. (See Appendix, Section I, Item 65.)

Water Resources Development

The criteria used in determining the cost of financing the Federal power systems of the Department of the Interior and the Corps of Engineers—costs that are repayable from revenues obtained from the sale of power—result in the use of interest rates that are not representative of the cost of Treasury borrowing. Consequently, the cost of financing and, hence, the amount to be repaid from revenues has been significantly understated.

Although the Department of the Interior and the Corps of Engineers announced or proposed to make certain changes in computing interest costs, it is believed that the changes, while representing significant improvements, will not result in a realistic measure of the Treasury's cost.

GAO proposed that the Congress consider a uniform method of determining the interest rates to be used in computing the cost. These rates, which would be representative of the cost of funds borrowed by the Treasury during the period of construction, would be determined by the Secretary of the Treasury. (See Appendix, Section I, Item 69.)

A stated purpose of the San Luis irrigation unit, Central Valley project, California, was to replenish and stabilize the level of ground water in the unit's service area, but an amendment to a contract with the unit's largest water user would, if implemented, defeat that purpose. The amendment, designed to insure that ineligible landowners in the area do not benefit by using ground water resulting from the unit's operation, would require the contractor, when directed by the Bureau of Reclamation, to use ground water rather than purchase water for irrigation.

GAO suggested that the Congress might wish to provide guidance to the Bureau as to which is of

primary importance—replenishing and stabilizing the ground water supply or preventing ineligible landowners from benefiting from project water—and to consider making more land eligible for use of project water, thus lessening the use of ground water by ineligible landowners. (See Appendix, Section I, Item 70.)

A report to the Secretary of the Interior commented on the need for including, in all future long term Bureau of Reclamation water service contracts, provisions for adjusting rates for the sale of municipal and industrial water when the rates, which are based on estimated costs, are later found to be inadequate to recover all costs allocated to municipal and industrial purposes. (See Appendix, Section I, Item 72.)

Land Management and Natural Resources

In response to a request by the chairman, House Committee on Interior and Insular Affairs, GAO reviewed the Government's helium program. Significant changes have occurred since the program was authorized in 1960 which may have an effect on the Department of the Interior's ability to meet certain anticipated objectives of the program. For example, significantly more helium may be stockpiled than was forecast by the Bureau of Mines when the program was undertaken. Further, the program may not be self-liquidating over a 25- to 35-year period as required by the Helium Act.

Several possible alternatives to bring the program more in accord with that initially contemplated were offered to the committee, with the suggestion that it might wish to reevaluate the basic concept and size of the program. (See Appendix, Section I, Item 34.)

Most oil and gas leases of Federal lands were awarded by the Bureau of Land Management non-competitively and, in many cases, at prices that appeared to be less than fair market value. Although substantial public interest in acquiring noncompetitive leases indicated that effective price competition could have been obtained, the first qualified applicant is entitled under the law to lease certain lands without competitive bidding. Also, the statutory right of lessees to assign leases in units as small as 40 acres appeared to impede rather than induce development of oil and gas resources. GAO recommended that the Congress amend the Mineral Leasing Act to require the

use of competitive bidding to award oil and gas leases on all Federal lands, unless otherwise justified, and to increase the acreage limitations on assignments. (See Appendix, Section I, Item 35.)

In another report, the rising cost of acquiring land for national recreation areas was discussed. In enacting legislation authorizing the establishment of national recreation areas, the Congress frequently has to define boundaries before important facts, such as the cost of various tracts of land, are known. The Department of the Interior rejected GAO's suggestion to adjust the boundaries of certain areas to exclude expensive properties located on or near the boundary lines.

Therefore, GAO recommended that the Congress, in enacting authorizing legislation, provide the Secretary with guidelines for making changes in established boundaries when the acquisition of high cost properties on or near the boundaries is involved and, for those areas for which additional funds are requested to permit acquisition to be completed, require the Secretary to estimate the cost and to justify the desirability of acquiring such properties. (See Appendix, Section I, Item 36.)

Indian Affairs

In the three principal States participating in the Johnson-O'Malley program for contributing to the cost of educating Indian reservation children, GAO found instances where the distribution of Federal funds to school districts appeared to be improper or where the Bureau of Indian Affairs could not be sure that the funds had been used for the intended purposes. Also, funds were provided where needs may not have existed and the funds may not have benefited Indian children. In addition, the Bureau was paying the full cost of educating Indian children living in Federal dormitories although most of the children were residents of the particular States. In GAO's opinion, the school districts, counties, and States should have shared in the cost.

The Department of the Interior agreed with the proposals to improve controls over the administration of the program and informed GAO of certain steps that had been taken. Also, the Department indicated that the dormitory program agreements should be phased out in the shortest time possible, with the State

and local districts sharing the cost of educating their resident students. (See Appendix, Section I, Item 20.)

A report to the Commissioner, Bureau of Indian Affairs, commented on the loss of cash discounts on purchases because of delays beyond the discount period in paying vouchers and the failure to take the discounts offered on vouchers processed within the discount period. (See Appendix, Section I, Item 231.)

Mapping

An opportunity exists for the Federal Government to realize additional revenues if the Geological Survey would sell its maps at prices based on their fair market value. Maps sold by the Survey are priced essentially on the basis of direct costs incurred in printing and distribution although it appears that the fair market value of the maps exceeds the established prices. The applicable Bureau of the Budget (BOB) circular provides that full cost is to be recovered when a service is rendered and that market value is to be obtained when resources or property are sold.

GAO believes that maps are tangible commodities and should be priced at levels up to fair market value, but Department officials believe that supplying the maps is a service. Consequently, GAO recommended that BOB proceed as soon as possible with a review it planned to resolve the issue Government-wide. (See Appendix, Section I, Item 51.)

State and local agencies doing mapping under programs financed in part with Federal funds should use, where appropriate, scales and standards comparable to those used by the Survey in its national topographic mapping program. Thus, some steps in the national program could be eliminated and overall savings could be realized. After considering this GAO suggestion, BOB revised its Circular No. A-16 to provide for the coordination of such mapping activities with the national program whenever practical and feasible. Also, the Survey's Map Information Office planned to expand its activities, as GAO had suggested, to serve as a central information referral point on mapping activities of Federal, State, and local agencies aided by Federal funds. (See Appendix, Section I, Items 52 and 53.)

Trust Territories

After reporting again on the need for improvement in the financial management system of the Trust Ter-

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ritery of the Pacific Islands, GAO was informed of corrective actions taken or planned. GAO continues to believe that the Department should establish appropriate surveillance techniques to insure that corrective actions are taken. (See Appendix, Section I, Item 132.)

Audit work in process included reviews of such activities as the operation and maintenance of municipal waste treatment plants, the financial operations of the Missouri River basin project, and the interest rate criteria used in determining the financing cost allocated to municipal and industrial water. Other reviews were being made of the controls used to insure receipt of proper royalty payments for oil produced from leases on Federal lands, the Bureau of Indian Affairs' financial management of Indian trust monies, and the Bureau's progress in meeting the objectives of the Indian housing program.

Department of Justice

During fiscal year 1970, four reports on reviews of Department of Justice operations were submitted to the Congress and to the Congress as a whole and to the chairman of the Legal and Monetary Affairs Subcommittee, House Committee on Government Operations. Fourteen reports were issued to Department or agency officials.

Fees charged by the Immigration and Naturalization Service (INS) during fiscal year 1967 for certain services were insufficient, by about \$2.8 million, to recover costs while fees for other services exceeded costs by about \$2.2 million. Some of the fees had been established by statute, but legislation enacted in October 1968 authorized the Attorney General to set these fees. In response to recommendations that fees be set to recover costs, the Department said that it would establish a new fee structure.

Also, fees charged by U.S. marshals during fiscal year 1968 for serving processes for private litigants were insufficient by about \$470,000 to recover costs. The Department replied it was considering proposing legislation, as GAO recommended, which would authorize it to adjust the fees or would revise the fees presently prescribed by law, and that it concurred with GAO's recommendations for determining costs of services provided by the marshals and by INS. (See Appendix, Section I, Item 224.)

The other report to the Congress concerned the financial statements of the Federal Prison Industries, Inc., for the fiscal year 1969.

The reports to the chairman, Legal and Monetary Affairs Subcommittee, evaluated the actions taken by the Department to implement recommendations made by the House Committee on Government Operations in 1964 concerning collection of judgments, fines, penalties, and forfeitures and responded to questions on the Department's judgment collection activities generated in hearings held by the subcommittee in September 1969. (See Appendix, Section I, Item 162.)

Reports to the Attorney General commented on opportunities to reduce the mileage and per diem costs of U.S. marshals and deputy U.S. marshals and the unauthorized hiring of certain employees by the Immigration and Naturalization Service. (See Appendix, Section I, Items 183, 181, and 163.)

A report to the Commissioner of Industries, Federal Prison Industries, Inc., included GAO's comments on the need to revise certain accounting policies and practices. (See Appendix, Section I, Item 133.)

Audit work in process included reviews of such activities as collection practices, grants and contracts for law enforcement purposes, transportation of aliens in the Southwest Region of the Immigration and Naturalization Service, and accelerated inspection and foreign preclearance of persons entering or en route to the United States.

Department of Labor

A major portion of GAO's work at the Department of Labor was directed toward reviews of the Neighborhood Youth Corps, Concentrated Employment, and related programs authorized by the Economic Opportunity Act of 1964, as amended. Reviews of these programs, which are administered by the Department of Labor under authority delegated by the Office of Economic Opportunity, were made pursuant to the requirements of section 201 of the Economic Opportunity Amendments of 1967. During fiscal year 1970, GAO submitted to the Congress 10 reports on the effectiveness and administrative efficiency of the Neighborhood Youth Corps program and four reports on the Concentrated Employment program at selected locations. (See page 67.)

Other major Federal manpower training programs were also reviewed, including (1) the institutional, on-the-job training, and skill center programs authorized by the Manpower Development and Training Act of 1962, as amended, (2) the Job Opportunities in the Business Sector program, (3) the Special Impact program, (4) certain aspects of the Work Incentive program authorized by the Social Security Act, and (5) the operations of the JOB Bank, a computerized system for centralizing and disseminating job-order information operated by the Federal-State employment security offices. Reviews of departmental determinations of prevailing wage rates under the Davis-Bacon Act and related acts for federally financed residential housing projects in selected States were also made.

Pursuant to requests for information on certain Department of Labor operations and activities, six reports were submitted to congressional committees or Members of Congress. In addition, six reports were issued to Department officials.

One report informed the Department that the Manpower Administration could improve services to job applicants and employers in its administration of the employment security program in the four States covered in the review. Other improvements needed in program procedures and application included a need for the Manpower Administration to establish, and to apply to all State employment security offices, criteria on when these offices should be closed or their operations curtailed. (See Appendix, Section I, Items 14, 15, and 16.)

In May 1970 GAO representatives testified at the request of the chairman, Select Subcommittee on Labor, House Committee on Education and Labor, and the chairman, Subcommittee on Employment, Manpower and Poverty, Senate Committee on Labor and Public Welfare, on GAO's preliminary findings and observations in the review of the program results and administrative efficiency of the Job Opportunities in the Business Sector program.

Post Office Department

Ten reports on reviews of Post Office Department activities were submitted to the Congress in fiscal year 1970. Two of these reports were submitted to the

Congress as a whole and eight were submitted to its committees or Members. In addition, 10 reports were submitted to Department officials. These reviews covered varied activities, such as planning for large mechanized mail-handling facilities, manpower utilization and staffing of postal facilities, and transportation and delivery of mail.

GAO provided assistance to the Congress by commenting on the sixth proposal dealing with the modernization of postal operations through the establishment of a Government corporation. In testifying before the Senate and House Committees on Post Office and Civil Service, GAO representatives stated that some form of corporate structure could be justified for the Postal Service to provide management with a greater degree of flexibility to better enable it to manage its commercial operations on a business-type, self-sustaining basis.

In one report to the Congress GAO estimated that, of the costs incurred by the Post Office Department for providing address correction service to postal patrons in fiscal year 1969, at least \$2.8 million was not recovered from users of the service. The Postmaster General concurred in the proposal that the Department make a cost study to ascertain the fees that should be charged to recover the full costs of this service and stated that such a study had been undertaken. (See Appendix, Section I, Item 225.)

In another report GAO stated that the 8-hour day of railway and highway Post Office employees included an allowance of 1 hour and 35 minutes for performing duties, such as stamping facing slips and preparing labels, while away from the mobile units. Because of changed operating conditions since the allowance was established, most of these duties have been eliminated or could be eliminated or reduced. In view of the potential for considerable savings, the Post Office should establish realistic work schedules for these employees and request a change in applicable legislation if desirable or necessary.

The Department agreed that conditions had substantially changed and that the allowance may be in excess of current needs. The Department also stated that an 80-percent reduction in mobile unit employees had been made since February 1967 and that further reductions might be made. If it found that a certain amount of mobile unit service would be needed in-

definitely, it would consider whatever adjustments were appropriate. GAO believes, however, that timely corrective action is needed inasmuch as the costs are still substantial. (See Appendix, Section I, Item 175.)

In view of the concern expressed by Members of the Congress regarding the usefulness of the Department's cost ascertainment report, GAO suggested that the Department eliminate unnecessary detail and repetition and correct certain inconsistencies and other deficiencies in the report. The Department's revised format, used in the report for fiscal year 1969, incorporates most of the changes suggested. (See Appendix, Section I, Item 134.)

Audit work in process included reviews of such activities as the maintenance and repair of mechanized mail-handling equipment, the transportation and delivery of mail, manpower utilization, and research and engineering activities.

Department of Transportation

A significant portion of GAO's audit effort in the Department of Transportation was devoted to reviews of programs related to (1) the Federal Aviation Administration's (FAA) efforts to automate and improve the air traffic control system, (2) FAA's air safety activities, (3) the Federal Highway Administration's (FHWA) administration of certain Interstate Highway program activities and right-of-way acquisition appraisals, and (4) the Coast Guard's vessel construction and search and rescue activities.

Seventeen reports were submitted to the Congress on reviews of Department operations: three of these were submitted to Congress as a whole and 14 were submitted to its committees or Members. Also, Department or agency officials were issued 14 reports.

In one report to the Congress GAO commented that, because of unsatisfactory practices, FHWA required five States to evaluate the reasonableness of the cost of rights-of-way acquired in prior years. These retrospective appraisal programs confirmed that many appraisals did not provide a reasonable basis for determining the Federal share of the cost.

To a large extent, these programs were inadequately planned and executed and, as a result, differed among the States. Because there was no prior agreement, the

States were unwilling to accept the results as a basis for determining the extent of Federal participation in the acquisition costs.

In spite of the problems noted, retrospective appraisal programs, if properly planned and executed, could be used effectively when the extent of Federal participation is found to be questionable. The Department of Transportation took or promised to take actions which should minimize recurrence of these problems. (See Appendix, Section I, Item 31.)

GAO stated in another report to the Congress that there will be a continuing need to periodically upgrade, through additional construction (overlays), completed segments of the Interstate Highway System. Although the Department did not concur in the need for the actions GAO proposed to improve the administration of the overlay program, GAO recommended that FHWA establish maintenance standards for the Interstate System; recognize, through limiting the amount of Federal participation, that overlays relieve the States of a portion of their maintenance responsibilities; and establish uniform standards to provide more assurance that overlays are applied in a timely manner and in the proper amount.

Because of the long term need for overlays and the substantial costs involved, which vastly exceed the amount reported to the Congress, and because the intent of the Congress was not clear, GAO suggested that the Congress might wish (1) to express its intent relative to the use of Interstate funds to upgrade completed segments of the Interstate System and (2) to consider the long term need for overlays in its deliberations on the funding of the Interstate System, any future expansions thereof, or any follow-on highway programs. (See Appendix, Section I, Item 30.)

Another report to the Congress expressed GAO's opinion on the financial statements of the Saint Lawrence Seaway Development Corporation for the calendar year 1968.

Reports to the Secretary of Transportation commented on the need to determine the underlying causes and necessary preventive measures for certain general aviation accidents, the need to monitor the time required for processing proposed or amended air safety regulations, and certain charges to the Government for the design of a supersonic transport engine.

In another report to the Secretary GAO stated that

the Coast Guard would benefit from a financial management system that would provide for the use of internal cost-based budgets, based on and used in conjunction with an accounting system that would develop and report cost data consistent with internal budgetary

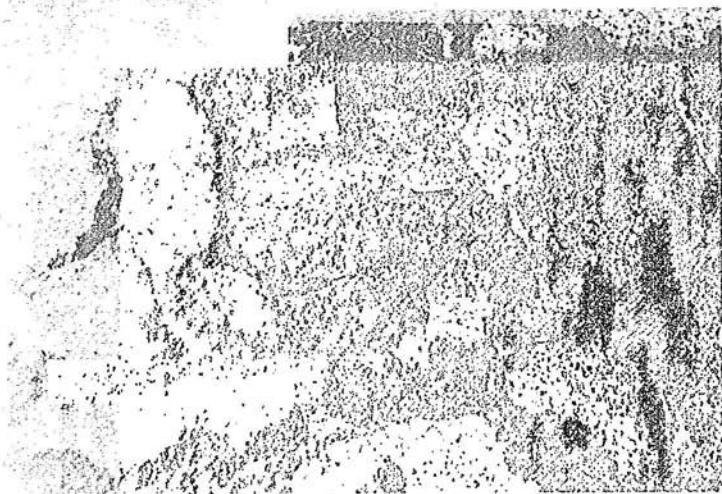
classifications. Also, there was a need to improve cost accounting to provide better financial information for management through more accurate matching of the cost of resources used with the time periods in which they were used. (See Appendix, Section I, Item 135.)

Audit work in process included reviews of programs related to FAA's efforts to automate and improve the air traffic control system; aircraft and flight programs; operations at Washington National and Dulles International Airports; FHWA's highway construction activities on the various Federal-aid systems, and its transportation planning and highway safety programs; the Coast Guard's value engineering and public family housing programs; the Federal Railroad Administration's high speed ground transportation program; the Northeast Corridor transportation project; and the administration of urban mass transportation grants.

During the year GAO staff worked closely with staff members of the Government Activities Subcommittee, House Committee on Government Operations, in its consideration of problems related to the automation of the air traffic control system.



These pictures of a section of an interstate highway show cracks and depressions in the wheel paths. This section has been overlaid since these pictures were taken.



Treasury Department

During the fiscal year, GAO submitted 10 reports to the Congress on reviews of Treasury Department operations; four of these reports were to the Congress as a whole and six were to its committees or Members. Also, Department or agency officials were issued 28 reports.

In order for internal auditing to be a more effective and integral part of the Treasury Department's management control system, GAO suggested that the internal audit staffs in the Department's 10 operating bureaus and offices, with the exception of the Internal Revenue Service (IRS) staff, be consolidated; that the consolidated organization be responsible to the highest authority practicable; that reviews in addition to those of financial matters be made; and that IRS internal audit activities be subject to departmental guidelines and continuing appraisal.

The Department believed that its present internal audit system could best accomplish these suggestions. The Under Secretary stated that he did not think it was the proper time to consolidate the audit staffs or to change their reporting level. GAO's report therefore contained recommendations for strengthening the Department's internal audit system within its present organizational structure. The Department planned to implement, in varying degrees, most of these recommendations. (See Appendix, Section I, Item 149.)

A report to the Secretary of the Treasury commented on the need to improve internal auditing in the Internal Revenue Service. (See Appendix, Section I, Item 150.)

Another report stated that the Bureau of the Mint needed better information for use of the Congress and for its own use in managing its operations and needed to review its entire data processing requirements. Also, a revision in the method of financing Bureau operations would enable the Congress to strengthen its control over Bureau activities, permit greater flexibility in planning coin manufacturing, and simplify financing procedures. This revision would require congressional action.

The Treasury Department agreed with most of GAO's proposals but cited a need for (1) Bureau of the Budget approval regarding revision of its financial reports and (2) sufficient qualified personnel to establish a centralized accounting system using automatic data processing equipment. An Assistant Secretary of the Treasury believed that the Department should

defer submitting legislative proposals to revise the method of financing Bureau operations. (See Appendix, Section I, Item 136.)

In order to obtain the full benefits of price competition from the sale of excess silver to small business concerns, GAO suggested that the Treasury Department require the General Services Administration (GSA), the selling agent, to sell such silver on a sealed-competitive-bid basis but at not less than an established minimum acceptable price. Sales to small business concerns were being made on a noncompetitive basis at the lowest bid price accepted in concurrent competitive sales in which small business concerns had broadly participated. On May 20, 1969, GSA announced that the silver set aside for small business concerns would be offered for sale to small business concerns on the basis GAO had suggested. (See Appendix, Section I, Item 213.)

Reporting on an examination of the financial statements of the Bureau of Engraving and Printing Fund, GAO stated that, in response to a proposal made in a prior GAO report, the Bureau had made a commendable but unsuccessful effort to encourage other suppliers to bid on Bureau currency paper requirements. However, cost reductions totaling \$555,755 will be achieved over a 4-year period because the Bureau changed from an annual to a 4-year contract beginning in fiscal year 1970 and the supplier—the only bidder—was awarded a contract at a lower unit price than the 1969 unit price.

In the absence of adequate and effective competition, however, the Bureau needs to have better assurance as to the reasonableness of the prices for currency paper. GAO therefore suggested that, if there is an absence of adequate and effective competition in the future, the Bureau negotiate a contract on the basis of the supplier's certified cost or pricing data in accordance with the Code of Federal Regulations. GAO was informed that the Bureau Director intended to adopt this suggestion. (See Appendix, Section I, Item 104.)

Reports to congressional committees or Members of Congress on reviews made at their request concerned such matters as procedures for offering marketable obligations of the Treasury Department, excess cost of issuing participation certificates by the Federal National Mortgage Association over the cost of obtaining funds through direct borrowings by the Treasury, and cancellation and destruction of unfit currency at various Federal Reserve banks and branches.

Reports to agency officials related to such matters as internal audit activities at the Bureau of Customs,

control over bonded jet fuel withdrawn by air carriers at selected locations, procedures governing the examination of imports prior to assessment of duty, selected activities of the IRS data center in Detroit, Mich., need for retaining unissued gold and silver certificates, and settlement of accounts of accountable officers.

Audit work in process included reviews of such matters as the use of resources at IRS service centers, warehousing of imported metal-bearing ores, administration of accounts receivable resulting from import duties, use of duty-free jet fuel by aircraft simultaneously engaged in domestic and foreign trade, and rent-free use of space in Government-owned buildings by the Office of the Comptroller of the Currency.

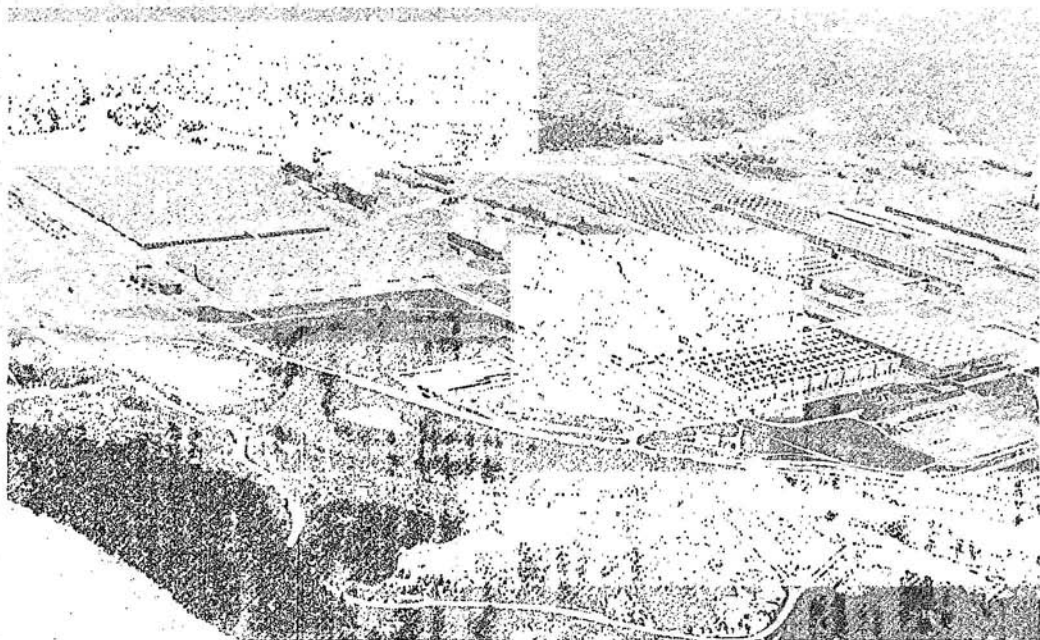
Atomic Energy Commission

GAO submitted seven reports to the Joint Committee on Atomic Energy and issued five reports to agency officials on various activities of the Atomic Energy Commission (AEC). Primarily, these reviews were

undertaken at the request of the Joint Committee with respect to (1) development of warheads for the SAFEGUARD antiballistic missile system; (2) issues relating to the possible establishment of a Government uranium enrichment enterprise; (3) development of the Janus reactor complex for biological research by the Argonne National Laboratory; and (4) proposals by AEC concerning plutonium sales policies and pricing.

During fiscal year 1969, at the request of the Joint Committee, GAO examined certain factors relating to the possible transfer of AEC's three gaseous diffusion plants to private ownership and issued two reports to the committee on that subject. As a followup to that request, GAO representatives testified before the committee on July 9, 1969, on the results of the review.

Because of the importance of this matter, the committee requested additional studies of the question of future ownership of AEC's gaseous diffusion plants, particularly with respect to the establishment of a Government uranium enrichment corporation. GAO's report stated that the most important matters involved in a possible transfer of AEC's uranium enrichment



The Atomic Energy Commission's Oak Ridge Gaseous Diffusion Plant. Major facilities include: high-enriching facilities (in standby); low-enriching facilities; barrier production plant and related facilities; research and development facilities; uranium inventory facilities and storage areas; and administrative, maintenance, and other support activities.

function to a Government enterprise were (1) issues pertaining to the functions, facilities, and materials related to uranium enrichment, (2) organization and management of enrichment activities, and (3) capitalization and financing. Also, a number of alternatives for future ownership of the uranium enterprise were identified, ranging from AEC ownership with authority to borrow funds to a mixed Government-industry corporation, and the advantages and disadvantages of each were discussed. (See Appendix, Section I, Item 62.)

On June 17, 1970, GAO representatives testified before the committee regarding (1) a proposal to establish prices for uranium enrichment services provided by AEC on a commercial basis rather than on a cost reimbursement basis and (2) a proposed price increase based on the new criteria. A report on this subject was submitted to the committee shortly after the close of the fiscal year.

A report to the Joint Committee on the development of the Janus reactor complex at AEC's Argonne National Laboratory commented on the causes of delays, cost-increases, and other problems encountered. The report stated that there was a need, with respect to future developmental projects involving the construction of costly new facilities with operating funds, for Argonne to develop and provide to AEC (1) a schedule for completing the major steps involved in project development, (2) a description of the organization to be used in managing the project, and (3) the effects anticipated, from other work, on the Laboratory's ability to keep the project on schedule. Improvements were proposed in Argonne's method of accounting for the costs of such projects and AEC's procedures for coordinating the development of reactor projects for use in programs of its research divisions. AEC and Argonne agreed to accept the proposals. (See Appendix, Section I, Item 122.)

Two reports to the Joint Committee related to reviews of AEC proposals concerning the price of plutonium and the terms for foreign sales.

GAO reported to the Chairman, AEC, that substantial savings might have accrued if a research center operating under a cost-type contract with AEC had been able to negotiate agreements with contractors supplying klystron tubes to limit payments to the contractors for hours of tube use if tube life proved, as it did, to be substantially longer than expected. Also, the center did not obtain certified cost or pricing data from the contractors as a basis for price negotiation, as required,

and continued to make payments to a contractor who was not complying with contract terms. In response to GAO's proposals, AEC informed GAO of actions that had been taken or which AEC and the center proposed to take upon expiration of the contracts on June 30, 1970. (See Appendix, Section I, Item 112.)

In another report to the Chairman, AEC, GAO commented on the fact that AEC was not represented on, nor did its representatives attend as observers at meetings of, committees established to select the most appropriate experiments to be conducted on its contractor-operated accelerators under the national high energy physics research program. AEC agreed to adopt GAO's proposals on this matter and on the need for evaluation and approval of any automated systems suggested by the contractors for analyzing experimental data. (See Appendix, Section I, Items 123 and 124.)

Civil Service Commission

A significant portion of GAO's audit effort in the Civil Service Commission was devoted to reviewing the administration of selected aspects of the Federal employees' health benefits and group life insurance programs. The proposed design for the automated accounting system for the administrative, fiscal, and budgetary activities of the Commission was also reviewed and approved.

During the year one report was submitted to the Congress, one to a Member of the Congress, and four to Commission officials.

One report stated that the Commission had administered the Federal employees' group life insurance program in a generally satisfactory manner; however, the administration of the program could be improved by strengthening management controls over certain aspects of the program.

GAO recommended (1) requiring accounting support for certain costs charged to the program by the principal insurance carrier and paid for on the basis of a fixed percentage of gross premiums, (2) requiring the carrier to report systematically to the Commission on all program funds held by it, (3) independently evaluating the reasonableness of the charge made by the carrier when an insured employee converts to an individual policy, and (4) including the deficiency under the life insurance agreements of certain employees' beneficial associations in the Commission's actuarial valuations of its regular insurance program. The Commission took or promised to take action on all of these

recommendations. (See Appendix, Section I, Items 176, 177, 178, and 179.)

At June 30, 1970, a report on a review of the Government-wide service benefit plan under the Federal employees' health benefits program was being prepared and a review of the Commission's administration of the Government-wide indemnity benefit plan under this program had started.

District of Columbia Government

GAO submitted six reports to the Congress on reviews of District of Columbia operations. Three of these reports were submitted to the Congress as a whole and three were submitted to its committees or Members. Also issued were three reports to the Commissioner, District of Columbia Government, three reports to department or agency officials, and one report to the General Manager, Washington Metropolitan Area Transit Authority. Selected District-wide operations and activities in eight District departments were reviewed, including operations related to procurement, building construction and maintenance, payroll administration, and motor vehicle management.

One report on building construction inspections stated that the District had not made required or recommended tests to determine whether concrete met specifications; had accepted concrete that did not meet specifications; had not received required samples, shop drawings, descriptive literature, and certifications to determine whether materials, equipment, and systems met specifications; and had accepted compacted soil (fill and backfill) that did not meet specifications. The District took action to improve its inspections by providing needed guidance and test equipment to its inspectors and by implementing a better system for reporting and reviewing results of inspection activities. (See Appendix, Section I, Item 92.)

In another report GAO stated that the District's per pupil cost of repairing and maintaining school buildings was significantly higher than other school systems' costs; the cost of painting work performed by its painters was higher than the cost of similar work performed under contract; its work force took about 96 percent more time to do certain repair and maintenance work than had been estimated; and school custodians were not performing minor maintenance work. GAO recommended that information provided by the District's accounting system be used more effectively through

analyzing and comparing costs and labor hours on in-house projects with those on contract work, where feasible, and with advance estimates; also, that criteria be developed prescribing the repair and maintenance work to be performed by school custodians. GAO was informed that corrective action would be taken. (See Appendix, Section I, Item 173.)

In a report on automatic data processing GAO commented on the practice of certain departments and agencies of the District acquiring their own computers or contracting for data processing services although time for some of this work was available on existing District computer facilities. Also, more time would have been available and some duplication of data processing could have been avoided if the facilities had been operated more efficiently. District officials agreed, in general, with these findings, and corrective actions are being taken, or are planned, for expanded coordination of data processing and sharing of computer systems. (See Appendix, Section I, Item 193.)

Statistical information regarding the level of employment and expenditures for certain activities in the District of Columbia and seven other cities was furnished to the chairman, District of Columbia Subcommittee, Senate Committee on Appropriations. Also, 16 papers covering reviews of various District activities were furnished to the staff director of that same subcommittee at his request to assist the subcommittee in reviewing the District's fiscal year 1971 appropriation request.

In reports to the Commissioner of the District of Columbia, GAO commented on the need to study procurement of fixed equipment to be installed in newly constructed schools and on the need for the Department of General Administration to follow its operating procedures for the selection and evaluation of architect-engineer firms.

Audit work in process included reviews of selected activities in the Department of Public Health, Sanitary Engineering, Public Welfare, Highways and Traffic, and Economic Development, as well as general reviews related to negotiated services contracts, non-tax revenue collections, and motor equipment management.

General Services Administration

A significant portion of GAO's audit effort in the General Services Administration (GSA) was devoted to reviewing supply management, transportation and

communications, buildings management, and property management activities. Three reports were submitted to the Congress as a whole and nine were submitted to its committees or Members. Also, 15 reports were issued to the Administrator of General Services or other agency officials.

One report to the Congress related to actions taken by GSA after management responsibility for stocks valued at about \$19.5 million and representing 52 Federal supply classes was transferred from the Department of Defense (DOD) to GSA on July 1, 1967. Tests after the transfer showed substantial discrepancies in GSA's inventory records, and subsequent tests by DOD showed that stocks valued at about \$5 million had not been included in the records and therefore were "lost" to the supply system. As a result, GSA purchased some identical stocks and did not, in some cases, fill requisitions in a timely manner because it did not know that the items were on hand.

GAO believes that these deficiencies arose because procedures adopted as a result of a previous GAO report on the transfer of handtools and paint had not been effectively implemented with respect to the 52 classes. GAO was informed that additional management controls would be applied to future transfers to insure that past difficulties were not repeated. (See Appendix, Section I, Item 195.)

Another report concerned the presence of nonessential items in GSA's stock system through which it makes available common-use supplies and equipment needed by Federal agencies and Government-related organizations. GSA did not have an effective program for eliminating nonessential items—inactive, low-demand, and uneconomical items—from the system. Data gathered at GAO's request showed that there were over 15,000 items, valued at more than \$15 million, for which less than six orders were received during fiscal year 1969. No orders were received for about 6,275 of these items. GAO also cited examples where elimination of items which were more expensive than other available items with similar or identical characteristics could have saved up to \$768,000 in fiscal year 1969.

In response to GAO's proposals, GSA implemented a program to delete inactive and low-demand items and established a program, which would receive concerted effort previously lacking, to eliminate uneconomical items. GAO recommended that progress un-

der these programs be reviewed by GSA internal auditors. (See Appendix, Section I, Item 196.)

The third report to the Congress related to furnishing supplies to Government agencies overseas. The Federal Supply Service operates depots in each of GSA's 10 regions in which common-use items are warehoused for sale to Government agencies located in the continental United States or overseas. A test in the largest export region showed that a high percentage of export requisitions were not filled in the prescribed processing time. In general, GSA management was receptive to GAO suggestions for improving supply effectiveness, and actions were taken to carry out GAO suggestions. (See Appendix, Section I, Item 164.)

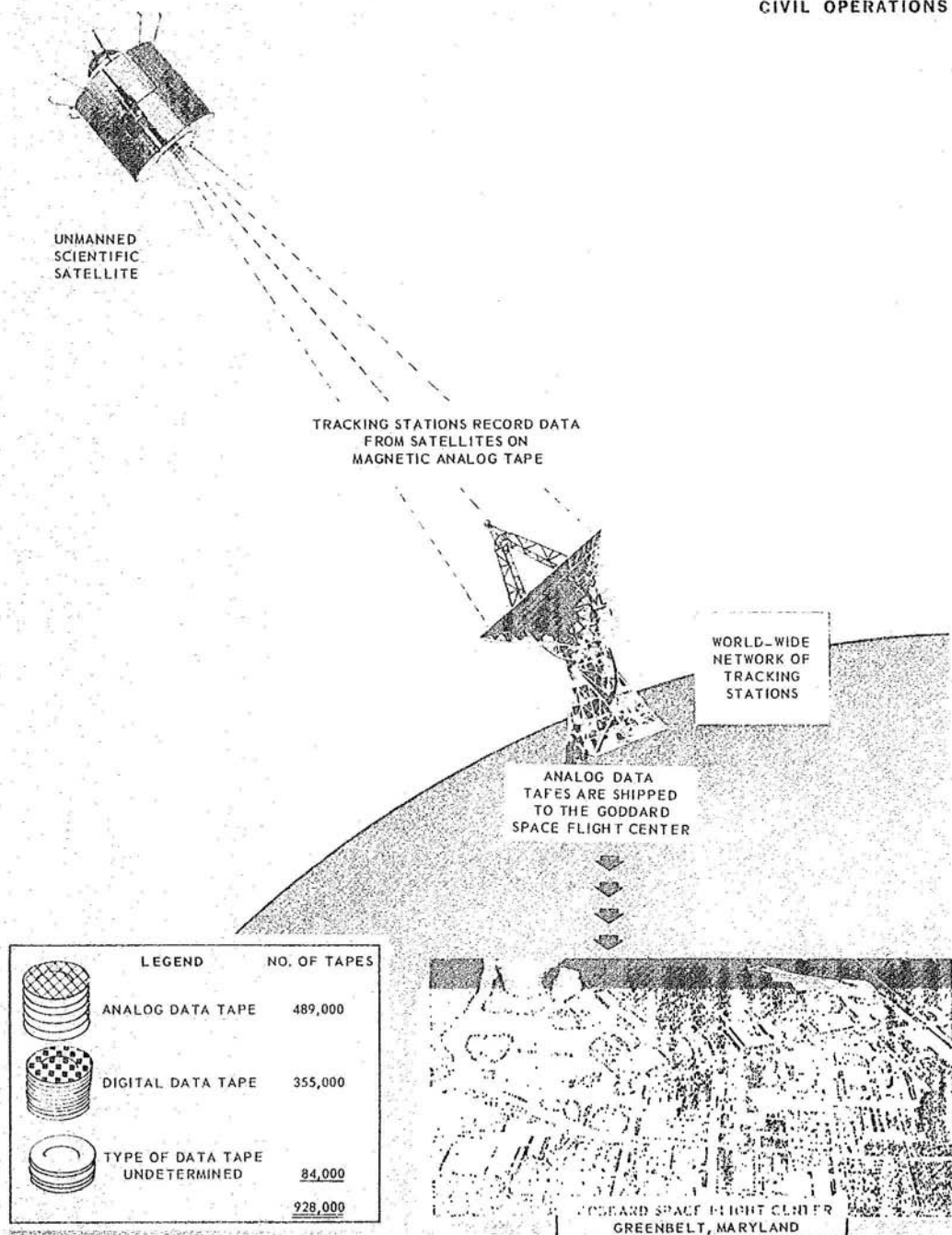
In a report to the Administrator of General Services, GAO suggested that, when changes in public building construction project specifications are approved, consideration be given to whether the related construction standards—which are used in developing the project plans and specifications—should also be changed. GSA did revise its procedures to enable the central office to give such consideration, but the value of the revised procedures would be enhanced if the regional offices would suggest revisions and submit their reasons when they believe the standards should be revised. (See Appendix, Section I, Item 208.)

Audit work in process included reviews of GSA's activities under Public Law 89-306, which places on GSA certain Government-wide responsibilities for management of automatic data processing equipment.

National Aeronautics and Space Administration

GAO's work in the National Aeronautics and Space Administration (NASA) during the fiscal year 1970 was performed at NASA headquarters and at various NASA field installations. Eleven reports were submitted to the Congress—two to the Congress as a whole and nine to committees or Members. In addition, agency officials were issued five reports. The reviews were concerned principally with the adequacy of management controls over space research and development programs, contracting and procurement, and various administrative activities.

A review of selected procurement contracts which



System for receiving and recording data for processing at the Goddard Space Flight Center.

CIVIL OPERATIONS

provided incentives of about \$26.2 million for accelerating delivery schedules showed that the incentives were not needed. NASA contracts containing incentive provisions amounted to about \$6.7 billion as of June 30, 1969.

NASA disagreed that the incentives were not needed but subsequently issued an incentive contracting guide jointly with the Department of Defense which states that rewards for advancing delivery schedules are usually not advisable and that, generally, penalty-only incentives are the most appropriate means of insuring delivery on schedule. The new guidelines, if properly implemented, should preclude a recurrence of the situations described in this report. (See Appendix, Section I, Item 105.)

NASA's Goddard Space Flight Center was purchasing large quantities of new magnetic data tapes instead of rehabilitating used tapes, substantial quantities of which were being stored for indefinite periods because of inadequate procedures for making them available for reuse. Also, Goddard was not realizing the full savings possible from greater use of rehabilitated tapes because of its limited capacity for rehabilitation.

NASA took significant action to improve the controls over magnetic tapes and agreed to study ways of increasing Goddard's capacity for rehabilitation. After GAO stated that additional action was desirable, NASA agreed to study ways for further improvement. (See Appendix, Section I, Item 197.)

A report to the Administrator, NASA, stated that NASA needed to establish objective output measurement standards for determining fees to be awarded to support service contractors having cost plus award fee contracts with NASA. Although such contracts provide for fees based on evaluations of the quality of the contractor's performance, GAO surveys indicated that fees were paid which could not be readily related to performance. NASA stated that its contracting guide would be revised to recognize its more recent experience in the use of award fee contracts. (See Appendix, Section I, Item 89.)

Audit work in process included reviews of such activities as logistics operations, use of consultants, procurement, actions taken by NASA and the Air Force to eliminate duplicate functions, the Skylab project, and the use of automatic data processing equipment.

National Science Foundation

GAO audit efforts at the National Science Foundation (NSF) during fiscal year 1970 were directed principally to (1) the grant-supported program for developing the scientific research and educational capabilities of universities, (2) operations at the National Radio Astronomy Observatory in Green Bank, W. Va.—one of five NSF-supported national research centers in astronomy and the atmospheric sciences, and (3) the programs for promoting the development and improvement of national systems for the dissemination of scientific and technical information.

Two reports were transmitted to the Director, NSF, on the results of GAO audit work.

NSF was crediting certain income generated under grant-supported activities to appropriated funds for further use in NSF's programs rather than depositing such income into the U.S. Treasury as miscellaneous receipts. After GAO stated that this practice was improper in the absence of specific statutory authority, NSF said that the practice would be discontinued. (See Appendix, Section I, Item 138.)

Also, certain administrative procedures at the contractor-operated National Radio Astronomy Observatory needed improvement. Savings were available through increased use of General Services Administration sources of supply; adequate records of the use of Government-owned vehicles were needed; claims for refunds of State fuel tax should have been filed; and timekeeping practices for the contractor's hourly wage employees needed to be strengthened. NSF advised GAO that these recommendations for corrective action would receive prompt attention. (See Appendix, Section I, Items 114 and 198.)

In accordance with suggestions GAO had previously made, NSF reorganized its audit office in May 1970 to broaden the scope of internal audits and include comprehensive examinations of program management activities and practices. This action should strengthen the effectiveness of the audit office's work and increase its usefulness to management.

A report to the Congress on support by NSF and the Navy of shore facilities and vessels for research activities at oceanographic institutions was in process at June 30, 1970. Also underway was a survey of the Ocean Sediment Coring Program, a national research

program for conducting studies and analyses of core material obtained from the deep sea floors.

Office of Economic Opportunity

During fiscal year 1970 GAO completed the reviews and reports to the Congress required by section 201 of the Economic Opportunity Amendments of 1967 which authorized and directed the Comptroller General of the United States to make an investigation of programs and activities financed in whole or in part by funds authorized under the Economic Opportunity Act of 1964 to determine the efficiency of the administration of such programs and the extent to which such programs achieve the objectives set forth in the act.

Seventeen reports were submitted to the Congress covering the effectiveness and administration at selected locations of Community Action, Job Corps, and other economic opportunity programs administered by OEO. In addition, 19 reports were submitted covering the effectiveness and administration at selected locations of the Concentrated Employment and Neighborhood Youth Corps programs administered by the Department of Labor, the Work Experience and Training program administered by the Department of Health, Education, and Welfare, and the Economic Opportunity Loan program for low income rural families administered by the Farmers Home Administration, Department of Agriculture, under authority delegated by OEO (see pages 56, 50, and 45).

These reports supplemented a report submitted to the Congress on March 18, 1969 (B-130515) summarizing GAO findings and recommendations resulting from the reviews made pursuant to section 201. (See the Comptroller General's Annual Report for fiscal year 1969, beginning at page 68.)

Twenty-two reports were submitted to committees or Members of Congress on reviews of OEO-operated programs made at their request and one report was issued to OEO.

Audit work in process included reviews of activities of specific community action agencies made pursuant to requests of committees or Members of Congress, manpower training programs carried out by Opportunity Industrialization centers, Comprehensive Health Services programs, contracts for support services and

evaluations, economic development and demonstration programs, and OEO-funded credit unions.

Small Business Administration

GAO submitted one report to the Congress and two reports to Members of the Congress on Small Business Administration (SBA) activities. Also, three reports were issued to agency officials.

In the report to the Congress, GAO expressed the opinion that analyses made by SBA loan specialists of borrowers' business operations and financial conditions were not sufficiently comprehensive to adequately determine whether repayment of loans was reasonably assured from borrowers' earnings. The Administrator, SBA, stated, in response to GAO's suggestions, that actions had been taken to improve supervision over loan processing. These actions, if properly implemented, will result in improvements, but more specific criteria should be provided to the loan specialists for determining when additional financial data should be obtained. (See Appendix, Section I, Item 39.)

Reports issued to agency officials dealt with efforts of SBA to increase participation by private lending institutions in its business loan program and with the valuation of collateral offered to secure SBA loans.

Audit work in process included a review of the small business investment company program.

Veterans Administration

At the Veterans Administration (VA), GAO reviewed selected phases of the medical, compensation and pension, loan guaranty, insurance, facilities construction, education, and supply management programs and submitted 14 reports to the Congress, including six reports to the Congress as a whole and eight to its committees or Members. Twenty-nine reports were also issued to agency officials.

In addition to the above-mentioned reports GAO submitted comments to congressional committees on legislative proposals concerning commercial insurance companies' absorbing, to a certain extent, the cost of hospital care for non-service-connected disabilities and on the centralized administration of a program of training for interns or residents.

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In one report, GAO stated that VA's medical care cost accounting system, which accounted for appropriations of about \$1.4 billion in fiscal year 1968, could be revised to provide more useful cost data on the various medical activities conducted by VA hospitals and other medical facilities. At the time of the review, VA was planning to make certain revisions. In implementing these changes, VA gave careful consideration to GAO suggestions and made a number of significant changes to improve its system. (See Appendix, Section I, Item 140.)

GAO reported that consolidation of VA's two insurance field offices into one would save the Government about \$872,500 annually during the initial years and as much as \$1,118,700 annually beginning in January 1974. Nonrecurring costs of the consolidation would be about \$2.5 million; however, within 3 years accumulated savings would exceed these costs. A consolidation at Philadelphia, rather than at St. Paul, could be achieved at a lower cost without a reduction in service, would affect fewer employees, and would result in less temporary disruption of operations.

VA informed GAO that it would be advised of the Administrator's position on the recommendation that St. Paul insurance operations be consolidated with the existing operations at Philadelphia as soon as the decision process was completed. (See Appendix, Section I, Item 174.)

In another report, GAO stated that VA had not established a clear policy for placing veterans in community nursing homes or specific criteria for determining veterans' financial eligibility. Duplicate inspections of nursing homes were made under the VA program and the Medicare program. Monthly progress reports of nursing homes did not usually serve a useful purpose. Neither the full cost of operating VA nursing home care units nor a comparison of this cost with the cost of providing care in VA hospitals was disclosed in the operating reports. In response to GAO recommendations, VA agreed to take various actions to achieve the improvements needed. (See Appendix, Section I, Item 165.)

Another report concerned VA's internal audit activities. One VA audit group was responsible for auditing all fiscal activities. A second group expended its resources primarily on audits that covered all activities, including fiscal activities, of a field station although its resources could have been used to better advantage

in making simultaneous analyses of specific functions or programs at several stations. Also, both audit groups reported to officials who were directly responsible for certain operations that the auditors reviewed.

VA informed GAO that, in consonance with GAO recommendations, it would conduct more of the broad program-type audits, the two groups had been consolidated, and they would report directly to the Deputy Administrator. (See Appendix, Section I, Item 152.)

GAO believes that the interest rate charged by VA on loans made to veterans holding permanent plan policies under the five Government life insurance programs should approximate the interest rate earned on new investments of the insurance funds. If, in calendar year 1968, VA had charged 5 percent, 6 percent, or 7 percent, instead of the rate of 4 percent which has been in effect since 1946, the earnings distributable to policyholders would have increased somewhere between \$500,000 and \$4 million, depending on the rate charged and the number of new loans made.

In view of the reluctance of VA to adjust the interest rate, the Congress may wish to consider establishing specific criteria for adjusting the rate and removing the statutory limitation of 5 percent now existing on one program, the U.S. Government Life Insurance program. (See Appendix, Section I, Item 63.)

Another report expressed GAO's opinion on the financial statements of the Veterans Canteen Service for fiscal year 1969.

Audit work in process included reviews of the administration of VA's educational assistance programs, the supply system, hospital planning and construction, automatic data processing, and hospital affiliation agreements.

Other Civil Departments and Agencies

GAO's audit work in certain civil agencies of the Federal Government consisted primarily of the examination of their financial statements. Reports on these examinations are identified below.

Audit of certain banks of the Farm Credit System supervised by the Farm Credit Administration, fiscal year 1969. B-114806, Feb. 9, 1970.

Audit of the Federal Deposit Insurance Corpora-

tion for year ended June 30, 1969, B-114831, Mar. 19, 1970.

Examination of financial statements of Federal home loan banks supervised by the Federal Home Loan Bank Board, for year ended Dec. 31, 1968, B-114827, Aug. 17, 1969.

Examination of financial statements of the Federal Home Loan Bank Board for year ended Dec. 31, 1968, B-114827, Sept. 5, 1969.

Audit of Federal Savings and Loan Insurance Corporation supervised by the Federal Home Loan Bank Board, for year ended Dec. 31, 1968, B-114893, Oct. 14, 1969.

Examination of financial statements of the Panama Canal Company and the Canal Zone Government, fiscal years 1968 and 1969, B-114839, Mar. 13, 1970.

Examination of financial statements of the Tennessee Valley Authority for fiscal year 1969, B-114850, Apr. 15, 1970.

All remaining Government capital in the Federal intermediate credit banks and the banks for cooperatives was retired in December 1968 and all remaining Government capital in production credit associations was retired in January 1969. Inasmuch as all Government capital had previously been withdrawn from the Federal land banks, the General Accounting Office is no longer authorized to audit any of the organizations supervised by the Farm Credit Administration.

GAO was unable to fully discharge its responsibilities for auditing the Federal Deposit Insurance Corporation because the Corporation would not permit unrestricted access to examination reports, files, and other records relative to the banks it insures. Without such access, GAO was unable to express an overall opinion on the Corporation's financial statements. The importance of resolving the access-to-records question is indicated by the Corporation's estimate that there were insured deposits of \$2,109 million in 212 problem banks at June 30, 1969. A bill, H.R. 40, which, if enacted, would resolve the access-to-records problem, was introduced in the 91st Congress.

Multi-Civil-Agency Reviews

Two reports to the Congress as a whole, seven reports to committees or Members of the Congress, and

one report to an agency official on reviews involving activities of two or more civil departments or agencies of the Federal Government were issued during the year.

One report to the Congress related to a review of the cost reduction and management improvement program in five departments and agencies. In March 1965, the President directed the head of each department and agency in the executive branch to put into effect a formal, organized program to reduce the cost of Government. GAO reviewed the operation of this program in the selected departments and agencies in view of the significance and long range nature of the program, inquiring into the manner in which it was being carried out and identifying opportunities for improvement. GAO concluded that such a program could be a useful tool of management in developing cost consciousness in employees of the Federal Government and in motivating the development of cost-saving ideas and techniques.

In some departments and agencies the program has been aggressively implemented but in others little effort has been made to use the program forcefully for the purposes intended. Although many worthwhile savings were reported, improvement was needed in all aspects examined. The report to the Congress summarized GAO findings and recommendations which had previously been included in separate reports to the department and agency heads. (See Appendix, Section I, Item 229.)

Another multiagency review concerned certain benefits granted to watch companies operating in the Virgin Islands. Four of the 15 watch companies operating in the Virgin Islands as of June 30, 1968, not only benefited from the importation of their products into the United States duty free, but also benefited from 10-year grants of tax exemption and subsidy by the Government of the Virgin Islands.

The need for continuing the tax exemption and subsidy benefits for the four companies was questioned because of the substantial profits being earned. The Department of Commerce agreed with GAO's view and the Governor of the Virgin Islands stated that the tax exemption and subsidy grants for the four companies should not be extended or renewed. (See Appendix, Section I, Item 230.)

Another report related to the use of Government vehicles, which are prohibited for use for other than

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official purposes. Inasmuch as the term "official purposes" was not defined and was being interpreted differently by various Government agencies, GAO recommended that the Bureau of the Budget formulate appropriate guidelines, which the Bureau then agreed to do. (See Appendix, Section I, Item 205.)

Legislative and Judicial Branches

Legislative Branch

Audit work in the legislative branch included examinations at the site of operations of the following activities:

The Senate:

- Senate recording studio revolving fund
- Senate employees barber shop
- Senate office beauty shop

The House of Representatives:

- The Sergeant at Arms
- House finance office
- House recording studio revolving fund
- House stationery revolving fund
- House beauty shop

Architect of the Capitol:

- U.S. Senate Restaurants
- House of Representatives Restaurants
- Capitol Power Plant

Capitol Guide Force

Government Printing Office

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

Eighteen reports on audits of activities in the legislative branch were issued during the year. Four of these reports related to activities of the Senate, seven to activities of the House, two to activities of the Architect of the Capitol, two to activities of the Capitol Guide Force, and three to activities of the Government Printing Office.

Two reports to the Congress expressed GAO's opinion on the financial statements of the Government Printing Office for fiscal years 1968 and 1969, respectively.

Judicial Branch

During fiscal year 1970, reviews were completed of financial and other activities of the U.S. District Courts in the Central District of California, the Northern District of Illinois, and the Middle District of Florida and the results of each review, including suggestions for operational improvements, were reported to the respective chief district judges. Audit work in process included reviews of selected activities of the Administrative Office of the U.S. Courts and terminal leave payments made to former judicial branch employees.

Organizations Outside the Federal Government

Pursuant to the act of May 7, 1928 (22 U.S.C. 278a), GAO examined the financial statements for fiscal year 1969 of the Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated—a private domestic nonstock corporation which receives a substantial part of its income from the U.S. Government. The examination was made at the Institute's headquarters in Washington, D.C., and at the laboratory site in the Republic of Panama. GAO expressed its opinion on the Institute's financial statements in a report addressed to the Board of Directors of the Institute and included in the Institute's annual report to the Congress.

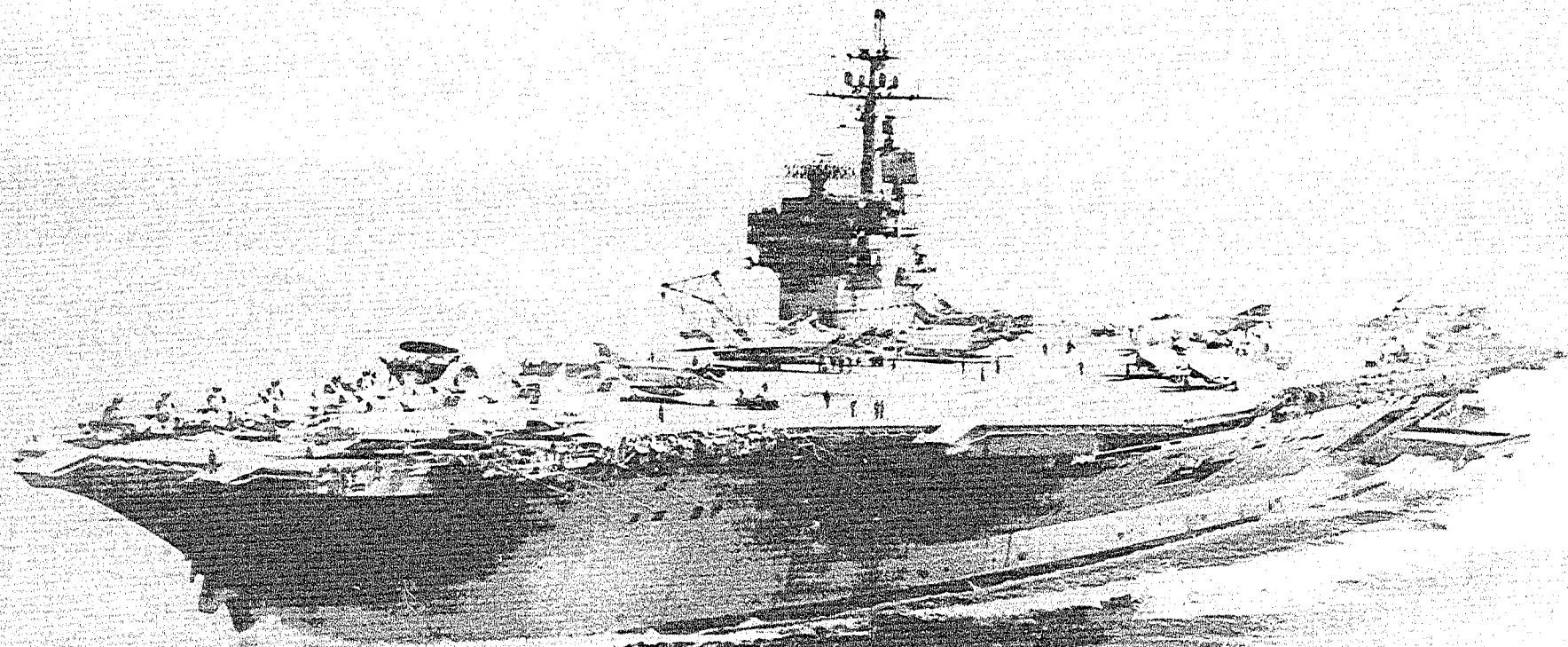
GAO also expressed its opinion on the financial statements of Government Services, Inc., its Employee Retirement and Benefit Trust Fund, and its Supplemental Pension Plan for the year ended December 31, 1969, in a report addressed to the Board of Trustees, Government Services, Inc. Copies of this report were sent to the President of the Senate and to the Speaker of the House of Representatives. The examination was made at the request of the corporation's Board of Trustees.

Examinations were made of the financial statements of the Disabled American Veterans National Headquarters for the year ended December 31, 1968, and

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of the Life Membership Fund and Service Foundation for the year ended June 30, 1969, pursuant to the requirements of Public Law 90-208, approved Decem-

ber 18, 1967 (36 U.S.C. 90i). A report, expressing GAO's opinion on these financial statements, was submitted to the Congress during the fiscal year.



CHAPTER FIVE

AUDIT OF DEFENSE
OPERATIONS AND PROGRAMS

Nature of Audit Work Performed

GAO's audit effort in the Department of Defense continued to be directed toward aiding in the improvement of management and operating controls and financial administration of the complex operations of the Department. Regular audits and reviews completed during the year or in progress at the close of the year related to programs and operations in such functional areas as (1) acquisition of major weapon systems, (2) procurement (including negotiation of contract prices and administration of contract terms and conditions), (3) research and development, (4) supply management, (5) facilities and construction, (6) manpower utilization (including administration of military and civilian pay and allowances), and (7) accounting systems and accounting operations.

In addition to these reviews, GAO made a number of special audits, investigations, and surveys at the request of various committees of the Congress and individual Members of the Congress. On this special work 126 reports were issued to the committees and Members of the Congress—an increase of 68 over the number of reports issued in the preceding fiscal year. These reports related principally to (1) administration and current status of weapon system acquisition programs, such as the SAFEGUARD antiballistic missile

and the SENTINEL, its predecessor; the main battle tank (MBT-70); the drone antisubmarine helicopter; the AN/SQS-26 sonar system; and the Army's special purpose individual weapon; (2) administration and current status of other programs such as the Civilian Health and Medical Program of the Uniformed Services, the chemical and biological warfare program, the acquisition of computers for various automatic data processing systems, and the project REFERRAL (assistance to retired military personnel seeking civilian careers); (3) questions concerning the existence of waste, extravagance, or other improper practices by the military departments; (4) procurement practices in acquiring specific goods or services and administration of specific contracts; and (5) inquiries concerning proposed transfer, consolidation, or phase out of functions performed at various military installations.

Approach To Audit

General

Because GAO's manpower resources are limited in relation to the magnitude and complexity of the operations of the Department of Defense, it is essential that audit effort be directed to selected areas where findings and recommendations can be of most assistance in bringing about needed improvements in management and control and be most responsive to congressional interest in the operations. In keeping with this concept GAO has redirected its audit effort in the areas of acquisition of major weapon systems and procurement.

Acquisition of Major Weapon Systems

The complexity of modern weapon systems has brought about a geometric increase in their costs and in the potential risks that the systems as produced may fail to meet the performance objectives for which they were designed. The Congress has expressed increasing concern that, for many of the new weapon systems, actual costs are exceeding by significant amounts the initial estimates of costs to develop and produce them; time schedules for development and production are continually extended; deliveries are delayed and deployment of the systems is deferred for many months even after repeated extensions of time schedules; and

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the actual performance characteristics of the systems frequently fall substantially short of those expected from the original design.

In recognition of this congressional concern, the General Accounting Office has established a staff within its Defense Division—the Major Acquisitions Group—to maintain continuing reviews, on a current basis, of major weapon systems which are in various stages of the acquisition cycle—from the formulation of the concept of the system, through the phases of contract definition, development, and production, to its operational deployment. For this purpose, weapon systems are considered “major” if costs are expected to reach \$25 million for research, development, test, and evaluation, or \$100 million for production. The Major Acquisitions Group has as its primary objective the determination of the basic causes of cost growth, schedule slippage, and deterioration of the originally expected performance characteristics, in order to make recommendations for improving the weapon acquisition process.

GAO believes that its reports to the Congress on these continuing reviews will provide the means of keeping the Congress and appropriate congressional committees currently informed on the progress and status of the major programs in the weapon acquisition process and assist them in formulating decisions affecting authorization and appropriation of funds for the programs.

Procurement

For many years the major part of GAO's audit effort in the area of procurement had been applied to the pricing of negotiated contracts. Interest in this area continues. However, with the increased responsibility and effectiveness of the Defense Contract Audit Agency (DCAA) in the postaward reviews of contract prices, GAO is able to give greater attention to other important aspects of procurement.

GAO's work in the audit of contracts and the work of the DCAA are complementary rather than duplicative. As the DCAA has increased its effectiveness, GAO's emphasis on audit of individual contracts has been shifted to broader areas of procurement and contract administration. GAO is now giving greater attention to such other important aspects of procurement as (1) processing of contractors' claims, (2) price escalation provisions included in negotiated contracts, (3) furnishing of materials to contractors and controls over such materials, (4) contract terminations,

and (5) evaluations of contractors' engineering change order proposals.

Audit Reports Issued

GAO submitted 180 congressional reports on its audits and investigations: 54 to the Congress and 126 to committees or Members of the Congress on special investigations made at their request. (Five of the reports to the Congress involved operations of other departments and agencies of the Government as well as operations of the Department of Defense.) In addition, 343 reports were submitted to officials of the Department of Defense; of these, 47 were directed to the secretarial level and dealt principally with supply management, pay and allowances, and support service matters which were not deemed to be of sufficient significance to report to the Congress; 296 were directed to lower level officials and dealt principally with matters relating to settlement of disbursing officers' accounts and matters relating to local policies, procedures, and practices disclosed in site examinations of civilian payrolls and related records.

The discussion of GAO's general work in the Department of Defense on matters relating to transportation is included in Chapter Seven, Transportation, beginning on page 99. The reports issued on such work are not included in the number of reports issued as cited above. A list of the reports issued, including those dealing with transportation matters, is presented in the Appendix, Section III, of this report.

Significant Findings and Recommendations

GAO reviews of the management of the operations of the Department of Defense and the military departments frequently result in findings which indicate need for improvement in management controls. Reports on such findings include recommendations for improvement.

The replies of the Department of Defense officials to reports in which administrative actions on the part of Defense officials are recommended have been generally responsive, indicating, in a large percentage of the cases, agreement with the findings and an intention to institute corrective measures. Numerous replies advise that new directives and instructions have either been issued or are intended to be issued. To insure that the

revised directives and newly announced policies are being carried out, GAO emphasizes the need for independent reviews at higher echelons within the Department and by internal audit organizations.

The principal areas where GAO findings indicated a need for improvement in management controls are discussed in the following sections of this chapter.

Status of Acquisition of Major Weapon Systems

In February 1970 GAO submitted to the Congress its initial report on the status of the acquisition of selected major weapon systems. According to the records of the Department of Defense, there were 131 major programs in various phases of acquisition as of June 30, 1969. These programs were estimated to cost about \$141 billion. GAO reviewed the status of 57 selected major weapon systems included in these programs.

On the basis of the review, GAO concluded that:

There was considerable cost growth on many current development programs and the cost growth was continuing.

There were significant variances, existing or anticipated, between the performance originally expected and that currently estimated for a large number of the systems.

There were slippages, existing or anticipated, in the originally established program schedules of from 6 months to more than 3 years on many of the systems.

No recommendations were made in the report. However, during the course of the review GAO made many suggestions for the improvement of acquisition management and the Department took action on the suggestions. (See Appendix, Section I, Item 113.)

At June 30, 1970, GAO was examining the management controls applied in each of the phases of the weapon acquisition cycle.

Management of Procurement Programs, Special Studies

Two reports were issued to the Congress on special studies of procurement matters requested by congressional committees: a study of the feasibility of applying "should cost" analyses in GAO audits and reviews of Government procurement, requested by the Subcommittee on Economy in Government, Joint Economic Committee; and a study of two proposed meth-

ods for enhancing competition in weapon systems procurement, requested by the Subcommittee on Antitrust and Monopoly, Senate Committee on the Judiciary.

In requesting the first study, the subcommittee defined the "should cost" approach as an attempt to determine the amount that a weapon system or product ought to cost given attainable efficiency and economy of operation. The study revealed that it is feasible for GAO, in auditing and reviewing contractor performance, to utilize "should cost" analyses. The greatest opportunity for the Government to benefit from the application of "should cost" appeared to be through its use, on a selective basis, in preaward evaluations of contractors' price proposals. (See Appendix, Section I, Item 90.)

The second study involved two proposed methods for enhancing competition in weapon systems procurement, "parallel undocumented development" and "directed technical licensing." The first method implies sustaining two or more contractors well into the period of engineering development—which normally is not done—and provides for competitive award and pricing of production on the basis of demonstrated prototypes instead of relying heavily on paper studies, plans, and proposals. Under this method, documentation ordinarily required by the Government would be deferred—except for the data essential to the development process itself—until one of the production contractors is chosen. The second method proposes a clause in the early development contract allowing the Government to reopen competition for subsequent or follow-on production, select the winner, and appoint him as a licensee. In return for royalty and technical assistance fees, the licensor would then provide the winner with manufacturing data and technical assistance.

GAO expressed the opinion that the first method—parallel undocumented development—had merit and cited the circumstances under which it could be used advantageously. Although the main objectives of the second method—directed technical licensing—were attractive, it posed problems which seemed to evade a workable solution. (See Appendix, Section I, Item 93.)

In addition to studies requested by congressional committees, the following studies were directed by legislation.

A 1968 amendment to the Defense Production Act of 1950—Public Law 90-370—directed GAO to study

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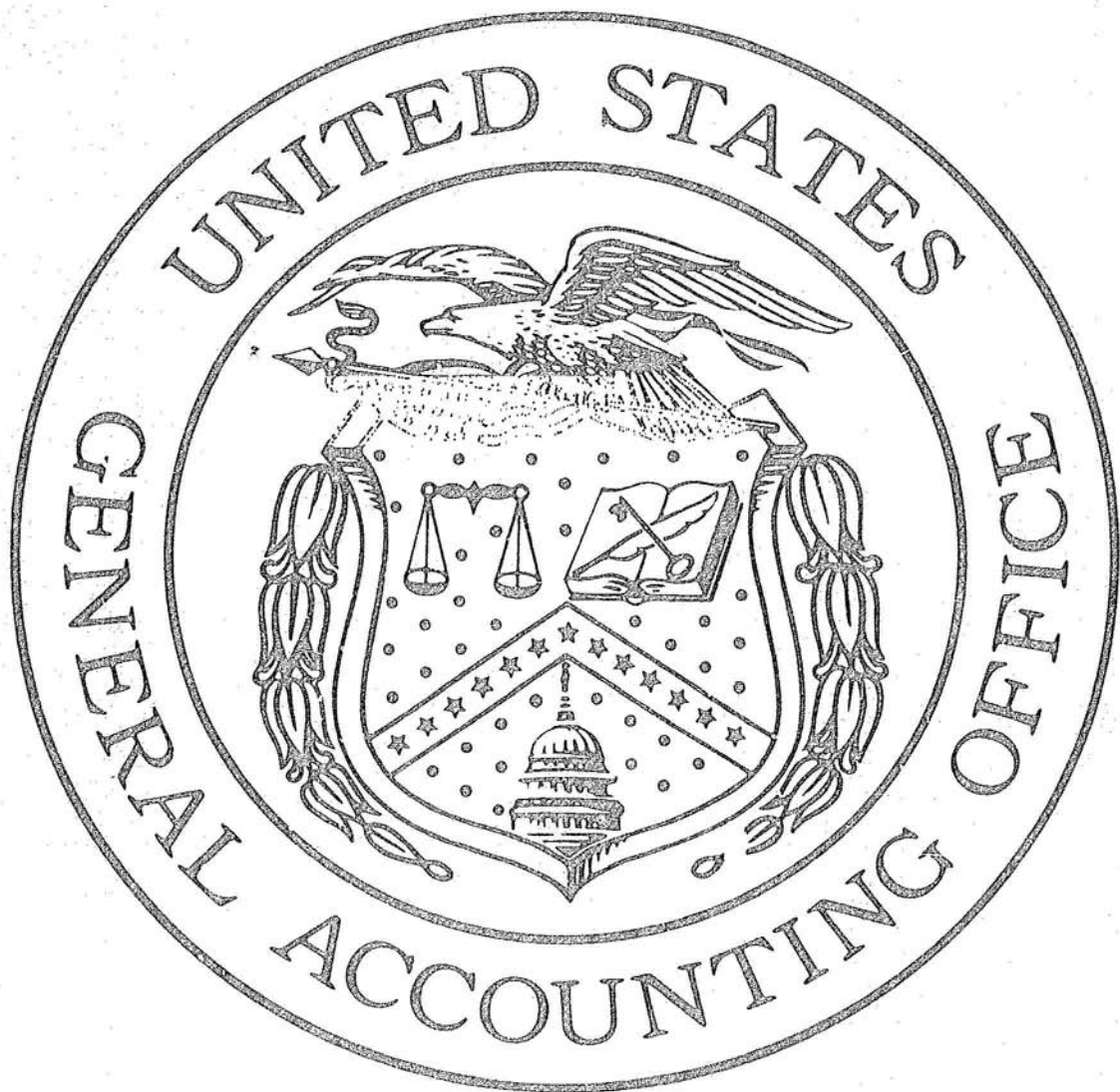
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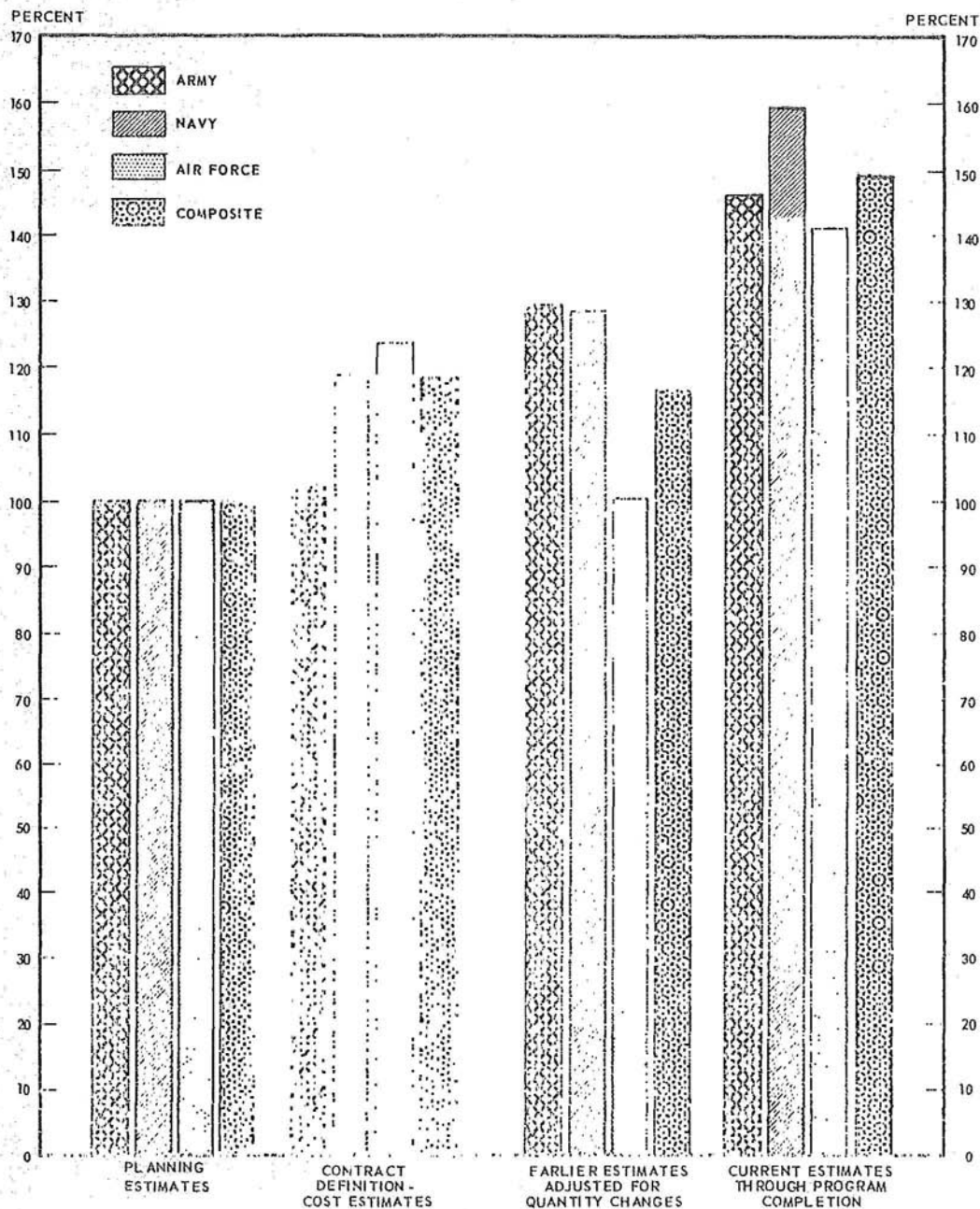
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COMPARISON OF PROGRAM COST ESTIMATES



the feasibility of applying uniform cost accounting standards to negotiated defense contracts of \$100,000 or more. The report of the study, issued to the Congress in January 1970, concluded that it is feasible to establish and apply such standards. This report is discussed in greater detail in Chapter Two, Assistance to the Congress, beginning on page 7.

A provision of the Armed Forces Appropriation Authorization, 1970—Public Law 91-121—directed GAO to study and review on a selective, representative basis, the profits made by contractors and subcontractors on contracts, on which there is no formally advertised competitive bidding, entered into by the military departments and certain other Government agencies. This study was in progress at June 30, 1970.

Management of Procurement Programs, Negotiation of Contract Prices

Six reports were issued to the Congress on reviews of negotiation of contract prices. Digests of these reports are presented in the Appendix, Section I, as further identified in the following summaries.

Prices were negotiated on the basis of catalog prices of commercial items sold in substantial quantities to the general public—and thus exempt from the provisions of Public Law 87-653—without adequate assurance that sales had in fact been made in substantial quantities to the general public at the catalog prices. (See Item 96.)

Advertised contracts were awarded for ship overhauls despite limited competition; substantial additional work added to the contracts after the ships became immobilized in the shipyards placed the Government in a disadvantageous position in negotiating prices for the additional work. (See Item 94.)

Fixed-price-type contracts, rather than more flexible types of contracts, were used in procurement of hundreds of millions of dollars' worth of bomb bodies under circumstances where time limitations and the absence of realistic cost data precluded adequate documentation of the contractors' price proposals, adequate audit of the proposals, and the negotiation of reasonable fixed prices. (See Item 95.)

Prices negotiated for production of ammunition fuzes under several contracts could have been reduced significantly if the contracting officer had required the contractor to submit detailed cost or pricing data in support of material and labor esti-

mates and if agency officials had made adequate evaluation of the data. (See Item 97.)

Rental rates negotiated for barges used in Vietnam included costs for towing the barges from the Philippines to Vietnam and returning them when no longer needed; a number of the barges were already in service in Vietnam and their towing costs had been paid under prior contracts. (See Item 98.)

A contract price of \$3.5 million for rock-crushing plants was accepted by a contracting officer without first reporting to higher authority, as required by Defense regulations, that he considered the price unreasonably high and that the contractor refused to negotiate. (See Item 100.)

The Department of Defense generally agreed with these findings and took corrective action.

Management of Procurement Programs, Other Aspects

Three reports to the Congress covered other aspects of procurement: control over Government-owned materials in plants of overseas contractors, use of value engineering clauses in contracts, and automated processing of small purchase transactions.

Inadequate administration, by contractors and the military services, of Government-owned materials in plants of overseas contractors resulted in unnecessary investment in inventories, in increased transportation costs, and in possibly unnecessary procurement or shortage of materials. As a result of GAO tests and subsequent reviews by the contractors, about \$3.8 million worth of such material was made available for redistribution and contractors' open orders for about \$1.4 million worth of material were canceled. (See Appendix, Section I, Item 91.)

Value engineering is defined as a systematic and creative effort to simplify the design and manufacture of products in order to obtain the lowest overall cost. Two clauses are used in contracts to achieve this objective—an incentive clause or a program requirement clause. The former merely encourages the contractor in this effort; the latter requires an agreed upon level of effort for which the contractor is fully reimbursed. Both offer the contractor a share of the cost reductions.

GAO found that the incentive clauses in many of the contracts have not stimulated contractors to develop proposals to reduce costs even though they would share

DEFENSE OPERATIONS

in the cost savings. A number of proposals were made, with which the Department of Defense generally agreed, to strengthen the value engineering program and to encourage contractors to greater effort. (See Appendix, Section I, Item 99.)

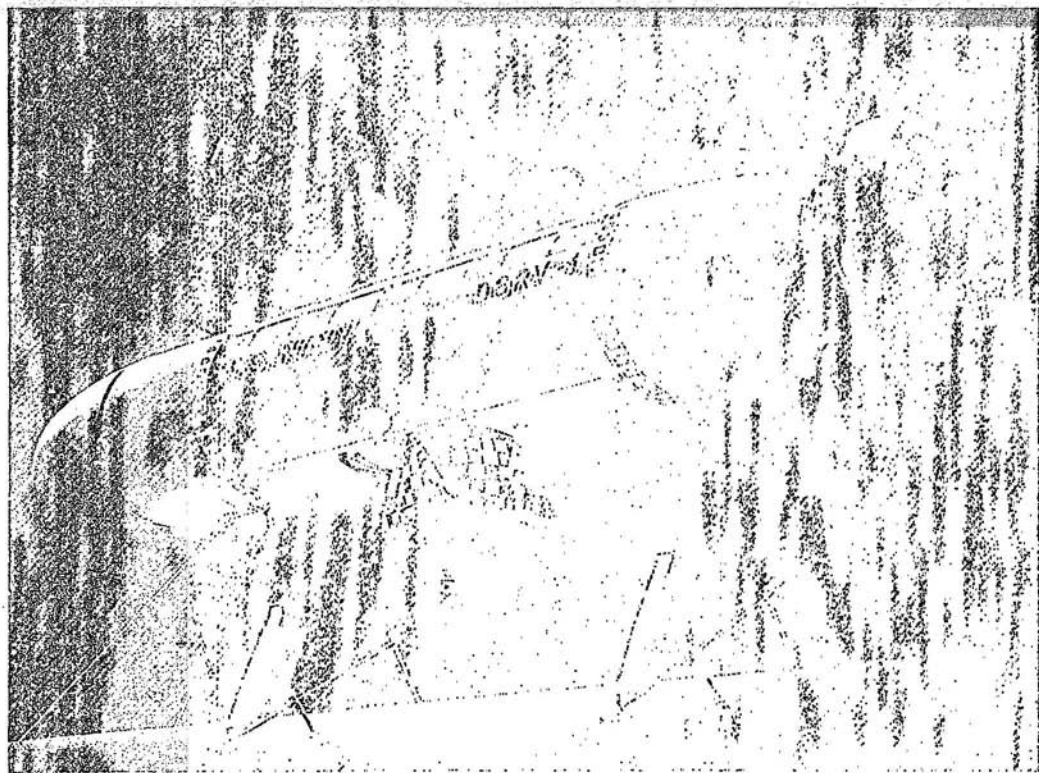
The Navy Aviation Supply Office maintains an automated system for processing its small purchase transactions—purchases under \$2,500. However, the Supply Office was not exploiting the full potential of the system. Only about 70 percent of the transactions were being processed by automation and certain procedures continued to be handled manually. For example, the automated equipment had not been programmed to provide data for such functions as price analysis, solicitation of quotations from known supply sources, and consolidation of requirements. GAO suggested improvements and the Navy and the Department of Defense took actions which were generally responsive. (See Appendix, Section I, Item 110.)

Research and Development

GAO issued five reports to the Congress on reviews of research and development operations: one report on contractors' independent research and development costs borne by the Government, three reports on the development of specific weapon systems, and one report on funding of the construction of certain research facilities.

Independent research and development (IR&D) is that part of a contractor's total research and development program which is not conducted under a direct contract or grant but is undertaken at the discretion of the contractor. During 1968 major Government contractors spent about \$1.39 billion for IR&D and related effort. The Government bore more than half of this cost.

One report pointed out that the Government does not have a consistent policy for determining the share



Artist's concept of the first of the deep submergence rescue vehicles (DSRV) planned by the Navy. The DSRV is shown mating to the restraining guide wires and the piggy back berth on the mother submarine.

of IR&D costs it will accept under Government contracts. Under policies of the Department of Defense and of the National Aeronautics and Space Administration, the IR&D need not be related to current or prospective Government procurement. Under the policy of the Atomic Energy Commission, the IR&D cost is allowed only to the extent that it benefits the contract work.

Certain suggestions made for the consideration of the Congress in determining a Government-wide policy on IR&D and related costs were considered in hearings held in February and March 1970 before the Senate and House Committees on Armed Services. (See Appendix, Section I, Item 119.)

Reports on the development of specific weapon systems covered the NIKE-X antiballistic missile (which evolved into the SENTINEL, now called SAFE-GUARD), the Sheridan and M60 tanks, and the deep submergence rescue vehicle.

In these reports GAO questioned the adequacy of the Government's control over the prime contractor's technical and administrative management of development of the NIKE-X antiballistic missile; the reasonableness of authorizing production of appreciable quantities of Sheridan and M60 tanks despite known deficiencies in essential components; and the need, under the existing circumstances, for the procurement of additional deep submergence rescue vehicles. Proposals for corrective action were generally accepted by the Department of Defense and the military departments involved. (See Appendix, Section I, Items 116, 117, and 118.)

Another report concerned the funding of the construction of two research and development facilities by the Air Force. The Air Force had used funds in the amount of \$861,700 which had been appropriated for research, development, test, and evaluation. In GAO's opinion, the Air Force was without statutory authority to use such funds for the construction. In response to a GAO recommendation, the Air Force took steps to review, at headquarters level, the funding of all proposed research and development projects expected to cost more than \$25,000. (See Appendix, Section I, Item 120.)

Supply Management

Five reports were issued to the Congress on reviews of various aspects of supply management.

In one report GAO pointed out that the method used by the Air Force and the Navy to compute require-

ments for spare aircraft engines included two factors—the depot stock factor and the safety factor—which provided for similar or identical contingencies and were thus duplicative. Elimination of the depot stock factor could have reduced the planned requirement for fiscal year 1969 by about 200 engines at an estimated cost of about \$35 million. Future projections of requirements could be correspondingly reduced. The Department of Defense stated that, in its opinion, the factors were not duplicative. However, GAO's analysis of the Department's rationale did not support this conclusion, and GAO recommended that the Secretary of Defense reconsider the position taken. (See Appendix, Section I, Item 202.)

Another report presented findings on a followup review of management of military supplies in the Far East. Although the military services had continued to provide adequate support to units in the Far East, the supply systems in the Far East, as well as the supporting systems in the continental United States, continued to be costly and inefficient in providing the support.

The problems stemmed principally from the inaccuracy of stock records; the inaccuracy of projections of quantities of stock required; the inadequate control over unserviceable equipment and components to insure their return, repair, and reissue; and the excessive volume of high priority requisitions. The Assistant Secretary of Defense (Installations and Logistics) agreed with GAO's findings and recommendations and stated that actions had been taken or were planned to improve the conditions noted in the report. (See Appendix, Section I, Item 200.)

Digests of three other reports are presented in the Appendix, Section I. These reports are further identified in the following summaries.

At the three Defense Supply Centers, inadequate controls over the projections of future requirements for stock were the principal factors in the accumulation of about \$250 million worth of stock which was excess to all known needs. (See Item 203.)

Supplies and equipment received at major supply depots of the Department of Defense could not be readily identified, located, and issued because of delays and inaccuracies in processing, storing, and recording the material received. (See Item 204.)

Excess and surplus Government property was transferred to the Military Affiliate Radio System (a system established by the Department of Defense to provide auxiliary communications) without ade-

DEFENSE OPERATIONS

quate assurance that the property was needed by the System or adequate surveillance of the disposition of the transferred property by the System. (See Item 211.)

Facilities and Construction

GAO issued seven reports to the Congress: four dealt with construction of facilities, two with management of household furnishings, and one with retention of reserve industrial facilities. Digests of these reports are presented in the Appendix, Section I. The following summaries further identify the reports.

Contractors operating Government-owned plants were authorized by the Department of Defense to provide the financing for construction of new facilities and to recover the costs through overhead charges against Government supply and research and development contracts, thus bypassing the congressional review and approval procedures. (See Item 106.)

Construction of mess halls was authorized without adequate consideration of (1) the unused capacity of existing mess halls and (2) the fact that the design capacities of the proposed mess halls exceeded the rates of utilization actually experienced. (See Item 109.)

Much of the unused engineering and design effort expended in connection with proposed construction of facilities could have been avoided through better planning by the installations which needed the facilities and through closer coordination between those installations and the design agencies before and during the design phase. (See Item 108.)

The Navy acquired various facilities in Naples, Italy, exclusively by leasing without considering the relative merits of acquisition under the military construction program. (See Item 107.)

There was no centralized management of household furnishings overseas and each of the military departments used differing methods and criteria for determining requirements and for repairing, maintaining, and disposing of unserviceable furnishings, and provided different styles and finishes of furnishings, thus hindering consolidation of purchases and interservice transfer of excess furnishings. (See Item 209.)

The Department of Defense instructions governing the providing of household furnishings did not contain adequate guidance to insure adherence to the

Bureau of the Budget (now the Office of Management and Budget) policy that Government furnishings are not, with certain exceptions, to be provided in housekeeping quarters within the United States. (See Item 210.)

"Packages" of industrial plant equipment, reserved by the Army for contingencies of war to produce specific items, did not meet the Department of Defense criteria for retention in some instances; in other instances the packages did not include enough equipment to meet the production objectives. (See Item 201.)

Maintenance and Modifications of Military Aircraft

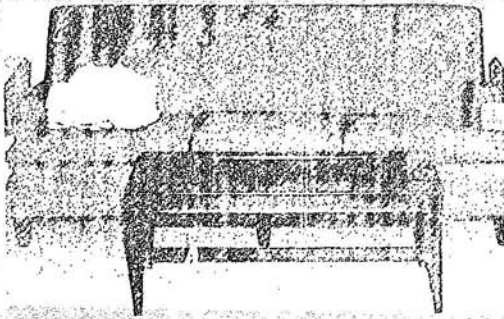
Two reports were issued to the Congress on this topic.

The Navy and the Air Force followed different procedures and practices in aircraft maintenance. GAO evaluated and compared the way the two services scheduled maintenance operations. For purposes of the review, the F-4 aircraft, which is common to the Navy and the Air Force, was selected.

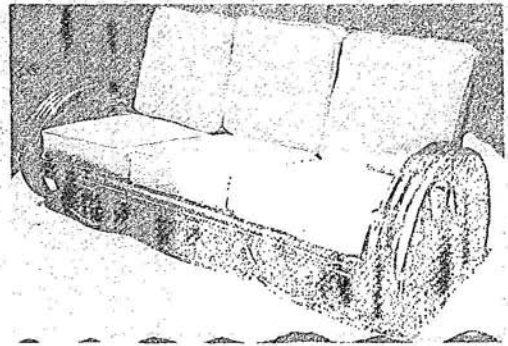
The Navy could realize savings and reduce downtime of aircraft by following Air Force practices in scheduling and performing organizational maintenance (that performed by operating units in support of their own operations). Had the Navy followed Air Force practices, the equivalent of 40 additional F-4 aircraft could have been available during fiscal year 1968 and costs might have been reduced in fiscal years 1967 and 1968. (The Navy's costs for that period were about \$4.3 million higher than the costs incurred by the Air Force for an equivalent number of aircraft.)

Also, neither the Navy nor the Air Force had given sufficient recognition to the results of studies, and their own experience, which indicated that less frequent scheduling of depot maintenance—that which is major and is performed at industrial-type maintenance depots—appeared to be warranted in some instances.

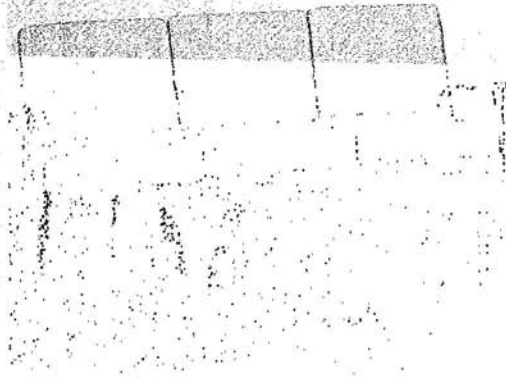
GAO suggested that the Navy consider applying Air Force practices to its own organizational-level maintenance operations, and that the Navy and the Air Force continually review their criteria for frequency of scheduling depot-level maintenance. The Department of Defense agreed in substance with these recommendations. (See Appendix, Section I, Item 206.)



Army



Marine Corps



Air Force

Examples of davenports issued by the military departments in Hawaii.

In a review of modifications of aircraft by the Army, GAO found that the modifications—including those classified as being urgent—were not made promptly because of the volume of modification work orders and the resultant workloads beyond the capacity of maintenance activities. More effective management review of proposed modifications was needed to insure that the work could be performed within the specified time.

GAO noted also that modifications were delayed because modification kits were not received on time and additional costs were incurred because the modifications could not be performed concurrently with overhaul of the aircraft.

GAO made certain recommendations to improve modification operations. The Army implemented one

of the recommendations and deferred judgment on three others pending completion of its own study and of a joint study then being performed by the three military departments. (See Appendix, Section I, Item 207.)

Administration of Military and Civilian Pay and Allowances

The number, variety, and complexity of entitlements provided by legislation covering military pay and allowances create difficult administrative problems. Although the military departments have taken prompt action with respect to erroneous or illegal payments identified by GAO and have accepted suggestions for corrective measures to preclude recur-

DEFENSE OPERATIONS

rence, erroneous payments in significant amounts continue to be made.

It is the opinion of the General Accounting Office that the administration of military pay and allowances will not be improved significantly until the present complex laws are simplified. The Department of Defense has made a number of studies in recent years with the view of simplifying the pay and allowance structure and has considered preparing legislative proposals for submission to the Congress. However, no legislative proposals for simplifying the military pay and allowance structure have yet been submitted by the Department.

GAO's review of civilian pay and allowances included an evaluation of the effectiveness of the internal audit work, a statistical sampling of the propriety of salary rates, an evaluation of the effectiveness of time and attendance procedures and controls, and an evaluation of the effectiveness of the conversion of National Guard technicians to Federal employee status as provided by Public Law 90-486.

During the year five reports were issued to the Congress on military and civilian pay and allowance matters.

One of the reports covered a review of the propriety of certain incentive payments made to enlisted men. The incentive payments (proficiency pay and variable reenlistment bonuses) are authorized by law to be paid to enlisted men possessing critical skills to induce them to remain in the military services. The Navy and the Air Force were making such payments to enlisted men enrolled in officer candidate training programs. This was improper and inconsistent with the intent of the law. No evidence was found that improper payments of this type had been made by the Army to enlisted men in its officer candidate program. The Department of Defense advised that instructions had been revised to preclude future improper payments. (See Appendix, Section I, Item 186.)

Another report concerned the Army's accounting for payments to military personnel made in advance of regular paydays. GAO estimated that overpayments of about \$3.5 million had been made during the 6-month period reviewed because certain advance payments had not been deducted from the pay of the recipients in subsequent payroll periods. This resulted from deficiencies in the handling of, and accounting for, the individual financial documents relating to the advance payments.

The Army agreed with these observations and re-established its centralized program for verifying that

advance payments are deducted from pay in subsequent payroll periods. (See Appendix, Section I, Item 187.)

Three reports covering reviews of per diem payments to military personnel on extended temporary duty assignments, the administration and operation of the Overseas Dependents School System, and the Army's administration of its employees' suggestion award program were also issued. Digests of these reports, which are summarized below, are presented in the Appendix, Section I.

Savings of about \$800,000 a year could be realized if the per diem payments to student officers at the Army's Fort Rucker were reduced from the maximum allowable rate to a rate approximating cost to the student officers during their 16-week temporary duty assignments. (See Item 188.)

There were deficiencies in the administration and operation of the Overseas Dependents School System in the European area involving such things as student enrollment forecasts, adequacy of classrooms and other facilities, procedures for setting school construction priorities, and policy on use of substitute teachers. (See Item 189.)

There were deficiencies in the suggestion award portion of the Army Incentive Awards Program involving the processing of suggestions, the dissemination of those having potential for wider application, and the procedures for computing and documenting savings attributed to the suggestions. (See Item 190.)

Manpower Utilization

GAO issued five reports to the Congress on reviews of various aspects of manpower utilization.

One of the reports covered a review of the reasons for, and the effectiveness of, the Army's extensive formal training organization in Europe—the U.S. Army School, Europe—in view of the fact that the Army operates a large service school system in the continental United States. The school in Europe conducted 88 courses in fiscal year 1968 which were attended by about 32,000 military personnel at a cost of about \$10 million.

Practices followed by the Army in assigning military personnel to Europe contributed to the need in Europe for an extensive formal training effort. However, maximum benefits were not realized from the formal training effort because many of the students

(1) were being trained in skills not related to their assigned duties, (2) had attended similar courses previously, or (3) were returned to the United States before they had had an opportunity to apply their training. The U.S. Army, Europe, took action to implement corrective measures. (See Appendix, Section I, Item 166.)

Digests of four other reports are presented in the Appendix, Section I. These reports are summarized below.

The Navy's military personnel data system, on which it relied for information in making decisions on such matters as personnel assignments, promotions, and school selection for its 1.2 million active and reserve military personnel, contained numerous errors; the error rates for many data items were considerably higher than those acceptable under the Navy's standards. (See Item 155.)

Lack of flexibility in the management of civilian personnel ceilings and certain recruiting problems resulted in:

The uneconomical and otherwise undesirable practice of contracting for needed services by military installations. (See Item 167.)

Overtime ranging from 3 to 29 percent of regular pay, at the military installations reviewed, as compared with the Department of Defense limitation representing 2 percent of regular pay. (See Item 168.)

Use of invalid performance standards for civilian production personnel at the Yorktown Naval Weapons Station resulted in significant amounts of idle time in operating a bomb production line. (See Item 169.)

Combat Readiness of Military Units and Related Supply Support

Four of the six reports issued to the Congress in this area are classified "Secret" and relate to the Seventh Army units in Europe, war reserve materiel in Europe, HAWK missiles in Vietnam, and Atlantic and Sixth Fleets. A summary of the unclassified findings contained in the "Secret" report on the Atlantic and Sixth Fleets—which relate to the supply, personnel, and equipment problems in efforts to achieve a desired state of readiness of the Fleets—is presented in the Appendix, Section I, Item 72a.

One of the unclassified reports dealt with the manned-bomber and ballistic missile forces of the

Strategic Air Command of the Air Force. The forces were maintaining a high state of readiness at each of the bases and apparently were capable of fulfilling their assigned missions. GAO was impressed with the management emphasis and techniques used to stress the importance of combat readiness and expressed the belief that the other military services could profitably adopt some of the procedures. Several suggestions were made, which the Air Force adopted, for improvement of the readiness reports prepared by the Strategic Air Command, and the Secretary of Defense requested the other military services to evaluate the applicability to their operations of the techniques used by the Air Force. (See Appendix, Section I, Item 171.)

The other unclassified report dealt with the Army Reserve Components (Army National Guard and Army Reserve). A review of the readiness of 10 units, selected from those included in contingency plans for early deployment, showed that they were not ready for mobilization and deployment as rapidly as planned because of deficiencies in organization, training, equipment, and management.

Records showed that about half of the personnel were not qualified to perform assigned duties, were receiving training incompatible with needs of their units, or might not be immediately available if their units were mobilized. Also, material programmed for the Army Reserve Components had been sent to Southeast Asia, leaving only limited material available for training. The Army generally agreed with GAO's findings and proposals and stated that (1) consideration would be given to affiliating Army Reserve Components with similar active Army units and to developing a means of projecting training requirements for the Army Reserve Components and (2) greater emphasis had been placed on this area by the Army Audit Agency. (See Appendix, Section I, Item 172.)

Administration of Communications

In a report to the Congress, GAO presented the current status of the unified National Communications System. Establishment of the System was directed by the President on August 21, 1963, in order to strengthen the communications support of all major functions of the Government and provide necessary communications under all possible conditions, including nuclear attack. In the intervening years, hundreds of millions of dollars have been expended annually by the Department of Defense and other Federal agencies in the

DEFENSE OPERATIONS

procurement, construction, operation, and maintenance of component communication networks with little effective centralized direction and control. Except for the President of the United States, there was no individual or organization in the Government with the authority, stature, and resources to provide the essential policy, direction, and control required to establish a unified system.

GAO recommended that the President consider a major realignment of the existing structure and organizational arrangements for communications which would establish an organization with sufficient stature, authority, and resources to provide a strong central authority as a focal point in telecommunications matters. The Special Assistant to the President for Telecommunications assured GAO that its recommendation would be given thorough consideration. Subsequently, on February 9, 1970, a new Office of Telecommunications Policy was established in the Executive Office of the President. (See Appendix, Section I, Item 227.)

A report was issued to the Congress on the Defense Communications Agency's inability to evaluate the propriety of charges for termination of services furnished by communications carriers when the use of specially constructed communications facilities is involved. GAO concluded that, if the Department of Defense obtained cost data from the carriers, termination charges would be lower. Several suggestions were made to the Secretary of Defense along these lines. (See Appendix, Section I, Item 228.)

Administration of Transportation Matters

The discussion of GAO's work in the Department of Defense on transportation matters is included in Chapter Seven, Transportation, beginning on page 99. In addition, GAO reviewed and reported to the Congress on the administration and operations of the Air Force logistics airlift system known as LOGAIR. LOGAIR provides airlift, under contracts with commercial carriers, for high priority cargo within the continental United States. It provides daily support for all firstline weapon systems of the Air Force and also serves Air Force bases in remote areas which lack adequate commercial transportation. The annual cost of the system is about \$35 million.

GAO pointed out that the projections of cargo capacity requirements were not accurate. On some

routes, more capacity was scheduled than needed; on others, less was scheduled than needed. Also noted were areas where operating costs could be reduced by promptly revising routes as requirements change, by reducing the number of flights to some stations, by eliminating flights where truck service could be used more economically, and by achieving fuller utilization of cargo capacity through better scheduling of cargo to be shipped.

The Air Force generally concurred and stated that (1) procedures for projecting cargo capacity requirements were being improved, (2) the frequency of LOGAIR flights to one station had been reduced, (3) five stations previously served by LOGAIR were being served by truck from nearby stations, and (4) corrective action had been taken to achieve fuller utilization of cargo space on LOGAIR flights. (See Appendix, Section I, Item 218.)

Administration of Certain Other Programs

Four reports on reviews of certain other programs were issued to the Congress. These programs included Project One Hundred Thousand (training of enlisted personnel to qualify them for military service), Project TRANSITION (training of enlisted personnel to prepare them for civilian life after military service), food inspection by the Department of Defense and other Federal organizations, and coordination in the performance of internal management review and evaluation functions. Digests of these reports are presented in the Appendix, Section I, and are further identified in the following summaries.

Project One Hundred Thousand had a marked degree of success in relation to its objectives, although there were some problem areas. (See Item 11.)

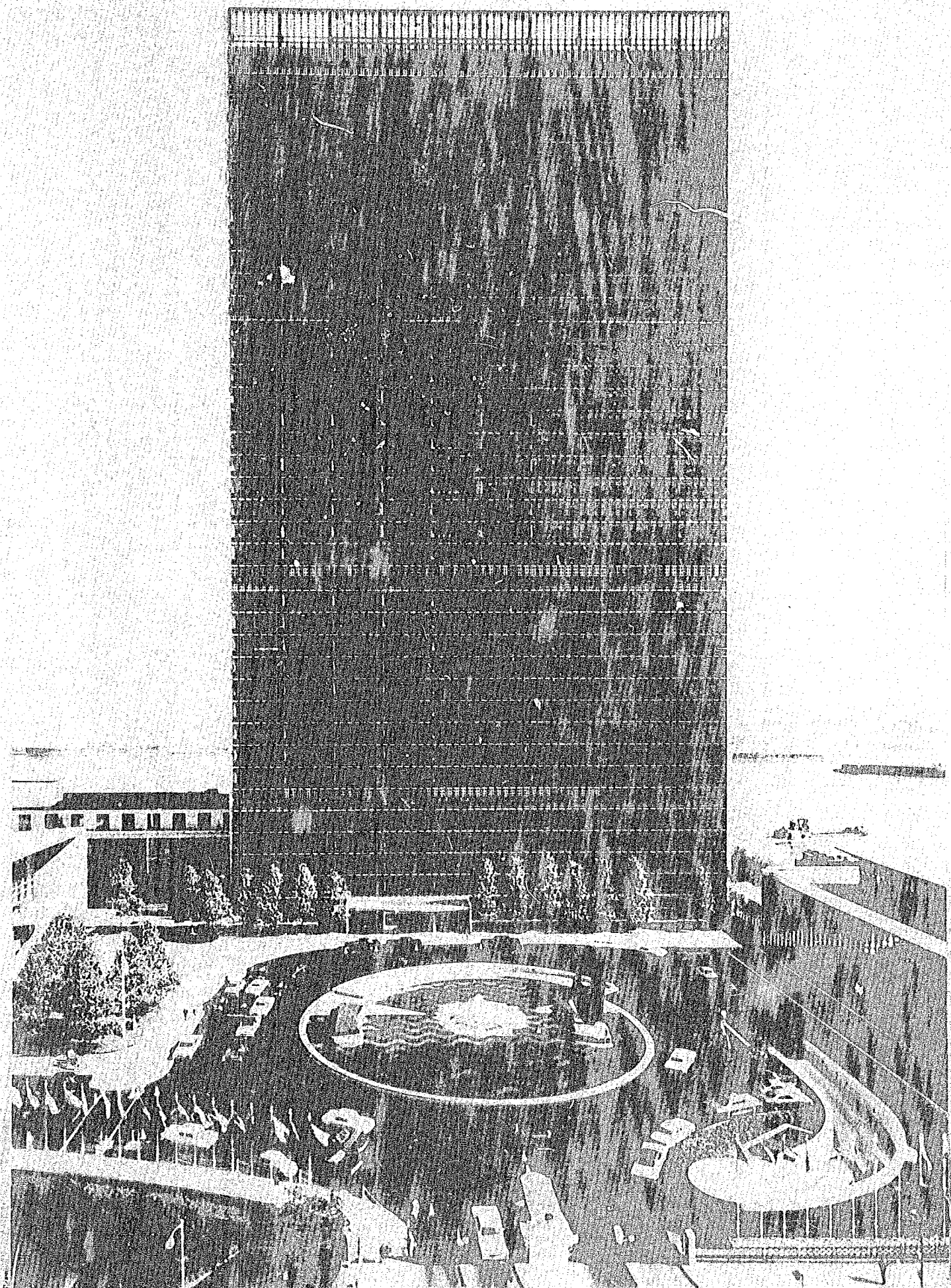
Project TRANSITION was relatively new at the time of review and a conclusive evaluation of its effectiveness could not be made; certain improvements were needed to insure achievement of the stated objectives. (See Item 12.)

In the absence of a clear expression of Federal policy on food inspection, the function is performed by the Department of Defense and by other Federal agencies—in addition to State and local agencies—with the result that similar inspections are made by more than one organization, at the same commercial

establishment, and under differing criteria. (See Item 24.)

There was a need for an overall coordination and for guidance of the total effort of the many groups

that were performing management reviews and evaluations within the Department of Defense—more-or-less independently of each other. (See Item 146.)



CHAPTER SIX

AUDIT OF INTERNATIONAL OPERATIONS AND PROGRAMS

Nature of Work Performed

Most international programs continue to be performed by the Department of State and the Department of Defense. However, an increasing number of other U.S. Government departments and agencies are also engaged in administering international programs or elements of them in foreign countries. These include:

- Department of the Treasury—International Finance Functions.
- Post Office Department—International Services.
- Department of Commerce—International Programs and Affairs.
- Department of Agriculture—Foreign Agricultural Functions.
- United States Information Agency.
- Peace Corps.
- Export-Import Bank of the United States.
- Various independent agencies.

As many international programs involve interrelated performances in which several departments and agencies or coordinating bodies participate, GAO's approach has been broadened to provide more informative reporting.

U.S. foreign assistance programs, including many facets of economic and military assistance and Food

for Peace programs, are foremost in GAO's international work. Other major international operations subject to review include foreign trade programs; U.S. participation in international organizations; management and utilization of U.S.-owned foreign currencies; programs affecting the U.S. balance-of-payments position; and management and operations of U.S. embassies, consulates, and other installations in foreign countries.

During fiscal year 1970, the General Accounting Office continued to place special emphasis on reviews of U.S. programs and activities being conducted in Vietnam and Southeast Asia. A substantial portion of its audit effort was devoted to countrywide and other broad scope reviews of U.S. foreign assistance and related programs. Functional-type reviews of the more significant programs in India and in other parts of the world were performed.

As a result of its reviews of international programs and activities, GAO submitted 42 reports to the Congress. Twenty-three of these reports were submitted to the Congress as a whole and 19 were submitted to its committees, officers, or Members on special reviews, audits, or investigations made in response to their requests. Twenty-two reports were submitted to agency officials in relation to management and operating procedures.

Defense international activities are discussed in this chapter. Other audit work performed overseas pertaining to the Department of Defense and the three military departments is incorporated in Chapter Five, Audit of Defense Operations and Programs.

During the year, GAO conducted audits outside the United States as summarized below, including those performed at U.S. military installations abroad.

<i>Areas</i>	<i>Countries</i>
European Branch Area (Europe, Africa, Near East, and South Asia).....	22
Far East Branch Area (Southeast Asia and Pacific).....	10
Latin America and other foreign areas.....	11
Total	43

To a limited extent GAO provided advisory assistance in improving financial management to government officials, heads of foreign audit institutions, and students of foreign countries, many of whom are sponsored under U.S. foreign assistance programs. This year GAO provided briefings to and engaged in discussions with individuals and groups from 18 countries

and the International Atomic Energy Agency. GAO efforts in this area were limited to a few hours of orientation and briefing and did not involve long term training.

The visiting foreign nationals included ambassadors; heads of audit organizations and their staff members; finance, budget, and treasury officials; members of parliaments; national bank officials; and others holding top level financial management positions in government. They were interested in the functions and operations of the General Accounting Office and its role in relation to executive branch activities. Specific interests varied through such subjects as audits independent from the executive branch; relationships with and reporting to the Congress; accounting systems reviews and approvals; staff development; auditing by automatic data processing equipment; and GAO's work in the field of programming, planning, and budgeting systems.

Reviews of U.S. Activities Relating to Vietnam and Southeast Asia

Because the Congress has continued to express concern over the enormous expenditures and management problems associated with the multiple U.S. programs and activities being performed in Vietnam and Southeast Asia, the General Accounting Office has continued to devote a considerable portion of its audit effort to reviews of the more significant programs in these geographic areas.

This year GAO issued 35 reports relating to programs and activities being conducted in Vietnam and Southeast Asia. Seventeen of these reports were made in response to requests from congressional committees or individual Members of the Congress. The reports included such matters as:

Questionable support of a private venture in Thailand under the investment guaranty program.



Different types of PX goods on sale at a stall in the Cholon section of Saigon.

U.S. assistance to the Philippine Government in support of the Philippine Civic Action Group.

Policies covering the collection of dollar claims from the Government of Vietnam

Questionable payment of taxes to other governments on U.S. defense activities overseas.

Prices negotiated for rock-crushing plants for use in Vietnam.

Illicit practices affecting the U.S. economic assistance program in Vietnam.

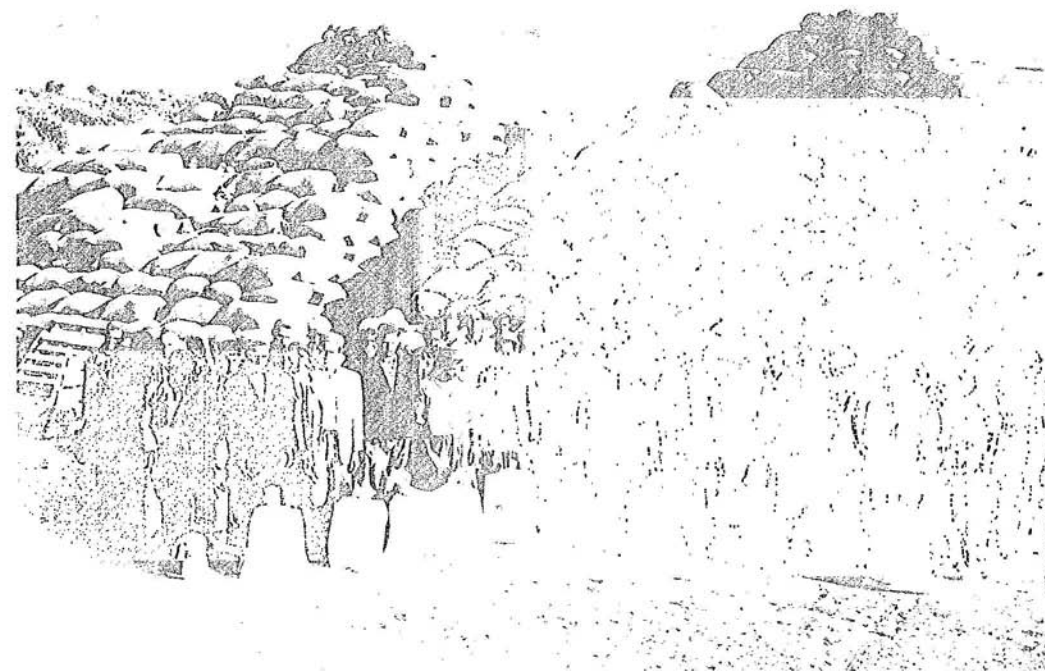
Review of special cost-of-living allowance paid to civilian employees assigned to Vietnam.

Broader Based Reviews of Program Results

Countrywide Reviews of U.S. Foreign Assistance

As previously stated, GAO continued to place emphasis on countrywide reviews of the various U.S. foreign assistance programs and activities being performed by the several U.S. Government agencies within selected recipient countries. This approach provides a broader perspective as a means for reporting on the effectiveness with which the total multiagency activities, within a given country, were programmed, managed, and meeting U.S. objectives.

Six reports on countrywide reviews were issued. Five of these, submitted to the Congress, related to country reviews of Tunisia, Laos, Guatemala, Ethiopia, and



Le Kef Work Relief Project. Workers with their wheat payment in economic aid bags. The Arabic inscription on the bags reads "A Gift of the American People."

Thailand. The sixth report, a review relating to Nigeria, was submitted to agency officials.

At the close of the fiscal year work was nearing completion on country reviews of Honduras and Liberia, and projects relating to Morocco and Afghanistan were underway.

A report to the Congress on the Foreign Exchange Operations Fund (currently the largest of the economic stabilization programs in Laos) stated that this activity did not provide for controls and restrictions on foreign exchange contributed to the Fund. It was practically impossible to detect the extent to which foreign exchange was used in gold trade, capital flight, or for other purposes which may not be in the best interest of the United States. In response to GAO's proposals, AID stated that it will continue to study the problems related to the Fund and advised GAO that it was negotiating a system for reporting the general purposes for which foreign exchange is used. (See Appendix, Section I, Item 73.)

In the report on Tunisia, GAO expressed the opinion that progress has been made in achieving the main purposes of U.S. economic aid but that additional progress could be attained if AID were more selective in choosing projects to be supported with counterpart funds and watched more closely the receipt and use of AID-financed commodities. Action has been taken by AID on a number of matters which should strengthen the programs, particularly in the areas relative to selection, receipt, and use of commodities. (See Appendix, Section I, Item 74.)

In a report on Guatemala, GAO stated that although total assistance to that country from all donors amounted to \$175.6 million between 1961 and 1968, no unified effort among assistance donors to impress upon the Guatemalan Government the need for initiating meaningful self-help measures or to use the leverage inherent in their combined assistance toward this end was found. AID endorsed the GAO recommendation regarding the benefits that could accrue from improved coordination of assistance to Guatemala. Progress has been made in coordinating the operations of identified donors with the operations of AID. (See Appendix, Section I, Item 75.)

Other reports to the Congress on reviews of Ethiopia and Thailand remain classified and may not be summarized; however, they related generally to the overall U.S. objectives in the countries and to the manner in which the programs were administered to carry out U.S. strategy to meet those objectives.

Interagency and Trade Programs

In accordance with various legislative provisions, including the Foreign Assistance Act of 1961, as amended, and the Agricultural Trade Development and Assistance Act of 1954, as amended (commonly known as Public Law 480 or Food for Peace), certain international programs conducted abroad are administered by, and interrelated between, several U.S. Government departments and agencies.

Seven reports on the results of GAO reviews of interagency and trade programs were issued during the year. Two reports were submitted to the Congress, one of which related to U.S. balance-of-payments advantages and the other to commodity trade assistance. A report pertaining to Food for Peace activities was issued to a Member of Congress at his request. Four reports were submitted to agency officials and referred to such matters as the utilization of U.S.-owned foreign currencies and to needed improvements in management procedures.

In order to identify the magnitude of foreign assistance being provided to certain less developed countries through the operations of the United States Sugar Act and the International Coffee Agreement, GAO made a review of the subject. The report estimated that about \$600 million a year was being so provided and pointed out that there are several significant distinctions between commodity trade assistance and the more traditional forms of U.S. aid. A major reason for some of these distinctions is that commodity trade assistance is inherently linked to patterns of production and trade. Another is that, for the most part, commodity trade assistance is transmitted through commercial channels, while traditional foreign aid is transmitted through the donor government.

The Agency for International Development and the Department of Agriculture agreed that foreign aid is transmitted through the operations of the Sugar Act and the Coffee Agreement. However, they did not agree with some of GAO's recommendations for improving the commodity trade assistance programs.

GAO believes that (1) the cognizant agencies have not taken advantage of the flexibility permissible under the present Sugar Act to review and negotiate with recipient less developed countries development-oriented applications of sugar assistance and that (2) the Agency for International Development's recommendations on coffee assistance are consonant with a gradual approach to more effective programming.

Congress may wish to consider whether the foreign aid element should be an explicit objective of the underlying legislation and treaty for commodity trade assistance. (See Appendix, Section I, Item 76.)

Work in various stages of process at June 30, 1970, included reviews of the (1) methods to constructively utilize U.S.-owned excess currency in India, (2) economic advantages of using American-made trucks to transport military cargo abroad, and (3) opportunities to replace offshore procurement of food by utilizing surplus American food.

Other Broad Scope Reviews

Considerable audit efforts were expended on other reviews of a broad scope nature. These were comprised of functional-type audits relating to the administration of selected U.S. Government programs being performed within several foreign countries or in countries throughout the world. The following reports are illustrative.

One report concerned the questionable payment of taxes to foreign governments on U.S. defense activities overseas. Although the U.S. Government and various other governments have agreements for exemption from taxes and duties on items for their common defense or mutual national security, GAO found that substantial tax costs had been incurred by the United States in countries throughout the world including-- Vietnam, \$28 million; Thailand, \$4 million; and Germany, \$2.2 million. Joint comments furnished by the Departments of State and Defense recognized that tax exemption problems exist and reflected general concurrence with the objectives of strengthening U.S. management in dealing with foreign tax exemption problems. In line with GAO recommendations, a number of corrective actions have been initiated. (See Appendix, Section I, Item 81.)

A report on the cost and balance-of-payments advantages of replacing foreign-made buses with American-made buses abroad revealed a need for the military to develop better operating and maintenance cost data and to prepare more timely and accurate cost studies. GAO cost analyses showed that substantial savings could be realized by using American-made buses at certain overseas locations in lieu of leased foreign-made vehicles. The Department of Defense stated that the military departments were in general agreement with GAO findings and conclusions and advised that steps are being taken by the military departments to improve

the cost data used in their studies. Appropriate provisions will be made for future procurements of American-made buses whenever such studies show economic advantages to the United States. (See Appendix, Section I, Item 82.)

Another report expressed the view that improvements were needed in the management of Government owned and leased real property overseas. Fourteen recommendations were made to the Department of State to strengthen the administration of the foreign buildings program. Also, the report presented, for consideration of the Congress, opportunities that exist at several locations for savings in leasing and building operations costs by disposing of uneconomical properties and constructing new buildings. In addition, it pointed out that certain real properties had been acquired which were not, and were not required to be, presented to the congressional authorization committees for consideration, or which had cost substantially more than the cost estimates initially considered by the congressional committee in the authorization process. This matter was presented to the Congress so that it could consider the practice in deciding whether it wished to strengthen its control over the foreign buildings program. Officials of the Department of State expressed the view that the findings and recommendations resulting from GAO's review had made a constructive and useful contribution toward long term improvement of the program. The specific corrective actions proposed by the Department of State were not known at the end of the year. (See Appendix, Section I, Item 214.)

In July 1967, GAO issued a report to the Department of State and the Agency for International Development concerning the benefits and savings that could be had through merger of their separate automatic data processing systems. A joint working group of representatives from the Foreign Affairs Community agencies (State, AID, USIA, Peace Corps, and ACDA) was formed and has continued in existence since 1968, but there has been little progress. GAO has continued to participate in discussions and meetings with the agencies concerning the development of a single Data Processing Center to service the needs of the Foreign Affairs Community. On February 2, 1970, GAO addressed a letter to the Secretary of State and the Administrator, AID, reemphasizing the need for a shift of emphasis away from their continuing indefinite study and proposing that they develop an action plan.

On April 10, 1970, GAO transmitted to the Depart-

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ment of State some overall observations on the need for more effective control mechanisms and approaches for program management and the related need for modernization of its budgeting, management reporting, and accounting systems in order to relate them to the management needs in coordinating the Department's operating programs. These programs include:

- The Foreign Service Institute.
- Real estate management.
- Vehicle and fleet management.
- Passports.
- Educational and cultural affairs programs.
- Foreign assistance developmental programs.

In May 1970, the Department advised that these areas are under consideration as part of its current study to strengthen operating management effectiveness.

U.S. Participation in International Organizations

U.S. participation in international organizations has become increasingly important in relation to the total U.S. foreign assistance effort. Consequently, the General Accounting Office has been increasingly concerned with encouraging strong internal audit and inspection procedures in those organizations which the United States supports, and with seeking ways of promoting and encouraging improved financial management, budgeting, and reporting by the international organizations.

Reports were issued to the Congress on the need for more effective management by the United States of its participation in the United Nations Children's Fund, the Food and Agriculture Organization of the United Nations, and the United Nations Development Program. These reports pointed to the need for the Department of State to obtain sufficient information from the international organizations to adequately assess the programs and projects proposed for implementation, as well as a basic need for establishing better monitoring and evaluation procedures as a means for assuring that U.S. contributions to the organizations were being efficiently and effectively utilized.

GAO stated that the Department of State had to abandon procedures that were being used to assess the projects proposed by the United Nations Children's Fund because that organization had discontinued the practice of providing the United States the information

on which the assessments were being made. (See Appendix, Section I, Item 77.)

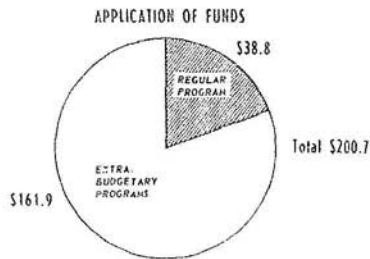
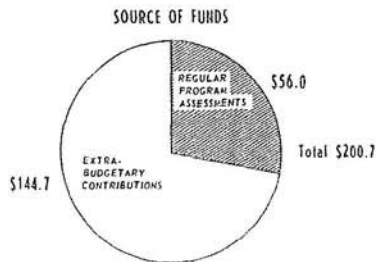
GAO reported that United Nations Development Program assistance was granted to countries which were either relatively developed or seemingly in a position to pay for such assistance. Also, projects were often reported to be of low priority and widely scattered which dissipated the impact that could be gained from an intensification of efforts in more concentrated areas. (See Appendix, Section I, Item 78.)

In GAO's opinion, the Departments of State and Agriculture had not met their responsibilities for developing long range U.S. policy objectives and the program priorities needed to guide the United States in its present and future participation in the Food and Agriculture Organization of the United Nations. (See Appendix, Section I, Item 79.)

These reports, together with similar reports issued in fiscal year 1969 and a review of U.S. financial participation in the International Labor Organization, which was in its final stages at the completion of fiscal year 1970, served as the basis for testimony before two congressional committees. On March 5, 1970, GAO

SOURCE AND APPLICATION OF FUNDS TO BE ADMINISTERED BY FAO
DURING THE PERIOD 1968-1969

(Millions of dollars)



EXCLUDES THE WORLD FOOD PROGRAM

representatives appeared before a subcommittee of the House Committee on Foreign Affairs and on May 1, 1970, before a subcommittee of the House Committee on Government Operations.

GAO representatives testified that the Department of State was not, and had not been, in a position to give the Congress basic assurance that funds contributed by the United States to United Nations organizations had been used in an effective and efficient manner and to accomplish intended objectives. GAO stated that vigorous efforts were required by the executive branch to improve its participation in United Nations developmental agencies; in large measure, improvements in U.S. participation involve the initiation or support of needed improvements in the United Nations system itself. Suggestions were subsequently furnished to the subcommittee of the House Committee on Foreign Affairs for a more effective executive branch organization for management of U.S. participation in the developmental assistance activities of international organizations (excluding the international financial institutions).

Reviews of U.S. participation in international organizations have been directed to the developmental assistance activities; to determining how the Department of State and other executive agencies discharge their responsibilities relative to the level, content, and formulation of programs and budgets supported by U.S. contributions; and to the management of U.S. interests in these activities.

U.S. efforts toward improved management of activities of international organizations of which the United States is a member must be undertaken and assessed within the framework of the international character of the organization. Constraints on actions that can be taken unilaterally are an inherent part of such membership no matter how constructive the proposed actions might be. Notwithstanding these constraints, GAO believes that there are opportunities for major improvement in the management of U.S. participation in the family of United Nations organizations so as to improve the effectiveness of those organizations in contributing to the objectives of the United Nations.

A 1967 amendment to the Inter-American Development Bank Act directed the Secretary of the Treasury to propose the establishment of an independent external audit group for the Inter-American Development Bank. Building upon a statement of audit guides and standards prepared by the Comptroller General, such a group was established in 1968. From the experi-

ences gained in the establishment and operation of that group, GAO is currently developing further recommendations for the establishment of independent, external review and evaluation groups for other major international organizations. GAO envisions that such review and evaluation groups will have broad authority and responsibility and report to the organizations' governing bodies.

In order to insure that American financial and managerial expertise and talent are made available to assist in the economic and social progress of developing countries, GAO believes that the executive branch should intensify its efforts to secure an increased number of high caliber U.S. nationals as candidates for positions in the international developmental agencies.

At the close of the fiscal year, a study of the overall management of U.S. interests in international financial institutions had begun. Primary U.S. Government responsibility relative to these institutions rests with the Secretary of the Treasury and the National Advisory Council on International Monetary and Financial Policies. Among the principal issues to be explored in this review is the effectiveness of the present executive branch organization and structure for management of U.S. interests in the institutions.

Agency for International Development

The Agency for International Development administers U.S. economic assistance programs under the provisions of the Foreign Assistance Act of 1961, as amended, and other related legislation.

During fiscal year 1970, GAO conducted audits and special reviews pertaining to various programs and activities administered by the Agency. The four reports issued to the Congress related to the lending activities of the Agency, the policies covering the collection of claims from the Government of Vietnam, and the administration of the excess property programs in Kenya and Pakistan. Eleven reports were issued in response to requests from committees and Members of Congress on various matters of their respective interests, and a number of additional reports were sent to agency officials. The reports to agency officials generally related to improvements needed in the administration and management of foreign assistance programs and to internal operating procedures. Some of these reports are discussed more fully throughout this chapter.

One report pointed out that AID had increased its outstanding economic assistance loans to foreign countries from \$7.4 billion at June 30, 1964, to \$12.6 billion at June 30, 1968, an increase of \$5.2 billion. Although most of the increase was in dollar loans, \$1.3 billion of the increase was in foreign currency loans subject to possible changes due to variations in exchange rates. There was a concentration of outstanding loans at June 30, 1968—both dollar and local currency loans—in the countries where significant devaluations had taken place. During the 4 years prior to June 30, 1968, devaluations caused AID to incur a reduction of \$1.1 billion in the equivalent dollar value of local currencies disbursed or available to be disbursed for loans. Seventy percent of all the outstanding loan balances were owed by borrowers in 14 countries whose reduced currency values had resulted in 97 percent of the exchange rate reductions in the dollar value of local currency loans during the 4-year period. (See Appendix, Section I, Item 83.)

Another report stated that AID had not fully discharged its responsibility to file claims against the Government of Vietnam for all refunds due the United States in connection with (1) irregular transactions in the AID-financed commodity import program for Vietnam and (2) misuse of project assistance. AID officials did not completely agree with GAO's recommendations for improvement in processing these claims, particularly, the establishment of an escrow account by the Government of Vietnam from which claims will be automatically collected. However, AID and the Government of Vietnam have taken certain actions which should result in more effective utilization of AID-financed commodity assistance and in improved policies and procedures for filing refund claims. GAO also suggested that the Congress might wish to consider whether further guidance should be given to AID concerning the establishment of an escrow account, in view of the significant period of time that has elapsed during which no effective action has been taken by AID. (See Appendix, Section I, Item 158.)

From a review of the administration and management of the excess property programs being conducted in Kenya and Pakistan GAO pointed up various improvements needed. AID initiated instructions and guidelines designed to correct the problem areas. In GAO's opinion, the actions taken by AID represented steps toward major improvements in the operations of the programs. (See Appendix, Section I, Item 199.)

A report was issued on the questionable financing by AID of a private venture, under the investment guaranty program, on a project for the raising and marketing of corn in Thailand. Throughout the life of the project, AID bore almost all of the risk of loss in the privately owned venture. GAO suggested that, in all such cases, AID should require the owner who controls a project of this nature to assume a meaningful portion of the total risk involved since to do otherwise would not be conducive to good financial management. (See Appendix, Section I, Item 84.)

A report on the followup review of activities under contracts with the American Institute for Free Labor Development and the Agency for International Development was also issued. Through contracts with AID, the American Institute for Free Labor has become the principal instrument of the U.S. Government for supplying technical assistance to Latin American trade unions. In response to GAO recommendations, AID agreed that there was need for improvements in the Institute's financial management procedures and planned to undertake a comprehensive evaluation of the Institute's performance. The Institute disagreed in general with GAO's conclusions and recommendations; however, it recognized the need for continued improvement and stated that these suggestions were useful in improving its management and effectiveness. (See Appendix, Section I, Item 85.)

One report to the Congress stated that about \$8.6 million of AID's economic development funds provided to the Government of India had been used to fill orders from the Indian Ministry of Defense for components and parts—i.e., knockdown kits—for 1-ton four-wheel-drive trucks, known as power wagons, and for other types of military trucks. AID's general policy, although not explicitly set down, was that economic assistance funds are not authorized to finance material directly for the account of or on behalf of the Defense Establishment. As a result of GAO recommendations, AID made a thorough review of its guidelines and their application and issued a policy determination formalizing guidelines on economic and military assistance. (See Appendix, Section I, Item 86.)

Audit work underway at June 30, 1970, included surveys and reviews of programs covering agriculture, education, civilian health, population and family planning, refugees and war casualties, capital assistance projects, and technical service contracts.

Defense International Activities

Defense international activities involve the cooperative efforts of the Department of Defense with foreign governments or activities of an international character. Defense international activities include the military assistance program, defense participation in international organizations, and other international activities of the Department of Defense and the military departments.

During the year, four reports were submitted to the Congress on reviews of these activities. In addition, three reports were issued in response to requests from chairmen of congressional committees and individual Members of the Congress and three reports were issued to agency officials.

A report on a major weapon system provided to Far East countries under the military assistance program disclosed that the combat readiness condition of the system was being seriously impaired by inadequate supply and maintenance support. The Department of Defense agreed that these findings were valid for the period covered but that corrective action had been taken and the situation had improved. A followup review was performed and disclosed that, although some improvement had been made, a low level of readiness continued primarily because of inadequate supply and maintenance support. In commenting on this report, DOD stated that the supply and maintenance deficiencies were being gradually corrected and that responsible officials were aware that substantial improvements were needed before full combat ready status could be achieved. (See Appendix, Section I, Item 159.)

Another report dealt with the omission of significant costs from the sales price for military training services sold to a foreign country. Prices established by the United States to recover the cost of the pilot training provided to the Federal Republic of Germany for F-104G aircraft through December 1966 did not include all direct and indirect costs incurred in providing the training. These additional costs amounted to about \$6 million. Also, the U.S. Air Force did not charge Germany for rental of U.S.-owned aircraft and equipment used in the training nor did the Air Force collect for the Government housing furnished to the foreign students. In line with GAO recommendations, the Department of Defense conducted a study of pricing of foreign military sales involving training and has re-



Briefing of foreign students prior to start of day's flight training.

vised its instructions on policy and criteria for pricing sales of training. However, the Department disagreed with the recommendation that retroactive charges should be attempted for costs omitted in the past, except for housing costs. (See Appendix, Section I, Item 141.)

A report on obtaining NATO cost sharing on military construction projects in Europe revealed, that although improvements in the administration of U.S. participation in the program had been made since GAO's last report was issued to the Congress on this matter (June 1965), there was a need for further improvements, especially in the area of recouping costs of projects initially financed by the United States. The report stated that the U.S. Army in Europe, purportedly to maintain operational control, had followed a policy of not pursuing NATO cost sharing for certain facilities eligible under the program. The report also revealed delays in submission of Air Force projects for cost sharing and delays in recouping costs of initially financed projects after inclusion in the NATO program. The Department of Defense accepted these proposals and corrective action was initiated. (See Appendix, Section I, Item 80.)

In addition to reports to the Congress and the reports to the committees or individual Members of Congress mentioned above, a considerable number of congressional inquiries were received and handled. For the most part the inquiries concerned U.S. activities

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in Southeast Asia related to the Vietnam conflict and the payment of taxes to foreign governments.

At the close of the year, a report on the military assistance training program for foreign nationals was being completed. This proposed report which was requested by the Senate Foreign Relations Committee will expand the scope of GAO's interim report on the same subject issued in December 1969, in response to a congressional request. The proposed report encompasses an intense review of the training of foreign nationals in 10 countries in various parts of the world.

Other reports on Defense international activities in process included:

- U.S. investment and participation in certain North Atlantic Treaty Organization programs.

- U.S. civil administration of the Ryukyu Islands.

- U.S. commitment to support international weapons production program.

Department of State and Related Activities

The Department of State is responsible for establishing and implementing the foreign policy goals of the United States including representation in relations and negotiations with other countries and with the United Nations and other international organizations.

GAO examined activities of the Department's Washington Office and its program management, as well as U.S. embassies and Special Missions abroad, and issued 11 reports to the Congress. Seven of these were submitted to the Congress as a whole and four were submitted to committees of the Congress on reviews made at their request.

One report pointed up the continuing delinquency of international mail accounts owed the United States by several foreign countries and stated that no formal interdepartmental understanding had been reached between the Post Office Department and the Department of State to provide an orderly and systematic method for pursuing the collection of delinquent international mail accounts. The report recommended that the State Department, under mutually agreed upon conditions, make every reasonable effort to collect past due Post Office accounts since it is in a better position to take positive collection action against other governments. The report also stated that assessing interest on past due accounts in accordance with regu-

lations of the Universal Postal Convention and collecting amounts due in foreign currency should be considered in collecting outstanding accounts. The Departments started action to improve their collection procedures but did not agree with the recommendations to assess interest on past due accounts. Some progress had been made by the end of the year. (See Appendix, Section I, Item 87.)

Reports were issued to the Congress on the questionable justification and loose administration of the special cost-of-living allowance paid to certain civilian employees in the Republic of Vietnam and on U.S. support of the Philippine Civic Action Group in Vietnam. (See Appendix, Section I, Items 185 and 88.)

Another report to the Congress on proposals for improving internal audit in the Department of State indicated a need for the Department to (1) redirect and expand the internal audit effort, (2) improve the stature and independence of the internal audit function, and (3) improve the planning and programming of audits. The Department did not agree with the findings concerning the fundamental need to improve the independence and stature of the internal audit function nor the need for redirection of its effort. The basic weaknesses are continuing, and at the end of the year the Department had not indicated any intent to deal with them. (See Appendix, Section I, Item 153.)

Audit work in process included surveys of the management of U.S. research efforts having a bearing on foreign affairs and foreign language training activities of U.S. agencies in Washington and overseas.

A report to the Director of the Peace Corps pointed out a number of specific accounting system and management control inadequacies and problem areas which had been identified as needing attention in connection with the present system development efforts. (See Appendix, Section I, Items 142 and 154.)

Reports were submitted to the Director, United States Information Agency, on reviews conducted at United States Information Service (USIS) posts in India and Brazil. GAO also continued to provide consultative assistance to the Agency in its efforts to further improve its financial management system.

In the report on selected USIS activities in India, the need to improve certain practices followed in negotiating overseas contracts and the desirability of devising a system for evaluating the distribution of Agency-sponsored books to USIS target audiences were pointed out. Also, GAO questioned the need for the continued operation of a leased Voice of America relay

station in Ceylon due to the marginal quality of the broadcast signal to India and the construction of additional long range transmitting facilities in Greece and the Philippines. The Agency advised that action would be taken to correct the matters noted in the report; however, a final decision as to the future of the Ceylon relay station would be delayed until certain technical and programming uncertainties could be resolved. (See Appendix, Section I, Item 160.)

During the year GAO continued its review of vouchers and supporting documentation for the settlement of accountable officers of the Department of State, as well as following through on both formal and informal exceptions taken in prior years in connection with reviews of fiscal transactions at the Department of State, USIA, and the Peace Corps.

Audit work in process included a broad survey of the management of U.S. research efforts having a bearing on foreign affairs.

Export-Import Bank

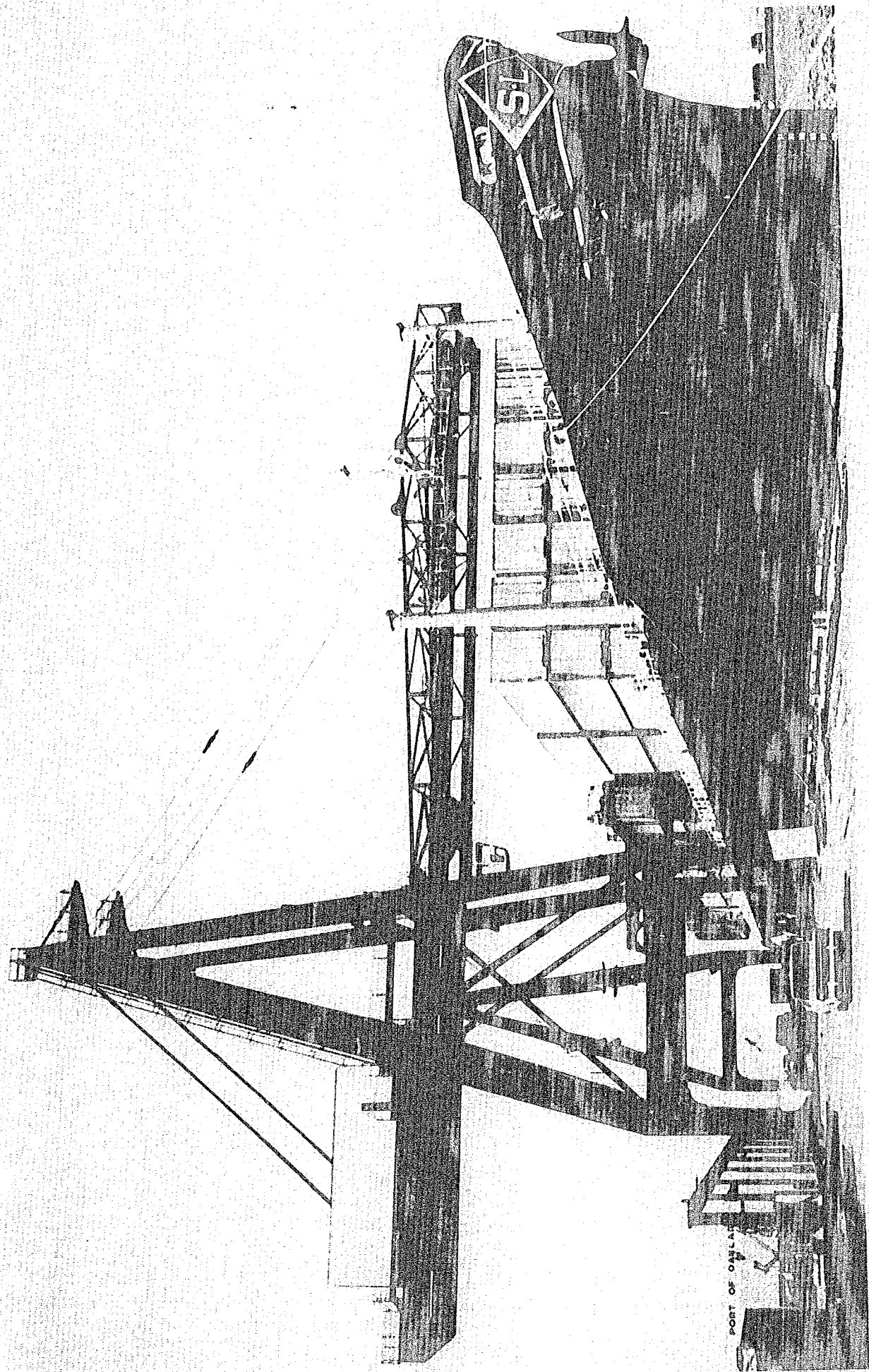
Pursuant to the provisions of the Government Corporation Control Act, an audit of the Export-Import

Bank of the United States for fiscal year 1969 was made and a report furnished to the Congress on the results of the audit. A report was also issued to the Bank on GAO's examination of its statement of assets and liabilities.

The financial statements, except for the Bank's treatment of sales of certificates of beneficial interest, presented fairly the financial position of the Bank at June 30, 1969. However, the certificates of beneficial interest sold subject to contingent repurchase commitments should be considered as borrowings or financing rather than sales of assets. The Bank is exploring new ways of handling its loan assets which it hopes will satisfy GAO's opinion of what constitutes a sale rather than a borrowing.

GAO recommended that the Bank evaluate the provisions of its agreement with the Foreign Credit Insurance Association to provide for an equitable distribution of earnings to the Bank from its insurance program. The Bank is currently studying its agreement with the goal of obtaining a more meaningful distribution of income and expenses. (See Appendix, Section I, Item 143.)

At June 30, 1970, an examination of the financial statements of the Bank for fiscal year 1970 was in process.



Sea Transportation Service for commercial ocean services, and payments by Government corporations that are audited on site.

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

CHAPTER SEVEN

TRANSPORTATION

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

As a further part of its basic audit and investigative functions, GAO reviews, evaluates, and reports on the transportation and traffic management activities of Government agencies and assists the agencies in performing their transportation and traffic functions.

In settling transportation claims, GAO furnishes technical support and other assistance to the Department of Justice in the prosecution or defense of transportation suits to which the United States is a party.

The scope of GAO's responsibilities for auditing and reviewing transportation in the Federal Government is indicated by the magnitude of the Government expenditures for transportation services. Direct procurement of commercial transportation amounts to about \$1.5 billion annually. Approximately \$2.4 billion of this amount is for services procured on standard forms and is audited centrally by GAO on the basis of paid bills submitted by Government agencies. Other expenditures for direct procurement of commercial transportation consist primarily of contract services including the transportation of mail, payments by the Military

Audit of Transportation Payments and Settlement of Claims

Transportation Payments

The Transportation Act of 1940 requires the administrative agencies to pay the bills of carriers subject to the Interstate Commerce Act and the Federal Aviation Act upon presentation prior to audit by the General Accounting Office. Although payments to carriers not subject to these acts may be audited prior to payment, for administrative efficiency all transportation bills for services procured on standard Government forms are normally paid before audit.

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

GAO audited 5.9 million bills of lading for freight shipments, for which the Government had paid about \$1.5 billion, and 3.4 million transportation requests for passenger travel, for which the Government had

TRANSPORTATION

BILLS OF LADING AND TRANSPORTATION REQUESTS EXAMINED DURING THE FISCAL YEAR 1970

Audit:	Number	Amount paid	Notices of overcharge issued	
			Number	Amount
Bills of Lading	5,924,530	\$1,441,132,482	94,599	\$16,382,917
Transportation Requests	3,357,532	933,780,966	13,900	1,325,407
Total	9,282,062	2,374,913,448	108,499	17,708,324

paid about \$9 billion. From the audit of transportation payments, GAO issued 108,499 overcharge notices to commercial carriers requesting refunds totaling \$17.7 million. Collections from carriers amounted to \$16.3 million, which were credited to basic appropriations of the procuring agencies or, where this was not possible, deposited in the Treasury as miscellaneous receipts. A summary of this activity is shown above.

The amount of payments audited was about 7 percent less than the prior year, and the amount of overcharges detected and reported to carriers was about 9 percent greater. This activity was accomplished with 2.4 percent less audit hours than were utilized on the transportation audit in fiscal year 1969. A schedule showing transportation audits and collections for fiscal years 1961-70 is included as Exhibit 3 on page 135.

As part of the review of transportation payments, GAO also identified hundreds of shipments where the transportation services were procured at the legal rates but resulted in excess costs to the Government which were not recoverable from the carriers. These traffic management errors resulted from the selection of uneconomical routes, modes of carriage, or types of service, and were brought to the attention of the responsible transportation officials of the agencies involved for necessary corrective action.

Claims

Section 305 of the Budget and Accounting Act,

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

GAO received about 16,000 claims and settled or otherwise disposed of 13,725 claims for approximately \$14.8 million. The greatest amount claimed was on assigned bills of certain Military Airlift Command contractors, which are audited before payment to protect fully the Government's interest. On these assigned bills and other original unpaid bills for \$10.5 million, about \$43,000 was disallowed as being in excess of the proper contract and/or tariff rates. The balance of the claims were supplemental bills of carriers for changes in their original charges or demands for repayment of overcharges collected by GAO. In disposing of these claims, amounting to about \$4.3 million, \$2.6 million was certified for payment and \$1.7 million was disallowed or terminated. A summary of this activity is shown below:

TRANSPORTATION CLAIMS RECEIVED AND SETTLED DURING THE FISCAL YEAR 1970

Class of claims	On hand July 1, 1969	Received	Number of claims	Settled		On hand June 30, 1970
				Number claimed	Amount allowed	
Freight	5,859	15,277	12,501	\$4,577,460	\$2,954,823	8,635
Passenger	649	985	1,224	10,186,886	10,098,422	410
Total	6,508	16,262	13,725	14,764,352	13,053,245	9,045

¹ Includes allowance of \$9,868,182 for Military Airlift Command movements audited before payment.

A schedule showing transportation claims settled during fiscal years 1961-1970 is included as Exhibit 4 on page 135.

Transportation Management Reviews

The General Accounting Office continued to expand its audit efforts into domestic programs and to evaluate the Government's involvement in new concepts in transportation. Where possible, GAO reviewed concurrently departmental activities that were a part of broader activities involving more than one department or agency.

GAO increased its efforts in areas of expressed congressional interest. Transportation is one of the most dynamic areas in the industrial field today and this fact is reflected in the many and varied requests for information and review work received from Congressmen. There is also a high degree of public interest in the field of transportation today as many of these congressional requests originated with constituents.

By the end of the fiscal year GAO had issued, or had substantially completed, six reports to the Congress on transportation and traffic management problems. One report pointed out that the Department of Defense could realize economies of about \$700,000 annually by making optimum use of the dry-cargo capacity of the Panama Canal Company ship *SS Cristobal* for transporting Government cargo to the Canal Zone. The Department of Defense agreed and requested military representatives in New Orleans to increase use of the *SS Cristobal*. However, the military continued to make only limited use of the ship. It was several months later, and only after GAO had called a meeting to formulate a working agreement between all parties concerned, that the military began to make optimum use of the cargo capacity of the *SS Cristobal*. (See Appendix, Section I, Item 215.)

In another report GAO showed that economies of about \$600,000 could be achieved by using unused space on direct military flights for military mail shipments from Okinawa to Southeast Asia. In response to GAO proposals, Department of Defense officials informed GAO that substantial amounts of mail were being carried on military aircraft from Okinawa to Vietnam and Thailand and that the circuitous routing of mail via Japan had been discontinued. (See Appendix, Section I, Item 216.)

GAO also reported to the Congress that savings of almost \$1 million could be achieved on future air ship-

ments if direct air carriers are used, where less costly, rather than air freight forwarders. In response to these proposals, Department of Defense officials agreed that improvements could be made in the selection of air carriers and that the transportation expertise of the single manager for transportation should be used more frequently and extensively. (See Appendix, Section I, Item 217.)

Other reports, which were substantially completed by the end of the fiscal year, concerned: (1) actions taken or planned to improve use of cargo space on aircraft operated under contract with the Department of Defense, (2) potential savings by centralized control of overseas air passenger transportation, and (3) opportunity for savings by reducing paperwork involved in Department of Defense bus travel.

GAO answered specific requests from individual Members of the Congress concerning various transportation and traffic management activities. Primary interest was in the Department of Defense test involving the feasibility of using Great Lakes ports for shipping military sponsored cargo to Europe. Several Congressmen representing East Coast and Midwest shipping areas requested that GAO evaluate the test program and its results.

Other matters of congressional interest reported on were:

- Use of air taxi operators by the Armed Forces Courier Service.

- Rental charges on passenger rail cars.

- Use of Washington area airports by Government travelers.

- Use of farm cooperatives by the Department of Defense for hauling munitions.

GAO also issued reports to the heads of departments and agencies of the Federal Government. The more significant involved:

- Use of Government-owned refrigerated vessels in the North Atlantic.

- Elimination of dumping charges for coal shipped on military chartered vessels.

- Savings by improving rail service at an Army ammunition plant.

Significant transportation matters now being studied include: (1) worldwide movement of ammunition and components, (2) shipping activities of civil agencies, (3) traffic management in the Post Office Department, (4) containerized freight service, and (5) self-insurance on Government shipments.

TRANSPORTATION

GAO continued to expand its transportation and traffic management review staff to provide the capability to research new areas in transportation and to formulate future work programs in meeting the demands on its resources from the increased interest of the Congress in the field of transportation.

Assistance in the Legal Field

The General Accounting Office continued to provide technical assistance to the Department of Justice in the prosecution and defense of transportation suits by or against the United States and in proceedings before the Interstate Commerce Commission. As part of this assistance, transportation specialists participated in three pretrial conferences in the Court of Claims and one trial before a Commissioner of the Court of Claims.

Debts against carriers involving 128 items in the total amount of \$136,275 were reported to the Department of Justice for collection. Similarly reported debts covering 311 items in the total amount of \$127,513 were settled by the collection of \$26,722 through judgments, compromises, or otherwise.

GAO received from the Department of Justice notice of the filing of 131 suits by carriers covering 167,328 shipments. One hundred and thirteen of the suits filed and about 165,794 of the shipments were on overseas movements of household goods by the Department of Defense. The amount sued for is not stated in the petitions filed in those suits but the liability of the United States on the 420 suits filed in this and prior years is estimated to be about \$100 million, if the carriers prevail on all of the issues not already decided. In the same period GAO furnished technical advice and other assistance to the Department of Justice in 33 suits for \$704,000 involving 1,817 shipments. Twenty-one suits, the subject of reports in this or prior years, involving 691 shipments and \$607,134 were settled by payment of judgments for \$274,637 and by dismissal or withdrawal of the balance.

One of the five representative cases selected for trial of the issues in the 420 household goods suits, *Trans Ocean Van Service v. United States*, Ct. Cl. No. 137-66, was decided May 15, 1970. At that time the court dismissed eight of the issues posed by the carrier. Previously the carrier had withdrawn certain issues as the result of pretrial conference. Decisions for the carrier were entered in connection with six issues. GAO has proposed that the Department of Justice request a rehearing on two of these issues regarding the court's

interpretation and conclusions. Technical assistance in connection with the exceptions to the Commissioner's report and the decision of the court was furnished by GAO.

Another activity of increasing importance in GAO's audit and legal assistance work relates to the collection of motor carrier overpayments. Overpayments arise as a result of the application by carriers of unjust and unreasonable rates as defined by the Interstate Commerce Act. Reparations for such overpayments to motor carriers may be recovered only through suits filed in the U.S. District Courts. During the year GAO identified and prepared reports on 37 motor overpayments involving 114 shipments and claimed reparations of \$67,549. All of these cases were referred to the Department of Justice and GAO understands that as of June 30, 1970, the Department had filed suits on most of them. In addition, when advised of unjust and unreasonable rate situations, certain motor carriers voluntarily refunded overpayments on 99 shipments amounting to \$104,985.

Assistance in the Traffic and Transportation Field

GAO assisted various Government agencies in their traffic management and transportation activities. This assistance included:

Working with the Military Traffic Management and Terminal Service (MTMTS) to develop a revised Tender of Service as an appendix to their Personal Property Management Regulation covering the transportation of employees' movements of household goods in Government bill of lading service.

Furnishing recommendations to the Military Traffic Management and Terminal Service regarding the terms of a proposed tender for shipments of unaccompanied baggage in through Government bill of lading service.

Furnishing the Department of the Navy certain recommendations for modification of the Naval Supply Systems Command regulations to reflect the correct tariff provisions to insure the future application of lower available export rates on shipments whenever actually exported.

Supplying the Internal Revenue Service with a statement with reference to fact situations presented

by test claims of the Penn Central in its tax refund claim.

Meeting with the Atomic Energy Commission (AEC) and MTMTS to discuss charges applicable to shipments of radioactive material removed from atomic powered ships and transported in lead casks or in special Government-owned cars whose construction incorporates shielding equipment equivalent to that of the casks.

Joining with the Military Traffic Management and Terminal Service in obtaining a Section 22 Quotation, offering all-rail rates effective April 1970, on movements of combat ready vehicles within CONUS, based on agreed minimum weights which include added equipment and ammunition.

Furnishing passenger fares and other transportation data to the Department of Labor for preparation of the monthly consumer price index.

Providing guest lecturers at the U.S. Army Transportation School, Fort Eustis, Va., and a speaker and panel member at the Passenger Traffic Management Conference conducted by the General Services Administration in Washington, D.C.

Considering and acting upon various requests from the administrative agencies for permission to deviate from established procedures to provide more economical and efficient traffic management.

GAO continued to meet with representatives of individual carriers or members of their trade associations to discuss and resolve mutual problems relating to the audit of carriers' bills. During the year, GAO participated in five meetings with various domestic and international carrier associations and had numerous discussions in Washington with carrier and carrier association representatives.

Under the Joint Financial Management Improvement Program, GAO continued to participate in a joint agency study of freight and passenger transportation in the civil agencies. The study is under the chairmanship of the General Services Administration with full-time staff members assigned from the General Accounting Office, the General Services Administration, the Bureau of the Budget, the Treasury Department, and the Departments of Commerce, Agriculture, and Health, Education, and Welfare. The study group has now completed a review of the current systems of the civil agencies for paying, auditing, and settling with the carriers for transportation services and has suggested improvements or needed changes for the mutual benefit of the carriers and the Government. The report outlining the conclusions and recommendations of the study group will be released to the public early in fiscal year 1971.



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payment by GAO (31 U.S.C. 132); claims for underpayment of wages under the Davis-Bacon Act (40 U.S.C. 276a-2) and the Contract Work Hours Standards Act (40 U.S.C. 330) are for certification by GAO; and, with few exceptions, judgments against the United States are paid pursuant to settlements of GAO. Also, payments in excess of \$2,500 under the Federal Tort Claims Act (28 U.S.C. 2672) are made pursuant to settlements of GAO. All of these functions are performed in the Claims Division.

CHAPTER EIGHT

CLAIMS

General

The Claims Division is responsible for the adjudication and settlement of all claims by and against the United States that are cognizable by the General Accounting Office with the exception of claims by and against common carriers for transportation items which are processed by the Transportation Division. Legal authority for this function is contained in section 305 of the Budget and Accounting Act, 1921, which provides that all claims and demands whatever by the Government of the United States or against it shall be settled and adjusted in the General Accounting Office. Section 304 (31 U.S.C. 93) of that act provides also that the General Accounting Office shall superintend the recovery of all debts finally certified by it to be due the United States. This function too has been delegated to the Claims Division.

While these provisions appear to be all inclusive, Congress has enacted various laws authorizing designated Government agencies to settle specific classes of claims arising under programs administered exclusively by such agencies. On the other hand, specific statutes have been enacted which provide that payment may be made only upon settlement of the General Accounting Office. For example, claims for the proceeds of depositary checks which have not been paid prior to the close of the fiscal year next following the fiscal year in which the checks were issued must be certified for

Claims Against the United States

As a general rule the Government departments and agencies pay most of their obligations in the normal course of business. Claims against the United States that are referred to the General Accounting Office for settlement are usually limited to those required by statute to be paid on settlement of this Office and those involving doubtful questions of law or fact as to the validity of the claim, the amount of the claim, or the entitlement of the persons claiming.

Claims coming before the Division may arise from virtually any transaction of the Government and are received from individuals, business entities, and foreign, State, or municipal governments. For convenience, the claimants are classified as live civilian employees, deceased civilian employees, live military personnel, deceased military personnel, and other public creditors—live and deceased. The subject matter of the various categories of claims is classified as compensation, pay and allowances, travel, per diem, transportation, judgments, acts of Congress, contracts, trust funds, refunds, and miscellaneous. The processing of such claims includes an examination and analysis, development when necessary, adjudication, and certification for payment, or disallowance.

The function performed by the Claims Division in settling claims against the United States clearly is one that not only is beneficial to the individual claimants involved, but also is in the best interest of the United States. It is beneficial to individual claimants in that it affords them the opportunity to receive a full, fair, and impartial review of administrative action in disallowing their claims at little or no expense to them. It is in the interest of the Government in that it reduces significantly the number of claims that otherwise would be the subject of formal legal proceedings instituted by claimants with the attendant expense, delays, and overcrowding of court dockets. Similarly, GAO's claim set-

CLAIMS

tlement action is beneficial to the United States in that it reduces significantly the number of requests that otherwise would be made upon the Congress or individual Members thereof for the enactment of private legislation.

On July 1, 1969, GAO had on hand 1,737 claims against the United States. During the fiscal year, 14,606 claims were received and 14,943 settled, leaving a case-load on hand of 1,400 on June 30, 1970. Incident to the settlement of the 14,943 claims, GAO certified the amount of \$55,909,237 for payment.

Claims by the United States

Claims by the United States are referred to the General Accounting Office for adjudication when they involve administrative doubt as to the amount or propriety of the debt or the liability of the parties to the transaction. The subject matter of these debt claims is as varied as that of claims against the United States. Moreover, the regulations promulgated jointly by the Attorney General and the Comptroller General pursuant to the Federal Claims Collection Act of 1966, 31 U.S.C. 952, require that debts due the United States on which administrative agencies have taken appropriate collection action, but which cannot be compromised or on which collection action cannot be suspended or terminated in accordance with such joint regulations, be reported to the Claims Division as administratively uncollectible debts.

Following the referral of a debt for collection, GAO's actions include efforts to locate debtors when their whereabouts are unknown, the issuance of demands for payment, development to ascertain the financial status of the debtors, and the issuance of proofs of claim in bankruptcy and deceased debtor cases. If development of a claim discloses that a debtor is presently receiving payments from the Government, GAO takes steps to have amounts withheld, if otherwise proper, for application to his debt. In the event a debtor is financially unable to remit the full amount of his debt in one payment, he is permitted to make installment payments commensurate with the amount of the debt and his ability to pay. A debtor who meets the standards established pursuant to the Federal Claims Collection Act of 1966 may be permitted to liquidate his indebtedness by compromise. If collection action by the Claims Division is unsuccessful and the indebtedness appears to be provable, it is reported to the De-

partment of Justice for suit, whenever warranted by the debtor's financial circumstances. In such cases, a certification of the amount due the United States is transmitted to the Department of Justice together with all information and documents as may be necessary to support court proceedings.

On July 1, 1969, GAO had on hand 19,141 claims by the United States. During the fiscal year 21,979 claims were received and 13,201 settled, leaving a balance of 27,919 on hand June 30, 1970. Of the 27,919 claims on hand, 8,182 were under collection representing accounts receivable in the amount of \$4,782,933. As a result of GAO's debt adjudication and collection activities during the fiscal year \$2,626,961 was collected. During that period GAO reported 1,274 claims to the Department of Justice for suit and as of June 30, 1970, 5,266 of the claims pending with that Department were under collection, representing accounts receivable in the total amount of \$1,612,546.

Incident to the Claims Division's collection activities 14,614 offers in compromise were solicited to which 2,470 replies were received. Included in such replies were 883 offers in compromise totaling \$385,708. Of the total number of offers in compromise received, 235 in the aggregate amount of \$116,503 were accepted in liquidation of debts totaling \$275,475.

Public Law 90-616, approved October 21, 1968, 5 U.S.C. 5584, provides that the Comptroller General and the head of each executive agency may waive the claim of the United States arising out of an erroneous payment of pay, covering a period occurring on or after July 1, 1960, made to an employee of an executive agency when collection would be against equity and good conscience and not in the best interest of the United States. That law, however, vests exclusive jurisdiction in the Comptroller General to waive overpayments of pay aggregating more than \$500, and the statutory regulations issued pursuant thereto require waiver determinations to be made only by the Comptroller General when there exists doubt as to the propriety of waiver. The responsibility of the Comptroller General to waive erroneous payments has been delegated to the Claims Division.

Before granting a waiver under this authority it must be determined, following an appropriate administrative investigation, that the erroneous payment occurred through administrative error and there is no indication of fraud, misrepresentation, fault, or lack of good faith on the part of the employee or other person having an interest in obtaining a waiver of the

claim. A complete record of the action taken on an application for waiver is required to be maintained by the agency involved.

During the fiscal year, 428 requests for waiver of erroneous payments of pay totaling \$353,937 were considered. Of these, 267 in the amount of \$213,447 were waived in full. Partial waiver of \$15,310 was granted in 29 requests and \$6,877 was denied. The remaining 132 requests for waiver in the amount of \$118,303 were denied.

Agency Review and Assistance

While each agency has primary responsibility for the payment of obligations incurred during the course of its operations, the payment authority is limited by applicable statutes, statutory regulations, and availability of appropriations.

Also, under the Federal Claims Collection Act of 1966 the head of an agency has primary responsibility for the collection of debts due the United States arising during the course of operations of his agency. Under certain conditions an agency head is authorized to compromise debts for less than the full amount due and

to terminate or suspend collection action when it appears that no person liable on the claim has the financial ability, present or prospective, to pay any significant amount on the claim, or when the cost of collection is likely to exceed the amount of recovery.

Recognizing the need to monitor agency activities and operations in the areas of (1) payment and debt claims adjudication, (2) debt collection, including compromises and termination of collection actions, and (3) waiver of pay: and for the purpose of rendering assistance to agencies in the establishment of more effective and efficient operations in such areas, there is being established a new branch in the Claims Division which is to be known as the Agency Review and Assistance Branch. The primary functions of this branch will be to (1) review agency regulations, procedures, staffing, and actual operations relating to payment and debt claims adjudication, debt collection, and waiver of pay, to insure the compliance with all controlling statutes and statutory regulations, (2) make recommendations and render other assistance in establishing or improving the efficiency and effectiveness of agency procedures and operations, and (3) make reports to agency heads and the Congress as appropriate.

SUBPENA POWER
AUTHORIZATION OF SUBPENA
POWER

SEC. 601. To assist in carrying out

his functions, the Comptroller General may
sign and issue
subpenas

PRESIDENTIAL ADVISORY COMMITTEES
STATEMENT OF HON. ELMER STAATS, COMPTROLLER GENERAL
OF THE UNITED STATES, GENERAL ACCOUNTING OFFICE; ACC
ANIED BY CARL P. FRIEND, OFFICE OF GENERAL COUNSEL
HENRY ESCHWEGE, CIVIL DIVISION

Contracts—Specifications—
Multi-year Procurements—
Procedural Deviations

he fact that an invitation for bids on the first-year and multi-
or multiplex equipment used in complicated communications sys-
or uniform unit prices for each year of the multi-year p-
tain criteria for comparison of first-year versus multi-
it violate paragraph 1-322 of the Armed Service

**TITLE VII—
ENFORCEMENT OF DECISIONS
AND SETTLEMENTS
ENFORCEMENT**

SCANWELL LABORATORIES, INC.,
Appellant,
v.

Mr. H. SHAFFER, Administrator (Act-
ing) of The Federal Aviation Admin-
istration, et al.
No. 22863.

United States Court of Appeals,
District of Columbia
Argued
D.

**Decisions of
Comptroller General
of the United States**

VOLUME 49 Pages 295 to 358
NOVEMBER 1969

**ALL BUSINESS:
O RETAINS AUTHORITY
REVIEW DETERMI-
NATIONS OF LACK OF
NACITY AND PERSE-
RANCE**



Office of the General Counsel
Public Law 91-129
91st Congress, H. R. 474
November 26, 1969

An Act
To establish a Commission on Government Procurement—
Contracts—Protests—Award Approved—
Prior to Resolution
of Protest



A BILL

To revise and restate certain functions
duties of the Comptroller General of the
United States; to change the name of the
General Accounting Office to "Office of the
Comptroller General of the United
States" and for
purposes.

Elmer B. Staats

ASSISTANT COMPTROLLER GENERAL OF THE UNITED STATES

Robert F. Keller

GENERAL COUNSEL

Paul C. Dembling

DEPUTY GENERAL COUNSEL

J. Edward Welch

ASSOCIATE GENERAL COUNSEL

John T. Buran

Associate General Counsel

Mr. F.

F. Henry Barclay

Mr. DEMBLING

GAO Suggests
Convenience Termini
Instead Of Outright Contr
Cancellati

SBA Failure To Ap-
C.O.'s Nonresponsibility
Determination Does Not Bar
Comp. Gen.
[B-168024]

SERVICES BY THE FEDERAL GOVERNMENT
PROCUREMENT OF ARCHITECT AND ENGINEER
The Budget
and Accounting Act,
1921

HEARING
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
NINETY-FIRST
CONGRESS
SECOND SESSION
ON
H.R. 1644

Transportation—Dependents—Mil
Personnel—Dislocation Allowanc
More Than One Move in Fiscal Y

OFFICE OF THE GENERAL COUNSEL
Mr. ANDREWS. Next is the Office of the General Coun-
Mr. DEMBLING. At the present time we have on the
Mr. ANDREWS. Authorized 202?
Mr. DEMBLING. 201 average.
Mr. ANDREWS. You have how many?
Mr. DEMBLING. 187 on the rolls at the present time.
Mr. ANDREWS. As against the 201 authorized?
Mr. DEMBLING. 201 authorized.
Mr. ANDREWS. In 1971 you are asking for 205?
Mr. DEMBLING. Yes, sir.
Mr. ANDREWS. You expect to come up to that level?
Mr. DEMBLING. Yes, sir. We have at the present time nine
year we hope that we will be able to reach the
year increases, et cetera, is ex-
Mr. DEMBLING. Do you
Mr. ANDREWS. Do you

CHAPTER NINE

LEGAL SERVICES

A review of the work efforts of the Office of the General Counsel during the fiscal year 1970 is a kaleidoscopic view of the concerns of the times. Legal subjects ranged from air pollution control to crime control, from entitlements of civilian employees during riot duty with National Guard outfits to the propriety of Government equipment loans for the movie "Tora! Tora! Tora!" and from the legality of the Philadelphia affirmative action plan to the authority to pay a steamship line for the return of destitute seamen. This brief recitation of a few subjects by no means reflects the extensiveness of the legal assistance furnished in the form of formal decisions, comments on proposed legislation, office memorandum opinions to the operating divisions, audit report reviews, and informal assistance furnished daily by the staff.

The measurable productive efforts in fiscal year 1970 increased to some extent over that of the preceding year. The statistical details of the legal work have been arranged in two different formats: one reflecting the type of output on a case basis (see page 116) and one reflecting the output on a functional basis (see page 115).

Administration

During fiscal year 1970, the administration of the Office of the General Counsel changed from Robert F.

Keller to Paul G. Dembling. Upon the succession of Mr. Keller to Assistant Comptroller General of the United States, the Comptroller General selected Paul G. Dembling, a career Government attorney then serving as Deputy Associate Administrator of the National Aeronautics and Space Administration, to be General Counsel. Mr. Dembling took the oath as General Counsel on November 17, 1969, becoming the fifth head of the Office since its establishment in 1921. As General Counsel, Mr. Dembling took charge of a staff of some 104 attorneys and 93 support service personnel.

About the same time, the retirements of Ralph E. Ramsey, Associate General Counsel in charge of the miscellaneous and civilian personnel areas, and of John H. Coffey, Assistant General Counsel, left these important posts vacant. Mr. Dembling chose experienced career members of the staff to fill these positions. He designated F. Henry Barclay, as Associate General Counsel in charge of the miscellaneous and civilian personnel areas; Milton Socolar, who had been Special Assistant to the General Counsel, as Assistant General Counsel in charge of the civilian personnel area; and John W. Moore, who had been a Deputy Assistant General Counsel, as Assistant General Counsel in charge of the miscellaneous area.

As other activities of the General Accounting Office reviewed the past decades, assessed their current mission, and projected their responsibilities in the context of the 1970's, so, too, did the Office of the General Counsel. This report will reflect some of the legal areas of concern incident to GAO's statutory responsibilities.

The legal work of the Office of the General Counsel is handled in five subject areas, namely:

- Civilian Personnel.
- Contracts.
- Military Pay and Allowances.
- Appropriations and Miscellaneous.
- Transportation.

Within these broad categories the work includes decisions involving all fields of law and requiring expertise in statutory construction, contract interpretation, procedure, and evidence. All areas prepared reports on legislation and on litigation, represented the Office at hearings, and assisted in the preparation of cases in the courts and before regulatory commissions.

While it is not possible to review all the major legal efforts of each group, a few significant decisions prepared in each area will serve to show the extent of assistance rendered by the Office in a fiscal year.

Civilian Personnel

A Government official testifying recently before a congressional committee stated that the rulings of the Comptroller General together with Executive orders and regulations "add measurably to the body of ground rules that govern the employment conditions of Federal employees" (Hearings before the Subcommittee on Postal Operations of the House Committee on Post Office and Civil Service, p. 102). Decisions in the civilian personnel area rendered in 1970 which laid down such ground rules included a determination as to the time payroll allotments for union dues may be discontinued,¹ the proper computation of pay and hours of duty for employees required to cross the international dateline on official travel in performance of temporary duty,² the overtime entitlements of a team of wage board employees who were required to travel over a weekend to perform emergency repairs to gun port shields on a vessel,³ and whether substitute postal employees may be granted court leave for jury duty.⁴

One of the significant civil pay decisions issued determined the right of an employee to retain transfer travel and transportation advances upon resignation prior to completion of a 12-month service agreement when the agency failed to advise the employee at the time of transfer of a pending investigation of his alleged misconduct.⁵

A civil pay decision that resolved a sharp difference of opinion between two Government agencies was one concerning the use of wage data obtained outside a locality for which a survey is made in fixing wage schedules for prevailing rate employees in the locality.⁶ The propriety of shifting the cost of services performed by meat and poultry inspectors on an administratively declared holiday from the Department of Agriculture to the firms that received the benefit of the services was determined in a decision to the Secretary of Agriculture.⁷ The method of computing the pay and retirement annuity deductions for reemployed annuitants who are hired as experts or consultants on a when-actually-employed basis without a regular fixed work schedule was the subject of another civil pay decision.⁸

The Civil Service Commission presented a series of

questions for resolution concerning leave and pay entitlements when civilian employees are called to active duty as military reservists or as members of federalized National Guard units in connection with control of civil disorders. This decision was issued on October 14, 1969.⁹

Contracts

Several significant events in fiscal year 1970 will undoubtedly be reflected in the Government procurement process for some time to come. These events include the enactment of the law establishing a Government Procurement Commission with the Comptroller General as the statutory member,¹⁰ the opinion of the D.C. Court of Appeals in *Scanwell Laboratories, Inc. v. Thomas*,¹¹ and the District Court action in *A. G. Schoonmaker Co., Inc. v. Resor, et al.*¹²

Government Procurement Commission

Even before the Procurement Commission had been completely selected, the Comptroller General designated the General Counsel to handle legal matters with the Commission. The Office staff has had frequent meetings with Commission staff and assisted in the preparation of necessary backup material for the suggested areas for study.

Scanwell

In the *Scanwell* decision the Court of Appeals for the District of Columbia Circuit ruled that an unsuccessful bidder had a standing to sue in the courts. Heretofore unsuccessful bidders on Federal procurement had no such standing to sue.

The *Scanwell* case involved an invitation for bid issued by the Federal Aviation Administration for navigational aid equipment for installation at airports. Scanwell, the second low bidder, protested that Airborne Instruments Laboratory, a division of Cutler-Hammer, the low bidder, did not meet the certification requirements. Since there was urgent need for the equipment, a contract was awarded on February 19, 1969. On March 3, 1969, Scanwell filed complaint in the District Court to enjoin the contractor and FAA

¹ 49 Comp. Gen. 97.

² 49 Comp. Gen. 329.

³ 49 Comp. Gen. 209.

⁴ 49 Comp. Gen. 287.

⁵ B-108670, Mar. 20, 1970.

⁶ B-164515, June 25, 1970.

⁷ 49 Comp. Gen. 508.

⁸ B-107670, Sept. 24, 1969.

⁹ 49 Comp. Gen. 233.

¹⁰ Public Law 91-129 approved Nov. 26, 1969, 83 Stat. 269.

¹¹ No. 22, 863, D.C. Civ., Feb. 13, 1970.

¹² Civil Action No. 1760-70, U.S. District Court for the District of Columbia.

from proceeding. Meantime, on March 17, 1969, the Fairfax County (Virginia) Chamber of Commerce, an interested party, protested the procurement to GAO. On March 24, 1969, the District Court dismissed the suit on grounds of lack of standing and Scanwell appealed.

On July 3, 1969, GAO upheld the validity of the award on the basis that, although the certification requirement was unclear as to whether it went to the responsiveness of the bid or bidder responsibility, a contract had been awarded and no bidders had been prejudiced by lack of clarity. Hence, the administrative determination was not overturned.¹³ Eleven months after the complaint had been filed, the Appellate Court decided that the bidder had a right to sue and remanded the case to the District Court for consideration on the merits. By the end of the fiscal year the outcome of the case had not been determined. The General Counsel and staff were actively assisting the Department of Justice in the preparation of defenses to the case. Such considerations as time, nature of relief, and agency discretion are all matters for resolution incident to this case.

Schoonmaker

Another court action that affects the Government procurement process and the jurisdiction of this Office involved the issuance of a temporary injunction on June 26, 1970, by the U.S. District Court for the District of Columbia in the case of *A. G. Schoonmaker Co., Inc. v. Resor et al.*¹⁴ The injunction restrained the Department of the Army from resoliciting bids pursuant to a decision of this Office holding that an award under an ambiguous solicitation where only one bidder was given a clarifying interpretation would be prejudicial to other bidders.¹⁵ Assistance was furnished to the U.S. attorneys in the presentation of the Government's case before the Court. The outcome of the appellate action had not been determined at the end of fiscal year 1970.

The impact of these court actions has had no noticeable effect on the number of protest submissions being received in the Office.

Inasmuch as the bid protest forum is presently being considered in the courts, by the Commission on Government Procurement, and by professional and busi-

ness associations, a statistical summary of the number of bid protest decisions rendered in fiscal year 1970 by department and agency follows.

NUMBER OF DECISIONS RENDERED DURING FISCAL YEAR 1970 ON BID PROTESTS

Department	Total
Agency for International Development	10
Agriculture	13
Air Force	96
Army	120
Civil Service Commission	1
Commerce	7
Defense	2
Defense Supply Agency	62
District of Columbia Government	4
General Services Administration	62
Government Printing Office	1
Health, Education, and Welfare	9
Housing and Urban Development	5
Interior	10
Justice	2
Labor	1
Marine Corps	3
National Aeronautics and Space Administration	15
National Capital Housing Authority	1
Navy	127
Office of Economic Opportunity	2
Post Office Department	6
Small Business Administration	1
Tennessee Valley Authority	1
Transportation	12
Treasury	2
United States Information Agency	2
Veterans Administration	6
	<hr/> 583
Protests denied	548
Protests sustained	35
Total	<hr/> 583

Many of the contract decisions rendered during a fiscal year establish guidelines for the procuring agencies and for persons and firms desiring to do business with the Government.

The matter of providing realistic delivery information in invitations and solicitations has been the subject of a long line of decisions. A recent decision in which new delivery guidelines were suggested was one to the Secretary of the Navy recommending that, in the procurement of supplies that are to be shipped to overseas destinations and are to be loaded aboard a vessel from trucks, port handling charges be ascertained in advance and detailed in the invitation.¹⁶

¹³ 49 Comp. Gen. 9.

¹⁴ Civil Action No. 1760-70, U.S. District Court for the District of Columbia.

¹⁵ B-169205, May 22, 1970; B-169205, June 23, 1970.

¹⁶ B-167544(2), Jan. 2, 1970.

One of the controversial issues in negotiated procurements concerns the extent that discussions should be conducted with offerors. A bid protest reviewed at the request of the Department of the Navy involved the question of whether negotiations in a sole-source procurement should be opened to a new source when an additional evaluation factor was included along with changed specifications. It was concluded that denial of further discussion with the new source or any other responding source would be prejudicial to the new source's competitive position. The guideline thereby established was that discussions should be conducted with all responsible offerors, even those whose proposals may be technically nonresponsive if such discussions might be "meaningful," depending upon whether a particular offeror is considered to be within a "competitive range."¹⁷

While the jurisdiction of the Armed Services Board of Contract Appeals (ASBCA) and the jurisdiction of this Office are only infrequently invoked in the same case, such a confrontation was brought into focus in a decision involving the application of a Maryland sales and use tax. Following an ASBCA decision concluding that a contractor who had not included the Maryland sales and use tax in his bid price, notwithstanding that both the IFB (Invitation for Bid) and the contract required the inclusion of the tax, should not be required to refund the amount of tax to the Government, the disbursing officer submitted the matter to the Office for determination. Upon review, it was held that to permit the bidder to avoid rejection of his bid and obtain an award by bidding on a tax inclusive basis and then, after award of the contract, to contend he excluded the tax from his price would have resulted in permitting him to enjoy a competitive advantage over other bidders and would have been tantamount to allowing him to avoid his responsibilities to refund the tax to the Government. Therefore, it was concluded that the ASBCA decision was erroneous and payment as directed by the Board's decision should not be made to the contractor.¹⁸

Through the bid protest forum, cases of void and voidable contracts that have been executed by the Government agencies are questioned. In such situations, the kind of remedial action presents difficult determinations depending on the advancement of the contract performance and the liability of the Government.

To illustrate, as a result of the submission of a pro-

test by an unsuccessful bidder for a concession operation contract, the Office conducted an independent investigation and comprehensive review of all factors relating to the current and prior contracts. This study resulted in a determination that the contract had been executed without compliance with the statute requiring proposed concession contracts, such as involved in that case, to be transmitted to appropriate committees of Congress before award.¹⁹

The remedial action recommended in the case of an award by the General Services Administration to a small business firm, who 2 days after award merged with a large business concern, was termination of the contract for the Government's convenience. The bidder was determined to have been ineligible for award on the basis that the merger agreement antedated the contract. The termination of the award was the appropriate remedy to effectuate the purposes of the Small Business Act.²⁰

Another significant decision with respect to the small business program was one rendered at the request of the Administration. After an exhaustive study of the basic statutes it was concluded that the small business procurement activities could properly be extended to include construction contracts.²¹

The impact of the postal strike on bid opening procedures was reflected in a decision in which it was noted that the Department of Defense had instructed its procuring activities to delay bid openings pending resolution of the mail delivery problems unless the requirements of the procurement would not permit such delay. Further, DOD instructed its personnel that if opening could not be postponed, available bids would be opened and award made only if it was determined that there was adequate competition. Notwithstanding that the protestant who submitted the late bid contended that the strike was in the same realm as an "act of God" the weight of legal authorities precluded adoption of this view.²²

Subsequently, the salutary aspects of the Department of Defense directive concerning steps to be taken in postal strike situations were suggested to the Federal Procurement Regulations staff for inclusion in the civilian counterpart of the Armed Services Procurement Regulation.²³

¹⁷ 49 Comp. Gen. 88.

¹⁸ B-168958, May 28, 1970.

¹⁹ 49 Comp. Gen. 219.

²⁰ B-169473, Apr. 24, 1970.

²¹ B-169515, June 9, 1970.

²² 49 Comp. Gen. 98.

²³ B-158458, May 18, 1970.

Military Pay and Allowances

Like decisions on civilian personnel matters, the decisions drafted by the attorneys in the military groups involved many different fields of law, interpretation of old as well as recently enacted statutes, and a myriad of administrative regulations and directives.

Significant among the military decisions was a decision to the Secretary of Defense concerning hostile fire pay rights of members of the uniformed services who are hospitalized for wounds caused by "hostile fire." It was concluded that the basis for secretarial determinations should be based on the military casualty regulations.²⁴

Each year interpretations are requested concerning whether retired military personnel employed by private business firms are performing services that constitute "selling" which is proscribed by statute. The employment of a retired Air Force officer as a small business representative for several manufacturers of industrial and aerospace products was held to constitute selling within the prohibition and, therefore, retired pay benefits must be withheld during such employment.²⁵

Conflicting divorce judgments were interpreted in a decision to the Air Force concerning the right of a deceased officer's widow to a 6-months' death gratuity payment on the basis of a decree invalidating a previous divorce granted the officer in a foreign state.²⁶

In the area of military travel and transportation, decisions were rendered interpreting the limitation on dislocation allowance payments in cases of amended orders necessitating the establishment of two residences within a fiscal year;²⁷ the liability of members of the uniformed services for costs of shipping excess weight of household goods by a circuitous route when change of station orders are amended;²⁸ and the propriety of a proposed amendment to the Joint Travel Regulations to authorize temporary lodging allowances when dependents of members of the uniformed services are required to move from an overseas residence when the member is listed in a missing status.²⁹

A unique question presented for consideration con-

cerned the propriety of the acceptance of reward money from a foreign government. While an Air Force officer was temporarily assigned to a U.S. Training Team in Colombia he assisted in the capture of contraband material being smuggled into that country from Panama. Under Colombian law the informant is entitled to a part of the proceeds from the sale of the property. In accordance with applicable law and prior decisions it was held that the award monies were properly for deposit to the Treasury of the United States, since the officer would be precluded from accepting the reward under the constitutional prohibition against acceptance of foreign emoluments.³⁰

Legal questions in connection with the phase out of Reserve Officers' Training Corps programs at colleges and universities are illustrated in a decision to the Secretary of Defense concerning propriety of payments to members of senior Reserve training groups who participate in accelerated programs during the third academic year because of termination of the programs in their senior year.³¹

Appropriations and Miscellaneous

Decisions prepared in this assignment are as varied and complex as the activities of the Government itself. Many decisions involve the relationship of the Federal Government with State and local governments. For example, a decision was issued to the Coast Guard concluding that under the Federal Government's constitutional immunity from taxation by the States, the U.S. Coast Guard Academy at New London, Conn., was exempt from liability for a sewer service tax assessed by the city on property owners.³²

Similarly, the application of the Federal immunity rule was invoked in a claim of a State drainage district for an assessment against property occupied by an Army ammunition plant. The matter was resolved by authorizing payment for the fair and reasonable value of the services actually furnished to the United States.³³

Illustrating a decision resolving a controversy between two Government agencies was a decision to the

²⁴ 49 Comp. Gen. 505.

²⁵ 49 Comp. Gen. 85.

²⁶ 49 Comp. Gen. 116.

²⁷ 49 Comp. Gen. 233.

²⁸ 49 Comp. Gen. 255.

²⁹ 49 Comp. Gen. 299.

³⁰ B-169025, June 1, 1970.

³¹ 49 Comp. Gen. 171.

³² 49 Comp. Gen. 284.

³³ 49 Comp. Gen. 72.

Department of the Interior concluding that the Corps of Engineers, seeking reimbursement for damages to Elmer City Park caused during construction by the Bureau of Reclamation of Grand Coulee Third Power Plant, could not be paid. The premise for this conclusion was the longstanding rule that one executive department may not reimburse another for use of real property damaged by another agency.³¹

The Secretary of Health, Education, and Welfare requested an advance decision as to whether the National Air Pollution Control Administration could purchase specially designed automobiles for testing air pollution prevention devices without violating the maximum statutory price limitation on the purchase of passenger automobiles.³²

Frequently decisions of the Comptroller General reveal a need for remedial legislative action. For instance, at the request of the Small Business Administration, its authority for extending a minority and economically disadvantaged citizens program so that small business investment companies could participate with SBA under the guaranteed loan program was reviewed and found to preclude such extension.³³ Bills to provide SBA with the necessary authority have been introduced in Congress but have not been enacted into law.

The Administrator of Veterans Affairs submitted for decision several questions arising under an interagency hospital administration training contract with a professor of hospital administration at The George Washington University. The statutory authorities and prohibitory statutes were reviewed to determine the legality of the contract and the particular appropriations available for obligation of contract costs.³⁴

Similarly, the Department of Justice requested an advance decision as to whether, under the Omnibus Crime Control and Safe Streets Act, the Law Enforcement Administration had authority to make direct grants for law improvement programs to units of local government.³⁵

Pursuant to a recommendation by the House Committee on Appropriations (H. Rept. No. 91-642, pp. 8 and 9), the General Services Administration submitted for decision the question of authority to lease space for

employee parking in privately owned buildings. The proposal known as a "parking equalization plan" for leasing space for Department of Transportation employees was held to be proper provided that the General Services Administration makes a determination of need under the criteria in its orders.³⁶

Guidelines for accountable officers were established in a decision to the Air Force. It was held that a disbursing officer who had ample reason to and did question the legality of payments of per diem under retroactive orders, but who then elected to rely on advice from departmental headquarters rather than to avail himself of an advance decision before making payments, would not be entitled to be relieved from accountability.³⁷

In addition to the preparation of decisions, many of the reports commenting on proposed legislation are handled by the staff of the miscellaneous group.

Transportation

The decisions and litigation reports prepared by the transportation staff involve many technical matters relating to the interpretation of tariffs and rate tenders; computation of charges for air, motor, rail, and ocean carrier services; and proceedings before regulatory agencies and the courts.

The transportation staff furnished assistance in the drafting of a new subpart to the Federal Procurement Regulations in recognition of situations peculiar to the procurement of freight transportation services.³⁸ Similarly, legal advice was furnished incident to recommendations of the Joint Agency Transportation Study Group regarding the procurement of passenger transportation services for official Government travel.³⁹

To assist the Study Group in its investigation of the feasibility of a recommendation that a certification of good order delivery by a billing carrier be substituted for the current consignee's certificate of delivery on the standard Government bill of lading, a position paper was prepared. In this matter it was stated that a specific provision of law as an expressed exception to the advance payment prohibition in 31 U.S.C. 529 would be required to remove doubt as to the legality

³¹ B-169228, Apr. 14, 1970.

³² 49 Comp. Gen. 202.

³³ 49 Comp. Gen. 32.

³⁴ 49 Comp. Gen. 305.

³⁵ 49 Comp. Gen. 411.

³⁶ 49 Comp. Gen. 474.

³⁷ 49 Comp. Gen. 38.

³⁸ B-168481, Apr. 17, 1970.

³⁹ B-163758, Sept. 22, 1969.

of the proposed certification. The staff paper suggested the kind of legislative vehicle for accomplishing the objective.⁴³ Also in connection with carrier billing procedure, the Military Traffic Management and Terminal Service was given approval of a waiver of the monetary limitation relating to the use of the short form bill of lading for shipments moving into consolidation points.⁴⁴

At the request of the Office of the Judge Advocate General, Military Traffic Management and Terminal Service, Department of the Army, an informal opinion was furnished concerning procedures for movements of house trailers for service members under Government bills of lading.⁴⁵

A proposal to permit Army and Air Force Exchange Service employees to use Government transportation requests for air transportation to avoid payment of the 5-percent tax was reviewed. Since the travel of Exchange Service personnel could not be considered within the ambit of travel on official public business, disapproval as being in contravention of applicable laws, regulations, and precedents was required.⁴⁶

A considerable portion of the assistance rendered by the transportation groups is incident to litigation by and against the carriers. Instructions were furnished to the Transportation Division on the action to be taken in motor and rail carrier misroute cases.⁴⁷

A significant decision in the transportation field rendered in fiscal year 1970 concerned a proposal of the Military Sea Transportation Service to use foreign-flag feeder ships to transport military cargo into ports for transfer to U.S. lines furnishing container-ship service where U.S. flag ocean carriers were available to transport the cargo the entire distance. This decision required a review of the 1904 Cargo Preference Act.⁴⁸

The propriety of the payment of transportation services by rail carriers for military shipments accorded transit privileges was highlighted in two decisions. One of the decisions involved the transit billing for shipments of explosives,⁴⁹ and another involved the shipment of a communication outfit; both shipments were for the Department of the Army.⁵⁰

A "Transportation Manual" containing statutory

authority, court case precedents, administrative regulations, and digests of decisions was prepared and distributed during the year.

DECISIONS AND OTHER LEGAL MATTERS HANDLED DURING THE FISCAL YEAR 1970

Assignment areas:

Appropriations and Miscellaneous	944
Civilian Personnel	886
Contracts	1,592
Military Pay and Allowances	605
Transportation	886
Subtotal	4,913
Private Inquiries	303
Total	5,216

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

To the committees of the Congress:

Legislative reports	438
Legal matters	48

To Members of the Congress:

Legislative reports	2
Legal matters	215

Subtotal	703
To the Bureau of the Budget	63

Total	766
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Legal Reference Services

Departments and agencies are kept informed of significant decisions as they are issued by the general distribution of advance copies, digests, and the publication of monthly pamphlets. An annual volume of published decisions is compiled each year.

Information on unpublished decisions is made available to Government agencies and libraries by distribution of quarterly digest pamphlets on the following subjects: (1) Appropriations and Miscellaneous, (2) Civilian Personnel, (3) Contracts, (4) Pay and Allowances of the Uniformed Services, and (5) Transportation. Copies of decisions are available from the Public Information Desk maintained in Room 7510.

A cumulative citation and subject card index is maintained on all decisions. Research services are furnished upon request. During fiscal year 1970, the

⁴³ A-24222-O.M., Sept. 8, 1969.

⁴⁴ A-24222, Mar. 11, 1970.

⁴⁵ B-106860, Sept. 5, 1969.

⁴⁶ 49 Comp. Gen. 576.

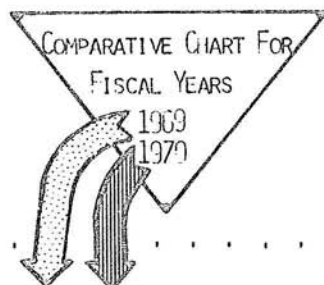
⁴⁷ B-164607, *et seq.*, July 15, 1969.

⁴⁸ B-145455, May 5, 1970.

⁴⁹ 49 Comp. Gen. 266.

⁵⁰ 49 Comp. Gen. 352.

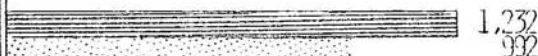
LEGAL CASES PREPARED BY OFFICE OF THE GENERAL COUNSEL



DECISIONS TO:

HEADS OF DEPTS,
AND AGENCIESCERTIFYING
OFFICERSDISBURSING, FINANCE
ETC, OFFICERS

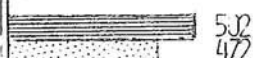
CLAIMANTS



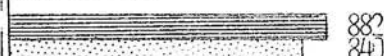
OTHERS



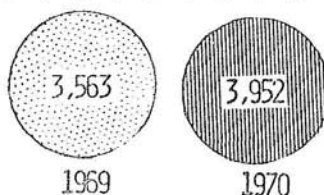
LITIGATION REPORTS



OFFICE MEMORANDUMS

REVIEW OF AUDIT
REPORT DRAFTS

TOTALS



Index-Digest Section staff handled 3,300 research inquiries.

All decisions are furnished to the LITE (Legal Information Through Electronics) activity, operated by the Staff Judge Advocate at the Air Force Accounting and Finance Center at Denver, Colo.

The Index and Files Section recorded and analyzed 12,595 pieces of incoming correspondence and

dispatched 22,249 decisions, reports, and letters. The Index and Files Section prepares a daily incoming correspondence report to keep the offices and divisions advised of incoming matters.

The Library which serves all offices, divisions, and branches of GAO as well as other agencies located in the GAO building, handled 5,077 requests for reference services. The annual inventory indicated a total

of 61,105 bound volumes, looseleaf publications, and pamphlets and magazines.

The Legislative Digest Section prepared 5,860 legislative history files on all public and private bills introduced in the Second Session of the 91st Congress, and processed requests for reports on 504 bills from

congressional committees, Members of Congress, and from the Bureau of the Budget.

A special compilation of the legislative history of the law establishing the Commission on Government Procurement was prepared for the use of GAO personnel and the Commission staff.



CHAPTER TEN

PERSONNEL ADMINISTRATION

General

A personnel management system comprises many programs and functions. In the General Accounting Office, the Office of Personnel Management is responsible for developing, implementing, reviewing, and evaluating personnel management policies, practices, and procedures and for assisting and advising the directorate, managers, and supervisors in carrying out their personnel management responsibilities.

Recruiting, Training, and Staff Development

To effectively discharge the responsibilities placed upon the General Accounting Office by the Congress, it is essential that GAO maintains the high quality of its professional accounting, auditing, and investigative staff. With this objective in mind, GAO continued its intensive recruitment program at colleges and universities throughout the country. Recruiters visited 515 campuses in an effort to interest quality students in a career with the General Accounting Office.

After reporting for duty, the newly hired college graduate is assigned to a specially designed training program to orient him to the activities of the Federal Government and, particularly, to the work of the Office. This approach bridges the gap between his col-

lege education and his audit and management review assignments. In addition, the staff member, as he progresses with the Office, will participate in various professional training programs. These courses are designed to increase the professional talents of the individual staff member so that he may more effectively carry out his assignments and to improve the professional skills of the staff as a whole. These courses are further designed to specifically fit the needs of staff members at supervisory levels by keeping them informed of professional and technological advancements in the fields of management, accounting, auditing, and management auditing. As an adjunct to this training, GAO encourages staff members to further develop their skills through participation in professional organizations.

Leading educators from our foremost universities continued to assist the General Accounting Office in formulating and adjusting its program to obtain, develop, and retain an outstanding staff of professional accountants and auditors. As a result of their advice and counsel during the year, GAO is indebted to the following educator-consultants:

Floyd A. Bond, Dean, Graduate School of Business Administration, University of Michigan.

John W. Buckley, Chairman, Accounting-Information Systems, Graduate School of Business Administration, University of California, Los Angeles.

John E. Champion, Professor of Accounting, School of Business, The Florida State University.

W. W. Cooper, Dean, School of Urban and Public Affairs, Carnegie-Mellon University.

Robert W. French, Professor of Economics and Management, University of Illinois, Chicago Circle.

Paul V. Grambsch, Dean, School of Business Administration, University of Minnesota.

C. Jackson Grayson, Dean, School of Business Administration, Southern Methodist University.

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

Harry M. Kelly, Associate Dean, School of Commerce, New York University.

Ossian MacKenzie, Dean, College of Business Administration, The Pennsylvania State University.

James R. McCoy, Dean, College of Administrative Science, Ohio State University.

Herbert E. Miller, Professor, Department of Accounting and Financial Administration, Graduate

PERSONNEL ADMINISTRATION

School of Business Administration, Michigan State University.

Alfred M. Pelham, Assistant Vice President for Finance and Associate Professor, Wayne State University (Retired).

Frank P. Sherwood, Director, Federal Executive Institute, U.S. Civil Service Commission.

Recruiting—Professional Staff

At the close of the fiscal year, the professional staff comprised approximately 60 percent of the total General Accounting Office work force. It is expected that this ratio will continue to increase in fiscal year 1971.

Separations for the accounting and auditing staff totaled 374, including 70 transfers. Also included in this total are 114 military separations and furloughs. Most of these are expected to return to the Office upon completion of their obligation.

Four hundred and seventy-two employees were added to the accounting and auditing staff. Of this number, there were 358 new appointees, 17 transfers, 84 military returnees, and 13 others. The net gain was 98 staff members, bringing the total accounting and auditing staff to 2,782 employees.

In its continuing effort to broaden the base of its accounting and auditing staff and to supply an expertise in other disciplines, GAO has extended recruitment efforts to include graduates with academic backgrounds in nonaccounting areas. Of the 213 nonaccounting positions filled during this recruitment year, 74 of the appointees majored in business administration; 48 in management; 42 in economics; 14 in marketing; 13 in finance; five in international business; five in engineering; two each in mathematics, transportation, and history; and one each in systems analysis, operations research, industrial relations, cybernetics, government, and personnel management.

Twelve new attorneys and law clerks were employed during the year. GAO will continue to recruit a limited number of attorneys to replace those lost as a result of transfers, retirements, and other separations.

To acquaint faculty members and administrative officers of various colleges and universities with the professional quality of its work and to obtain their assistance in the recruitment of promising students, GAO continued its series of joint faculty meetings. This year nine sessions were held, which were attended by 93 selected faculty members and college placement offi-

cers from colleges and universities throughout the country.

GAO also continued a program for joint meetings with selected students to acquaint them with its accounting and auditing operations. Three such meetings were held in various regional offices and one in Washington, in which a total of 48 students from various universities and colleges participated.

The two charts on page 121 graphically portray the general success of recruiting efforts and reflect the continued steady growth of the professional staff over the past 10 years.

Recruiting—Technical Staff

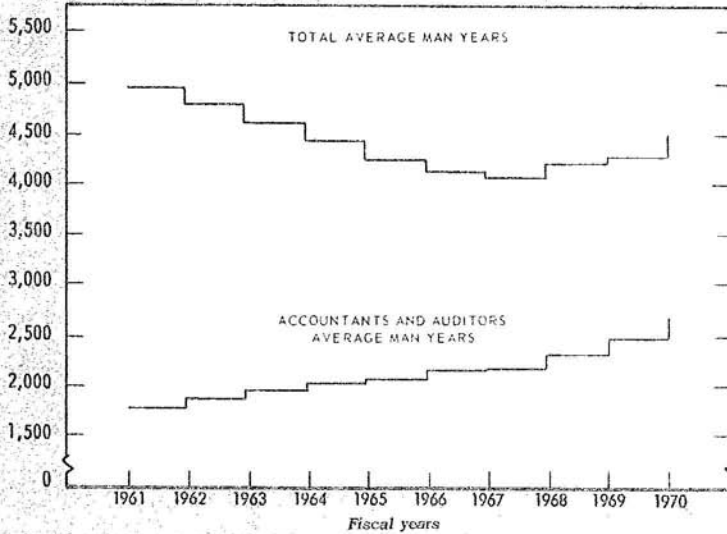
The fiscal year 1970 saw a slight reduction in the adjudicator staff. In an effort to compensate for the loss of experienced adjudicators, GAO continued its program to recruit trainee adjudicators at the grades GS-5 and GS-7 levels. Ten additions to the adjudicator staff were made under this program during the year. GAO also continued to recruit freight rate specialists from an unassembled freight rate specialist examination for positions in grades GS-7 and GS-9. Additions to the freight rate specialist staff from this source totaled 22.

Recruiting—Support Staff

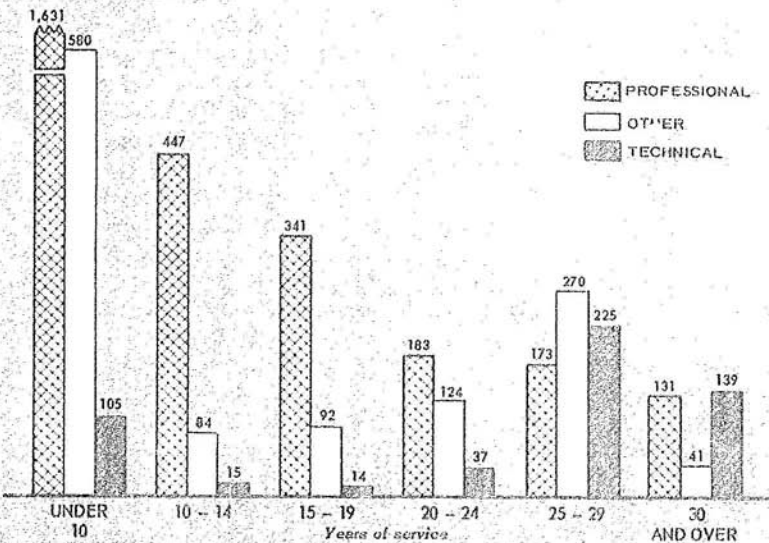
GAO is confronted with the ever increasing need for competent secretarial and clerical personnel to staff new and expanded programs and as replacements for the turnover which can normally be expected in work of this nature. With the growing competition for qualified employees in these fields, GAO is given constant impetus to revise and expand its efforts aimed at attracting and retaining the highly qualified support staff so essential for the efficient and effective operation of the Office. A revised approach to this problem was developed. It includes (1) a standing committee of experienced senior secretarial staff members to provide practical advice on ways and means of enhancing recruiting efforts and of reducing turnover through increased and higher quality training both on the job and in the classroom, and through improvements in the working environment and (2) a positive program for on-site recruiting at local secretarial and business schools to be conducted by GAO's placement staff in conjunction with representatives of its secretarial committee. In addition, a special recruiting bro-

PROFESSIONAL ACCOUNTING AND AUDITING STAFF IN RELATION TO TOTAL EMPLOYMENT

Man years



LENGTH OF SERVICE -- GAO PERSONNEL AS OF JUNE 30, 1970



As of June 30, 1970, there were 4,632 GAO employees (exclusive of contract personnel), including 2,906 accountants, auditors, attorneys and other professional employees. Of the total number of employees, 2,316 (or 50%) had service of 10 years or longer.

PERSONNEL ADMINISTRATION

chure, devoted entirely to the secretarial field, was prepared to acquaint a broad audience of qualified candidates, not only in the Washington metropolitan area, but also throughout the Nation, with the opportunities available in the General Accounting Office.

Staff Development

The Office has encouraged each employee to continue his professional development. Staff members participated in a balanced mixture of training and career development programs, including on-the-job and internal classroom training and training available through private industry, colleges, universities, and other Federal agencies.

TRAINING GIVEN THROUGH GENERAL ACCOUNTING OFFICE FACILITIES

1. Programs for Professional Staff

a. *GS-7—9 Training Program.* This program is designed to orient new professional staff members to the organization, functions, policies, and procedures of GAO and to the fiscal, legal, accounting, and management processes of the Federal Government. This 16-day program bridges the gap between education obtained in college and the more specific professional knowledge required on actual audit assignments.

b. *Intermediate Career Development Program.* This 10-day course is given to staff members with from 1 to 2 years of experience in the Office. The subject matter includes more advanced approaches to the techniques of auditing—obtaining evidence, interviewing, writing, and analyzing findings. The program is designed to reinforce the staff member's understanding of GAO's audit practices and basic auditing techniques.

c. *Advanced Accounting and Auditing Study Program.* The objective of this program is to improve staff performance on daily assignments and to help those preparing to take the CPA examination. It includes a comprehensive review of accounting theory and practice, auditing, and commercial law.

d. *Federal Action and the People of Our Cities.* The National Institute of Public Affairs has cooperated in sponsoring this 1-week seminar. It stresses the need for coordination of Federal programs in cities. Subjects discussed by a panel of experts include the urban condition; government in a metropolis; model cities; purposes and problems in community action, manpower programs, public education, transportation, health programs, public assistance, and law enforcement

assistance; life in the inner city; and a survey of how city dwellers view the Government. Participants are representatives of Federal, State, and local governments and senior staff members of GAO.

e. *Systems Analysis.* The objective of this 2-week survey course is to introduce students to analytic techniques which can be used in auditing. The course is designed to help auditors recognize where analytic techniques can be applied and where the techniques have not been correctly applied.

2. Other Programs

a. *GAO Orientation.* Through this 3-hour program, all new employees are oriented to the organization, functions, policies, and procedures of GAO involving personnel matters. It also includes a review of employee rights, benefits, and responsibilities.

b. *Basic Supervision.* This 10-day course is an introduction to basic concepts of effective supervision. Upon assuming supervisory responsibilities, each staff member participates in this course which covers a variety of supervisory techniques, reviews models of supervisory systems developed in the past, and introduces recent developments in supervisory methods.

c. *Report Development Workshop.* This 5-day workshop is designed (1) to sharpen the report development skills of GAO staff members and (2) to facilitate the development of better reports within a shorter time frame. Concepts discussed in the workshop include job and product planning, evidence, psychology of communication, organization of reports, style, editing, and the logic, syntax, and grammar of the English language.

d. *Writing Skills Workshop.* This 2-day seminar supplements the Report Development Workshop and has some of the same objectives. The seminar is designed to improve coordination and communication between the writer, reviewer, and reader, and to help audit and administrative teams to improve their ability to write clear, logical, and accurate letters and reports.

e. *English Refresher Course.* This is a 3-week, 18-hour course designed for clerical, administrative, and secretarial employees. In addition to a concentrated English grammar review, the course includes a discussion of techniques in proofreading and introduces the basic principles of business writing.

f. *Better Office Skills and Services (BOSS).* BOSS is a seminar-workshop designed for clerical employees GS-2 to GS-4. The program consists of 8 half-day ses-

sions in which the employee works out programmed assignments and problem situations that would normally be encountered during an 8-hour workday. This course was developed by the Civil Service Commission and has now been adapted for use in GAO.

g. *Shorthand Refresher*. This course consists of 24 hours of concentrated review of Gregg shorthand principles and correct transcription procedures. It is supplemented by dictation practice to improve speed and a review of punctuation and spelling rules.

SUMMARY OF TRAINING GIVEN THROUGH GENERAL ACCOUNTING OFFICE FACILITIES

Number of times given	Name of training program	Length of program	Total number attending program
Programs for Professional Staff			
10	GS-7-9 training program	16 days	328
3	Intermediate training program	10 days	91
	Advanced accounting and auditing study program:		
1	Washington	4 months	81
	Regional Offices:		
1	Boston	do	22
1	Cincinnati	do	20
2	Federal action and the people of our cities	5 days	26
3	Systems analysis	10 days	68
Other Programs			
9	GAO orientation	3 hours	320
4	Basic supervision	10 days	93
15	Report development workshop	5 days	238
2	Writing skills workshop	2 days	54
4	Programs for secretarial, clerical, and administrative staff	Various	86
	Total		1,427

TRAINING GIVEN THROUGH AGENCY OR NON-GOVERNMENT FACILITIES

The need for keeping pace with and adapting to the rapid changes in the professional disciplines required in GAO's work presents a continuing challenge. Because it is not feasible to conduct in-house training, especially for the highly technical and specialized areas of GAO work, to meet this challenge, staff members are assigned to formal training programs conducted by colleges, universities, various professional organizations, and other Government agencies, including the Civil Service Commission.

The special training of staff members in the audit responsibilities and techniques in an ADP systems environment is provided through a course conducted by the Civil Service Commission. The Office assigned two professional staff members on a full-time basis to assist in the presentation of this course. Seventy-three staff members attended this program during the fiscal year

1970 in either Washington, D.C., or Palo Alto, Calif.

GAO staff members took part in either advanced management or executive development programs conducted at Harvard University Graduate School of Business Administration, Stanford University Graduate School of Business, Cornell University Graduate School of Business and Public Administration, and the University of Pittsburgh Graduate School of Business.

In addition, three staff members were sent to a mid-career educational program for systematic analysis. This full year program will enable GAO to increase its professional capability in the area of planning, programming, and budgeting systems. The staff members who have attended assist the Office in training others, assist the audit staff on specific problems, and cooperate with the agencies in the area of systematic analysis.

A number of employees attended programs, such as the Federal Executive Institute in Charlottesville, Va., the Industrial College of the Armed Forces, the Execu-

PERSONNEL ADMINISTRATION

tive Seminar Centers at Kings Point, N.Y., and Berkeley, Calif., the Brookings Institution Conference for Federal Executives, and an Intergovernmental Affairs Fellowship program sponsored by the Civil Service Commission in cooperation with the Brookings Institution.

To provide for specific operational needs, staff members were assigned to various programs given by the Civil Service Commission. A total of 214 staff members were assigned to Civil Service Commission training courses in the following subject areas: automatic data

processing; planning, programming, and budgeting; management and supervision; and miscellaneous courses.

A total of 1,068 staff members attended various training programs in other Government agencies and at colleges, universities, and service institutions. Of this number 414 attended college evening classes, during nonworking hours, in order to update their knowledge in such subject matter areas as mathematics, statistics, management, economics, law, and electronic data processing.

SUMMARY OF TRAINING GIVEN THROUGH AGENCY OR NON-GOVERNMENT FACILITIES

Number of times given	Name of training program	Length of program	Total number attending program
Civil Service Commission			
1	Intergovernmental affairs fellowship program (with Brookings Institution).....	3 months.....	5
11	Principles and practices of auditing in the ADP systems environment.....	15 days.....	73
5	Federal Executive Institute.....	Various.....	6
37	Seminars: Executive development, management, and ADP.....	do.....	52
11	PPB systems, statistical sampling, and systems analysis.....	do.....	28
7	Personnel management, such as EEO, staffing, etc.....	3-5 days.....	8
32	Miscellaneous courses including supervisory training, communications, and secretarial.....	Various.....	42
Department of Defense			
1	Industrial College of the Armed Forces.....	1 year.....	1
29	Miscellaneous courses including operations research, contracts, research development, management, etc.....	Various.....	34
Other Government Agencies/Manufacturing Companies			
2	Foreign Service Institute.....	3-4 weeks.....	2
42	Data processing courses.....	Various.....	133
24	Miscellaneous subject areas.....	do.....	44
Institutions, Service and Professional Organizations			
1	Conference for Federal executives on business operations.....	40 hours.....	1
1	19th Annual Symposium, FGAA.....	10
1	51st Annual Conference, NAA.....	4
94	Miscellaneous subject areas, such as CPA review, mathematics, management, ADP, etc.....	Various.....	201
Colleges and Universities			
1	Summer institute for Federal executives.....	2 weeks.....	1
1	Educational program in systematic analysis.....	9 months.....	3
76	Various management development and related programs.....	Various.....	160
102	Accounting and related disciplines.....	Semester.....	136
16	Automatic data processing.....	do.....	30
11	Law and contracts.....	do.....	17
22	Miscellaneous.....	Various.....	77
Total.....			1,068

Professional Development and Recognition

During the past year, 60 staff members passed the CPA examination. During the same period 33 employees received CPA certificates and two CPAs joined GAO's staff. Four hundred and eighty-six staff members are now certified public accountants, and 83 others have passed the examination and will receive certificates when they complete their experience requirements.

Most States now recognize the professional nature of the work of the General Accounting Office and accept GAO experience as meeting their eligibility requirement for a CPA certificate. Two hundred and eighty-four members of GAO's staff have obtained their CPA certificates on the basis of GAO experience or education, or both. The Office is constantly working with State boards of accountancy and committees of professional organizations to keep them informed on the professional quality of GAO's work. Hopefully, soon all States will recognize GAO experience. The trends in that direction have been encouraging.

Personnel Operations

An overall review and evaluation of policies, objectives, and operating practices and procedures has been made in such functional areas as position classification and pay administration, performance evaluation, equal employment opportunity, the disposition of administrative appeals and grievances, incentive awards, employee health benefits, personnel security, and other related administrative functions and services.

In concurrence with a Presidential memorandum

dated October 9, 1969, and the directives of the U.S. Civil Service Commission, preliminary work was begun on the design of an internal system for personnel management evaluation to be implemented on an annual basis. This evaluation system should result in a comprehensive review of personnel management programs. A "Summary of Objectives, Management Techniques and Potential Measurement Tools" which will serve as a framework for the system has been submitted to the Civil Service Commission for its review, and additional work is being undertaken to develop an operating format for the actual on-site reviews.

Other program activities of special interest include GAO's Action Plan to implement Executive Order 11478 (Equal Employment Opportunity). As a working document, this Action Plan examines EEO achievements and further goals in the context of personnel management, recruitment, and personnel development. As an adjunct to the issuance of the Action Plan, the Director of Equal Employment Opportunity for the General Accounting Office appointed additional EEO officers and counselors under the program.

An Action Plan was also prepared in response to the President's memorandum on "Youth and the Federal Service." This Action Plan examines GAO programs relating to such matters as manpower forecasting, career development, student employment, and assistance to schools. As a part of this plan, action items for further program emphasis were pinpointed.

Under long-range programs for the computerization of day-to-day records control and processing functions, the Assistant to the Director for Data Management, in conjunction with various GAO staffs, has conducted further pilot work with the newly installed computer facility.

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EXHIBITS



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LEGISLATION ENACTED DURING FISCAL YEAR 1970 RELATING TO THE WORK OF THE GENERAL ACCOUNTING OFFICE

AUDITS

Airport Development Program

Airport and Airway Development Act of 1970, Public Law 91-258, approved May 21, 1970, 84 Stat. 219, contains the following access to records and audit report provisions:

Sec. 26. Access to Records.

(a) Recordkeeping Requirements.—Each recipient of a grant under this part shall keep such records as the Secretary may prescribe, including records which fully disclose the amount and the disposition by the recipient of the proceeds of the grant, the total cost of the plan or program in connection with which the grant is given or used, and the amount and nature of that portion of the cost of the plan or program supplied by other sources, and such other records as will facilitate an effective audit.

(b) Audit and Examination.—The Secretary and the *Comptroller General of the United States*, or any of their duly authorized representatives, shall have access for the purpose of audit and examination to any books, documents, papers, and records of the recipient that are pertinent to grants received under this part.

(c) Audit Reports.—In any case in which an independent audit is made of the accounts of a recipient of a grant under this part relating to the disposition of the proceeds of such grant or relating to the plan or program in connection with which the grant was given or used, the recipient shall file a certified copy of such audit with the *Comptroller General of the United States* not later than six months following the close of the fiscal year for which the audit was made. On or before January 3 of each year the *Comptroller General* shall make a report to the Congress describing the results of each audit conducted or reviewed by him under this section during the preceding fiscal year. The *Comptroller General* shall prescribe such regulations as he may deem necessary to carry out the provisions of this subsection.

(d) Withholding Information.—Nothing in this section shall authorize the withholding of information by the Secretary or the *Comptroller General of the United States*, or any officer or employee under the control of either of them, from the duly authorized committees of the Congress. (84 Stat. 233)

House Beauty Shop

The Legislative Branch Appropriation Act, 1970, Public Law 91-145, approved December 12, 1969, 83 Stat. 338, established a revolving fund for the House Beauty Shop and provided for an audit by GAO as follows:

* * *

Effective the first of the month following approval of this Act, there is established in the Treasury of the United States a revolving fund for the House Beauty Shop. The revolving fund shall be self-sustaining. The net assets of the Shop on the effective date of this section shall constitute the capital of the fund and the existing liabilities shall be paid from the fund. All moneys thereafter received by the House Beauty Shop from fees for services or from any other source shall be deposited in such fund; and moneys in such fund shall be available without fiscal year limitation for disbursement by the Clerk of the House of Representatives for all expenses of the Shop, including but not limited to the care, maintenance, and operation of the Shop, procurement of supplies and equipment, and compensation of personnel.

An adequate system of accounts for the revolving fund shall be maintained and financial reports prepared on the basis of such accounts. The activities of the Shop shall be subject to audit by the *General Accounting Office* at such times as the select committee may direct, and reports of such audits shall be furnished to the Speaker of the House, to the select committee, and to the Clerk of the House. The *Comptroller General*, or any of his duly authorized representatives, shall have access for the purposes of audit and examination to such books, documents, papers, records, personnel, and facilities of the Shop as he may deem necessary.

The net profit established by the *General Accounting Office* audit, after restoring any impairment of capital and providing for replacement of equipment, shall be transferred to the general fund of the Treasury. (83 Stat. 347)

Federal Credit Union Administration

The Act of March 10, 1970, Public Law 91-206, 84 Stat. 49, amending the Federal Credit Union Act to provide for an independent Federal Agency for the supervision of federally chartered credit unions, contained the following audit provision:

"Sec. 3.

* * *

"(f) The financial transactions of the Administration shall be audited by the *General Accounting Office* in accordance

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with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the *Comptroller General of the United States*. The audit shall be conducted at the place or places where the accounts of the Administration are kept." (84 Stat. 50, 12 U.S.C. 1752a)

Education Assistance Programs

The Act of April 13, 1970, Public Law 91-230, 84 Stat. 121, extending programs of assistance for elementary and secondary education, contains the following provisions relating to audit and access to records:

"Technical Assistance

"Sec. 414.

* * *

"(b) The Commissioner shall permit local educational agencies to use organized and systematic approaches in determining cost allocation, collection, measurement, and reporting under any applicable program, if he determines (1) that the use of such approaches will not in any manner lessen the effectiveness and impact of such program in achieving purposes for which it is intended, (2) that the agency will use such procedures as will insure adequate evaluation of each of the programs involved, and (3) that such approaches are consistent with criteria prescribed by the *Comptroller General of the United States* for the purposes of audit. For the purpose of this subsection a cost is allocable to a particular cost objective to the extent of relative benefits received by such objective." (84 Stat. 167)

"Records and Audit

"Sec. 424.

* * *

"(b) The Secretary and the *Comptroller General of the United States*, or any of their duly authorized representatives, shall have access for the purpose of audit and examination to any books, documents, papers, and records of the recipients that are pertinent to the grant or contract received under any applicable program." (84 Stat. 170)

"Auditing and Review of Advisory Council Activities

"Sec. 437.

* * *

"(b) The *Comptroller General of the United States*, or any of his duly authorized representatives, shall have access, for the purpose of audit and examination, to any books, documents, papers, and records of each statutory advisory council." (84 Stat. 172)

Civil Service Commission Revolving Fund

The Act of December 30, 1969, Public Law 91-189, 83 Stat. 951, amended 5 U.S.C. 1304 relating to the Civil Service Commission revolving fund for investigations and training and provided for periodic reviews and reports by the *Comptroller General* as follows:

"(6) The *Comptroller General of the United States* shall, as a result of his periodic reviews of the activities financed by the fund, report and make such recommendations as he deems appropriate to the Committees on Post Office and Civil Service of the Senate and House of Representatives at least once every three years." (5 U.S.C. 1304(e))

Pacific Island Trust Territory

Department of the Interior and Related Agencies Appropriations Act, 1970, Public Law 91-98, approved October 29, 1969, contains the usual provision for audit of the Trust Territory of the Pacific Islands:

* * * *Provided*, That all financial transactions of the Trust Territory, including such transactions of all agencies or instrumentalities established or utilized by such Trust Territory, shall be audited by the *General Accounting Office* in accordance with the provisions of the Budget and Accounting Act, 1921 (42 Stat. 23), as amended, and the Accounting and Auditing Act of 1950 (64 Stat. 834): * * * (83 Stat. 151-152)

ACCESS TO RECORDS

Economic Opportunity Program

Departments of Labor, and Health, Education, and Welfare, and Related Agencies Appropriations Act, 1970, Public Law 91-204, approved March 5, 1970, 84 Stat. 23, contains the following provision under the heading Economic Opportunity Program:

* * * That all grant agreements shall provide that the *General Accounting Office* shall have access to the records of the grantee which bear exclusively upon the Federal grant: * * * (84 Stat. 46)

Foreign Aid Program

The Foreign Assistance and Related Programs Appropriations Act, 1970, Public Law 91-194, approved February 9, 1970, 84 Stat. 5, contains the usual GAO access to records provision:

Sec. 502. No part of any appropriation contained in this Act shall be used for expenses of the Inspector General, Foreign Assistance, after the expiration of the thirty-five day period which begins on the date the *General Accounting Office* or any committee of the Congress, or any duly authorized subcommittee thereof, charged with considering foreign assistance legislation, appropriations, or expenditures, has delivered to the Office of the Inspector General, Foreign Assistance, a written request that it be furnished any document, paper, communication, audit, review, finding, recommenda-

tion, report, or other material in the custody or control of the Inspector General, Foreign Assistance, relating to any review, inspection, or audit arranged for, directed, or conducted by him, unless and until there has been furnished to the *General Accounting Office* or to such committee or subcommittee, as the case may be, (A) the document, paper, communication, audit, review, finding, recommendation, report, or other material so requested or (B) a certification by the President, personally, that he has forbidden the furnishing thereof pursuant to such request and his reason for so doing. (84 Stat. 13, 14)

COMMISSION ON GOVERNMENT PROCUREMENT

The Act of November 26, 1969, Public Law 91-129, 83 Stat. 269, provided for the establishment of a Commission on Government Procurement composed of 12 members including the *Comptroller General of the United States* as a statutory member. The provision respecting the Membership of the Commission is as follows:

Sec. 3. (a) The Commission shall be composed of twelve members, consisting of (1) three members appointed by the President of the Senate, two from the Senate (who shall not be members of the same political party), and one from outside the Federal Government, (2) three members appointed by the Speaker of the House of Representatives, two from the House of Representatives (who shall not be members of the same political party), and one from outside the Federal Government, (3) five members appointed by the President of the United States, two from the executive branch of the Government and three from outside the Federal Government, and (4) the *Comptroller General of the United States*. (83 Stat. 270)

CONTRACTOR PROFIT STUDY

Public Law 91-121, November 19, 1969, 83 Stat. 204, the military procurement authorization for 1970, requires the *Comptroller General* to conduct a study and review of the profits made by contractors and subcontractors on contracts on which there is no formally advertised competitive bidding entered into by the Departments of Army, Navy, Air Force, the Coast Guard, NASA and on certain contracts entered into by the Atomic Energy Commission to meet Defense Department requirements:

The *Comptroller General* is authorized to audit and inspect any books, accounts, or other records of any contractor or subcontractor and upon request of the *Comptroller General* the House and Senate Armed

Services Committees may issue subpoenas requiring the production of any such records material to the *Comptroller General's* study.

The results of the study shall be submitted to Congress not later than December 31, 1970.

The provisions of section 408 of the act are as follows:

Sec. 408. (a) The *Comptroller General of the United States* (hereinafter in this section referred to as the '*Comptroller General*') is authorized and directed, as soon as practicable after the date of enactment of this section, to conduct a study and review on a selective, representative basis of the profits made by contractors and subcontractors on contracts on which there is no formally advertised competitive bidding entered into by the Department of the Army, the Department of the Navy, the Department of the Air Force, the Coast Guard, and the National Aeronautics and Space Administration under the authority of chapter 137 of title 10, United States Code, and on contracts entered into by the Atomic Energy Commission to meet requirements of the Department of Defense. The results of such study and review shall be submitted to the Congress as soon as practicable, but in no event later than December 31, 1970.

(b) Any contractor or subcontractor referred to in subsection (a) of this section shall, upon the request of the *Comptroller General*, prepare and submit to the *General Accounting Office* such information maintained in the normal course of business by such contractor as the *Comptroller General* determines necessary or appropriate in conducting any study and review authorized by subsection (a) of this section. Information required under this subsection shall be submitted by a contractor or subcontractor in response to a written request made by the *Comptroller General* and shall be submitted in such form and detail as the *Comptroller General* may prescribe and shall be submitted within a reasonable period of time.

(c) In order to determine the costs, including all types of direct and indirect costs, of performing any contract or subcontract referred to in subsection (a) of this section, and to determine the profit, if any, realized under any such contract or subcontract, either on a percentage of the cost basis, percentage of sales basis, or a return on private capital employed basis, the *Comptroller General* and authorized representatives of the *General Accounting Office* are authorized to audit and inspect and to make copies of any books, accounts, or other records of any such contractor or subcontractor.

(d) Upon the request of the *Comptroller General*, or any officer or employee designated by him, the Committee on Armed Services of the House of Representatives or the Committee on Armed Services of the Senate may sign and issue subpoenas requiring the production of such books, accounts, or other records as may be material to the study and review carried out by the *Comptroller General* under this section.

(e) Any disobedience to a subpoena issued by the Committee on Armed Services of the House of Representatives or the Committee on Armed Services of the Senate to carry out the provisions of this section shall be punishable as provided in section 102 of the Revised Statutes.

(f) No book, account, or other record, or copy of any book,

EXHIBIT 1

account, or record, of any contractor or subcontractor obtained by or for the *Comptroller General* under authority of this section which is not necessary for determining the profitability on any contract, as defined in subsection (a) of this section, between such contractor or subcontractor and the Department of Defense shall be available for examination, without the consent of such contractor or subcontractor, by any individual other than a duly authorized officer or employee of the *General Accounting Office*; and no officer or employee of the *General Accounting Office* shall disclose, to any person not authorized by the *Comptroller General* to receive such information, any information obtained under authority of this section relating to cost, expense, or profitability on any non-defense business transaction of any contractor or subcontractor.

(g) The *Comptroller General* shall not disclose in any report made by him to the Congress or to either Committee on Armed Services under authority of this section any confidential information relating to the cost, expense, or profit of any contractor or subcontractor on any nondefense business transaction of such contractor or subcontractor. (83 Stat. 208, 209)

ACCOUNTING PROCEDURES

Civil Service Retirement Fund

The Civil Service Retirement Amendments of 1969, Public Law 91-93, approved October 20, 1969, 83 Stat. 136, concerning the refinancing of the Retirement Fund, continued the requirement for the *Comptroller General* to prescribe procedures as follows:

* * *

"(2) The amounts so deducted and withheld, together with the amounts so contributed, shall be deposited in the Treasury of the United States to the credit of the Fund under such procedures as the *Comptroller General of the United States* may prescribe. Deposits made by an employee or Member also shall be credited to the Fund." * * * (83 Stat. 136)

General Services Administration Operation Fund

Independent Offices and Department of Housing and Urban Development Appropriation Act, 1970, Public Law 91-126, approved November 26, 1969, 83 Stat. 221, contains the usual provision for approval by the *Comptroller General* of the General Services Administration Operations Fund accounting system:

* * *

Funds available to General Services Administration for administrative operations, in support of program activities, shall be expended and accounted for, as a whole, through a single fund: *Provided*, That costs and obligations for such

administrative operations for the respective program activities shall be accounted for in accordance with systems approved by the *General Accounting Office*: * * * (83 Stat. 228)

APPROPRIATIONS FOR GENERAL ACCOUNTING OFFICE

The Second Supplemental Appropriations Act, 1969, Public Law 91-47, approved July 22, 1969, 83 Stat. 49, provided an appropriation of \$2,114,000 for increased pay costs for *GAO*. (83 Stat. 65)

The Legislative Branch Appropriation Act, 1970, Public Law 91-145, approved December 12, 1969, 83 Stat. 338, appropriated the following amounts for *GAO*:

General Accounting Office

Salaries and Expenses

For necessary expenses of the *General Accounting Office*, including not to exceed \$2,000 to be expended on the certification of the *Comptroller General of the United States* in connection with special studies of governmental financial practices and procedures; services as authorized by 5 U.S.C. 3109 but at rates for individuals not to exceed the per diem rate equivalent to the rate for grade GS-18; advance payments in foreign countries notwithstanding section 3648, Revised Statutes, as amended (31 U.S.C. 529); benefits comparable to those payable under sections 911(9), 911(11) and 942(a) of the Foreign Service Act of 1946, as amended (22 U.S.C. 1136(9), 1136(11) and 1157(a), respectively); and under regulations prescribed by the *Comptroller General of the United States*, rental of living quarters in foreign countries and travel benefits comparable with those which are now or hereafter may be granted single employees of the Agency for International Development, including single Foreign Service personnel assigned to A.I.D. projects, by the Administrator of the Agency for International Development—or his designee—under the authority of Section 636(b) of the Foreign Assistance Act of 1961 (Public Law 87-195, 22 U.S.C. 2396(b)), \$63,000,000. (83 Stat. 358)

SUPERGRADE POSITIONS

Act of December 30, 1969, Public Law 91-187, 83 Stat. 850, amended the supergrade provisions of 5 U.S.C. 5108 to increase the number of positions in the *General Accounting Office* in grades GS-16, GS-17, and GS-18 by 26 from 64 to 90. (83 Stat. 850)

DEBARRED BIDDER INFORMATION

Public Law 91-54, approved August 9, 1969, 83 Stat. 96, amended the Contract Work Hours Standards Act

to establish health and safety standards for the construction industry and to provide for distribution of the names of violators by the GAO as follows:

"Sec. 107.

* * *

"(d)(1) If the Secretary [of Labor] determines on the record after an opportunity for an agency hearing that, by repeated willful or grossly negligent violations of this Act, a contractor or subcontractor has demonstrated that the provisions of subsections (b) and (c) are not effective to protect the safety and health of his employees, the Secretary shall make a finding to that effect and shall, not sooner than thirty days after giving notice of the findings to all interested persons, transmit the name of such contractor or subcontractor to the *Comptroller General*.

"(2) The *Comptroller General* shall distribute each name so transmitted to him to all agencies of the Government. Unless the Secretary otherwise recommends, no contract subject to this section shall be awarded to such contractor or subcontractor or to any person in which such contractor or subcontractor has a substantial interest until three years have elapsed from the date the name is transmitted to the *Comptroller General*. If, before the end of such three-year period, the Secretary, after affording interested persons due notice and opportunity for hearing, is satisfied that a contractor or subcontractor whose name he has transmitted to the *Comptroller General* will thereafter comply responsibly with the requirements of this section, he shall terminate the application of the preceding sentence to such contractor or subcontractor (and to any person in which the contractor or subcontractor has a substantial interest); and when the *Comptroller General* is informed of the Secretary's action he

shall inform all agencies of the Government thereof." (83 Stat. 97) (40 U.S.C. 333(d))

CLAIMS

Waiver of Erroneous Payments— Peace Corps Volunteers

The Act of October 29, 1969, Public Law 91-99, 83 Stat. 166, amending the Peace Corps Act, extended the Act of October 21, 1968, 5 U.S.C. 5584, concerning waiver of erroneous payments to readjustment and subsistence allowance payments made to volunteers. The Act authorizes the *Comptroller General* and the Peace Corps in accordance with standards prescribed by the *Comptroller General*, to waive claims arising out of erroneous payments of readjustment and subsistence allowances to volunteers. (83 Stat. 166.)

Preservation of Claims

The Act of June 23, 1970, Public Law 91-287, 84 Stat. 320, to facilitate the disposal of Government records and abolish the Joint Committee on the Disposition of Executive Papers, included a technical amendment to 44 U.S.C. 3309 relating to preservation of claims of Government until settled in the *General Accounting Office*. (84 Stat. 321.)

NUMBER OF AUDIT REPORTS ISSUED DURING THE FISCAL YEAR 1970¹

	Total	Congress ²	Committees or Members of Congress ³	Agency Officials ⁴
Civil departments and agencies:				
Civil departments ⁵	341	88	88	165
Independent agencies.....	181	24	63	94
Multi-civil agencies.....	10	2	7	1
Legislative branch.....	18	2	15	1
Judicial branch.....	3			3
	553	116	173	264
Military departments:⁶				
Department of Defense.....	113	30	45	38
Department of the Army.....	157	13	36	108
Department of the Navy.....	77	7	24	46
Department of the Air Force.....	188	3	20	165
	535	53	125	357
International activities ⁷	64	23	19	22
Government-wide and multiagency activities.....	12	8	4	
Organizations outside the Federal Government.....	4	3		1
Total.....	1,168	203	321	644

NOTES

¹A detailed listing of these reports is contained in the Appendix, Section III. Substantially identical reports shown more than once in the listing have been counted as one report. A compilation of findings and recommendations in these reports is contained in the Appendix, Section I.

²Reports submitted to the Congress are addressed to the President of the Senate and the Speaker of the House of Representatives. Copies are sent to the Director, Bureau of the Budget; the Senate and House Committees on Appropriations; the Senate and the House Committees on Government Operations; the appropriate legislative committees in the Senate and the House; Members of the Congress from the districts in which the activities reported are located; others in the Congress as requested; the President of the United States as appropriate;

the agencies reported on; and others directly affected.

³Includes reports addressed to officers of the Congress.

⁴Comprises reports addressed to heads of departments or agencies, to other officials at department or agency headquarters, to department or agency officials at regional or other local offices, or to commanding officers at military installations.

⁵Includes 36 reports on review of Economic Opportunity Programs pursuant to requirements of Economic Opportunity Amendments of 1967.

⁶Exclusive of international, government-wide, and multi-agency activities which are listed separately.

⁷Includes three reports relating to U.S. financial participation in international organizations.

TRANSPORTATION AUDIT AND COLLECTIONS, FISCAL YEARS 1961-70

Fiscal year	Bills of lading and transportation requests audited	Amount paid	Notices of overcharge issued		Total collections ¹
			Number	Amount	
1961.....	6,984,818	\$1,289,995,041	63,630	\$21,110,735	\$24,070,443
1962.....	6,740,370	1,185,694,946	78,003	29,392,962	28,159,888
1963.....	7,114,879	1,320,208,498	77,833	13,146,393	15,959,913
1964.....	7,309,834	1,332,550,920	73,251	11,362,179	10,499,464
1965.....	6,811,821	1,184,661,622	70,199	10,102,405	9,657,360
1966.....	7,555,366	1,474,220,901	86,970	10,694,257	8,494,453
1967.....	8,574,043	1,898,670,184	113,010	14,043,159	12,963,744
1968.....	7,892,789	2,075,358,128	112,306	15,474,645	14,681,476
1969.....	9,562,242	2,543,376,957	100,968	16,160,947	14,167,126
1970.....	9,282,062	2,374,913,448	108,499	17,708,324	16,314,622
Total.....	77,828,224	16,679,650,645	884,669	159,196,006	154,968,489

¹ Includes amounts collected in GAO's adjudication of claims reported by other Government agencies.

TRANSPORTATION CLAIMS SETTLED DURING FISCAL YEARS 1961-70

Fiscal year	Number of claims	Amount claimed	Amount allowed
1961.....	29,859	\$10,106,150	\$5,349,093
1962.....	26,635	11,149,021	6,695,863
1963.....	35,237	13,013,942	6,774,930
1964.....	22,673	19,133,508	14,985,277
1965.....	28,959	26,974,966	23,495,481
1966.....	29,413	37,130,274	33,440,430
1967.....	26,133	86,982,712	83,893,435
1968.....	22,829	11,335,870	9,317,118
1969.....	13,902	18,879,201	16,336,715
1970.....	13,725	14,764,351	¹ 13,053,245
Total.....	249,365	249,469,995	213,341,587

¹ Includes allowance of \$9,888,182 for Military Airlift Command movements audited before payment.

U.S. GENERAL ACCOUNTING OFFICE STATEMENT OF ASSETS, LIABILITIES, AND INVESTMENT, JUNE 30, 1970

ASSETS

Funds in U.S. Treasury:	
Appropriated funds.....	\$4,170,514
Deposit funds.....	579,778
	<hr/>
Cash on hand and in transit.....	\$4,750,292
Employees' travel advances.....	1,782
Accounts receivable.....	339,717
Inventories of supplies.....	51,360
Furniture, fixtures, and equipment.....	64,010
Less: Accumulated depreciation.....	2,649,587
	<hr/>
Prepaid expenses.....	1,484,667
	<hr/>
Total assets.....	1,164,920
	<hr/>
	14,525
	<hr/>
Total assets.....	6,386,606

LIABILITIES AND INVESTMENT

Accounts payable.....	\$3,296,413
Accrued liabilities.....	870,846
Funds held for others, principally employees' tax and other payroll deductions.....	779,778
Liability for accrued annual leave of employees.....	5,357,900
Less: Amount to be financed by future appropriations.....	5,357,900
	<hr/>
Total liabilities.....	4,747,037
Investment of U.S. Government (Exhibit 6).....	1,639,569
	<hr/>
Total liabilities and investment.....	6,386,606

U.S. GENERAL ACCOUNTING OFFICE SUMMARY OF CHANGES IN INVESTMENT OF U.S. GOVERNMENT, FISCAL YEAR ENDED JUNE 30, 1970

Balance, July 1, 1969.....		—\$2,364,798	
Add:			
Adjustment for annual leave of employees at July 1, 1969, to be financed by future appropriations		3,837,429	
Adjusted balance, July 1, 1969..			1,472,631
Add:			
Appropriation for salaries and expenses, 1970.....	\$70,273,423		
Reimbursements.....	95,577		
Restoration of funds by the Treasury to pay for increases in prior year's orders.....	17,527		
		<u>70,386,527</u>	
Total.....			71,859,158
Deduct:			
Operating expenses, 1970 (Exhibit 7).....	71,740,059		
Less: Amount of annual leave earned by employees and included in operating expenses, which will be financed by future appropriations.....	1,520,470		
		<u>70,219,589</u>	
Balance, June 30, 1970.....			1,639,569
Composition of balances:			
Investment in:		<i>July 1, 1969</i>	<i>June 30, 1970</i>
Inventories of supplies.....	\$87,864	\$64,010	
Furniture, fixtures, and equipment.....	838,303	1,164,920	
Funds reserved for payment of unfilled orders.....	546,464	410,639	
Totals.....	<u>1,472,631</u>	<u>1,639,569</u>	

U.S. GENERAL ACCOUNTING OFFICE SUMMARY OF OPERATING EXPENSES FOR THE FISCAL YEAR ENDED JUNE 30, 1970

	Total	Salaries	Employee benefits	Travel	Other
Office of the Comptroller General	\$675,241	\$547,652	\$40,803	\$13,817	\$72,969
Office of the General Counsel	3,201,314	2,796,479	210,888	6,914	187,033
Office of Administrative Services	2,362,865	1,721,843	209,513	8,941	422,568
Office of Personnel Management	819,401	665,940	44,396	27,359	81,706
Office of Policy and Special Studies	2,049,394	1,691,354	132,642	33,513	191,885
Civil Division	10,578,843	9,197,000	710,535	258,351	412,957
Defense Division	5,752,334	4,951,978	384,977	165,553	249,826
International Division:					
Washington, D.C.	2,680,647	2,212,082	168,755	192,003	107,807
European Branch	1,727,407	1,052,099	124,102	234,859	316,347
Far East Branch	2,062,187	1,150,643	220,773	362,023	328,748
Field Operations Division	29,456,637	23,653,575	1,831,787	2,846,628	1,124,647
Claims Division	1,655,321	1,448,728	110,764	1,459	94,370
Transportation Division	8,471,483	7,561,459	575,638	16,622	317,764
Data Processing Center	246,985	116,773	9,090	601	120,521
Total	71,740,059	58,767,605	4,774,663	4,168,543	4,029,148

Reconciliation of accrued expenditures for year with total expenses:

Accrued expenditures	\$70,522,353
Add:	
Increase in accrued annual leave liability—	
For the leave year ending January 10, 1970	\$391,435
From end of leave year to June 30, 1970	11,129,035
Depreciation of furniture, fixtures, and equipment	142,960
Decrease in inventory of supplies	23,854
Deduct:	
Purchases of furniture, fixtures, and equipment	—469,578
Operating expenses	71,740,059

¹ This adjustment was made because of a change in the date for computing the liability for accrued annual leave from the end of the leave year to the end of the fiscal year.

U.S. GENERAL ACCOUNTING OFFICE SUMMARY OF SOURCES AND APPLICATION OF FUNDS, FISCAL YEAR ENDED JUNE 30, 1970

Sources of funds:

Appropriation for salaries and expenses, 1970.....	\$70,273,423
Reimbursements.....	95,577
Funds carried over from preceding year to pay for orders placed in that year but filled in the current year.....	\$546,464
Restoration of funds previously returned to Treasury to finance increases in cost of prior year's orders.....	17,527
	<hr/>
Receipts for audit services.....	563,991
Other receipts.....	539,088
	<hr/>
Total.....	71,485,413

Application of funds:

Accrued expenditures:	
Expenses.....	70,052,775
Purchase of furniture, fixtures, and equipment.....	469,578
	<hr/>
Funds reserved at the yearend for payment of unfilled orders.....	70,522,353
Receipts deposited in U.S. Treasury.....	410,639
	<hr/>
Total.....	552,421
	<hr/>
Total.....	71,485,413

FUNCTIONS OF THE U.S. GENERAL ACCOUNTING OFFICE

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

Functions

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

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

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

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

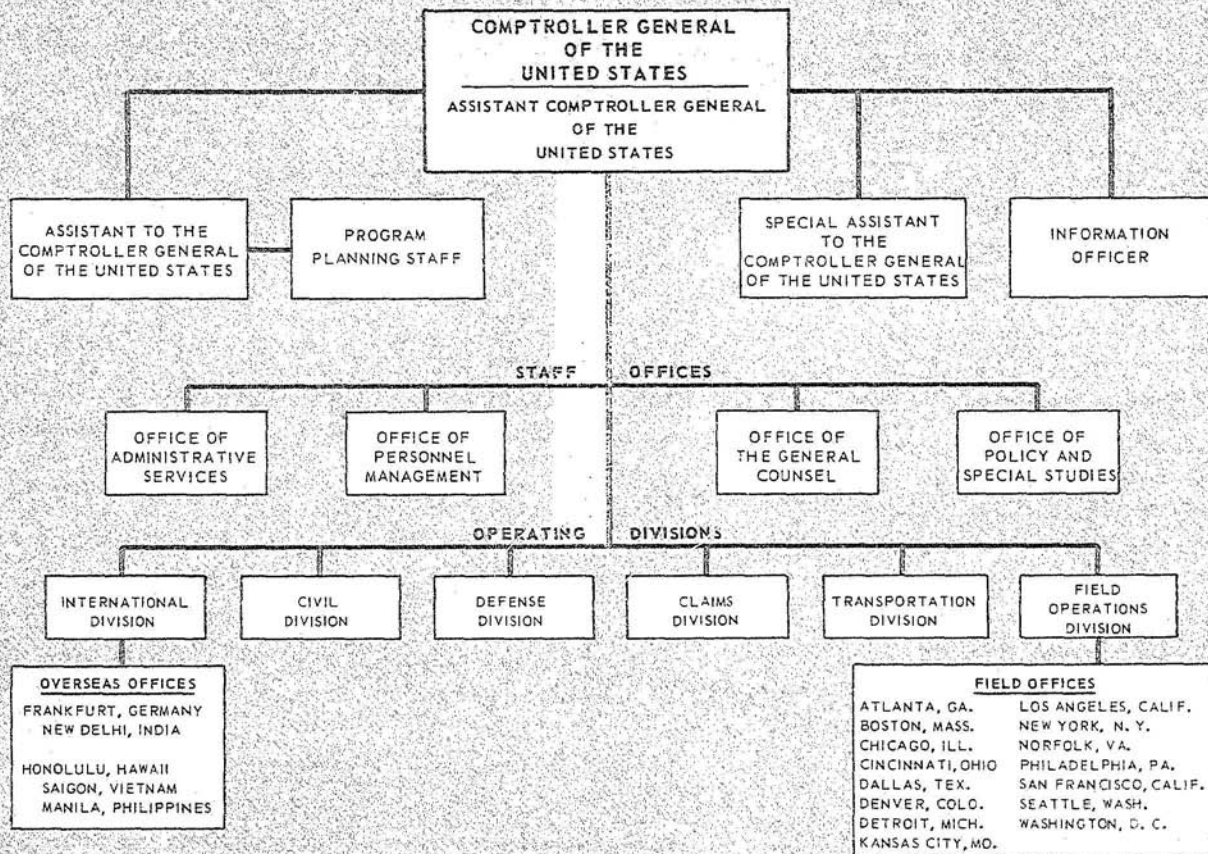
Debt collection.—Superintending the recovery of debts owing to the Government and collecting amounts due the Government on adjudicated claims and amounts reported by Government departments and agencies as uncollectible through means available to them.

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

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

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

UNITED STATES GENERAL ACCOUNTING OFFICE



U. S. GENERAL ACCOUNTING OFFICE REGIONS



JULY 1970

DIRECTORY OF THE UNITED STATES GENERAL ACCOUNTING OFFICE

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 Building 202-386 + ext.
 441 G Street, NW. (FTS Information)
 Washington, D.C. 20548 Operator ext. 6095)

St. Paul Suboffice

Room 1407 612-725-7844
 U.S. Post Office and Custom House
 St. Paul, Minn. 55101

Cincinnati

8112 Federal Office Building 513-684-2107
 5th and Main Streets
 Cincinnati, Ohio 45202

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EUROPEAN BRANCH

% U.S. Consulate General 770-731, ext. 326
 Platenstrasse 7
 Frankfurt/Main, Germany
New Delhi Office
 U.S. Embassy
 Shanti Path
 Chanakyapuri
 New Delhi, India

Dayton Suboffice

MCLAGA, Building 11, Room 513-255-4505
 238, Area B
 Wright-Patterson Air Force Base,
 Ohio 45433

Army Audit Staff

Fort Benjamin Harrison 317-546-2870
 Indianapolis, Ind. 46216

FAR EAST BRANCH

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 1833 Kalakaua Avenue
 Honolulu, Hawaii 96815

Dallas

Room 500 214-749-3437
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 Dallas, Tex. 75201

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Room T-8040, Federal Office 504-527-6115
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 701 Loyola Avenue
 New Orleans, La. 70113

Manila Office

Sarmiento Building
 6782 Ayala Avenue
 Makati, Philippines

Saigon Office

124-B Truong-Minh Giang
 Saigon, Republic of Vietnam Tiger 4226

Denver

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 1961 Stout Street
 Denver, Colo. 80202

FIELD OPERATIONS DIVISION

REGIONAL OFFICES

Atlanta

Room 204, 161 Peachtree Street NE. 404-526-6872
 Atlanta, Ga. 30303

Boston

Room 1903, John F. Kennedy Fed- 617-223-6536
 eral Building
 Government Center
 Boston, Mass. 02203

Chicago

Room 403, Custom House Building 312-353-6174
 610 South Canal Street
 Chicago, Ill. 60607

Air Force Audit Staff

3800 York Street 303-825-4411
 Denver, Colo. 80205

Detroit

Room: 2006, Washington Boulevard 313-226-6044
 Building
 234 State Street
 Detroit, Mich. 48226

Cleveland Suboffice

Room 2933 216-522-4892
 New Federal Office Building
 1240 East Ninth Street
 Cleveland, Ohio 44199

EXHIBIT 12

<i>Navy Audit Staff</i> Room 2933 New Federal Office Building 1240 East Ninth Street Cleveland, Ohio 44199	216-522-4892	Philadelphia 502 U.S. Custom House Second and Chestnut Streets Philadelphia, Pa. 19106	215-597-4333
Kansas City 1800 Federal Office Building 911 Walnut Street Kansas City, Mo. 64106	816-374-5056	San Francisco 143 Federal Office Building 50 Fulton Street San Francisco, Calif. 94102	415-556-6200
<i>St. Louis Suboffice</i> Room 1740, 1520 Market Street St. Louis, Mo. 63103	314-622-4121	Seattle 3086 Federal Office Building 909 First Avenue Seattle, Wash. 98104	206-583-5356
Los Angeles Room 7054, Federal Building 300 North Los Angeles Street Los Angeles, Calif. 90012	213-688-3813	<i>Portland Suboffice</i> Parker Building, 2d Floor 527 East Burnside Portland, Oreg. 97214	503-226-1474
New York 26 Federal Plaza, Room 4112 New York, N.Y. 10007	212-264-0730	Washington Penn Park Building 803 West Broad Street Falls Church, Va. 22046	703-557-8920
Norfolk Room 226 870 North Military Highway Norfolk, Va. 23502	703-627-7267		

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