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the  
comptroller general  
of the  
united states

# ANNUAL REPORT

1971

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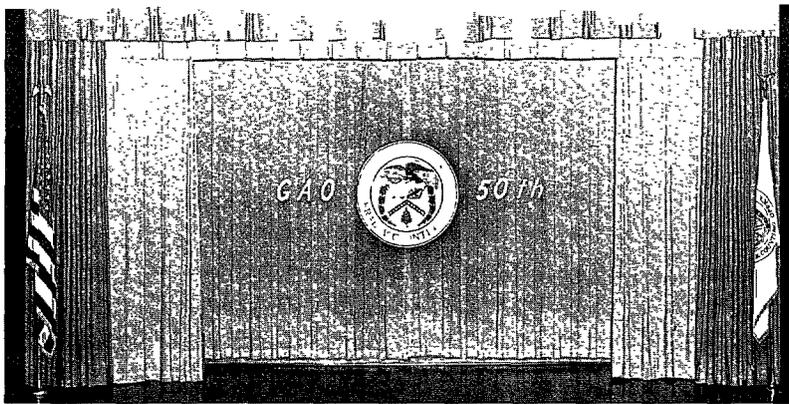
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PHOTOGRAPHY CREDITS

The GAO Watchdog, pp. x, 10, 138, 143, 144, and 148; Federal Railroad Administration, p. 6; Health, Education, and Welfare, Department of, p. 6; Interior, Department of the, p. 6; Housing and Urban Development, Department of, p. 6; National Institutes of Health, pp. 6 and 59; Institute of Marine Science, p. 76; University of Michigan, p. 80; U.S. Air Force, pp. 82 and 92; U.S. Navy, p. 87; U.S. Army, p. 94; Agency for International Development, pp. 102 and 107 State, Department of, p. 103; and the Rohr Corporation, p. 112.

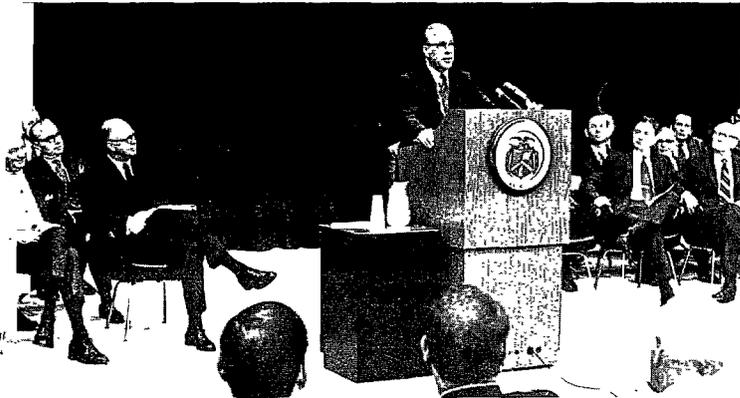
NOTE:

A separate Appendix to the Comptroller General’s Annual Report contains more detailed information concerning the work of the General Accounting Office. Included are (1) a compilation of findings and recommendations for improving Government operations, (2) financial savings attributable to the work of GAO, (3) a list of audit reports issued, and (4) a list of approvals of agency accounting principles and systems designs.



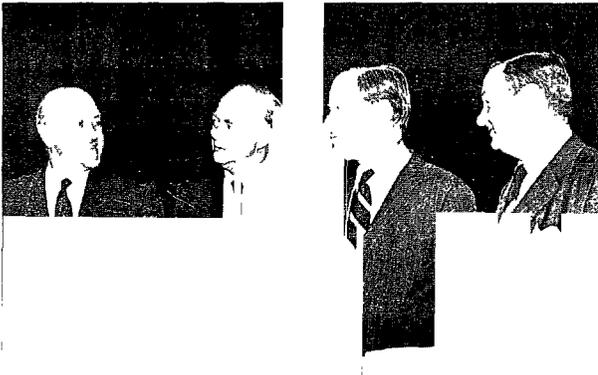
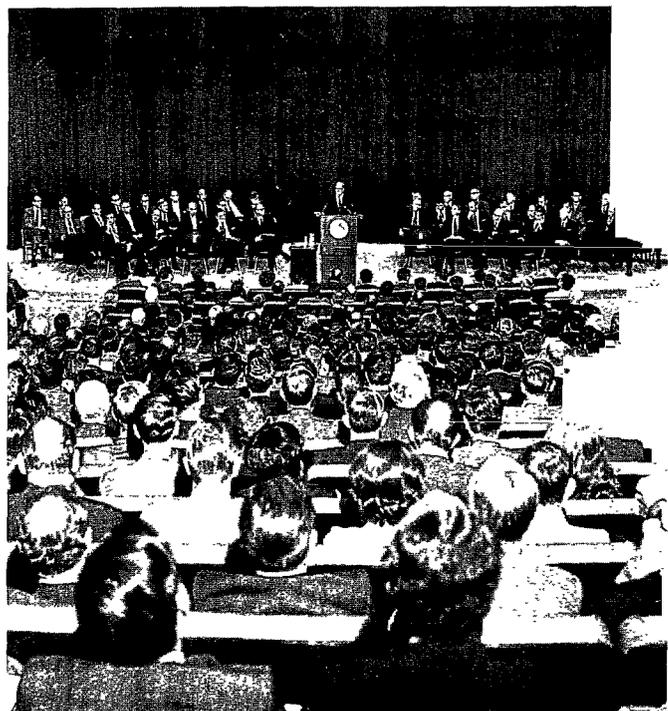
*Comptroller General Staats opens the morning session of GAO's 50th anniversary ceremonies on June 11 at the West Auditorium, New State Department Building, by greeting GAO officials, employees, and guests.*

*Leadoff speaker on June 11 was George P. Shultz, Director, Office of Management and Budget.*



*A portion of the audience listening to Mr. Shultz. Seated on the platform are the Comptroller General, the Deputy Comptroller General, and GAO division and office heads and their deputies.*

*Robert C. Weaver, Professor of Economics, City University of New York, and Russell E. Train, Chairman, Council on Environmental Quality, also participated in the morning lecture program on June 11. From the left: Mr. Weaver; Mr. Staats, Comptroller General; Mr. Train; and Robert F. Keller, Deputy Comptroller General.*



perintending the recovery of debts due the United States, countersigning warrants, and preserving records relating to the Government's financial transactions. New and expanded audit and investigative authority was provided by authorizing and directing the Comptroller General to investigate, at the seat of Government and elsewhere, all matters relating to the receipt, disbursement, and application of public funds.

In partial recognition of the importance of the Budget and Accounting Act, 1921, and to show the link with the past, this report includes as Exhibit 1 a brief chronology of the evolution and history of the General Accounting Office, 1789-1971.

To commemorate our 50th anniversary, a number of events took place:

The House of Representatives approved the following resolution:

Resolved by the House of Representatives (the Senate concurring), That the Congress of the United States extends its congratulations to the former and present officers and employees of the General Accounting Office on the occasion of the fiftieth anniversary of that Office; and be it further

Resolved, That as it is fitting and proper to commemorate the fifty-year history of the General Accounting Office, the month of June 1971 is designated for ceremonies appropriate to such commemoration.

Many Members of Congress placed congratulatory statements about the General Accounting Office and its operations in the *Congressional Record* during the month of June.

A series of 16 lectures by prominent leaders in many fields was arranged for the benefit of GAO staff members to be presented throughout the year 1971. These lectures, all related to the theme of improving management for more effective government, are to be printed in book form during 1972.

Publication in several professional journals of articles about the General Accounting Office and its operations.

Publication of a special anniversary issue of *The GAO Review*, our quarterly professional staff magazine, devoted entirely to GAO's history and evolution.

On June 11, 1971, special ceremonies marking the signing of the Budget and Accounting Act, 1921, were held in the New State Department building and in the GAO building. These ceremonies included presentation of three of the anniversary lectures, bestowing of the annual honor awards on GAO staff members with Representative Chet Holifield of

**CHAPTER ONE****HIGHLIGHTS OF ACTIVITIES FOR THE YEAR****Fiftieth Anniversary of the General Accounting Office**

The year 1971 marks the 50th anniversary of the enactment of the Budget and Accounting Act, 1921, which established the General Accounting Office, headed by the Comptroller General of the United States and the Assistant Comptroller General (changed to Deputy Comptroller General in 1971).

The same act created the Bureau of the Budget (now the Office of Management and Budget) to assist the President in his budgetary and management responsibilities with respect to the executive branch of the Federal Government.

This legislation, which was signed into law on June 10, 1921, was a landmark in modernizing the financial management system of the Federal Government. It removed the audit and settlement functions relating to the receipt and expenditure of the Government's funds, which had been lodged in the Treasury Department since 1789, from the executive branch and placed them in an independent General Accounting Office which, under the Comptroller General, is accountable directly to the Congress for the proper discharge of these important functions. Other functions vested in the new office included responsibilities for rendering binding legal decisions, settling claims, su-

## HIGHLIGHTS OF ACTIVITIES

### GAO 50TH ANNIVERSARY LECTURE SERIES

<i>Date</i>	<i>Speakers</i>	<i>Subject</i>
March 22	John W. Kendrick Professor of Economics The George Washington University	The Construction and Use of Productivity Measures for Federal Government Agencies
May 21	Hugh Sidey Chief Time-Life News Bureau--Washington	Improving Public Understanding of Public Affairs
June 11	George P. Schultz Director Office of Management and Budget	Views on Improving Management for More Effective Government
	Russell E. Train Chairman Council on Environmental Quality	Improving the Management of Environmental Programs
	Robert C. Weaver Professor of Economics City University of New York	Management of Urban Programs
	Chet Holifield Chairman House Committee on Government Operations	The General Accounting Office and the Congress
July 15	Leonard P. Spacek Senior Partner Arthur Andersen & Co.	Utilizing What Is New in Accounting
August 16	William Gorham President The Urban Institute	Ignorance in Government Is Not Bliss
September 17	James E. Webb Former Administrator National Aeronautics and Space Administration	Leadership Evaluation in Large Scale Efforts
September 24	Alexander B. Trowbridge President The Conference Board	Three Paths in Search of the National Interest
October 7	H. M. Boettinger Director of Management Science American Telephone & Telegraph Co.	What Is New in Management Sciences
October 15	Judge Harold Leventhal District of Columbia Circuit Court U.S. Court of Appeals	The Lawyer in Government
November 16	Dr. Harlan Cleveland President University of Hawaii	The Growing of Public Executives
December 6	John J. Corson Chairman of the Board Fry Consultants, Inc.	Uses and Limitations of Experts
	Alan L. Dean Deputy Assistant Director for Organization and Management Systems Office of Management and Budget	Uses and Limitations of Experts
December 13	David E. Bell Executive Vice President The Ford Foundation	Assessment of Efforts To Assist Underdeveloped Areas

California, chairman, House Committee on Government Operations, as guest speaker, and an evening reception sponsored by the GAO Employees Association.

In his address at the GAO honor awards ceremonies on June 11, Representative Holifield remarked as follows on the leadership and the staff of GAO over the years:

Considering that Mr. Staats served so many years in the executive branch and the presidential orbit, I find it interesting that he has committed himself so firmly to shaping the GAO as a service agency to the Congress. And, more than his predecessors, he has refashioned the GAO as an institution to keep it abreast of the times, to expand its horizons, to diversify its skills.

In paying this tribute to Comptroller General Staats, I do not want to detract from the important work of his predecessors. Earlier Comptrollers General, including J. R. McCarl and Lindsay C. Warren, were congressionally oriented. Preceding his appointment, McCarl was a private secretary to Senator George Norris of Nebraska, and Lindsay Warren was a Member of Congress from North Carolina for many years.

When I came to the Congress in 1943, Warren was in his third year as Comptroller General. He guided the GAO through the critical period of World War II, helped to establish the joint accounting improvement program, developed the concept of the comprehensive audit, extended the practice of auditing at the site of operations, and did much to make the GAO an increasingly effective force to serve the Congress.

In 1954, Joseph Campbell succeeded Mr. Warren as Comptroller General and served for ten years. During his tenure the GAO became increasingly involved in defense contract audits and played an important role in the enactment of such landmark legislation as the Truth in Negotiations Act.

Each Comptroller General has an Assistant Comptroller General who is his good right arm. Frank H. Weitzel served in that position, culminating a long and distinguished career with the GAO over a period of 45 years, almost for the length of its existence. Robert F. Keller, the present Assistant Comptroller General, also has served with distinction in the GAO for many years. Both Weitzel and Keller have made outstanding contributions to the evolutionary development of the office.

There are many other career men and women in the GAO—I cannot begin to name them all—who deserve our thanks and appreciation for selfless and dedicated work in the public interest. They have helped to build the GAO as an institution. They have built their careers around this institution. The GAO is as good as its people, and judging by the reputation it has, I would say that the people are very good.

As the General Accounting Office completes its first 50 years of operation, it is timely for those of us now a part of it to reflect on what the future holds.

Today, we have a dedicated staff of approximately 4,800 employees of which nearly 3,000 are professionals. In large part, what the next 50 years hold for the General Accounting Office and its functions will be

found in how this staff performs in our governmental system that shows many signs of continuing to increase in size and complexity.

The General Accounting Office has moved far in its first 50 years, particularly in the years since World War II. It has adapted itself to the needs and challenges of our changing times. Even more important, it is continuing to adapt and mold its methods and products to the needs of the Congress which it was established to serve.

Objective information about our national programs and their effects is almost the lifeblood of our national legislature if it is to remain an effective force in our national government and responsive to the needs of the people. The General Accounting Office, as an agent of the Congress and accountable only to it, is one of these sources of information.

The General Accounting Office has demonstrated that it can be an increasingly effective force in assisting the Congress to carry out its legislative and surveillance responsibilities. It is becoming increasingly effective in promoting financial management improvement in the Federal agencies. It has led the way in expanding the scope of auditing to embrace evaluations of governmental management performance, including efficiency and economy in the use of public funds and other resources, compliance with the intent of laws enacted by the Congress, and results achieved through governmental programs and operations.

As its capacity to provide such evaluations improves with experience, the General Accounting Office should assume a role of increasing importance as an independent source of information on the accountability of public administrators for their operations. In our democratic society, the public, whose good is expected to be served by such operations, must have the means to hold public officials accountable for their performance. The General Accounting Office through its operations provides one important way to accomplish this objective.

## Activities for the Year—In Brief

During fiscal 1971, the General Accounting Office continued a high level of activity in carrying out its several interrelated functions of:

Assisting the Congress in its legislative and oversight activities.

Auditing the affairs of Federal departments and agencies.

Providing legal services.

## HIGHLIGHTS OF ACTIVITIES

Assisting in the improvement of Federal agency financial management systems.

Settling claims and collecting debts.

Accounting for GAO activities statistically does not convey, in a readily comprehensible way, a meaningful view of the capabilities of the Office to assist the Congress in its legislative and oversight activities.

Another way of viewing these services can be illustrated by four possible answers to the question: What was the most valuable product or service provided by the Comptroller General and the General Accounting Office during fiscal year 1971?

Some would say it was GAO's special study of defense industry profits which the Comptroller General sent to the Congress in March. He described the report which is discussed in Chapter Five in these words:

We believe this to be the most detailed and comprehensive effort made to date comparing profits on defense and nondefense work of private industry. We have made every effort to be as impartial and objective as possible.

Some would say it was the measurable financial savings—totaling nearly \$268 million—attributable to the work of the General Accounting Office during the year, details of which will be found in Section II of the Appendix.

Some would say that the most valuable service was that provided by the approximately 20 percent of GAO's professional staff who provided direct assistance to the Congress as discussed in Chapter Two.

Or, some would refer to the work done by the General Counsel's Office in preparing any one of the 715 decisions issued during the year on bid protests. In these types of cases, a party, believing he has been wrongfully denied a Government contract, may appeal to the Comptroller General for a review of an agency contract decision. (See Chapter Nine.)

In this chapter, some highlights of our operations for the year are noted. Succeeding chapters present in considerable detail more complete information on these diverse and wide-ranging operations.

### Assistance to the Congress

For several years, GAO has been increasingly concerned with the broad question of its role in assisting the Congress in its review of legislative proposals and in providing the Congress with assessments of the results of current or ongoing programs. Recognition by the Congress of GAO's role in these matters came

with the passage of the Legislative Reorganization Act of 1970 which was signed into law on October 11, 1970. The provisions of this law as they relate to GAO's capacity to serve the Congress are discussed in Chapter Two.

In immediate response to one section of the act the Comptroller General, in February 1971, began sending to the Congress, its committees, and Members, on a regular monthly schedule, a list of all GAO reports released during the previous month. The list is organized by activity classifications used in the Federal budget and includes a brief summary of each report as well as its title, date of issue, and file number, and the identity of the agencies whose programs or operations are reported on.

GAO's efforts to serve the needs of the Congress continued to increase during the year, as evidenced in part by the fact that 460 audit reports were sent to the Congress, its committees, and Members. Also of importance were various other services provided such as drafting legislation, making special studies, supplying information, and assigning staff members to work with the committees. These services are discussed in Chapter Two.

During fiscal year 1971:

GAO representatives testified on 30 occasions before congressional committees.

GAO staff members were assigned to the staffs of 21 committees or subcommittees. This represents approximately 10,971 man-days of GAO staff time.

Six hundred and thirty-two reports were furnished to committee chairmen on pending bills—412 to the Senate and 220 to the House.

### Auditing

The work for which the General Accounting Office is perhaps most widely known is auditing the affairs of Federal departments and agencies, including contractors with negotiated contracts and grantees of Federal funds. This work embraces:

Financial auditing, which is concerned primarily with financial transactions, accounts, and financial reports and with compliance with applicable laws and regulations.

Management auditing, which involves examining into efficiency and economy in the use of resources.

Program auditing, which is concerned mainly with inquiring into the results or benefits from the

conduct of a program and evaluating whether programs are meeting the objectives set by the legislative or other authorizing bodies.

During the year GAO conducted 1,844 audits in the United States and in 51 other countries, about the same level of activity as in other years.

Civil agency programs.....	932
Defense programs.....	685
International programs.....	203
Government-wide and multiagency studies.....	24
Total.....	1,844

The results of many of these audits will be presented in reports to be published during the next fiscal year.

The nature of GAO's audit operations are described at length in Chapters Four, Five, Six and Seven.

A total of 975 formal audit reports, relating to almost every aspect of Federal Government operations, were issued, as follows:

173 reports were sent to the Congress, all of which are also available to the public except those classified for national security reasons. Reports on audit findings, conclusions, and recommendations are submitted by the Comptroller General to the Congress when required specifically by law and when they are judged to be of such significance as to warrant the attention of the Congress.

287 reports were sent to congressional committees, officers of the Congress, or individual Members in response to requests for special audits or investigations, inquiries, or other types of information.

515 reports were sent to Federal department and agency officials. These reports contain audit findings, conclusions, and recommendations calling for agency attention and action but not deemed to be of sufficient significance to address to the Congress. However, copies of many of these reports are also sent to congressional committees interested or concerned with the subject matter.

Almost all GAO reports present information, and recommendations where appropriate, relating to the manner in which Federal agencies manage, administer, and report on their programs and operations.

The following listing of selected reports issued to the Congress during fiscal year 1971 provides a quick grasp of the variety, range, and depth of GAO's audit work.

*Health and Safety*

Problems in Providing Proper Care to Medicaid and Medicare Patients in Skilled Nursing Homes.

Ways To Reduce Payments for Physician and X-ray Services to Nursing Home Patients Under Medicare and Medicaid.

Substantial Cost Savings From Establishment of Alcoholism Program for Federal Civilian Employees.

Problems in Implementation of the Federal Coal Mine Health and Safety Act of 1969.

*Procurement*

Multiyear Leasing and Government-Wide Purchasing of Automatic Data Processing Equipment Should Result in Significant Savings.

Application of "Should Cost" Concepts in Reviews of Defense Contractors' Operations.

Opportunities for Savings by Increasing Competition in Procurement of Commercial Equipment.

Price Increase and Change in Criteria for Uranium Enrichment Services.

Evaluation of Information From Contractors in Support of Claims and Other Pricing Changes on Ship Construction Contracts.

Acquisition and Use of Software Products for Automatic Data Processing Systems in the Federal Government.

More Competition in Emergency Defense Procurements Found Possible.

Fair Prices Paid for Small Purchases by the Department of Defense.

*Manpower Training*

Opportunities for Improving Training Results and Efficiency at the East Bay Skills Center, Oakland, Calif., under the Manpower Development and Training Act.

Evaluation of Results and Administration of the Job Opportunities in the Business Sector (JOBS) Program in Five Cities.

*National Defense*

Acquisition of Major Weapon Systems.

Potential for Improvement in Department of Defense Maintenance Activities Through Better Cost Accounting Systems.

## HIGHLIGHTS OF ACTIVITIES

### *International Activities*

Opportunities for Better Use of U.S.-Owned Excess Foreign Currency in India.

Improved Financial Administration and Revision of Fees Needed—Consular Services Program.

Long Missing Government-Owned Materials in Vietnam Still Unaccounted For.

### *Other*

Administration of Metroliner and Turbo-Train Projects.

Audit of Federal Deposit Insurance Corporation for the Year Ended June 30, 1970, Limited by Agency Restriction on Access to Bank Examination Records.

Postage Due and Handling Costs for Processing Mail With Insufficient Postage Are Not Being Recovered.

Management of Federally Financed Research by the University of Michigan—A Case Study.

## **Access to Agency Records**

During the year, GAO experienced increased difficulties in obtaining access to agency information and documents needed to carry out its responsibilities. These difficulties occurred principally in relation to international matters. The Departments of Defense and State have applied procedural restrictions in the foreign affairs area on an increasing scale. These restrictions have had the effect of seriously hampering the efficient and effective conduct of GAO audit work in a field in which there is increasing congressional interest.

Absolute denial of access to documents is rare but the restrictions imposed on obtaining access to them results in obstruction and delay and impairs our capability to serve the Congress as intended. Complete information on our access-to-records problems has been presented to three Senate committees. (See Chapter Two.)

## **Legal Services**

The Comptroller General of the United States is responsible on behalf of the Congress for determining, with certain exceptions, the legal propriety of executive branch expenditures.

GAO's legal services cover a wide range of subject matter and activity. Legal assistance is furnished in the form of formal decisions, comments on proposed legislation, and internal advice on GAO audit findings. To appreciate the range of GAO's legal activities, it is necessary to reflect upon the growing complexity of the legislative approaches being taken to deal with our social, political, economic, and military needs and to recognize that GAO is responsible for determining the legality of a major portion of all Government expenditures.

Within the broad areas of civilian personnel, military personnel, contracts, transportation, and general Government matters, over 400 legal decisions a month are prepared by our Office of the General Counsel. This work involves all fields of law and requires expertise in statutory construction procedure, evidence, and contract interpretation.

During fiscal year 1971, decisions issued by the Comptroller General and other legal matters handled by the legal staff totaled 5,612. Included in this output were 643 reports on proposed legislation and 427 advisory legal opinions to congressional committees or Members of Congress. Also included were 77 reports for the Office of Management and Budget.

More complete information on GAO's legal services is included in Chapter Nine.

## **Financial Management Improvement**

Under the Budget and Accounting Procedures Act of 1950, GAO assists agencies in the improvement of their accounting systems and approves these systems when they are deemed adequate and in conformity with principles and standards prescribed by the Comptroller General.

In fiscal year 1971, GAO approved the designs of nine complete accounting systems, six parts or segments of systems, and 12 statements of accounting principles and standards submitted by civil and international departments and agencies.

Of 148 civil and international department and agency accounting systems subject to approval, the complete accounting systems designs of 80 organizational entities had been approved as of June 30.

No accounting systems were approved for the Department of Defense during the year.

Details of GAO's work in this area will be found in Chapter Three.

## Transportation

In meeting its responsibility for determining the correctness of charges claimed for freight and passenger transportation services furnished the United States, GAO audited \$2 billion in transportation charges this year. This amount consisted of \$1.2 billion paid for 5.3 million freight shipments and \$800 million for 2.9 million passenger movements.

A total of 102,326 claims of overcharges by the United States against carriers were settled for \$16 million, while 15,957 claims against the United States by carriers were settled for \$18.87 million.

Assistance was furnished to the Department of Justice in some 22 legal actions involving claims against the United States for approximately \$353,646 covering 1,254 shipments. Twenty-seven suits, the subject of reports in this or prior years, were settled for about \$185,000, or about \$322,000 less than claimed.

Carriers filed 401 suits covering 230,100 shipments. Three hundred and seventy-five of these suits and about 228,333 of the shipments covered overseas movements of household goods by the Department of Defense. The amount sued for is not stated in the petitions. However, court decisions have been rendered in connection with certain issues common to the 795 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 \$10 million if the final rulings of the Court are adverse to the Government. (For details see Chapter Seven.)

## Claims Settlement and Debt Collection

General claims against the United States in fiscal year 1971 involved Government contracts, compensation due civilian employees (including overtime and premium pay), quarters and cost-of-living allowances, travel, transportation of household effects, per diem, allowances on changes of official station, pay and allowances due military personnel, retired pay, compensation due deceased civilian officers and employees, pay due deceased members of the Armed Forces and National Guard, and miscellaneous claims by Government personnel and public creditors.

GAO settled 8,686 claims against the United States for \$117.8 million and collected 20,394 claims by the United States totaling \$2.9 million. At the end of the year 7,853 claims under collection represented accounts

receivable of about \$5.4 million. GAO reported 2,084 claims to the Department of Justice for collection by suit. (For details see Chapter Eight.)

## Operating Expenses

Operating expenses for fiscal year 1971 amounted to \$79.8 million. Approximately 83 percent of this amount—\$66 million—was for salaries and other personnel costs.

Financial statements showing our financial position, summary of operating expenses, and sources and application of funds are included in this report as Exhibits 7, 8, 9, and 10.

## Staffing and Training

At June 30, we had 4,751 employees, an increase of 119 over the number at the end of the previous year. Of the total, 2,989 were members of the professional staff representing nearly a dozen different disciplines.

Over 3,100 members of our staff were provided with special training during the year through our own training facilities. About 1,400 staff members participated in training or career development programs conducted in other agency or non-Government facilities. (See Chapter Ten.)

## Organization

An organization chart for the General Accounting Office at June 30, 1971, appears on page 8. Such charts for the principal divisions and offices of GAO appear in the chapters of this report in which their activities are discussed.

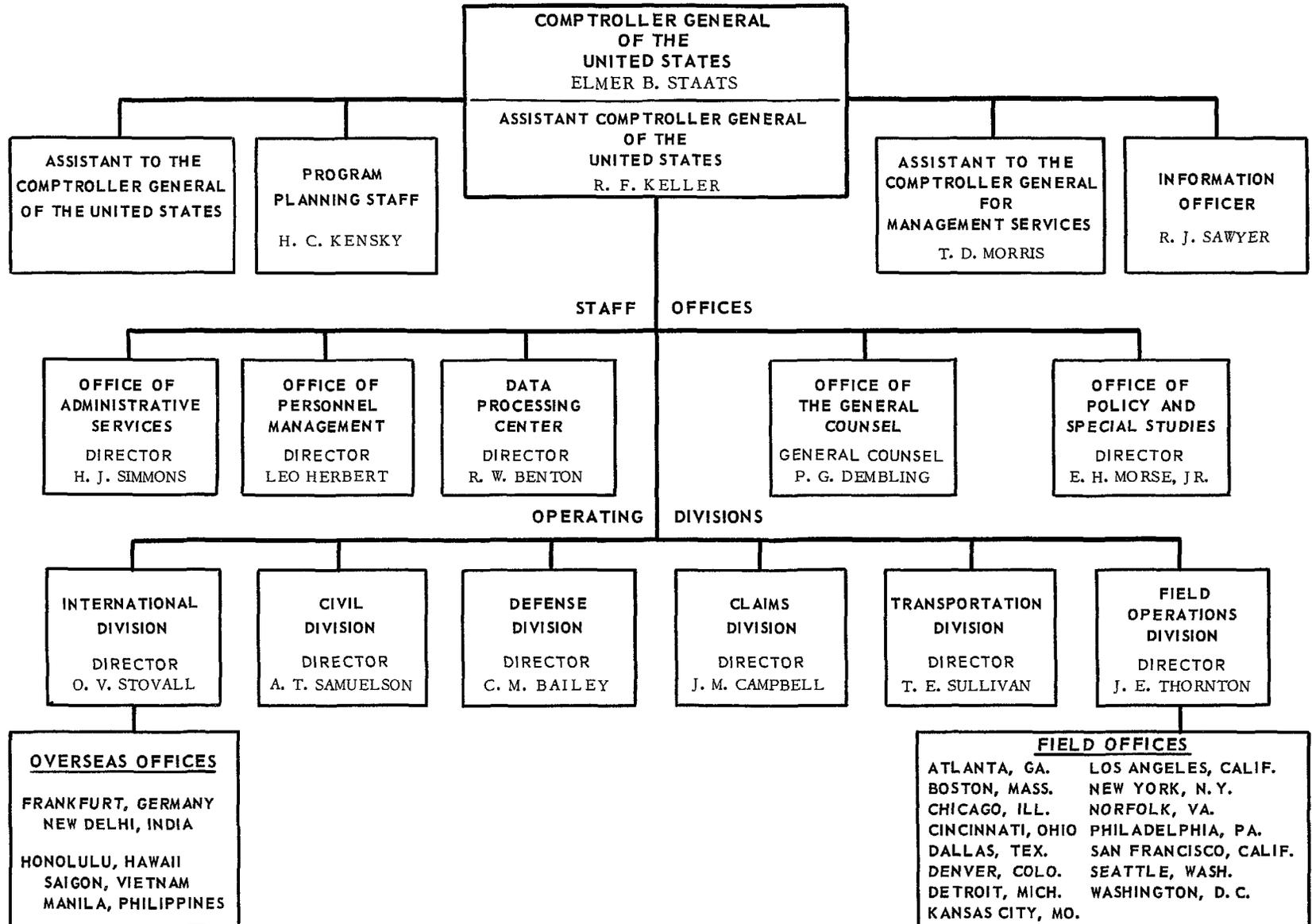
As of July 1, 1971, several changes in our organizational structure became effective. These are important enough to highlight here since they were made for the purpose of strengthening our operating and planning capabilities.

The Office of Policy and Program Planning was formed to:

Advise and assist the Comptroller General and the Deputy Comptroller General in (1) policy formulation, guidance, and review with respect to all GAO functions, (2) establishing long-range objectives and direction-of-effort planning, and (3) formulating the annual budget.

Conduct internal reviews of all GAO operations.

UNITED STATES GENERAL ACCOUNTING OFFICE



Assistance on House and Senate financial and  
administrative operations  
Recommendations for legislation

The information in the succeeding sections is furnished both in accordance with past practice and pursuant to the direction of section 205(b) of the Legislative Reorganization Act.

## Reports to the Congress

The responsibility of the General Accounting Office for reporting to the Congress information obtained as the result of its reviews is clearly indicated in the Budget and Accounting Act, 1921, and is emphasized in the related legislative history. For this reason, a major thrust of the Office is to meet this fundamental obligation by furnishing to the Congress reports on GAO findings, conclusions, and recommendations covering a 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 findings in reports issued to the Congress during the year are:

An analysis of the Teacher Corps program at selected universities and participating schools showed that significant educational advances were achieved in elementary schools having concentrations of low-income families, that innovative teaching methods were developed and applied with success, and that there had been some limited impact on the teacher preparation curricula of the universities; however, suggestions were made for further extending and giving permanence to the benefits already realized from the program. (See Appendix, Section I, Items 14, 15, and 16.)

The Neighborhood Health Services Program, as administered by St. Luke's Hospital Center in New York City under grant-in-aid funding from the Office of Economic Opportunity, had not yet provided a significantly better health care delivery system for the 20,000 poor intended to be served; several factors were identified which had inhibited the program from alleviating the cycle of mutual perpetuation which exists between poverty and sickness. (See Appendix, Section I, Item 11.)

The Department of Housing and Urban Development's program to provide rehabilitated housing for low-income families in Philadelphia resulted in some benefits, but some important goals of the program have not been fully achieved and compliance with prescribed construction requirements has not been effectively enforced. (See Appendix, Section I, Item 50.)

The Labor Department's JOBS (Job Opportunities in the Business Sector) program has been effective in focusing the attention of businessmen on the employment problems of disadvantaged persons and in eliciting broad commitments by many private employers to hire, train, and retain the disadvantaged; however, because of problems in the design and administration of the program, including an insufficiency of accurate and meaningful data on program operations, reported accomplishments have been generally overstated. (See Appendix, Section I, Item 53.)

In areas of increasing urbanization the congressionally established objectives of the Department of Agriculture's feed grain program, namely, controlling feed grain production, conserving land for future agricultural or related uses, and maintaining farm income, were not being substantially achieved, due to payments made to recipients engaged in businesses or occupations other than agriculture and because payments were made for diversion of land being used or intended for use for nonagricultural purposes. (See Appendix, Section I, Item 1.)

The Army's administration of its depot-level maintenance program for helicopters resulted in a substantial backlog of helicopters, engines, and components awaiting repair at a time when the Army was processing purchases of large quantities of new helicopters and engines. (See Appendix, Section I, Item 213.)

A study of 14 waterways in five States showed that generally some progress had been made in abating industrial water pollution, but the emphasis and achievements have varied from State to State and, in some States, tangible results have been minimal. (See Appendix, Section I, Item 73.)

Action was needed to improve the Department of Defense program for the development and retention of career procurement personnel in view of evidence that the program had accomplished much less than was anticipated at its inception in 1965. (See Appendix, Section I, Item 131.)

## ASSISTANCE TO THE CONGRESS

In addition to reporting to the Congress on the results of Government programs, GAO considers the efficiency and economy of Government operations to ascertain whether appropriated funds are being spent prudently and for the intended purposes. Reports are frequently issued to the Congress on GAO findings of areas where management can be improved and savings achieved, particularly in respect to the operations of the Department of Defense. Illustrations of such findings follow.

Management deficiencies in the Army's tactical vehicle development program have continued despite organizational and procedural changes. (See Appendix, Section I, Item 143.)

Significant savings and substantial balance-of-payments advantages could be realized at some overseas locations if the armed services would make arrangements which would increase the use of American trucks and trailers in place of foreign vehicles being used by commercial carriers under contract with the military. (See Appendix, Section I, Item 92.)

An examination of the progress and problems in implementing the Federal Claims Collection Act of 1966 highlighted the following matters: (1) the significant backlog of claims involving hundreds of millions of dollars, (2) the administrative deficiencies in implementing the act, (3) the assistance rendered by GAO to improve agency debt collection operations, and (4) the effectiveness of the act in reducing the debt collection litigation burden of the Department of Justice and the courts. (See Appendix, Section I, Item 230.)

From time to time the Congress directs the Comptroller General to make special studies on matters of particular current interest and concern. The results of one such study, required by section 408 of the Armed Forces appropriation authorization for fiscal year 1970 (Public Law 91-121), were reported to the Congress as the "Defense Industry Profit Study" on March 17, 1971. The law prescribed that GAO make a "study and review on a selective representative basis of the profits made by contractors and subcontractors on contracts on which there was no formal competitive bidding."

In a statement by the Comptroller General concerning the report, the study was described as "the most detailed and comprehensive effort made to date comparing profits on defense and non-defense work of private industry." The GAO recommended as a result of the study that the Office of Management and Budget

should lead an interagency effort to develop uniform Government-wide guidelines for negotiating profit objectives which will give due emphasis to the total amount of contractor capital to be devoted to the performance of the contract; the guidelines would be applicable where effective price competition was lacking. (See p. 89 for details.)

## Reports to Committees

The Budget and Accounting Act, 1921, requires the Comptroller General to make such reviews 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 and surveys are, as a matter of policy, accepted and given priority attention.

In the past year GAO issued 133 special reports on audits and reviews pursuant to requests of committee and subcommittee chairmen. These reports involved varied subjects in the areas of complex defense procurements and activities, sensitive international Government operations, and a multitude of program activities in the civil departments and agencies.

A close working relationship was maintained with the committees and their staffs through briefing sessions on GAO reviews and by exchanging information on matters of mutual interest. GAO frequently adjusted work schedules to expedite completion of reports for use of the committee 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 with the staff of the House Appropriations Committee were, again this year, a most effective method of providing the results of GAO work for use by the committee in its important budget review responsibilities. The House Appropriations Committee also received GAO's 17th annual report on significant audit findings resulting from the Office's audits and other examinations in the defense and civilian agencies of the Government. The report consists of a comprehensive summary of information which the committee may find useful in connection with budget hearings, when officials of the respective departments and agencies are present to respond to questions concerning the management of programs within their areas of responsibility. As in the past, the Appropriations Committee hearings this year reflected the extensive reliance by committee members on this

report as an instrument in aid of the discharge of their legislative duties.

Illustrations of special reports made at the request of committee and subcommittee chairmen include a report to the Special Subcommittee on Alcoholism and Narcotics, Senate Committee on Labor and Public Welfare, on the substantial cost savings available from the establishment of an alcoholism prevention and treatment program for Federal civilian employees. GAO estimated that net annual cost savings to the Government would range from \$135 million to \$280 million annually, while at the same time contributing to the reduction of a major national health problem. In announcing the issuance of the GAO report, the chairman described it as a "breakthrough revelation of the tremendous savings in human and economic resources that can be achieved" by the institution of an appropriate alcoholism program. In December 1970, legislation was enacted providing for the establishment of a Government-wide alcoholism program for Federal civilian employees. At the end of the year a similar report was being prepared for the committee concerning alcoholism among employees in the military services.

The chairman of the Subcommittee on Labor, Senate Committee on Labor and Public Welfare, requested GAO to examine the implementation of the provisions of the Federal Coal Mine Health and Safety Act of 1969 which require the Department of the Interior to inspect coal mines for identification and correction of unsafe and unhealthy conditions. On the basis of its findings, GAO concluded in its report to the chairman that the Department's policies for enforcing health and safety standards have been, at times, extremely lenient, confusing, uncertain, and inequitable. GAO made a number of suggestions for improvement, and the Department reported that actions responsive to GAO's proposals had been initiated or were planned.

GAO was requested by the chairman, Senate Select Committee on Equal Educational Opportunity, to review the policies and procedures of the Department of Health, Education, and Welfare (HEW) for approving grants of Federal funds to school districts to defray the costs of meeting special problems arising from school desegregation. The report to the committee described the conditions noted by GAO and contained GAO's conclusion that in many cases school districts did not submit with their applications, nor did HEW regional officials obtain by other means, sufficient in-

formation to permit a proper determination that the grants were made in accordance with program regulations or that the grants were in line with the purpose of the program.

GAO continued to enjoy a close working relationship with the Joint Committee on Atomic Energy. In particular, GAO issued, pursuant to committee requests, seven reports on the activities of the Atomic Energy Commission (AEC) covering, for example:

Proposed revisions to the criteria for uranium enrichment services and to the related price of such services.

Progress and problems in programs for managing high-level radioactive wastes.

Use and operating costs of the AEC's high energy accelerators.

The Joint Committee utilized GAO reports in its consideration of actions proposed by AEC to revise operating policies and practices and in the committee's oversight review of AEC programs.

## Reports to Individual Members of Congress

GAO believes that if an individual Member of Congress is concerned about a Government activity or program, the Office should try to provide assistance. GAO encourages Members to first obtain the desired information or action directly from the agency, but if this approach does not obtain satisfactory results, GAO will proceed to review the matter and furnish the Member a report. Frequently consultation with the Member concerning the nature of his interest helps to bring the issue into sharp focus, thereby conserving staff resources while still satisfying the Member's needs.

During the year the Office furnished 143 audit reports to individual Members covering the activities of nearly all of the departments and agencies. The following selected examples provide an indication of the range of subjects examined by GAO as a result of special requests by Members.

At the request of Senators Joseph M. Montoya and William Proxmire, GAO investigated the handling and control of petroleum products in Southeast Asia. GAO concluded that while some improvements in fuel transportation and distribution methods had been made, a number of significant weaknesses still existed with the result that the products

## ASSISTANCE TO THE CONGRESS

were not managed in the most effective and economical manner. In the words of the report, issued on July 28, 1970, "major problems have been experienced in managing the fuel function and substantial losses of product have occurred."

Senator Gordon Allott asked the GAO to review the use by the Post Office Department of air taxis to transport mail, with particular attention to the growth of air taxi service during the tenure of a former Assistant Postmaster General. On October 22, 1970, GAO reported to Senator Allott on the relationship of the former Assistant Postmaster General to a particular air taxi contractor; on the rapid increase in air taxi service, especially that provided by certain contractors; on the weak administrative practices attending air taxi service; and on the questionable statutory basis for the expansion of such service.

GAO reported to Senator Margaret Chase Smith on November 6, 1970, concerning the operation and administration of the executive lunchroom at the headquarters of the National Aeronautics and Space Administration. GAO found that the cost of operating the lunchroom considerably exceeded the revenue produced by the fee charged to users, that a number of food purchases had been made from the Army commissary at Fort McNair in violation of military regulations, that food purchase receipts had been altered to remove indications that purchases were made at Fort McNair, and that improper food purchases were continuing even after instructions had been issued to halt this practice.

Congressman H. R. Gross asked GAO to investigate contract actions relating to a purchase by the Department of the Army of certain radio sets from Bristol Electronics, Inc. GAO's February 12, 1971, report discussed several questions, including the issuance by the Small Business Administration of a certificate of competency to Bristol after the Army had rejected Bristol as incapable of performing the contract, the performance record of the contractor under the contract, the settlement of the contractor's claim for extra compensation, and the basis for a subsequent Army contract award to Bristol.

At the request of Senator William Proxmire, GAO considered whether it would be feasible to convert contractors' independent research and development (IR&D) as a budget line item. In the report to Senator Proxmire on March 8, 1971, GAO concluded that line-item control of IR&D payments to major defense contractors could be effected.

However, in view of the recently enacted provisions in section 203 of Public Law 91-441, which imposed certain restrictions on IR&D payments, GAO recommended that sufficient time be allowed for an assessment of the impact of such limitations before consideration should be given to any further legislative controls.

Congressman Henry Reuss asked the General Accounting Office to examine certain aspects of selected Department of Defense public affairs programs. On June 29, 1971, GAO reported to Congressman Reuss on the Joint Civilian Orientation Conference. The report described such matters as the selection of participants and their itinerary and activities during the conference. GAO computed the costs of the conference and determined that \$80,000 in costs were borne by the Government, while \$22,000 in costs were recovered in fees charged to the participants.

Assistance to individual Members also includes the reports GAO furnishes upon request concerning claims by and against the United States such as those involving Government contracts, compensation of civilian personnel, and pay and allowances of military personnel. During the year 606 written reports of this type were made.

## Reports on Pending Legislation

The GAO professional staff is well acquainted with the programs and activities of most Government agencies through on-site review and observation of agency operations. Consequently, the Office can provide the committee with independent advice and information on proposed legislation; often there may be no other available source for such well-informed comment. During the past year GAO responded to 632 committee requests for comments on bills. The significant increase from 438 such reports in fiscal year 1970 is a measure of the increasing congressional reliance on GAO's legislative analysis expertise. It may be expected that the provisions of the Legislative Reorganization Act may reinforce this trend.

GAO also furnished 77 reports to the Office of Management and Budget at its request on numerous proposed bills and enrolled enactments. The clear advantage of furnishing views on bills to the committees and OMB is that many problems relating to fiscal and administrative provisions in proposed legislation

An illustration of staff assistance provided by the General Accounting Office to the congressional committees concerns the bankruptcy of the Penn-Central Railroad. In connection with the committee investigation of this subject, GAO provided staff assistance to the Senate Commerce Committee and the House Committee on Banking and Currency. The personnel from GAO assisted the regular committee staffs on various aspects of the complex financial questions resulting from the Penn-Central difficulties.

In another case, GAO furnished staff assistance to the Senate Judiciary Committee, Subcommittee on Antitrust and Monopoly Legislation, for the purpose of aiding the subcommittee's inquiry into the relationship between the structure of Blue Cross Associations and the high cost of health care. The subcommittee's examination into the subject included several days of hearings.

A third illustration of staff assistance to congressional committees involved GAO personnel assisting the House Committee on Post Office and Civil Service in connection with various manpower studies undertaken by that committee. Furthermore, as in past years, GAO provided the Joint Atomic Energy Committee with professional staff assistance in connection with its annual authorization legislation for the Atomic Energy Commission.

Information on assignments of GAO staff to committees of the Congress during fiscal year 1971 is presented on page 22. This table has been prepared in accordance with the requirements of section 235(b) of the Legislative Reorganization Act of 1970. This section of the law requires including in this report names of employees assigned or detailed to congressional committees, period of such assignments, and related cost data.

### **Assistance in Legal and Legislative Matters**

Numerous requests were received from committee chairmen and individual Members for advice and assistance on legal and legislative matters. Legal opinions were rendered to chairmen and Members on significant issues, while GAO attorneys on several hundred occasions responded informally to questions raised by staffs of committees and Members. Some of the forms of assistance rendered in this area were: drafting of legislation; providing advice on the con-

tractual, fiscal, and administrative aspects of laws and legislative proposals; and commenting on related agency regulations. Frequently, the legal questions upon which the Comptroller General was asked to rule were closely related to fundamental issues involving the proper roles of the legislative and executive branches.

A legal opinion of the Comptroller General was issued on February 23, 1971, at the request of the chairman of the House Merchant Marine and Fisheries Committee, concerning the authority of the Department of Health, Education, and Welfare to close Public Health Service (PHS) hospitals and clinics throughout the country. After a thorough review of legislation dating back to 1789, the Comptroller General, affirming an earlier GAO opinion, ruled in substance that HEW was without statutory authority to effect the closing of all PHS hospital facilities either outright or by means of the transfer of these institutions to non-Federal ownership.

In one of two opinions issued at the request of a Member of Congress, GAO determined that the presidential decision to terminate construction of the cross-Florida barge canal did not involve the validity of an obligation or expenditure, or the proper accounting for receipts, but did involve the legal authority of the President to impound funds appropriated by the Congress. It was therefore held that GAO's jurisdiction did not extend to making an authoritative determination on the question of whether the President is legally required to obligate and spend funds appropriated for the construction of the barge canal. In the second opinion, the Comptroller General's earlier opinion concerning the proposed closing of Public Health Service hospitals was shown to be clearly and precisely different from the canal situation.

On December 29, 1970, the Comptroller General rendered an advisory legal opinion on a complex appropriations question involving the trust fund established by Public Law 91-258, the Airport and Airway Development Act of 1970. Advice had been requested by a number of Members of Congress. Several bills, including H.R. 7072 and S. 1437, were subsequently introduced for the purpose of making the intent of the Congress clear and precise concerning utilization of the trust fund.

Another congressional inquiry resulted in an opinion by the Comptroller General that the waiver authority of the Secretary of Health, Education, and Welfare under section 1115 of the Social Security Act

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SUMMARY OF ASSIGNMENTS OF PERSONNEL TO CONGRESSIONAL COMMITTEES—FISCAL YEAR 1971

Committee	Length of assignment		Salary	Travel expenses	Other expenses <sup>1</sup>	Total cost
	From	To				
<b>Senate</b>						
Committee on Armed Services:						
Subcommittee on Preparedness Investigation:						
Foster, George H., Jr.	3-17-69	11-28-70	<sup>3</sup> \$9,824		\$835	\$10,659
Littleton, David A.	3-19-69	12-31-70	<sup>3</sup> 10,307		876	11,183
Committee on Commerce:						
Schremp, Robert A.	7- 7-70	12-30-70	<sup>3</sup> 11,548		982	12,530
Committee on Government Operations:						
Permanent Subcommittee on Investigations:						
Allen, Robert E. <sup>2</sup>	12-14-70	6-30-71	6,276		533	6,809
Balaban, Jack <sup>2</sup>	12-16-59	6-30-71	20,828	\$2,245	1,770	24,843
Balach, William J. <sup>2</sup>	1-25-71	6-30-71	4,601	122	391	5,114
Barbieri, Robert A.	7-15-70	6- 4-71	15,188	10	1,291	16,489
Bridges, Larry J.	5-27-71	6-30-71	692	385	59	1,136
Brooks, Willaim D.	1-25-71	4-23-71	2,792		237	3,029
Catalano, Joseph S.	7-28-70	12-31-70	4,031		343	4,374
Dorpfeld, David C.	1-18-71	3-19-71	1,832		156	1,988
Dumont, Charles R. <sup>2</sup>	1-13-69	6-30-71	9,650	1,764	820	12,234
Dutton, Darryl W.	6-26-70	12-26-70	3,771	79	321	4,171
Farinella, Joseph.	8-17-70	6- 4-71	9,068	90	771	9,929
Frame, Maurice <sup>2</sup>	12-10-62	6-30-71	18,062	18	1,535	19,615
Freesland, J. William, Jr.	4-21-69	7-31-70	1,630		139	1,769
Gieck, William L.	1-25-71	4-23-71	3,147		267	3,414
Gordon, Joseph Y.	7-22-70	9-19-70	475		40	515
Harris, Daniel C.	6-17-70	7-17-70	504		43	547
Kennedy, Edward D.	8- 5-70	10-26-70	2,427		206	2,633
Kiessling, Linda <sup>2</sup>	10-29-69	6-30-71	9,777		831	10,608
Klotz, John J.	6-17-70	7-17-70	410		35	445
Ladd, Harley W.	9- 9-69	7-23-70	961		82	1,043
Lofaro, Anthony.	8-17-70	1-15-71	3,004	2	255	3,261
Messick, Lynn C. <sup>2</sup>	6- 5-62	6-30-71	16,309		1,386	17,695
Nunnally, Thomas E. <sup>2</sup>	3-24-61	6-30-71	25,796	3,398	2,193	31,387
Oldis, Thomas G.	7-17-70	10- 2-70	2,438	15	207	2,660
Perry, Jerry J.	6-17-70	7-17-70	566	136	48	750
Rashes, Bernard D.	11-16-70	6-18-71	5,812		494	6,306
Shevlin, Joseph J. <sup>2</sup>	4-16-62	6-30-71	18,552		1,577	20,129
Stern, James L.	1-25-71	4-23-71	2,288		194	2,482
Unger, Joseph <sup>2</sup>	{ 3-19-69	7-24-70	962		82	1,044
	{ 4- 8-71	6-30-71	4,792		407	5,199
Vigen, Gregory L.	6-26-70	11-20-70	3,215	57	273	3,545
Weiss, Lewis L. <sup>2</sup>	4-19-71	6-30-71	4,346		369	4,715
Yeager, James R.	1-18-71	3-19-71	1,255		107	1,362
Committee on the Judiciary:						
Subcommittee on Antitrust and Monopoly Legislation:						
Chervenak, Richard E.	8- 4-70	1-29-71	<sup>3</sup> 7,931	<sup>3</sup> 48	674	8,653
Subcommittee on Internal Security:						
Castonquay, Alson A.	1- 6-70	10- 9-70	<sup>3</sup> 3,790		322	4,112
Derkits, Robert F.	11- 3-69	10- 9-70	<sup>3</sup> 4,865		414	5,279
Committee on Labor and Public Welfare:						
Subcommittee on Labor:						
Anderson, Homer W. <sup>2</sup>	4-22-70	6-30-71	<sup>3</sup> 25,595		2,176	27,771
Bailor, Bernard S.	11- 9-70	1- 8-71	<sup>3</sup> 2,538		216	2,754
Elliott, Allen R. <sup>2</sup>	5-11-71	6-30-71	<sup>3</sup> 1,921		163	2,084

See footnotes at end of table.

## SUMMARY OF ASSIGNMENTS OF PERSONNEL TO CONGRESSIONAL COMMITTEES—FISCAL YEAR 1971—Continued

Committee	Length of assignment		Salary	Travel expenses	Other expenses <sup>1</sup>	Total cost
	From	To				
<b>Senate—Continued</b>						
Committee on Labor and Public Welfare—Continued						
Subcommittee on Labor—Continued						
Hatchell, Otis D., Jr. <sup>2</sup>	5-11-71	6-30-71	\$ 1,596		136	1,732
Hooper, Alan M.	4-22-70	10- 2-70	\$ 4,678		398	5,076
Kulanko, Andrew F.	3- 9-71	6-30-71	\$ 5,058		430	5,488
<b>House of Representatives</b>						
Committee on Appropriations:						
Surveys and Investigations Staff:						
Bedell, Warren F. <sup>2</sup>	1-29-70	6-30-71	21,335	\$2,717	1,814	25,866
Burgess, Edna R. <sup>2</sup>	10- 3-66	6-30-71	9,745		828	10,573
Carrigan, Francis P.	3-30-70	5- 7-71	14,364	\$ 2,225	1,221	17,810
Davis, Robert A. <sup>2</sup>	7-18-66	6-30-71	24,326	\$ 781	2,068	27,175
Doyal, Francis M.	8- 6-70	2-26-71	9,933	\$ 1,478	844	12,255
Gabriel, Anthony J. <sup>2</sup>	11- 2-70	6-30-71	13,626	\$ 1,323	1,158	16,107
Hallberg, Eric L.	3-24-70	3-19-71	12,724	\$ 6,908	1,082	20,714
Luty, Edward F.	2-16-70	5-20-71	13,044	\$ 8,584	1,109	22,737
May, Frances	6- 6-65	7-31-70	883		75	958
Zeunges, Theodore F.	7- 7-69	3- 1-71	9,875	\$ 1,510	839	12,224
Committee on Armed Services:						
Special Subcommittee for Special Investigations:						
Lewis, Ernest E., Jr. <sup>2</sup>	8- 6-70	6-30-71	15,586		1,325	16,911
McArter, Robert J.	7-28-69	9- 4-70	3,625		308	3,933
Thoms, Edward R.	9- 2-69	8- 7-70	1,985		169	2,154
Underwood, Warren C. <sup>2</sup>	9- 4-70	6-30-71	9,853		837	10,690
Committee on Banking and Currency:						
Campbell, Wayne	4-12-71	5- 7-71	760		65	825
Cohen, Raymond <sup>2</sup>	7- 8-70	6-30-71	16,979	172	1,443	18,594
Fisher, David	12-23-70	3-26-71	2,769		235	3,004
Godwin, Wayne	11-13-70	12-21-70	1,021		87	1,108
Kunzler, John A. <sup>2</sup>	11- 9-70	6-30-71	6,639		564	7,203
Morgan, Ronald G.	6-29-70	7-31-70	1,419		121	1,540
Committee on Government Operations:						
Bittman, Thomas C. <sup>2</sup>	2-16-71	6-30-71	4,149		353	4,502
Stats, Charles H.	1- 4-71	1-18-71	393		33	426
Subcommittee on Foreign Operations and Government Information:						
Moser, Dale E. <sup>2</sup>	6- 8-70	6-30-71	18,459		1,569	20,028
Subcommittee on Intergovernmental Relations:						
Gibson, Mary Jo	7- 7-69	1-30-71	10,533		895	11,428
Zlamal, Charles E. <sup>2</sup>	7- 7-69	6-30-71	17,127		1,456	18,583
Subcommittee on Legal and Monetary Affairs:						
Lynch, William C. <sup>2</sup>	6- 7-71	6-30-71	1,305		111	1,416
Subcommittee on Special Studies:						
Benchoff, Harry E., Jr.	5-11-70	7-10-70	516		44	560
Cordyack, John E.	8-31-70	10-30-70	1,811		154	1,965
Hooper, Alan M. <sup>2</sup>	6- 2-71	6-30-71	1,578		134	1,712
Hopkins, Joseph J.	8-10-70	10-30-70	3,494	1,439	297	5,230
Marten, Charles B., Jr.	5-11-70	7- 9-70	320		27	347
Shiplett, Dennis D.	8-31-70	10-30-70	1,825		155	1,980
Walter, George L.	7- 7-70	3-25-71	13,554	871	1,152	15,577

See footnotes at end of table.

ASSISTANCE TO THE CONGRESS

SUMMARY OF ASSIGNMENTS OF PERSONNEL TO CONGRESSIONAL COMMITTEES—FISCAL YEAR 1971—Continued

Committee	Length of assignment		Salary	Travel expenses	Other expenses <sup>1</sup>	Total cost
	From	To				
<b>House of Representatives—Continued</b>						
Committee on Interstate and Foreign Commerce:						
Balakos, John N. <sup>2</sup>	4- 5-71	6-30-71	\$4, 591		\$390	\$4, 981
Gadsby, J. William <sup>2</sup>	4- 5-71	6-30-71	5, 045		429	5, 474
Special Subcommittee on Investigations:						
Anklewich, Thomas B.	7-20-70	8- 6-70	133	\$4	11	148
Frei, Harold J.	3-23-70	3- 5-71	14, 994		1, 274	16, 268
Maranto, Joseph A.	3-23-70	3- 5-71	11, 631		989	12, 620
Williams, Dean C.	7-20-70	8- 6-70	581	3	49	633
Subcommittee on Commerce and Finance:						
Canter, Robert J. <sup>2</sup>	9-22-69	6-30-71	15, 134		1, 286	16, 420
Committee on Merchant Marine and Fisheries:						
Subcommittee on Fisheries and Wildlife Conservation:						
Geist, Harvey	5- 1-70	1-20-71	14, 390		1, 223	15, 613
Committee on Post Office and Civil Service:						
Subcommittee on Manpower and Civil Service:						
Hugler, Edward T. <sup>2</sup>	2-19-68	6-30-71	24, 326	16	2, 068	26, 410
Metz, Thomas <sup>2</sup>	6-21-71	6-30-71	583		50	633
Stoner, Merle M. <sup>2</sup>	3- 2-70	6-30-71	22, 971		1, 953	24, 924
Select Committee on Crime:						
Hooper, Alan M.	10- 7-70	2-26-71	7, 917		673	8, 590
House Office Building Commission:						
Medoff, Mamie <sup>2</sup>	10-20-69	6-30-71	10, 308		876	11, 184
<b>Joint</b>						
Committee on Atomic Energy:						
Sperry, Roger L. <sup>2</sup>	1-12-70	7-31-70	1, 533		130	1, 663
	1-18-71	6-30-71	9, 850		837	10, 687
Total			\$704, 650	\$36, 400	\$59, 894	\$800, 944

<sup>1</sup> These amounts, which are 8.5 percent of the salary costs, include the Government's estimated share for personnel benefits payable to the Civil Service Commission for the (1) Life Insurance Fund, (2) Retirement Fund, and

(3) Health Benefits Program.

<sup>2</sup> This individual's assignment continued after June 30, 1971.

<sup>3</sup> This cost was reimbursed by the committee or subcommittee concerned.

is not utilized illegally when exercised on a State-wide basis in connection with demonstration, pilot, and experimental projects in the welfare area. However, other legal questions were reserved for future consideration upon the receipt of information from HEW.

Other legal opinions issued to Members of Congress at their request involved topics such as the authority of the General Services Administration to acquire the Willard Hotel in Washington, D.C., in a trade for a portion of Miller Airfield on Staten Island, N.Y., and a series of questions growing out of the debate over the termination of the supersonic transport program, including whether or not the Government had any

legal obligation to reimburse airline companies for money advanced by them in connection with the development of the SST.

**Testimony at Hearings**

One of the most positive and direct methods available to GAO for effectively assisting the Congress in its oversight and legislative responsibilities consists of appearances before congressional committees to present views on legislative proposals and to furnish information concerning the results of GAO's reviews. This year

the Comptroller General, the Deputy Comptroller General, and other representatives of the Office testified before committees on 30 occasions. The wide variety of subjects covered during the course of the year is indicated by the list of appearances included below.

Special note should be taken concerning several of the subjects discussed during congressional testimony. For example, three of the appearances dealt with proposals to amend the Export-Import Bank Act: the Senate Committee on Banking and Currency held the first hearing on September 17, 1970; the second hearing took place on March 9, 1971, before the Senate Committee on Banking, Housing, and Urban Affairs; and the final hearing was held on May 20, 1971, by the Subcommittee on International Trade of the House Committee on Banking and Currency.

There were two hearings at which GAO representatives testified concerning the legal authority of the Department of Health, Education, and Welfare (HEW) to cease its operation of the Public Health Service hospital system. The first appearance was before the Health Subcommittee of the Senate Labor and Public Welfare Committee on March 8, 1971. Two days later, GAO officials discussed the same subject before the House Interstate and Foreign Commerce Committee's Subcommittee on Public Health and Welfare.

GAO testified on other matters of special importance to the Congress and its committees, including impoundment of appropriated funds by the executive branch, before the Subcommittee on Separation of Powers, Senate Judiciary Committee; Federal Government water pollution control activities, before the House Public Works Committee; military procurement matters including defense contractor profits, the status of major weapons acquisitions, and the making of "should cost" reviews, before the Subcommittee on Priorities and Economy in Government, Joint Economic Committee; and the administration's bill to establish a system of general revenue sharing, before the House Ways and Means Committee.

Representatives of GAO also presented statements on two matters relating to legislative branch operations. In testimony before the House Committee on Standards of Official Conduct, GAO gave its views on the proposed Legislative Activities Disclosure Act, which would vest in the Comptroller General the responsibility for administering rules and regulations regarding the disclosure and reporting of lobbying activities. GAO also testified before the newly established Joint Committee on Congressional Operations on the proposal to conform the Government's fiscal year to the calendar year.

The complete list of appearances follows.

**APPEARANCES BY GENERAL ACCOUNTING OFFICE REPRESENTATIVES AT CONGRESSIONAL HEARINGS DURING FISCAL YEAR 1971**

Committee	Date	Subject
<b>Senate</b>		
Finance.	Aug. 18, 1970	H. R. 16311, the Family Assistance Act of 1970.
Banking and Currency: Subcommittee on International Finance.	Sept. 17, 1970	S. 4268, to amend the Export-Import Bank Act to facilitate greater expansion of U.S. export trade.
Appropriations: Subcommittee on Legislative.	Nov. 24, 1970	Budget estimates for fiscal year 1971 for the Cost Accounting Standards Board.
Small Business: Subcommittee on Monopoly.	Jan. 19, 1971	Drug procurement systems of Federal agencies.
Labor and Public Welfare: Subcommittee on Health.	Mar. 8, 1971	S. Con. Res. 6, the proposed closing of Public Health Service hospitals by HEW.
Banking, Housing, and Urban Affairs.	Mar. 9, 1971	S. 19 and S. 581, to amend the Export-Import Act of 1945, as amended, to allow for greater expansion of U.S. export trade and to exclude Export-Import Bank receipts and disbursements from the budget.
Judiciary: Subcommittee on Separation of Powers.	Mar. 25, 1971	Impoundment of funds by the executive branch.

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**APPEARANCES BY GENERAL ACCOUNTING OFFICE REPRESENTATIVES AT CONGRESSIONAL HEARINGS DURING  
FISCAL YEAR 1971—Continued**

Committee	Date	Subject
<b>Senate—Continued</b>		
Appropriations: Subcommittee on District of Columbia.	Apr. 19, 1971	Proposed legislation concerning the financing of capital improvement programs in the District of Columbia.
Appropriations: Subcommittee on District of Columbia.	Apr. 19, 1971	District of Columbia accounting systems.
Appropriations: Subcommittee on Legislative.	June 7, 1971	GAO budget justifications for fiscal year 1972.
Appropriations: Subcommittee on Foreign Operations.	June 24, 1971	Military assistance access to records problems.
<b>House of Representatives</b>		
Banking and Currency.	July 1, 1970	H.R. 18236, to amend the Inter-American Development Bank Act to authorize U.S. participation in increases in the authorized capital stock and resources of the Fund for Special Operations of the Inter-American Development Bank.
House Administration: Subcommittee on Library and Memorials.	July 23, 1970	GAO's audit work at the Smithsonian Institution.
Government Operations: Subcommittee on Special Studies.	Aug. 6, 1970	H.R. 13769, to include the District of Columbia in the provisions of the act of June 29, 1966, relating to accounting adjustment or reimbursement between appropriations available to departments, bureaus, etc.
Appropriations: Subcommittee on Legislative.	Sept. 24, 1970	Budget estimates for fiscal year 1971 for the Cost Accounting Standards Board.
Merchant Marine and Fisheries.	Mar. 9, 1971	Military procurement of all surface transportation.
Interstate and Foreign Commerce: Subcommittee on Public Health and Welfare.	Mar. 10, 1971	H. Con. Res. 98, the proposed closing of Public Health Service hospitals by HEW.
Standards of Official Conduct.	Mar. 16, 1971	H.R. 5259, the proposed Legislative Activities Disclosure Act.
Post Office and Civil Service.	Mar. 18, 1971	Briefing on functions and activities of the GAO.
Government Operations: Subcommittee on Legislation and Military Operations.	Mar. 26, 1971	Defense Industry Profit Study.
Appropriations: Subcommittee on Legislative.	Mar. 30, 1971	GAO budget justification for fiscal year 1972.
Education and Labor: Special Subcommittee on Labor.	Apr. 2, 1971	Wage rates determined by the Department of Labor on mail hauling services under the Service Contract Act of 1965.
Banking and Currency: Subcommittee on International Trade.	May 20, 1971	H.R. 5846, to amend the Export-Import Bank Act of 1945, as amended, to allow for greater expansion of U.S. export trade and to exclude Export-Import Bank receipts and disbursements from the U.S. budget.
Public Works.	May 25, 1971	GAO reviews of the Federal water pollution control program.
Government Operations: Subcommittee on Special Studies.	June 8, 1971	H.R. 3644, accounting procedures for the District of Columbia.
Ways and Means.	June 24, 1971	H.R. 4187, the General Revenue Sharing Act of 1971.

APPEARANCES BY GENERAL ACCOUNTING OFFICE REPRESENTATIVES AT CONGRESSIONAL HEARINGS DURING FISCAL YEAR 1971—Continued

Committee	Date	Subject
<b>Joint</b>		
Economic: Subcommittee on Economy in Government.	July 1, 1970	Inventory practices relating to Government-owned ADP equipment and the need for procurement specifications which will afford free and full competition to all qualified potential bidders.
Economic: Subcommittee on Economy in Government.	Jan. 4, 1971	Assistance which contributes to the military capability of foreign countries.
Economic: Subcommittee on Priorities and Economy in Government.	Apr. 29, 1971	Acquisition of weapon systems.
Congressional Operations.	June 21, 1971	Proposal to establish the calendar year as the fiscal year for the U.S. Government.

**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 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.

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

- Joint Committee on Atomic Energy (expenditures)
- Senate Office Beauty Shop
- Senate Employees Barber Shop
- Senate Recording Studio Revolving Fund
- House Recording Studio Revolving Fund
- House Stationery Revolving Fund
- House Office Equipment Service
- House Finance Office

In the last quarter of fiscal year 1971, the GAO staff at the Capitol was expanded considerably to comply with the request of the chairman, Committee on House Administration, to conduct cost studies and assist in

implementing improvements in the operation of the House restaurant. Cost studies were made in the Senate restaurant pursuant to the request of the Subcommittee on Restaurants, Committee on Rules and Administration, U.S. Senate.

**Recommendations for Legislation**

The Comptroller General is required by the Budget and Accounting Act, 1921, to make recommendations to the Congress "looking to greater economy and efficiency in public expenditures." In the course of each audit or examination, GAO carefully considers the need for corrective legislative action. Whenever it appears that legislation is required or desirable, recommendations to the Congress are included in GAO's reports. In some cases, however, GAO may suggest that the agency concerned initiate legislative action. Additionally, as part of its legislative program GAO brings proposals to the attention of the committee having jurisdiction over the subject in order to obtain legislative action either in the form recommended by GAO or as modified by the committee upon further study.

A discussion of these legislative recommendations follows.

**Recommendations to the Congress During Fiscal Year 1971**

1. *Reports to the Congress on nonadvertised military construction contract awards.*—Under the military construction authorization acts, the military depart-

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ments are required to report to the Congress all non-advertised (negotiated) military construction contract awards. The fiscal year 1968 reports listed 110 non-advertised contract awards, totaling \$91 million, and indicated that about 91 percent of the amount of military construction contracted for in that year had been advertised. GAO found that the reports did not include most of the nonadvertised military construction contract awards for work overseas and identified 125 awards of this type: 100, totaling \$184 million, in Southeast Asia; and 25, totaling \$7 million, in the Republic of Germany. Inclusion of these overseas awards would have shown the proportion of advertised contract amounts in fiscal year 1968 to be 72 percent rather than 91 percent.

In response to GAO's findings, the Department of Defense stated that other means had been used to keep the Congress informed of the overseas awards. The Department, however, concurred in the suggestion that such awards be included in the reports and cited new instructions that had been put into effect to insure proper reporting in the future.

GAO noted also that DOD was not required to report to the Congress nonadvertised construction contract awards financed with other than the military construction appropriations. GAO identified nonadvertised military construction contract awards of \$98 million in fiscal year 1968 that had been funded from other appropriations—principally procurement appropriations. GAO had found also, in an earlier review, that subcontracts for construction had been awarded by prime contractors holding negotiated defense contracts for research and development and for production of materiel. Since the requirement to report nonadvertised military construction contract awards does not extend to contracts financed from other than the military construction appropriations and in view of the substantial amounts involved, GAO suggested that the Congress might wish to consider requiring the Department of Defense to broaden its reporting to include these contracts. (Survey of the Use of Advertised Contracting in Military Construction, B-133316, Aug. 18, 1970.)

2. *Application of "should cost" concepts in reviews of contractors' operations.*—At the request of the Joint Economic Committee, through its Subcommittee on Priorities and Economy in Government, GAO made a study in the preceding year of the feasibility of applying "should cost" analyses in its audits and reviews of Government procurement and concluded that appli-

cation of such analyses was feasible. The committee defined the "should cost" approach as an attempt to determine the amount that a weapon system or a product ought to cost given attainable efficiency and economy of operation.

Subsequently GAO made a trial application of the "should cost" concepts at plants of four contractors. At each of the plants GAO found areas where the contractors' operations could be improved and cost could be reduced through such things as better production planning and control, more competition in subcontracting, and greater care to avoid assigning engineers of higher competence than required by the nature of the work to be performed. GAO noted also areas where the Government could improve its practices and reduce costs through consolidation of procurements and through elimination of unnecessary requirements for packaging and for testing.

The findings and suggestions for improvements were brought to the attention of officials of the contractors and the Department of Defense. The potential for total savings which could accrue from the findings and suggestions was not readily measurable. In those instances where savings were measurable, GAO estimated the potential savings to be almost \$6 million annually.

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

3. *Tours of duty for managers of major research and development projects.*—The Army was not effectively implementing existing policy and regulations that project managers of major research and development projects serve a tour of duty of at least 3 years (the time considered essential for such critical positions). Most of the project managers had served less than 2 years. Most had been reassigned, and some had retired, before completing a 3-year tour of duty. Overlapping tours of duty—which provide continuity of leadership and expertise and reduce the need for acting project managers—were almost nonexistent.

Although project managers may be either military officers or civilians of comparable grade, the Army had not given sufficient consideration to the use of civilian

personnel in filling these positions. All project managers have been military officers who are subject to high turnover through reassignment or retirement. The Army believed it preferable to fill project manager positions with military officers on the basis that they possess the breadth of experience in the military art to give them an understanding of the problems faced by the Army in the field. GAO pointed out that this expertise could be provided by military personnel not necessarily assigned as project managers and suggested that the Congress might wish to urge the Department of Defense to use civilians in these positions to a greater extent to avoid the problems encountered in the use of military personnel. (High Turnover of Managers Directing Major Research and Development Projects, B-167412, Aug. 31, 1970.)

4. *Full-time graduate education programs for military officers.*—A memorandum issued by the Joint Chiefs of Staff in 1964 established criteria for determining graduate education requirements for military officer positions. During fiscal year 1969, over 4,200 officers were enrolled in full-time graduate education programs at an estimated cost of at least \$70 million.

GAO noted that the criteria for identifying military officer positions requiring graduate education, and the ways in which the criteria were applied, were so broad and permissive that almost any officer position could be certified as requiring such education. Positions were certified as requiring graduate education although the need for such education had not been established; there were inconsistencies between the official job descriptions and the job descriptions submitted for certification of graduate education requirements; and certifications were requested and approved without adequate consideration of available alternatives to meet requirements of the positions. Furthermore, many officers with graduate education were not assigned to positions requiring their specialized education.

In response to GAO's findings and its suggestions that the objectives of the graduate education program be clarified and that the existing criteria be revised to limit the broad, permissive interpretations, the Department of Defense contended that GAO had failed to take into account the intangible accepted values and benefits of graduate education. In view of this position, and the announced plans of the military services to expand the program, GAO suggested that the Congress might wish to consider limiting the full-time, fully funded, graduate-level education program to those positions for which such education is essential for the

satisfactory performance of duty and to those officers who can be used primarily in the positions. (Improvements Needed in Determining Graduate Education Requirements for Military Officer Positions, B-165558, Aug. 28, 1970.)

5. *Need for guidance on the use of motorized equipment in wilderness and similar areas.*—The Forest Service, Department of Agriculture, has imposed severe limitations on the use of motorized equipment by its employees in managing about 14 million acres of wilderness and similar areas. These restrictions have resulted in additional costs and have created problems in protecting and preserving the areas. The \$100 million estimated cost of planned construction and reconstruction of 18,000 miles of trails in three Forest Service regions could be reduced, possibly by one-half, by using a small trail machine especially designed for such work. The Forest Service, however, restricts the use of such machines. The National Park Service, Department of the Interior, also could realize significant savings by using the trail machines in areas it manages under the wilderness concept.

The Forest Service has also placed restrictions on using power saws for maintaining trails; helicopters for removing accumulated trash and litter, transporting equipment and materials for constructing trail bridges, and inspecting and repairing reservoirs; and compacting equipment for repairing reservoirs.

GAO recognizes that the use of motorized equipment is not compatible with an ideal wilderness concept but believes that the construction of trails, bridges, and other facilities and the presence of litter left in the areas by users are also not compatible. GAO believes that, once decisions have been made to construct such facilities and dispose of accumulated litter, economy and convenience should be considered, along with other factors, in deciding when to use motorized equipment. Because the Forest Service and the National Park Service believed that their restrictions were consistent with the intent of the Wilderness Act of 1964, GAO recommended that the Congress give consideration to providing further guidance on the use of motorized equipment in these areas. (Problems Related to Restricting the Use of Motorized Equipment in Wilderness and Similar Areas, B-125053, Oct. 29, 1970.)

6. *Financing the Teacher Corps program.*—Beginning in 1969, members of the Teacher Corps participating in the program in western North Carolina were assigned to State or locally allotted teaching positions. According to program officials, these corps members

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supplanted teachers who would have otherwise been hired by the local educational agencies. This practice is not authorized by the enabling legislation which states, in part, that no member of the Teacher Corps shall be used to replace any teacher who is or would otherwise be employed by a local educational agency.

Although the practice was not authorized, the State and local funds that would have been expended for regular teacher salaries were used for corps members' salaries and related benefits. As a result, State and local funding of the Western Carolina program increased from about 10 percent to about 70 percent, thus decreasing the amount of Federal funds needed to operate the program. Since this funding procedure is being used at other locations and may provide local educational agencies with the impetus to continue successful features of a Teacher Corps program after Federal funding ceases, GAO suggested that the Congress might wish to consider whether the legislation should be amended to authorize such arrangements. (Assessment of the Teacher Corps Program at Western Carolina University and Participating Schools in North Carolina, B-164031(1), May 20, 1971.)

7. *Establishment of an appropriate minimum rental rate for occupancy of federally subsidized housing.*—The Department of Housing and Urban Development (HUD) had not established a minimum rental rate for occupancy of the federally subsidized housing project provided under section 221 of the National Housing Act, although other housing programs more recently enacted by the Congress require a minimum contribution. Under section 221, HUD finances multifamily housing for low- and moderate-income families at low interest rates. The minimum contribution required under the rental housing assistance program (authorized by section 236 of the National Housing Act, as amended) and under the rent supplement program (authorized by the Housing and Urban Development Act of 1965), both of which are generally directed toward families of lower income than those of the section 221 program, is 25 percent of family income.

GAO stated that it believed that it is inequitable for HUD to provide section 221 housing assistance without requiring a minimum percentage-of-income contribution when the Congress has deemed a minimum contribution appropriate for assistance under programs for generally lower income families.

The Secretary of HUD expressed the view that although there had been ample opportunities since the enactment of the section 221 below-market-interest-

rate program in 1961, Congress had chosen not to amend the legislation to include such a requirement. In view of the large percentage of families that were contributing less than 25 percent of their income for section 221 housing, GAO suggested that the Congress might wish to consider whether HUD should establish an appropriate percentage-of-income contribution as the minimum rent to be required. (Tighter Control Needed on Occupancy of Federally Subsidized Housing, B-114860, Jan. 20, 1971.)

8. *Limited progress in highway program to increase the accessibility to and through Appalachia.*—In a review made to determine whether the highway system being constructed to promote the economic development of the Appalachian region was achieving its objective, GAO found that the Appalachian Regional Commission, created by the Appalachian Regional Development Act of 1965, had not established construction priorities directed toward achieving the greatest contribution at the earliest time nor had it determined whether priorities established by the States were directed toward that end.

GAO believed that an opportunity still existed for the Commissioner to give priority to projects that would contribute most toward improving accessibility to and through the region. Inasmuch as the Commission disagreed with GAO's conclusions, GAO suggested that the Congress might wish to consider requiring the Commission to allocate remaining funds toward that end. (Highway Program Shows Limited Progress Toward Increasing Accessibility to and Through Appalachia, B-164497(3), May 12, 1971.)

9. *Problems in controlling industrial water pollution.*—Because of (1) the increasing public concern and congressional interest in the problem of water pollution and (2) the significance of industry's contribution to the problem, GAO examined into the progress made and the problems encountered in reducing pollution caused by industrial waste discharges.

Wide variances were found in the levels of financing and staffing of State water pollution control agencies. Where State agencies lacked sufficient staff, personnel spent much time reviewing and approving plans for the construction of waste treatment plants but did not perform other important activities, such as plant visits and water quality monitoring.

Enforcement action by the Environmental Protection Agency (EPA) (formerly the Federal Water Quality Administration) had been hindered by a lack of authority (1) to enforce specific effluent restric-

tions, (2) to enforce dates set for implementing abatement measures without also having to show a violation of water quality standards or danger to health and welfare—a procedure which could be costly and time consuming, and (3) to move against all polluters on a waterway. EPA could move only when pollutants crossed a State boundary, when the Governor consented in cases of intra-State pollution, or when substantial economic injury resulted from the inability to market shellfish.

The five States included in GAO's review generally required polluters to provide secondary treatment or its equivalent. The requirement was due, at least in part, to encouragement from EPA. Secondary treatment may not always be necessary, however, to achieve desired water uses. A requirement for such treatment can result in additional capital expenditures and operating costs without increasing water uses.

GAO recommended that the Secretary of the Interior encourage the States to strengthen their staffs; develop, in cooperation with the States, an inventory of industrial sources of pollution; obtain data on trends in water quality and on progress being made by industry in meeting target dates for the construction of abatement facilities; and provide additional guidance to EPA regional personnel on enforcement procedures. GAO recommended also that the Congress consider these matters during its deliberations on proposed water pollution control legislation.

In addition, GAO recommended that the Congress consider whether applicants for Federal grants should be required to provide secondary treatment even in those cases where less than secondary treatment would result in meeting water quality standards established by the States and approved by the Federal Government. The EPA had proposed to amend the Federal regulations to require all applicants for Federal assistance in the cost of constructing waste treatment facilities to provide secondary treatment. (Controlling Industrial Water Pollution—Progress and Problems, B-166506, Dec. 2, 1970.)

10. *Multiyear leasing of the Government's automatic data processing (ADP) equipment through the ADP fund.*—The General Services Administration (GSA) has an ADP fund to assist in carrying out its responsibilities for the efficient and economical acquisition of general-purpose ADP equipment. The Government obtains most of its equipment through purchases or short-term rentals.

Multiyear leasing is a more economical alternative than short-term renting when funds to purchase ADP equipment are not available. In many cases, however, agencies are precluded by law from entering into multiyear leases because their funds are available for obligation for 1 year only. The Government's revolving funds, such as the ADP fund, can generally be used for multiyear leases, but the law requires that obligations be established to cover anticipated payments for the entire period of the leases.

Because of the substantial savings that can be achieved through multiyear leasing rather than short-term renting, GAO recommended that the Congress consider legislation authorizing GSA to contract through the ADP fund on a multiyear basis without the necessity of obligating the total anticipated payments at the time of entering into leases. (Multiyear Leasing and Government-wide Purchasing of Automatic Data Processing Equipment Should Result in Significant Savings, B-115369, Apr. 30, 1971.)

11. *Changes to engineering building after authorization by the Congress.*—In a report to the chairman, Senate Committee on Aeronautical and Space Sciences, GAO noted that a building under construction at the National Aeronautics and Space Administration's (NASA) Manned Spacecraft Center was substantially different in function, program application, and cost from the one NASA described and justified to the Congress.

The building authorized by the Congress was to be an office building for employees of the Manned Space Flight Program and was estimated to cost about \$2.6 million not including equipment. The building under construction will cost \$2.4 million plus about \$14.8 million for laboratory equipment and will provide primarily laboratory space for employees of the Earth Resources Survey Program.

Neither the Congress nor its committees had been notified of the change; however, since the engineering building was not identified as a specific item in the NASA authorization act, there is no legal basis to question NASA's redesigning the building to provide laboratory space instead of office space.

GAO stated that the committee might wish to consider identifying in NASA's authorization acts, the specific projects to be constructed with appropriated funds. This identification would restrict the availability of funds appropriated under the construction of facilities appropriations to the projects and amounts identified in the authorization acts.

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In the 1972 fiscal year authorization for NASA, bill H.R. 7109 reported out by the committee identified the specific projects to be constructed with appropriated funds. On June 29, 1971, the Senate passed the authorization bill which also included the identification of the projects. (Building Authorized To Provide Office Space at Manned Spacecraft Center Redesigned To Provide Laboratory Space, B-165118, Mar. 29, 1971.)

12. *Need for consistent Government policy for cost sharing by institutions in federally financed research.*—Appropriation acts for fiscal year 1970 covering the major research agencies variously (1) make no provision for cost sharing, (2) require cost sharing on grants only, or (3) require cost sharing on both grants and contracts except for research specifically solicited by the Government.

The three different statutory policies governing cost sharing in federally financed research are in direct conflict with the concept of a consistent policy of cost sharing which GAO believes is both feasible and desirable for Federal research agencies and which was advocated in Senate Report 91-521.

GAO recommended that the Congress consider legislation to prescribe a consistent Government policy for cost sharing in federally financed research for all Federal agencies. At the request of the Subcommittee on Intergovernmental Relations, Senate Government Operations Committee, GAO submitted a draft bill to establish such a policy. (Management of Federally Financed Research by the University of Michigan—A Case Study, B-117219, Sept. 25, 1970.)

13. *Federal assistance for presidential transitions.*—After researching the historical background and reviewing the current application of the Presidential Transition Act of 1963 and the Former Presidents Act of 1958, GAO concluded that the amounts and/or period of availability of appropriations authorized by these two laws did not appear to be adequate to carry out the objectives of the laws.

The Congress appropriated \$900,000 to finance the 1968-69 transition between the incoming and outgoing administrations. Although the transition act is silent on the matter of the division of the funds between the administrations, the legislative history reflects an expectation that they be divided equally. This was done in the case of the 1968-69 transition. GAO believes that the \$450,000 in Federal funds made available to the incoming administration was clearly inadequate in light of the \$1.5 million estimated to have been spent to defray its expenses.

GAO believes also that, on the basis of experience gained from the last transition, an extension of the period of availability of transition funds to the former President and the former Vice President beyond the 6 months set by the Presidential Transition Act is desirable.

Also, it seems reasonable to GAO (1) that an increase in salary for persons on the Executive Schedule would warrant, at the same time, a corresponding increase in the overall limitation in the Former Presidents Act on the compensation of persons employed by a former President under the act, or (2) that the limitation could be safely eliminated.

In reporting to the Congress on its review, GAO suggested that the Congress might wish to consider (1) the desirability of increasing the amount of funds authorized under the Presidential Transition Act for the incoming President and Vice President, (2) the need for an extension of the time during which Presidential Transition Act funds are available to the former President and Vice President, and (3) the need to amend the Former Presidents Act to provide for adjustment or elimination of the overall limitation on the compensation of the former President's staff, in line with pay raises in general. (Federal Assistance for Presidential Transitions, B-149372 and B-158195, Nov. 16, 1970.)

14. *Need to provide more complete information on the overall impact of and prospects for foreign assistance to individual countries.*—GAO reviewed and reported to the Congress its findings and conclusions regarding the results of 10 years of U.S. assistance to Honduras. Comparisons were drawn between progress achieved and program objectives. As a result of experience with this review, GAO suggested that Congress might wish to consider:

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

Whether congressional action might be desirable for facilitating the development of improved models and other analytical tools to better measure, with

greater objectivity and accuracy, the impact of U.S. assistance programs on a recipient's rate of development.

(Administration and Effectiveness of U.S. Economic and Military Aid to Honduras [Secret], B-169521, Dec. 3, 1970.)

15. *Need for improved evaluation of the results of the military assistance training program.*—At the request of the chairman, Senate Committee on Foreign Relations, GAO performed a detailed study of the military assistance training program. Several potential areas of improvement in administration of the program were identified. GAO also found that it was difficult to assess the degree to which U.S. military assistance training had increased the effectiveness of forces in the recipient countries. The reason for such difficulty was the lack of established measurement criteria and of a system for periodically evaluating the program.

In addition to describing recommended action to be taken by the Secretaries of Defense and State, GAO stated in the report that the committees of the Congress might wish to consider the desirability of enacting legislation requiring the Secretary of Defense to establish a measurement system to assist in determining the effectiveness of expenditures for military assistance training programs. (Problems in Administration of the Military Assistance Training Program, B-163582, Feb. 16, 1971.)

16. *Means to reduce U.S. holdings of excess Indian rupees.*—GAO reported to the Congress that as of June 30, 1969, the United States had available for expenditure in India about \$678 million in Indian rupees and that American holdings of rupees are expected to increase substantially throughout the next 40 years. In summary, GAO found that important political, economic, and legal factors limit the amount of U.S.-owned rupees that the United States can spend in India during any period. Even so, considerably greater amounts than are now being spent could be beneficially used within the limitations. Administrative difficulties within the U.S. Government have also acted to restrain the level of excess currency spending.

GAO recommended that the Congress might wish to favorably consider foreign-currency denominated appropriations as an advantageous funding form and, with regard to the excessive accumulation of U.S.-owned foreign currencies in India, might wish to consider (1) whether a reduction in U.S.-owned rupees should be made to preserve good relations with India,

(2) whether executive action in this regard meets congressional desires, (3) whether legislative action should be taken concerning the U.S.-owned rupee balance in India, and (4) whether authority should be given to use non-Public Law 480 excess currency in India for grants without appropriations, as is already permitted for Public Law 480 excess currency. (Opportunities for Better Use of U.S.-Owned Excess Foreign Currency in India, B-146749, Jan. 29, 1971.)

### **Actions Taken by Congress on Recommendations Made in Prior Years**

1. *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 initiated at the discretion of the contractor without relation to any particular grant or contract. In some cases, however, the Government negotiates a general agreement with a contractor to establish a dollar ceiling on the cost of IR&D which the Government will bear. The policies of the Department of Defense (DOD) and the National Aeronautics and Space Administration (NASA) prescribed that IR&D costs would be subject to reimbursement even if not related to current or prospective Government work. By contrast, the Atomic Energy Commission (AEC) would allow IR&D expenses only if contract work was benefited. During 1968, the Government reimbursed major contractors about \$700 million in IR&D expenses, nearly all the reimbursement being made under DOD and NASA contracts.

GAO reviewed and reported to the Congress concerning several issues arising from the Government's sharing of IR&D costs. In its report, GAO set out several suggestions for legislative consideration:

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

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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.

In conjunction with setting a Government-wide policy regarding IR&D, GAO brought out several additional issues for consideration by the Congress:

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:

(1) Extending the use of direct research and development contracts to include those IR&D projects which the agency wishes to support fully 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

(2) 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.

During hearings in March 1970, the Senate and House Committees on Armed Services explored the

issues discussed by GAO. On October 7, 1970, the Armed Forces appropriation authorization for 1971 was approved as Public Law 91-441. Section 203 of that act imposed certain limitations on the payment by the Government to contractors for IR&D and bid and proposal costs. (Allowances for Independent Research and Development Costs in Negotiated Contracts—Issues and Alternatives, B-164912, Feb. 16, 1970.)

2. *Allocation of unfilled domestic sugar marketing quotas to other domestic areas.*—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 Sugar Act of 1948, as amended. The domestic marketings below authorized quotas occurred because of continuing, long-term deficits in the sugar production of Puerto Rico and the Virgin Islands. The act required that unfilled domestic quotas be allocated to foreign countries. GAO was informed, however, that other domestic areas could provide the unfilled quotas. Substantial benefits, including increased income for domestic sugar producers and reduced dollar outflow for sugar imports, could be achieved by allocating the unfilled quotas to other domestic sugar-producing areas rather than to foreign countries.

GAO recommended that the Congress in its extension of legislation—which expired on December 31, 1971—consider modifying the deficit allocation provisions of the act 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. Public Law 92-138, approved October 14, 1971, did not modify the deficit allocation provisions of the act specifically as recommended in the report, but it eliminated the 15,000-ton quota for the Virgin Islands, reduced the quota for Puerto Rico by 285,000 tons, and reallocated these reductions to the mainland cane sugar area. (Administration of Sugar Marketing Quotas Established by the Sugar Act of 1948, as amended, B-118622, Sept. 23, 1969.)

### Restatement of Prior Year Recommendations

1. *Production of weapons systems despite known deficiencies in essential components.*—The Army purchased quantities of the Sheridan—a tanklike 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 might wish to require that (1) a 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.

GAO findings in subsequent reviews of the development of major weapons, as presented in reports submitted to the Congress in fiscal year 1971 and discussed in Chapter Five (under the caption Research and Development, Major Weapons), tend to add weight to this suggestion. (Need for Management Improvement in Expediting Development of Major Weapon Systems Satisfactory for Combat Use, B-163058, Nov. 17, 1969.)

*2. 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 designated as emergency areas by the Secretary of Agriculture showed that 3-percent emergency loans had been made when substantial amounts of 5½-per-

cent Farmers Home Administration (FHA) operating loan funds were available. Section 321(a) of the Consolidated Farmers Home Administration Act of 1961 requires that, prior to designating a county for emergency loan assistance, a determination be made that a general need exists for agricultural credit which cannot be met from other sources, including FHA programs. No documentation was available to show that this determination had been made prior to designation of the 14 counties

The FHA contends that emergency area designations may be made before other available funds are exhausted and that the 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 and suggested, therefore, 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 on this matter, clarification of existing legislation is needed. (Policies and Procedures for Recommending Emergency Area Designations, B-114873, Mar. 24, 1969.)

*3. 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 might 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

## ASSISTANCE TO THE CONGRESS

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.)

4. *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 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's examination of 32 dredging contracts showed

that, based on its 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 was 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 are 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.)

5. *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 investment related to the transmission facilities of the Bonneville Power Administration.

Although recent changes by the Department and the Corps will result in significant improvements, 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.)

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 1965 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 would have had 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. *Leasing of Federal lands for development of oil and gas resources.*—Most of the leases awarded by the Bureau of Land Management, Department of the Interior, for the development of oil and gas resources on Federal lands have been granted on a noncompetitive basis and, in many cases, at prices less than their indicated fair market value. The lands are leased noncompetitively because of a statutory requirement that lands not located within the boundaries of a known geologic structure of a producing 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 obtain prices that more nearly approximate the lands' fair market value.

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

The Department of the Interior stated that of three alternatives it had considered for extending competitive bidding, it preferred the partially competitive systems. However, GAO believes that disposal of oil and gas rights on Federal lands should be based on the principle of a fair market return to the Government and that this objective can best be achieved under a competitive bidding system.

Accordingly, GAO suggested to the Congress that the Mineral Leasing Act be amended to (1) require that oil and gas leases on all Federal lands be awarded competitively unless otherwise justified and (2) increase the minimum acreage limitation applicable to the as-

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signment of the leases. (Opportunity for Benefits Through Increased Use of Competitive Bidding To Award Oil and Gas Leases on Federal Lands, B-118678, Mar. 17, 1970.)

8. *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-164844, Apr. 29, 1970.)

9. *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 Department of the Treasury 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 additional 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.)

10. *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 occurred, except that the Internal Revenue Service be authorized to establish a reasonable period after applications or claims are filed within which interest-free refunds may be made. This change would be consistent with current provisions which allow the Government an interest-free period within which to process ordinary refund payments. The Assistant Secretary of the Treasury for Tax Policy stated that the Treasury is prepared to support legislation to carry out 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.)

11. *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 Salary Costs of Retired Civil Service Annuitants Reemployed by Federal Agencies, B-130150, May 28, 1968.)

12. *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 Environmental Protection Agency (EPA) (formerly the Federal Water Quality Administration) 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.

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 for the construction of waste treatment plants that provide little benefit in terms of appreciably improving water quality or uses—GAO suggested that the Congress might wish to consider amending existing legislation to provide that priorities be established on the basis of benefits to be realized.

In addition, EPA has followed a policy of generally requiring secondary treatment facilities for inland waters. GAO recognized that the requirement of secondary treatment may be desirable as the ultimate objective; but, in view of the magnitude of the problem and the limited Federal funds available, GAO expressed the belief that, as an interim measure, consideration should be given to less than secondary treatment when such treatment would result in enhancing water quality or in attaining the States' water quality standards.

Since EPA disagreed with this position, GAO recommended that the Congress consider requiring EPA 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. (Examination into the Effectiveness of the Construction Grant Program for Abating, Controlling, and Preventing Water Pollution, B-166506, Nov. 3, 1969.)

13. *Clarification of statutory provisions regarding Federal grants awarded for constructing municipal*

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*waste treatment facilities which benefit industrial users.*—The Federal Water Pollution Control Act of 1956 authorizes the Environmental Protection Agency (EPA) (formerly the Federal Water Quality Administration) 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. EPA does not differentiate between municipal and industrial wastes and considers the term “other waste” as including industrial wastes.

EPA 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 EPA’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 that the Congress might wish to consider the information in GAO’s report in view of proposed water pollution legislation regarding the financing of municipal waste treatment facilities and the problem of financing industrial pollution control.

On July 2, 1970, the Code of Federal Regulations was amended to 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 municipal-industrial system, industry would have to pretreat those wastes which could be harmful to the system.

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.)

14. *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 the 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 the 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 the Federal Deposit Insurance Corporation for the Year Ended June 30, 1970, B-114831, Feb. 18, 1971.)

15. *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(c) 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, 1970, B-114831, Feb. 18, 1971.)

16. *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.

Bills to implement the recommendation were introduced in the 90th and 91st Congresses but were not enacted. A similar bill, S. 1022, 92d Congress, was introduced in March 1971, but had not been reported out of committee as of June 30, 1971.

### **Restatement of Legislative Proposals to Heads of Departments or Agencies**

1. *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. Although the Department informed GAO in April 1969 that it was considering proposing such legislation, it had not proposed such legislation through June 30, 1971.

(Need to Revise Fees for Services Provided by the Immigration and Naturalization Service and U.S. Marshals, B-125051, Oct. 7, 1969.)

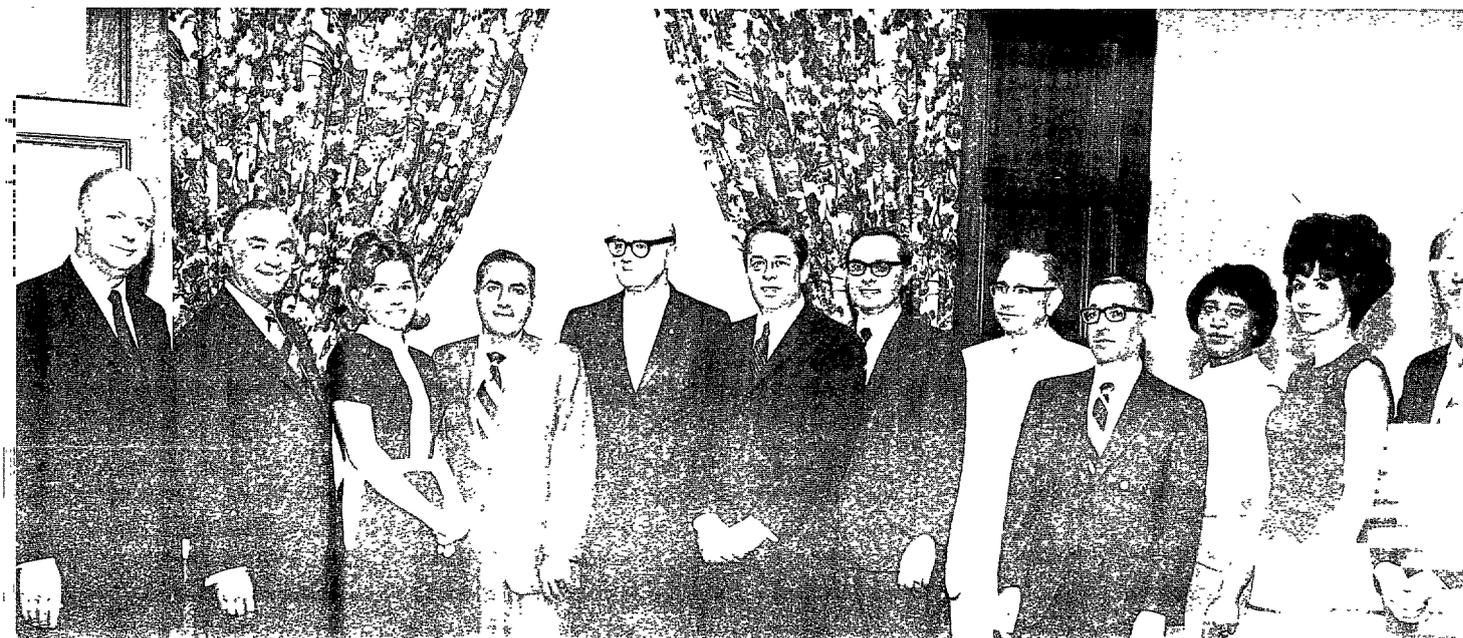
2. *Proposed change in financing Bureau of the Mint operations.*—GAO recommended in a 1959 report on its audit of Bureau of the Mint operations that the Congress consider making a change in the method of financing the Bureau's operations. Although a bill which would have changed the method of financing was introduced in 1967, it was not enacted into law.

GAO later suggested that the Secretary of the Treasury propose to the Congress that a change be made in the method of financing the operations of 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 then 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. (Financial Management of Bureau of the Mint Operations Needs Improvement, B-144877, Jan. 16, 1970.)



*Larry A. Jobe, Assistant Secretary of Commerce for Administration, accepts congratulations for his leadership role in improving and obtaining GAO approval of the designs of the Department of Commerce accounting systems. An informal celebration of this accomplishment was held at the Department of Commerce on June 18, 1971. From the left: Comptroller General Elmer B. Staats; Secretary of Commerce Maurice H. Stans; Mr. Jobe; and E. H. Morse, Jr., Director, Office of Policy and Special Studies.*



*Department of Commerce Financial Systems Staff with top departmental officials and the Comptroller General at informal celebration on June 18. From the left: Elmer B. Staats, Comptroller General; Maurice H. Stans, Secretary of Commerce; Eleanor Clark; Meir S. Gabbay, Chief, Financial Systems Staff; C. L. Harvill; Ben L. Brown; John J. Zych; Harry Kirst; W. R. Kuttner; June Williams; Joyce Cicala; and Larry A. Jobe, Assistant Secretary for Administration.*

## Congressional Study of Accrual Accounting

The staff of the House Appropriations Committee completed, in fiscal year 1971, its study into whether Government-wide application of accrual accounting was worthwhile and the cost of changing expenditure recording and reporting systems to the accrual basis. The study was an outgrowth of GAO fiscal year 1970 appropriations hearings. The report of the study disclosed serious problems associated with the development of accrual accounting as a tool of management, a measure of budget results, and an economic indicator.

The report strongly indicated that conversion of the Government's accounting systems to the accrual basis and maintenance on that basis would be costly in relation to the benefits. It suggested that formal accrual accounting be developed only for Government agency management needs, and that economic indicator needs be provided by statistical or other techniques external to the agencies' formal accounting system. The report also concluded that rather than require approval of accounting systems, the law should provide for approval of entire financial management systems.

The report focuses on many of the problems and sets forth some of the crucial issues facing those concerned with the future direction of improvements in financial management. As indicated below in the discussion of the accrual accounting recommendations of the President's Commission on Budget Concepts, this report, together with information developed in GAO's comprehensive studies of accrual accounting, will be useful in charting the future course of accrual accounting in the Government.

### Assistance in Improving Financial Management

GAO assists in the improvement of financial management of agencies by providing guidance in the form of accounting principles and standards, including requirements for the design of accounting systems, and by assisting agency staffs in the development of accounting systems. Further assistance is provided by participating in the leadership of the Joint Financial Management Improvement Program (JFMIP), assisting in Civil Service Commission and agency training programs, and working on special projects.

Good budgeting and accounting provide more disciplined planning and control over the management

## CHAPTER THREE

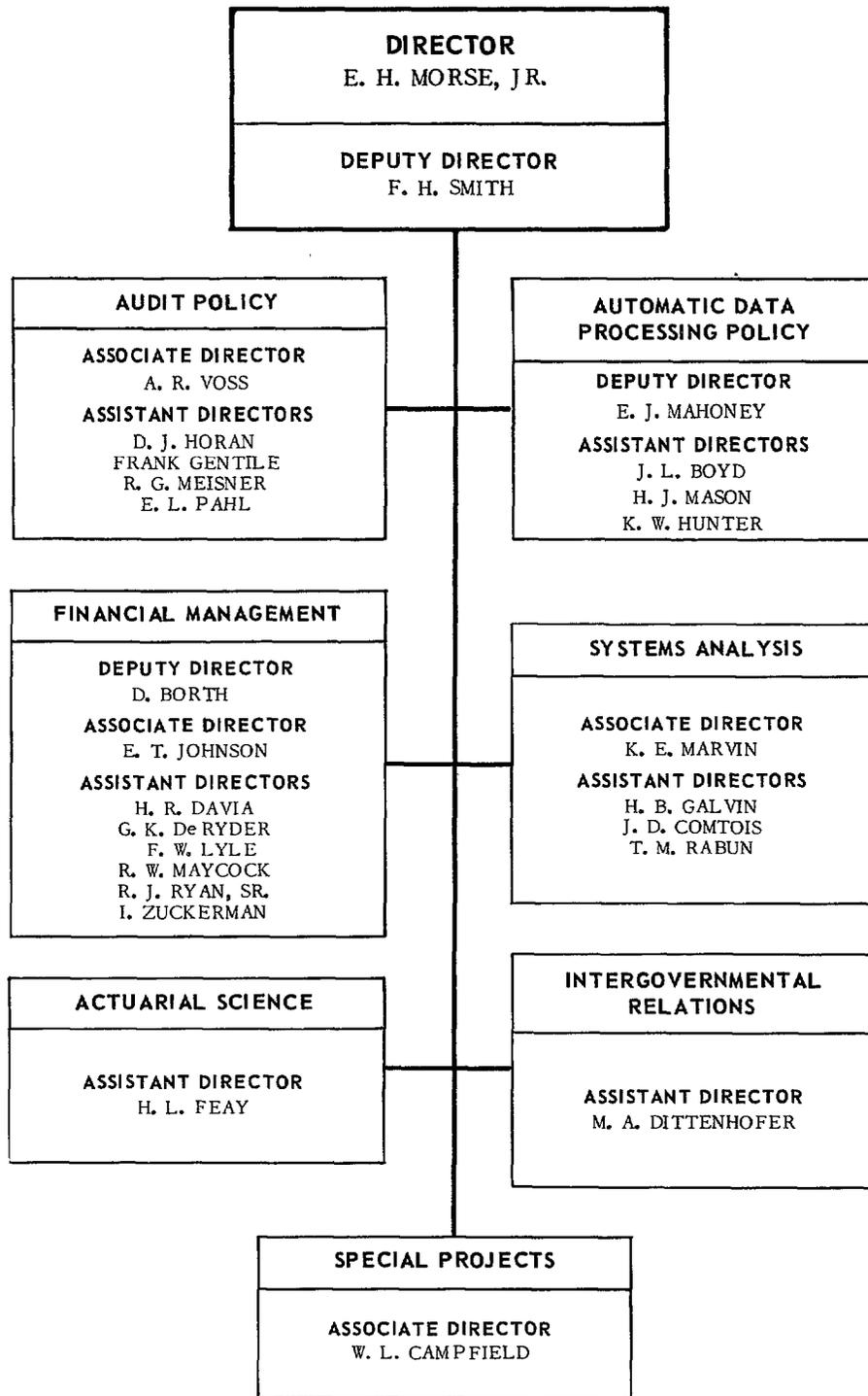
# ASSISTANCE IN IMPROVING AGENCY MANAGEMENT PRACTICES

### 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. The work was performed by or in coordination with GAO's Office of Policy and Special Studies under the direction of Ellsworth H. Morse, Jr., Director, and Frederic H. Smith, Deputy Director. An organizational chart of this office is presented on the following page.

Further assistance to agency management is discussed in Chapters Four through Six with regard to findings and recommendations for corrective or improvement action resulting from audit work and in Chapters Seven through Nine with regard to 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.

OFFICE OF POLICY AND SPECIAL STUDIES



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of resources and better information for managers on results attained in relation to those planned. While it is not possible to directly measure dollar savings attributable to good accounting systems, such systems can make a significant contribution to the effective use of resources by either making it possible to reduce actual expenditures or attaining greater accomplishments with available resources.

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

An important accounting responsibility assigned to the Comptroller General 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, however, and revisions and additions must be made from time to time to give effect to lessons learned 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 this restatement has been amended from time to time.

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

The President's Commission on Budget Concepts recommended in 1967 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 were issued by the Bureau of the Budget (now the Office of Management and Budget) and the Department of the Treasury. Necessary refinements were also made in the principles and standards of accounting for Federal agencies prescribed by the General Accounting Office.

During the year the GAO completed two comprehensive studies for the Central Agency Steering Committee on Implementation of the Recommendations

of the President's Commission on Budget Concepts. One study was of the significance of variations between accrued expenditures and Federal disbursements on 50 grants-in-aid to State and local governments and universities and the other of accounting for and reporting on accrued revenues and expenditures in the Department of Defense and six of the larger Federal civil agencies.

The grant study indicated that:

Use of Federal disbursement data to represent Federal accrued expenditures for grant programs would not significantly distort either the Treasury Department's *annual* reports of *total* Government expenditures (outlays) on the accrual basis or the yearly budget surplus or deficit when computed on the accrual basis.

The use of Federal disbursement data for that purpose would, however, somewhat distort the Treasury Department's *monthly* accrual-based comparative statement of budget revenues and outlays and budget surplus and deficit.

Accrued expenditures for some departments and some grant programs would be significantly distorted in both the annual and monthly reports.

The study of accounting for and reporting on accrued expenditures and revenues confirmed the continuation of the major problems in accounting on the accrual basis for certain tax revenues and constructive delivery on procurements to the Government's special order, and concluded that, while there had been marked improvements in the recording and reporting of accrued expenditures and revenues, there still remained many diverse problems bearing upon the reliability of some portions of the data.

The data developed in these two studies, together with that in the report of the staff of the House Appropriations Committee on its study of the usefulness of accrual accounting, will contribute materially to decisions by the Comptroller General, the Director, Office of Management and Budget, and the Secretary of the Treasury—the Government's three principal financial officials—of the extent to which accrual accounting will be employed in Government accounting systems in the future.

### **Cooperative Work in the Development of Accounting Systems**

To provide further assistance to the departments and agencies in developing and submitting acceptable

**ASSISTANCE TO THE AGENCIES**

statements of accounting principles and standards and systems designs, the Comptroller General provided them with detailed guidelines which were issued in November 1970.

Under the arrangements made in fiscal year 1970 to restrict GAO approval of agency accounting systems to (1) principles and standards and (2) general systems designs, GAO devoted substantially more manpower to assisting agencies in the development of improved accounting systems and related aspects of financial management. In many cases the cooperative work consisted of active GAO participation with agency staff in systems development work. In others, advice and assistance were furnished on a consulting basis as needed.

In the civil and international departments and agencies, in addition to the formal review and approval actions related in the following section, GAO staff was actively engaged at yearend with agencies in developing 23 systems designs which are expected to be submitted for formal approval in the near future.

In the Department of Defense, GAO:

Continued to actively assist the Office of the Secretary of Defense and the military services in the development of the system design for the Joint Uniform Military Pay System, preparatory to submission of the system for approval. Assistance included participation in the development of automated audit programs, and in the design, testing, and evaluation of system components.

Provided cooperative assistance in developing the design of the Department-wide accounting system for operations, including monitoring the efforts of the Air Force which made a test of the system.

Worked with the Navy Department accounting improvement team on an active, day-to-day basis to implement the Department's extensive accounting improvement program which is being carried out with the assistance of a national public accounting firm.

Began to work cooperatively with officials of the Office of the Assistant Secretary of Defense (Comptroller) in a project to develop a handbook of accounting principles and standards to be applicable throughout the Department of Defense.

Assisted the Defense Supply Agency in determining the sufficiency of system design documentation to be provided for GAO review and formal approval of the Agency's Standard Automated Materiel Management System.

Assisted the Air Force in making control improvements in its Air Reserve Pay and Allowance System and furnished guidelines for submitting the system design for approval.

Reviewed a study report of an Ad Hoc Committee on Family Housing Cost Accounting to suggest improvements in the system to be submitted to GAO for approval.

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

GAO's review and approval activities for the civil and international departments and agencies during fiscal year 1971 are summarized:

	Principles and standards	Systems designs	
		Complete systems	Segments of systems
Under review, July 1, 1970.....	13	18	9
Submitted for review.....	7	10	1
Approved.....	12	9	6
Returned or withdrawn.....	1	5	3
Under review, June 30, 1971.....	7	14	1

(See Appendix, Section IV)

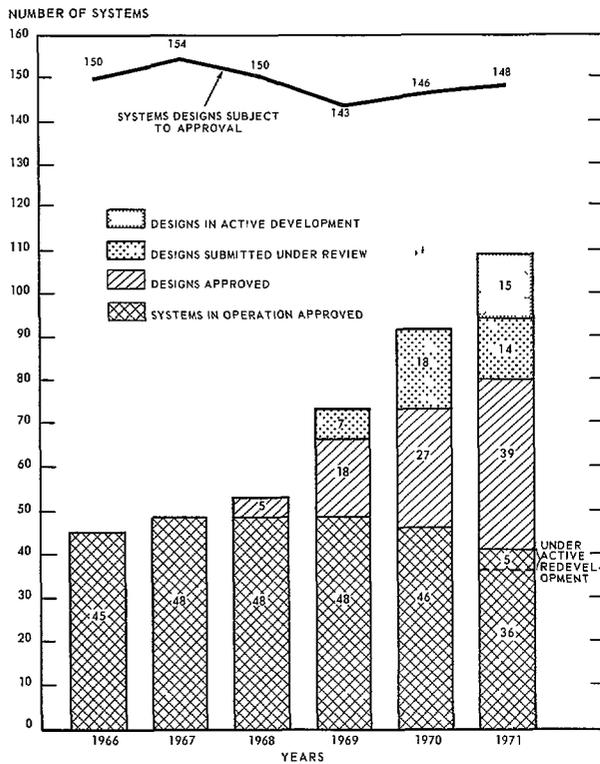
At June 30, 1971, 80 complete accounting systems designs had been approved out of a total of 148 such systems in the civil and international departments and agencies. Progress in approving accounting systems over the past 5 years and the current status of effort are depicted in the chart on the following page.

During fiscal year 1971, the Department of Defense submitted for approval the system designs for two industrial fund accounting systems, which, when added to the three systems under consideration at the beginning of the year brought the total under consideration during the year to five systems.

Two submissions were returned during this period, one because of proposed changes which would materially affect the design and the other for further development. At the close of the year, GAO had three submissions under consideration including the design of an industrial fund accounting system, an accounting system segment design, and one statement of principles and standards.

The Department does not know the number of complete accounting systems and segments of systems in use in its activities which require approval of the Comptroller General. However, it has indicated that approxi-

**NUMBER OF ACCOUNTING SYSTEMS SUBJECT TO APPROVAL, APPROVED, SUBMITTED FOR APPROVAL AND UNDER ACTIVE DEVELOPMENT AT END OF FISCAL YEARS 1966 TO 1971**



mately 40 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.

After approval of a systems design, GAO has a continuing responsibility to follow up on the timely implementation of the approved design and to provide consulting assistance on system refinements. If GAO finds that the system is not being promptly implemented as planned or has been adversely modified, then cooperative action is taken with the agency to make the needed corrections. If those corrections are not made, GAO will withdraw approval of the design.

**Special Report on Accounting Systems Development Problems and Progress**

In December 1970 the GAO issued its second annual report to the Congress summarizing its findings on problems and progress relating to improvements of Federal agency accounting systems during calendar year 1969. (See Appendix, Section I, Item 160.) The House Government Operations Committee, in its report dated March 5, 1968 (H. Rept. 1159, 90th Cong., 2d sess.), recommended that such a report be made.

**Joint Financial Management Improvement Program**

The Joint Financial Management Improvement Program (JFMIP) is the principal Government-wide means for coordinating agencies' financial management improvement activities. Leadership of the program is provided jointly by the Comptroller General of the United States, the Secretary of the Treasury, the Director of the Office of Management and 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, arrange for and supervise work projects, and evaluate financial management progress throughout the Government. The principals of the program meet from time to time to review overall reports of agency progress and to provide broad program guidance to the Steering Committee.

The principal JFMIP events and activities during the year are described below.

The Steering Committee met with the top financial management personnel of each of the agencies listed below to review their progress in developing financial management systems. During these meetings emphasis was given to the need for managing programs in terms of performance and costs and for designing accounting systems to meet management needs.

- Peace Corps (now part of ACTION, a new agency)
- Federal Bureau of Investigation
- Department of Agriculture
- Agency for International Development
- Civil Service Commission
- National Aeronautics and Space Administration
- National Science Foundation
- Office of Economic Opportunity
- Department of the Treasury
- United States Information Agency

During the year, the Steering Committee began publishing a periodic JFMIP News Bulletin as a means of keeping Federal agencies currently informed about financial management improvement activities in the Government.

In addition, the JFMIP and several organizations representing State and local governmental interests sponsored the first State-Federal Financial Management Conference in October 1970. This conference was attended by over 200 representatives of various

## ASSISTANCE TO THE AGENCIES

levels of Government including: (1) State treasurers, budget officers, comptrollers, auditors, legislative fiscal review personnel, and governors' financial assistants and (2) Federal agency officials. The purposes of the conference were to improve intergovernmental relationships in the financial management areas and to reduce the misunderstandings resulting from the involvement of a number of Federal agencies having different objectives in various State and local government programs. Presentations were made by top Federal Government and State officials. Follow-on workshops permitted Federal and State officials to discuss mutual problems in detail and plan methods for streamlining the grant-in-aid process. A report of the proceedings was distributed to all conference attendees.

Another conference is planned for February 1972. It is hoped that this second meeting will further develop the relationships and improve the communications between the financial officials of Federal, State, and local governments.

A task force chaired by a representative of GAO was organized to study the feasibility of developing a single Government-wide computerized payroll system applicable to processing all civilian employee payrolls. The study group met with 14 agencies to gather information on existing systems. At yearend the group was preparing its report. Preliminary findings indicate that complete centralization, although technically feasible, probably would not be practical because payroll data in many cases is used for cost accounting and other accounting purposes that could not be adequately served by a single Federal payroll system.

A bill, based on JFMIP draft legislation, was introduced in the Congress in May 1971 to provide for self-insurance by the Federal Government of military and civilian personnel who are charged with accountability for public funds or public property. The proposed legislation, still under congressional consideration at yearend, would repeal Public Law 84-323 which requires pertinent agency heads to purchase fidelity bonds for the affected accountable employees. It is estimated the proposed legislation would result in net annual savings to the Federal Government of as much as \$190,000.

The Steering Committee is also drafting a legislative proposal to provide for merging agencies' prior year appropriation accounts with the current year appropriation accounts for each appropriation title. This

recommended procedure would simplify agency appropriation accounting.

More detailed information about accomplishments and activities under the JFMIP will be found in the separately published annual progress reports on the program.

## Intergovernmental Programs and Operations

GAO continued to provide technical guidance and assistance to State and local audit staffs and to develop a body of audit standards to govern the audit of governmental programs, particularly those conducted by State and local governments with Federal financial assistance.

In providing assistance to State and local organizations GAO staff members have:

- Presented technical papers for State and local auditors at meetings of the:

- National Legislative Conference

- National Association of State Auditors, Comptrollers and Treasurers

- Municipal Finance Officers Association

- Institute of Internal Auditors

- Arranged for a series of workshops for State auditors, dealing primarily with performance auditing.

- Assisted in the developmental effort of audit staffs in certain States.

- Conducted or arranged for the presentation of three courses for State auditors through the auspices of the Interagency Audit Training Center, administered by the Department of Commerce.

In addition, substantial progress was made during the year in developing a set of auditing standards for governmental programs. This work was done under GAO leadership and largely by an interagency work group organized in February 1970, composed of members of the Federal departments and agencies with large grant programs and part-time consultants from States, local governments, and universities. It is planned to complete and publish these standards during the next fiscal year. Thereafter a substantial effort will be needed to generate acceptance, arrange for training, and carry out other activities to upgrade the quality of auditing of governmental programs.

## Automatic Data Processing

The use of data processing services by the Federal Government has increased very rapidly. At June 30, 1961, there were 730 general-purpose computers in use in the Government. By June 30, 1971, this number had increased to about 5,500 computers.

The Federal Government now spends over \$2 billion annually for the purchase, lease, and operation of automatic data processing equipment. The use of this equipment to carry out Federal Government functions has had a significant impact on the operations of almost every major agency of the Government.

In the Department of Defense, the principal applications are in command and control, 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 the Treasury Department, the Social Security Administration, the Veterans Administration, the Department of Agriculture, the Postal Service, 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. GAO reviewed with agency officials deficiencies related to the planning for and use of such systems disclosed during its audits. Currently, GAO is conducting a general survey of ADP activities in civil departments and agencies throughout the Federal Government to examine the overall management and control of ADP activities, and the participation of internal audit groups in ADP matters.

In response to the growing need for effective and efficient means for auditing computer-based systems, GAO conducted a number of special studies to explore the impact of computers on auditing activities in the Federal Government. These studies dealt primarily with computer operations that require input data to be coded and collected into groups or batches for processing. Particular attention was devoted to:

Internal auditing of computer-based systems—to determine whether effective independent reviews and appraisals were being made.

System documentation—to determine whether current and complete documentation was maintained.

Use of computer techniques to audit computer-based systems—to assist other Government auditing organizations in auditing computer-based systems.

(See Appendix, Section I, Item 202.)

GAO continued to work with the Civil Service Commission and the internal audit staffs of the Government to provide 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.

As a result of its continuing studies in this field, GAO made recommendations for improvements in the management and administration of ADP 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 ADP programs throughout the Government.

The latest report in this series, entitled "Acquisition and Use of Software Products for Automatic Data Processing Systems in the Federal Government," was issued on June 30, 1971. This report pointed out that many changes in marketing practices by computer manufacturers have occurred during the past few years. These included the separate pricing (unbundling) of software<sup>1</sup> products, the introduction of diverse contractual arrangements for acquiring software, the advent of general-purpose proprietary software packages, and the licensing of the use of software products with overly restrictive provisions. The Federal Government has had no centrally guided or unified approach for dealing with these changes. (See Appendix, Section I, Item 198.)

Many broad management problems were found during the GAO study. For the most part, Federal users acquired their needed computer software without centralized direction or guidance. As a result, they:

Procured computer programs unnecessarily since they were already available at other data processing locations within the Government.

<sup>1</sup> Software is a term that has come into use to identify computer programs, procedures, and related documentation and to distinguish such features from the hardware components of the system.

## ASSISTANCE TO THE AGENCIES

Procured software products with overly restrictive use provisions and thereby required additional software procurements in multiuse instances.

Acquired similar computer programs at varying prices within a relatively short period of time.

Deprived the Government of an opportunity to benefit from quantity procurement.

Used various criteria and techniques for selection and evaluation of computer software which resulted in the acquisition of many variations (some being better than others) of the same product.

Duplicated unnecessarily technical evaluations of computer programs.

GAO believes that, to better manage the vast resources invested in data processing facilities, the Federal Government needs a master plan. Such a plan would include agreed upon goals or objectives against which quality and progress could be measured. It would provide resource planning, implementation procedures, and appraisal and feedback procedures.

GAO recommended that the Director, Office of Management and Budget, arrange for the formulation of this master plan and for the structure needed to implement it. GAO recommended also that OMB Circular A-54 be amended to include specific policy guidance to user agencies for the acquisition, management, and use of software throughout the Federal Government.

Relative to the guidance and leadership necessary for the procurement of software, GAO recommended further that the:

Director, Office of Management and Budget, provide coordinated management and central policy direction to users for determining the most economical and efficient means for obtaining computer software.

Administrator of General Services employ the single-purchaser concept, use formally advertised procurement contracts, strive to obtain nonrestrictive or license-free contractual arrangements for software with rentals based on use, consider buying outright software products that would be widely used throughout the Government, and maintain an inventory of computer software.

Director of the National Bureau of Standards establish and maintain a reference index of computer programs, make detailed technical evaluations of computer programs for use by all Federal ADP installations, and promulgate Federal standards for computer languages and program documentation.

In addition, GAO recommended that, pending the issuance of more specific policy guidance, the operational and cost factors described in this report be used by Federal agencies in reaching decisions on software needs.

GAO reviewed the Government-wide program for acquiring ADP equipment envisioned by Public Law 89-306. Under this law, the General Services Administration (GSA) is responsible for carrying out a coordinated Government-wide program for the efficient and economical acquisition of general purpose ADP equipment. GAO's review of progress under the program showed, however, that the Government was not making maximum use of funds available for acquisition of ADP equipment, primarily because (1) multi-year equipment leases were inhibited by appropriation limitations and (2) agencies continued to make purchase decisions on the basis of their individual funding capabilities and needs.

Also, most of the Government's equipment was being obtained from system manufacturers under negotiated contracts through purchases or short-term rentals. GAO estimated that agencies having short-term leases could have saved up to \$155 million over a 5-year period if they had taken advantage of contracts that were, in effect, 1-year contracts with options to renew, or if they had had authority to enter into multiyear leases.

GAO recommended that GSA assure that the agencies obtain all possible benefits under their contracts, that the advantages of increasingly available competition be obtained both in purchasing and in leasing, that additional capital for purchasing equipment for other agencies' use be requested for GSA's ADP fund, and that GSA and the Office of Management and Budget assure that purchases are made on the basis of the best buy for the Government as a whole rather than for the individual agencies. GAO suggested also that the Congress might wish to consider granting authority to GSA that would enable those agencies not otherwise able to do so to achieve the savings available from multiyear leasing instead of short-term leasing.

GAO also reviewed the manner and extent to which Government-owned ADP equipment which was excess to agencies' needs was being redistributed for use by other agencies in lieu of their purchasing or leasing other ADP equipment. GAO found instances where excess Government-owned equipment was not being used although, at the same time, similar equipment was being rented. Savings of \$920,000 could have been

realized if excess equipment had been used in place of the rented equipment. Also, potential purchase credits of \$760,000 that could have been retained were lost in other transactions. GAO recommended that GSA improve its ADP management information system reports, emphasize use of the system to identify opportunities to redistribute excess equipment, and disseminate information on available purchase credits. GSA advised of steps it had taken or would take to implement GAO's recommendations. (See Appendix, Section I, Item 199.)

## Reviews of Financial Management Systems

The GAO, 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.

GAO reports on these reviews contain many recommendations for improvement in the work of the internal audit staffs, for increased coverage of program operations, or for internal audit of activities not previously covered in the agencies' internal audit programs.

## Claims Collection

In July 1970 GAO issued its first report to the Congress summarizing its findings on the progress and problems in implementing the Federal Claims Collection Act of 1966. (See Appendix, Section I, Item 230.) This act, which became effective on January 15, 1967, was the first general statutory authority giving Federal agencies broad administrative power to compromise and terminate collection action on claims.

At the time of its report GAO had made reviews in seven agencies. GAO's purpose was to help agencies conform their internal regulations to the act and to the implementing standards promulgated jointly by the Comptroller General and the Attorney General of the United States pursuant to the act. GAO found

that many revisions of administrative regulations and instructions were necessary.

Another aim of GAO was to assist agencies in improving their collection procedures and debt operations. This included assistance in setting up actual steps to follow in the collection process in connection with locator actions, demand letters, financial information, etc. GAO also furnished guidelines in soliciting and determining acceptability of offers in compromise.

In March 1971, the chairman of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations was informed, in response to his request, that GAO was continuing its review in additional agencies and that:

A followup examination of the debt collection activities at the Army Finance Center, Indianapolis, Ind., showed a substantial improvement in its debt collection.

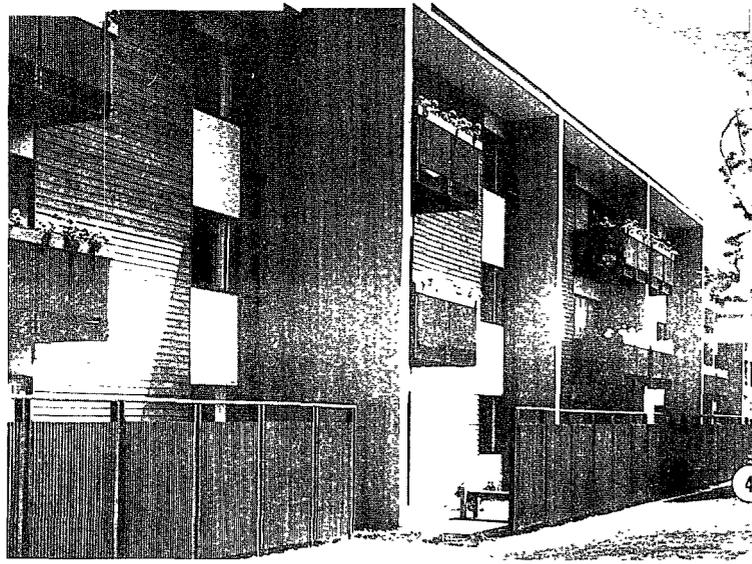
The agencies whose activities had been reviewed appeared now to have a much keener awareness of their responsibilities under the Federal Claims Collection Act.

Agencies generally had been receptive to GAO's recommendations to improve their regulations and collection operations.

One of the biggest problems remaining was to insure that each of the agencies allocated a reasonable portion of its resources to carry out its responsibilities under the act and the joint standards.

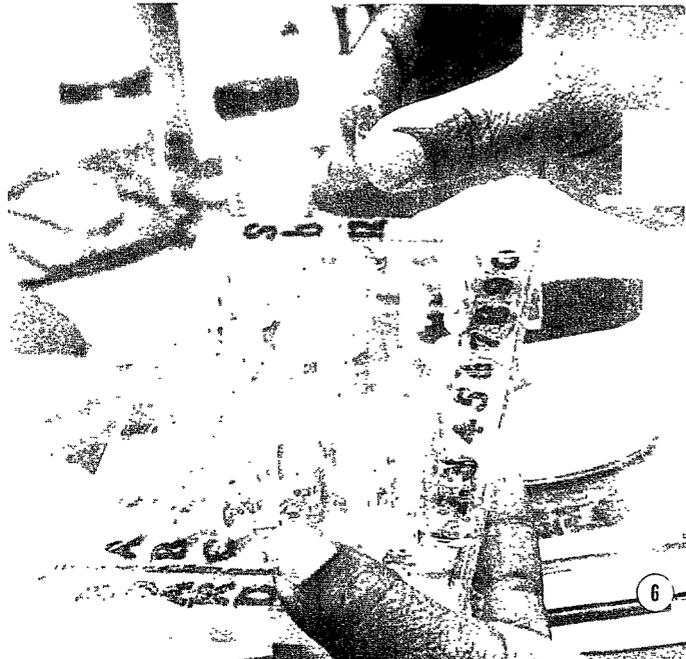
## Transportation Management

GAO authorized agency heads to (1) use imprest funds for the payment of transportation charges not exceeding \$25 on domestic freight shipments moved on commercial bills of lading and (2) redelegate their discretionary authority to approve the use of commercial forms and procedures for such shipments. These authorizations were consonant with recommendations of the Joint Agency Transportation Study group which completed a comprehensive study of agency transportation practices in September 1970. (See Chapter Seven, p. 118.)



*Selected Federal programs subject to review by the General Accounting Office*

- 1. Turbo-Train Project*
- 2. Aid to educationally deprived children*
- 3. Coal mine health and safety program*
- 4. Public housing for the elderly*
- 5. Teacher Corps program*
- 6. Search for human cancer viruses*



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

## CHAPTER FOUR

# AUDIT OF CIVIL OPERATIONS AND PROGRAMS

## General

The audit work described in this chapter was performed by or under the direction of GAO's Civil Division which has overall responsibility for carrying out all audit work in the civil departments and agencies of the Federal Government; the Corps of Engineers (Civil Functions), Department of the Army; and the District of Columbia Government, other than that relating to international activities and charges for transportation, which are the responsibility of other divisions. The Civil Division is under the supervision of A. T. Samuelson, Director, and Gregory J. Ahart, Deputy Director. An organization chart of the Civil Division appears on the following page.

During fiscal year 1971 the General Accounting Office submitted 216 reports to the Congress on reviews of activities of the civil departments and agencies of the executive branch and of the legislative and judicial branches. Of these reports, 97 were submitted to the Congress as a whole and 119 were submitted to committees, officers, or Members on reviews made in response to their specific requests. In addition, 209 reports were submitted to department or 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

## Department of Agriculture

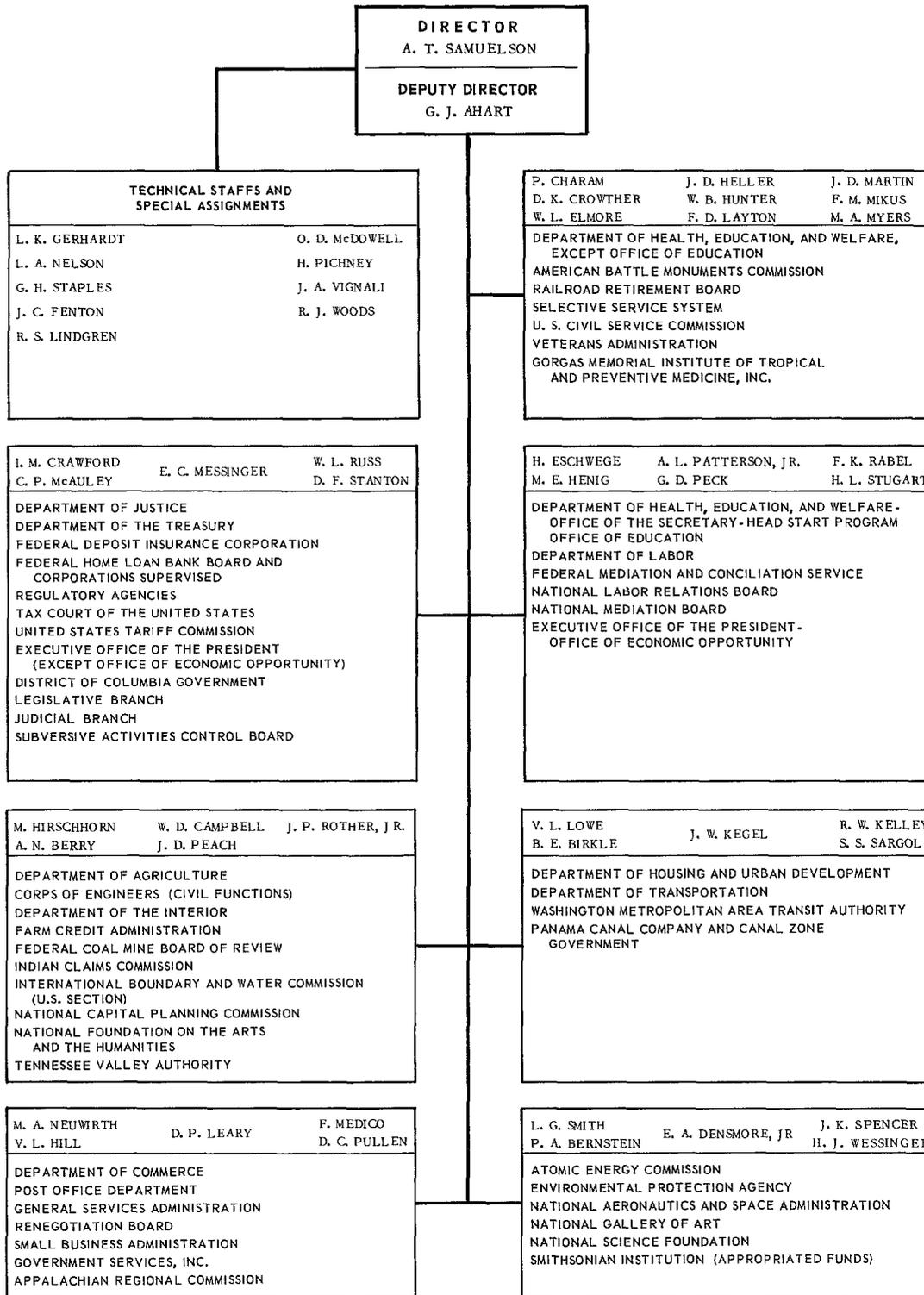
Fourteen reports were submitted to the Congress on reviews of Department of Agriculture operations other than international operations which are discussed elsewhere in this report. Ten of these reports were submitted to the Congress as a whole and four were submitted to Members of Congress. In addition, 28 reports were issued to Department or agency officials. Selected activities of the major constituent agencies of the Department were reviewed by GAO with effort divided among rural development activities, forestry and conservation activities, marketing and consumer services activities, farm program and commodity activities, agricultural research and education activities, and departmental administrative and financial management activities.

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

GAO made a selected review of payments made for diverting land from the growing of feed grains to an approved conservation use under the feed grain program administered by the Agricultural Stabilization and Conservation Service (ASCS). The review, made to ascertain whether the diversions were aiding in the accomplishment of program objectives, was confined to areas undergoing urbanization.

A sizable portion of the payments tested was for land used, or designated for use, for such nonagricultural purposes as housing, commercial development, and recreation. Since such use ruled out the growing of feed grain or was inconsistent with crop production, the payments did not contribute to the control of production—the principal objective of the diversion payments. Also, the payments did not aid in conserving

CIVIL DIVISION



land for future agricultural or related uses. In response to GAO's recommendations, ASCS stated that action would be taken to insure that payments are not made for the diversion of ineligible land and to recover any overpayments or unearned payments, where appropriate. (See Appendix, Section I, Item 1.)

GAO expressed its opinions on the financial statements of the Commodity Credit Corporation (CCC) for fiscal year 1970 in its report to the Congress on its annual financial audit of the corporation. GAO also reported on the manner in which CCC was carrying out selected programs and activities. Two of the matters on which GAO commented are discussed below.

CCC needed better information on rice production, sales, inventories, exports, and world market prices for establishing weekly export subsidy rates. Following GAO's proposals CCC began using additional information consistent with that which GAO proposed be obtained and changed its method of computing rice export subsidies. It was estimated that these changes would reduce such subsidies by \$23 million in fiscal year 1970.

Also, CCC needed to eliminate inconsistencies in price-support regulations which gave producers an advantage of 15 to 20 cents a bushel if they placed their wheat under price support at Gulf of Mexico ports rather than at inland points. CCC subsequently adopted a different method of establishing price-support locational differentials for 1970 crops. (See Appendix, Section I, Items 2 and 3.)

Loans made by the Farmers Home Administration (FHA) to rural organizations for financing the development of water and sewer facilities, recreational facilities, rural housing, and other projects have expanded rapidly, totaling almost \$1 billion at January 1, 1970. Although FHA instructions require borrowers under certain circumstances to submit annual audit reports prepared by qualified independent auditors for use by FHA in administering the loans, GAO found that the instructions were neither adequate nor properly enforced.

FHA stated that its instructions were being revised generally in line with GAO's recommendations and that appropriate action would be taken where reviews of independent auditors' reports evidenced noncompliance with FHA requirements. (See Appendix, Section I, Item 42.)

In testing the timing of the disbursement of loan and grant funds to borrowers' associations to finance water and sewer systems, GAO found that FHA generally ad-

vanced the full amount of the loans although substantial portions were not spent by the associations for periods up to 20 months or longer. Also, FHA advanced grant funds to associations at times when the associations had substantial funds on hand.

Substantial savings in interest could be realized by the Government if FHA advanced funds only as needed. GAO recommended that FHA follow this principle under all of its loan programs involving borrowers' associations and that it establish a system of monitoring to assure that advances are made in accord with the borrowers' actual needs. FHA drafted procedural revisions which it believed would meet the objectives of GAO's recommendations. (See Appendix, Section I, Item 43.)

Loans and grants for the construction and/or improvement of water and sewer systems were being made without adequately determining whether the systems would have enough users to produce sufficient revenues to pay off the loans. In February 1970, 123 borrowers were delinquent \$2 million on outstanding loans of \$42 million because they did not have a sufficient number of users to financially support the operations of their systems.

GAO believes that, in addition to verifying that prospective borrowers have obtained a sufficient number of users, FHA should require the borrowers to obtain from the prospective users cash contributions to cover the estimated cost of connecting service lines to the borrowers' facilities and enforceable agreements committing the users to pay minimum monthly rates to the borrowers whether they do or do not use the facilities. In response to GAO's recommendations, FHA stated that it expected to take actions that would overcome the problems pointed up in GAO's report. (See Appendix, Section I, Item 44.)

GAO had recommended after an earlier review of FHA's grazing loan program that FHA establish certain minimum requirements to be met or exceeded by borrowers before making loans to associations of farmers and ranchers to acquire and develop grazing land. In a followup review, GAO found that, contrary to revised instructions issued to its loan officials by FHA, loans were still being made without requiring compliance with the most significant factor in providing reasonable assurance that the loans would be repaid. That factor was the requirement for the sale of a minimum number of grazing units (rights to graze a specified number of animals)—the principal source of income to an association.

## CIVIL OPERATIONS

In reviewing the current financial status of 16 of the associations covered in its earlier review, GAO found that, as of January 1970, seven were delinquent in their loan payments and 12 suffered losses in 1969, pointing to possible additional delinquencies.

In response to GAO's further recommendations, FHA changed its regulations to provide, among other things, that no loan be closed until a district supervisor had verified that all loan-closing conditions had been met. (See Appendix, Section I, Item 45.)

GAO reported also that the financial statements of the Emergency Credit Revolving Fund—a fund used by FHA to make emergency loans to farmers and ranchers in natural disaster areas—did not present fairly the financial position of the fund at December 31, 1968, or the results of the fund's operations. FHA's accounting procedures and practices did not provide for full and accurate disclosure of the financial results, adequate financial information for management purposes, or reliable accounting data for reports required by the Treasury Department. These procedures and practices applied also to FHA's other loan programs, and the financial reports on these activities may have been similarly affected. FHA took steps to improve its system, and the Office of the Inspector General agreed to review the action taken. (See Appendix, Section I, Item 165.)

Severe limitations placed on the use of motorized equipment in wilderness and similar areas by the Forest Service, Department of Agriculture, and the National Park Service (NPS), Department of the Interior, result in additional costs and create other problems in protecting and preserving the areas. The \$100 million estimated cost of planned construction and reconstruction of 18,000 miles of trails in three Forest Service regions, for example, could be reduced, possibly by one-half, by using a small trail machine especially designed for such work. NPS, too, could realize significant savings by using the trail machine. The Forest Service had also placed restrictions on using motorized equipment for such activities as trail maintenance, bridge construction, and litter cleanup.

GAO recognized that the use of motorized equipment is not compatible with an ideal wilderness concept and did not disagree with the Forest Service's concept of minimizing the use of such equipment. GAO believes, however, that once decisions have been made to construct trails, bridges, and other facilities and to remove accumulated litter, that economy, convenience, and other factors should be considered in deciding when to use such equipment. Inasmuch as the agencies believed that their restrictions were consistent with the intent of the Wilderness Act of 1964, GAO recommended that the Congress consider providing further



*Machine-constructed trails in a Forest Service nonwilderness area.*

guidance as to the use of such equipment. (See Appendix, Section I, Item 39.)

At June 30, 1969, the Forest Service had planned for new construction or reconstruction of roads and trails in national forests and grasslands at an estimated cost of \$10.4 billion. Although a portion of such work is financed by credits against timber sales prices and by contributions from cooperators, a large portion is financed by appropriated funds. GAO reviewed the Forest Service's procedures for allocating funds appropriated for this work because of indications that priority was not being given to those projects offering the greatest benefits or fulfilling the greatest needs. Its review confirmed these indications.

It is GAO's belief that an effective system for comparing the needs of all forests and for assigning priorities on the basis of their relative needs is essential to the effective use of available funds. The Forest Service agreed that a better system of programming funds was needed and stated that a study, with a 1975 target date for completion and implementation, was being made. The Forest Service stated also that interim reports on the study contained data which might affect the allocation of fiscal year 1972 funds. (See Appendix, Section I, Item 40.)

In another report to the Congress, GAO expressed its opinion on the financial statements of the Federal Crop Insurance Corporation for fiscal year 1970.

In two reports to agency officials, GAO commented on the need for stronger controls at the national, State, and county levels over sight drafts prepared by Agricultural Stabilization and Conservation Service offices and on opportunities for improving the Federal Crop Insurance Corporation's automated system for insurance programs. In both instances, agency officials generally agreed with GAO's findings and recommendations. (See Appendix, Section I, Items 161 and 201.)

Audit work in process included reviews of such activities as the foreign meat inspection program, the rural environmental assistance program, the commodity distribution program, and the flood prevention and watershed protection programs. Work in process also included reviews of the forestry research program, the recreation loan program, and the financial activities of the agricultural credit and rural housing insurance funds.

## **Department of the Army Corps of Engineers (Civil Functions)**

During fiscal year 1971, GAO submitted one report to the Congress, one report to a Member of Congress, and five reports to Department or agency officials on reviews of activities of the Corps of Engineers.

GAO concluded in its report to the Congress that substantial savings could be achieved by improved coordination and dissemination of information between the Corps and the Bureau of Reclamation, Department of the Interior, both of which design and construct water resources projects. GAO gave several examples where exchange of information might be helpful, including one case where the construction of an arch dam rather than a rock-fill dam by the Corps would have saved about \$9 million.

GAO also pointed out a need for evaluating design alternatives, citing one case where an analysis would have shown a cost advantage of about \$12 million in favor of the use of an earth lining for a canal rather than the concrete lining chosen by the Bureau of Reclamation.

In response to GAO recommendations, the Corps and the Bureau entered into a written agreement to exchange useful information. Also, the Corps agreed to consider use of certain Bureau practices that GAO had called to its attention. (See Appendix, Section I, Item 78.)

In a report to the Secretary of the Army, GAO suggested a method whereby the Corps could improve its procedure for computing the Federal contribution to non-Federal water resources projects, thereby precluding additional costs to the Government. (See Appendix, Section I, Item 79.)

Audit work in process included reviews of such activities as the revolving fund, dredging, the increasing cost of constructing multiple-purpose projects, and the effects of water resources projects on the environment.

## **Department of Commerce**

During the year GAO submitted three reports to the Congress on reviews of Department of Commerce operations: two to the Congress as a whole and one to a committee of the Congress. In addition, five reports were issued to Department or agency officials.

## CIVIL OPERATIONS

Selected activities of seven major constituent agencies and offices of the Department were reviewed, with primary emphasis being given to economic development, scientific and technological, and maritime activities.

One report to the Congress concerned the questionable accuracy and currentness of the median family income data collected once every 10 years and the unemployment data used by the Economic Development Administration (EDA) in identifying economically distressed areas which may then be designated eligible for special Federal assistance. The Department of Labor, which is responsible for collecting the unemployment data, agreed to take steps to improve its methodology for estimating unemployment and to insure uniform application of techniques to improve accuracy and comparability of data. The Department of Commerce agreed that it would be desirable to have more current income information on a regular basis. It stated that EDA hoped to develop reasonably accurate income estimates by using per capita income data rather than median family income data, although much work remained to be done before per capita income data could be considered an acceptable substitute. (See Appendix, Section I, Item 9.)

In another report to the Congress, GAO expressed its belief that the National Bureau of Standards had augmented its working capital fund without authority of law by retaining in the fund about \$432,000 that had been accumulated to pay the accrued annual leave of employees who were later transferred to another agency within the Department. Inasmuch as the Bureau did not agree with GAO's recommendation that the amount be paid into the general fund of the Treasury, GAO reported the matter to the Congress for its consideration. (See Appendix, Section I, Item 164.)

One report to the Department suggested ways to reduce errors and strengthen procedures and controls for the maintenance and verification of the 4,000 payroll and leave records processed by the Office of the Secretary, and another commented on problems encountered in the operation of the Economic Development Administration's (EDA) quick query computerized management information retrieval system. (See Appendix, Section I, Items 189 and 171.)

Another report to the Department concerned the need for the National Bureau of Standards to establish appropriate user charges for services provided by

research associates in those instances where the Bureau does not receive a benefit commensurate with the costs incurred. (See Appendix, Section I, Item 241.)

Audit work in process included a review of the use of EDA's program resources in awarding grants and loans for public works and development facilities, a study of the effectiveness of total Federal assistance provided to a designated redevelopment area, an evaluation of the cost of a mid-decade census and the alternatives, a review of the Maritime Administration's operating-differential subsidy program, and a review of Federal earthquake research activities.

## Department of Health, Education, and Welfare

Thirty-nine reports were submitted to the Congress on reviews of Department of Health, Education, and Welfare (HEW) operations. Of these reports, 17 were submitted to the Congress as a whole and 22 were submitted to committees or Members of the Congress. In addition, 32 reports were issued to Department or agency officials.

### *National Institutes of Health Activities*

In one of the reports to the Congress GAO commented on the gathering and disseminating of medical information by the National Library of Medicine, an organizational unit of the National Institutes of Health (NIH). The library makes substantial use of its computer to prepare bibliographies of biomedical subjects requested by health and research institutions and professionals. Since the library had encountered problems in responding to such requests, it was designing an improved computer system and was training employees to overcome the problems. GAO concluded that the revised system, if properly installed and operated, should alleviate the problems.

Also, the library was unable to satisfy all the health information needs of other agencies within HEW. HEW agreed with GAO's recommendations that these needs be met by revising the computer system and that computer equipment, which for the initial phase of the system was being leased rather than purchased, be obtained at the lowest possible cost.

In addition, GAO suggested that the Congress might wish to consider the library's determination that all of its principal activities are public services, for which

no fees are charged. (See Appendix, Section I, Item 38.)

In reviewing the system of administering and funding National Cancer Institute (NCI) research, GAO observed that the system had resulted in delays in the approvals and funding of contracts and grants which, according to NCI officials and others, had made the start of some research projects uncertain and could cause problems for the research institutions in attracting and retaining qualified researchers.

As recommended by GAO, the Secretary of HEW delegated authority to NCI to enter into research contracts to avoid delays previously encountered when NIH reviewed NCI proposals and negotiated the contracts. Also, the Secretary stated that GAO's recommendation that NCI be authorized to award research grants up to a specified dollar limit without review by NIH study sections would be considered.

Because of delays in approving HEW appropriation bills, GAO suggested that, to facilitate more timely financing of new programs and projects, the Congress might wish to consider enacting legislation authorizing, in the case of NCI, the making of appropriations to

be available for the next fiscal year following the usual budget year. (See Appendix, Section I, Item 149.)

#### *Office of Education Programs*

At the request of the chairman, Senate Select Committee on Equal Educational Opportunity, GAO reviewed the policies and procedures for approving grants under the Emergency School Assistance Program administered by HEW's Office of Education. This program provides Federal grants to school districts to defray the cost of meeting special problems arising from school desegregation. GAO identified several weaknesses in the procedures which GAO concluded were due mainly to the Department's policy of emphasizing the emergency nature of the program and its desire for expeditious funding, at the expense of a more thorough review and evaluation of school districts' applications.

GAO made suggestions to help insure that grant funds already made available to the school districts are used for the purposes intended and to strengthen



*Injecting a mouse with a chemical as part of an experiment in cancer research at the National Cancer Institute, Department of Health, Education, and Welfare.*

## CIVIL OPERATIONS

procedures in the event additional funding is authorized. (See Appendix, Section I, Item 12.)

Title I of the Elementary and Secondary Education Act of 1965, administered by the Office of Education, provides financial assistance to local educational agencies to meet the special educational needs of educationally deprived children residing in areas having high concentrations of children from low-income families. GAO issued reports to the Congress on its reviews of this program in Ohio and New Jersey. The following areas of administration that could be strengthened were identified in these two reports.

Project locations were not selected in accordance with Office of Education criteria.

Projects were designed on the basis of the needs of the school system in general rather than on the educational needs of the children.

Services, materials, and equipment were made available to all children rather than being concentrated on the educationally deprived.

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

State audits were not of sufficient scope to comply with Office of Education requirements, but the State educational agency had taken action to improve audit coverage.

The Office of Education agreed to promptly implement GAO's recommendations. (See Appendix, Section I, Item 13.)

In three reviews made to assess the effectiveness of the Office of Education's Teacher Corps program in attaining its legislative objectives, GAO noted that programs in south Florida, western North Carolina, and the Navajo and Hopi Indian reservations in Arizona and New Mexico had strengthened educational opportunities for children of low-income families. Corps members assigned to these programs provided individualized instruction, introduced new teaching methods, and participated in education-related community activities. About one-half of the interns who completed these programs became teachers in schools serving poor areas. Also, some degree of success was achieved in accomplishing the Teacher Corps' second legislative objective—to encourage colleges and universities to broaden their teacher preparation programs.

The programs could have been more effective if local educational agencies had continued successful innovative methods after corps members completed

their assignments and if the participating universities had established formal procedures for evaluating and incorporating useful ideas, experiments, and techniques into their teacher preparation programs. Also, State departments of education needed to take a more active role in disseminating information about successful features of the Teacher Corps program.

HEW concurred in GAO's recommendations and described actions planned to put them into effect.

GAO also suggested that the Congress might wish to consider amending existing legislation to authorize the assignment of corps members to State or locally allotted teaching positions in place of regular teachers if the funds that would have been spent for regular teachers' salaries are used to pay corps members' salaries and related benefits. This procedure, while not authorized, was being used by certain agencies in North Carolina. Its use decreased the amount of Federal funds required and could provide local agencies with the impetus to continue successful features of a Teacher Corps program after Federal funding ceases. (See Appendix, Section I, Items 14, 15, 16, and 17.)

The Office of Education contracted with the Consortium of Professional Associations for Study of Special Teacher Improvement Programs (CONPASS) to coordinate the many evaluations of programs carried out by colleges and universities under the Office of Education's institute program, authorized by the National Defense Education Act of 1958.

GAO reported to the Secretary of HEW that under the terms of the contract some of the basic management functions of the Office of Education that are essential to an effective administration of the contract were delegated to CONPASS. In one case, a subcontract for evaluation of a program was continued against the wishes of the Office of Education because, under the contract terms, CONPASS had the authority to make the decision.

GAO recommended that, if the contract with CONPASS is continued, the Office of Education should provide for retention of the basic management functions it needs to direct and control CONPASS activities. (See Appendix, Section I, Item 19.)

For various reasons disclosed in its report on its examination of the financial statements of the Student Loan Insurance Fund for fiscal year 1969, GAO was of the opinion that the statements did not present fairly the fund's financial position and the results of its operations. HEW took or planned appropriate action on most of the matters discussed in GAO's report. (See Appendix, Section I, Item 20.)

*Medicaid*

Seven reports to the Congress concerned the administration in selected States of the Medicaid program—a grant-in-aid program under which the Federal Government participates in the costs incurred by the States in providing medical care to individuals who are unable to pay for such care. About \$4.7 billion was expended under the program during fiscal year 1970; the Federal share was about \$2.4 billion. GAO's inquiries into the administration of the program were made because of substantial increases in program expenditures and the concern of the Congress over the rising costs of medical care.

Inquiries were made into such matters as payments for physicians' services, nursing home care, and drugs; the eligibility of recipients for services provided; and the need for the services and drugs provided. GAO found a wide variety of weaknesses in the administration of the program by HEW's Social and Rehabilitation Service, the State agencies, State-appointed fiscal agents, and providers of services. Among these deficiencies were:

Paying for medical services without determining whether the physicians' charges were reasonable and customary.

Paying for overuse of program services; e.g., excessive hospital claims, excessive number of medical prescriptions, and excessive visits by physicians.

Paying physicians and providers of X-ray services single-patient fees instead of the lower multiple-patient fees when visits were made on the same day to a number of patients in the same nursing home.

Furnishing skilled nursing home care to a high percentage of patients whose need was for less intensive and less costly care.

Paying benefits to a substantial number of recipients whose continued eligibility had not been determined on a timely or accurate basis.

Continuing payments to nursing homes where significant substandard conditions persisted.

Paying for the same days of nursing home care under both the Medicare and Medicaid programs.

Paying claims for care of former nursing home patients after their death or discharge.

Paying for drugs on a cost-plus-a-percentage-of-cost basis, which is contrary to Federal policy and tends to increase costs.

Using procedures in one State that were inadequate for either the State or HEW to determine whether drugs obtained by nursing homes were ad-

ministered to welfare patients and were effective in their treatment, drugs dispensed and billed by pharmacies were actually received by welfare recipients, and drugs provided to patients were needed.

Also, GAO found that there was a need for HEW, in its studies of drug efficacies, to give priority to certain lower cost, frequently used drugs offering potential for considerable savings.

GAO believes that the weaknesses in administration were principally the result of inadequate guidelines, supervision, and surveillance by HEW and, in turn, by the State agencies and their fiscal agents. HEW made a number of improvements in line with GAO's recommendations. (See Appendix, Section I, Items 21, 22, 23, 24, 26, 27, and 28.)

*Medicare*

Five reports to the Senate and House legislative committees dealt with Medicare payments for the services of supervisory and teaching physicians in various hospitals. The Medicare program is administered by the Social Security Administration, HEW. GAO described the serious problems that had been encountered in administering the program as the result of payments being made to the physicians or to the hospitals on a fee-for-service basis for physicians' services that, according to the hospitals' records, had been provided by residents and interns. Inasmuch as the costs of the residents' and interns' services were also reimbursable to the hospitals under the Medicare program, the program could have been paying twice for the same services.

At June 30, 1971, the Congress was considering changes in Medicare and Medicaid legislation which, under certain conditions, would provide for paying for supervisory and teaching physicians' services in hospitals on a cost basis rather than on the traditional fee-for-service basis. Also, HEW was taking action to determine the extent of and to recover the questionable or excessive Medicare payments disclosed by GAO's reviews. (See Appendix, Section I, Item 63.)

Appropriate final accountings or timely reviews had not been made of billions of dollars of Medicare funds paid out on the basis of the estimated cost of services long since provided by hospitals and other institutions because of lengthy delays in making settlements. Some of the delays were attributed in part to the use of an HEW-authorized reimbursement method which resulted in Medicare payments that included private room costs, which were not covered under the Medi-

## CIVIL OPERATIONS

care program, and delivery room costs, which were not applicable to Medicare patients.

In line with GAO's recommendation that HEW discontinue or modify this questionable reimbursement method, HEW took action which it estimated would reduce Medicare costs by about \$100 million in fiscal year 1972. HEW also agreed to take other actions in line with GAO recommendations to improve the process of making settlements. (See Appendix, Section I, Item 64.)

Medicare payments on behalf of eligible railroad workers and annuitants of the Railroad Retirement Board (RRB) are made by a single carrier under contract with the RRB. In exploring ways by which Medicare could be administered more effectively and economically, GAO inquired into the costs incurred by the RRB carrier compared to the costs of making such payments through the 50 carriers under contract with the Social Security Administration (SSA). GAO estimated that benefit payments by the RRB carrier were about \$2.9 million higher than the payments that would have been made by the SSA carriers for like medical services in fiscal year 1970 and that administrative costs of as much as \$2.8 million could be saved by paying the claims through the SSA carriers.

HEW stated that it was not prepared, without additional review, to accept GAO's recommendation that the claims-processing activities be consolidated, and said that, as an alternative, it planned to have the RRB carrier experiment in determining reasonable charges for physicians' services. GAO suggested that the Congress might wish to consider the recommendation for consolidation and review the plans for the proposed experiments. (See Appendix, Section I, Item 65.)

In a series of reports—one to the Congress and three to the Commissioner of Social Security—GAO commented on the varying procedures used by selected Medicare carriers to determine the reasonableness of physicians' charges and to process and pay Medicare claims. GAO pointed out, among other things, that payments were made in excess of the established reasonable charges for the services performed, duplicate payments were made, and payments were made without obtaining adequate evidence that the charges were reasonable or that the services were covered by Medicare.

HEW advised GAO that the carriers and SSA had taken action to improve the processing of Medicare claims and the overall administration of the Medicare program. GAO believed that further improvements were needed and recommended that certain specific

actions be taken. HEW subsequently advised GAO that it had taken the recommended actions. (See Appendix, Section I, Item 66.)

### *General*

Other reviews made at the request of congressional committees and Members of the Congress related to such matters as the progress made by the Department in improving its automated payroll procedures, the development of plans for desegregating student bodies of certain public schools in Florida, practices of certain nursing homes in the Baltimore, Md., area, problems in implementing the simplified method for determining eligibility of persons for adult public assistance programs, and payments to hospitals and extended-care facilities for depreciation expenses under the Medicare program.

Among the reports to Department officials was a report on opportunities for savings by authorizing Medicare contractors to use Government sources of supply and a report on the need for improvement in the fiscal management of research and demonstration grant programs of the Children's Bureau. (See Appendix, Section I, Items 62 and 135.)

Another report, issued to HEW and the Civil Service Commission, related to the use of consultants and experts. GAO's review showed that neither HEW's procedures for controlling their hiring and use nor the Commission's procedures for monitoring other agencies' procedures were effective enough to insure compliance with laws and instructions governing their employment. (See Appendix, Section I, Item 237.)

Audit work in process included reviews of the Department's programs related to comprehensive health planning, communicable diseases, rehabilitating narcotic addicts, biomedical research, health professions education, monitoring of drug preparation, regulation of food processing establishments, teacher training, income maintenance and social service aspects of welfare, Medicare, Medicaid, and the administration of black-lung benefits.

## **Department of Housing and Urban Development**

As a result of reviews of activities of the Department of Housing and Urban Development (HUD), GAO submitted 23 reports to the Congress: eight reports to the Congress as a whole and 15 to its committees or

Members. In addition 11 reports were issued to HUD officials. The reports dealt principally with urban renewal, mortgage financing, housing assistance, and metropolitan development.

One report to the Congress showed that despite the fact that the legislative history of the urban renewal program indicated congressional intent that urban renewal contribute to the improvement of urban housing, the program has resulted in a significant reduction in housing, particularly for low- and moderate-income families. In 324 cities, 88,000 more dwelling units were demolished under that program than were built for low- and moderate-income families under all of HUD's housing programs. The program concentrated primarily on commercial, institutional, and industrial development, rather than on housing, particularly from 1959 to 1968.

GAO reported that HUD's method of allocating funds took insufficient account of the national housing goal and recommended an improved system to insure that all HUD projects—not just urban renewal—are responsive to housing needs. HUD stated that it was devising new criteria and a revised allocation system for the urban renewal program but regarded as unjustified GAO's conclusion that program funds had not been effectively allocated. (See Appendix, Section I, Item 69.)

Another report stated that procedures and practices of HUD and project owners were not adequate to insure that multifamily housing provided for low- and moderate-income families under the mortgage insurance program authorized by section 221 of the National Housing Act was being occupied by families intended to be served by the act. GAO's tests showed that housing units were being occupied by families whose incomes may have exceeded the prescribed limits for occupancy. Income information may not have included all relevant data, may not have been current at the time of occupancy, and was not verified to determine eligibility for continued occupancy.

HUD stated that GAO's findings and recommendations would be studied carefully but did not agree that income information should be updated prior to occupancy or that minimum rental rates should be established at an appropriate percentage of income, as required under the new section 236 program for lower income families. GAO suggested, therefore, that the Congress might wish to consider whether such minimum rental rates should be established. (See Appendix, Section I, Item 49.)

Financial aid is furnished to local housing authorities to acquire and rehabilitate housing for sale or rental to low-income families. Because, contrary to approved plans, considerably more of the acquired units consisted of multifamily housing rather than single-family housing and many units were located near industrial and commercial sites, the possibility of low-income families, and their incentive for, purchasing their own homes was greatly reduced. Also, the selection of houses for acquisition and rehabilitation was made in a manner that did not encourage repair of adjacent houses by their owners. The program was ineffective also because of important deviations from contract specifications and from HUD's minimum standards of livability and construction and because there was a need to improve specifications to assure use of the most appropriate materials.

Although HUD took some action concerning construction deficiencies, it did not agree with GAO's position that it should assign more inspectors to insure that the program is carried out in accordance with approved plans and procedures. Subsequent to the issuance of GAO's report, however, the Secretary of HUD informed GAO that, as a result of decentralizing the operations of HUD, the new field organizations would be in a position to increase surveillance of local rehabilitation programs. (See Appendix, Section I, Item 50.)

GAO reported that where the low bid for construction of low-rent public housing exceeded the cost limitation approved by HUD, which it frequently did, HUD generally permitted contract award only after the local housing authority (1) negotiated a reduction with the lowest bidder for work of reduced scope, (2) resolicited bids on the basis of revised plans, and/or (3) obtained HUD's approval of an increased cost limitation. GAO expressed the belief that resultant delays and increased costs could be minimized if (1) HUD reviewed cost estimates carefully before approving cost limitations, (2) the use of negotiations was limited so as to obtain the full benefit of competition, and (3) local housing authorities were required to prepare detailed estimates of the cost of proposed changes as a basis for negotiation.

HUD was pessimistic about the possibility of preparing realistic cost estimates and did not agree that local authorities should be required to use independent cost estimates in negotiating prices for changes. HUD did adopt some revised procedures to help minimize processing delays. (See Appendix, Section I, Item 51.)

## CIVIL OPERATIONS

GAO reported also that certain grantees were leasing land acquired under the open-space land program without HUD's knowledge or approval—contrary to the requirements of the grant contracts—and that the lease revenues were being deposited into the grantees' general operating funds and were not being set aside for open-space land project activities. HUD had not established procedures for insuring that grantees obtain approval prior to leasing and had not developed guidelines relating to the use of revenues received from such leasing. HUD took action to require (1) reviews and followup reviews of certain grants, (2) compliance site inspections of projects, and (3) certifications from all grantees that the terms and conditions of their grant contracts were being met. HUD advised GAO that instructions regarding the use of lease revenues would be issued. (See Appendix, Section I, Item 68.)

In other reports to the Congress, GAO expressed its opinions on the financial statements of (1) the Government National Mortgage Association for fiscal year 1969 and the Federal National Mortgage Association for the 2-month period ended August 31, 1968, (2) the insurance operations of the Federal Housing Administration for fiscal year 1970, and (3) the Government National Mortgage Association for fiscal year 1970.

In response to an inquiry from a Member of Congress, GAO reported that HUD's decision to insure a \$4.4 million mortgage loan for purchase and rehabilitation of an apartment complex had not been supported by an adequate financial analysis. GAO recommended that the Secretary of HUD require, as a matter of policy, that fair market value appraisals be made and used in determining the amounts to be included in insured mortgage loans for the purchase of property to be rehabilitated. HUD advised GAO that the recommendation would be adopted. (See Appendix, Section I, Item 52.)

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

## Department of the Interior

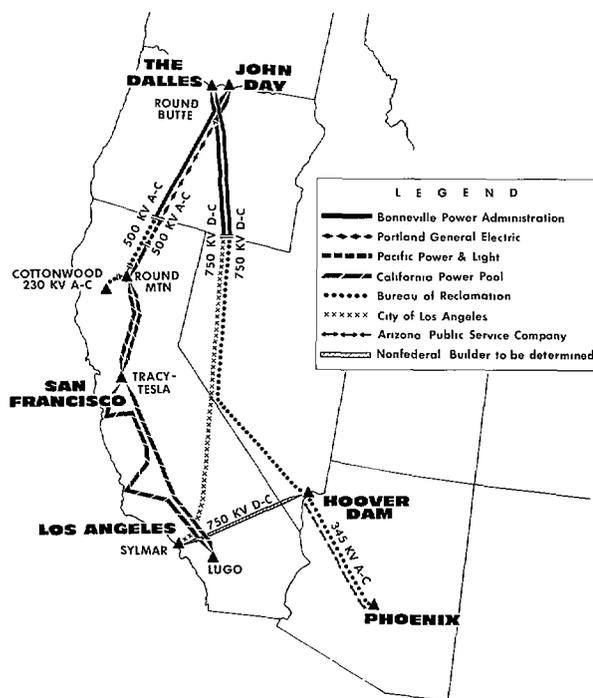
GAO submitted seven reports to the Congress on reviews of Department of the Interior operations. Of these reports, four were submitted to the Congress as

a whole and three were submitted to committees or Members. Also, eight reports were issued to Department or agency officials. Excluded from these numbers are two reports to the Congress and two reports to agency officials on operations of the Federal Water Quality Administration which are commented on in the section of this report applicable to its successor agency, the Environmental Protection Agency.

One of GAO's reports to the Congress related to the Department's Celilo-Mead project, a part of the Pacific Northwest-Southwest Intertie program to connect the electrical systems of nine western States. GAO had concluded that the demands for power from the project were less than anticipated by the Department in its 1964 feasibility report on the project and, as a result, the project might not be self-liquidating within the planned 50-year period. A Department study made in 1969 reaffirmed that the project would be self-liquidating, but GAO found that the Department's projected demands for project power were significantly overstated.

Although the Department postponed completion of the \$185 million project, it disagreed with GAO recommendations to (1) obtain commitments from pro-

## PACIFIC NORTHWEST - SOUTHWEST INTERTIE



Map as contained in Department of the Interior's October 1964 Report on the Feasibility of the Celilo-Mead Project.

spective power users before undertaking additional construction on the project and (2) advise the Congress of any problem in obtaining such commitments so it could reconsider authorization of the project. GAO continues to believe, however, that its recommendations should be adopted if the Department decides that there is a need to complete the project. (See Appendix, Section I, Item 74.)

Roads and bridges to be flooded as a result of water resources projects of the Bureau of Reclamation may be relocated at Government expense. GAO reported that the Bureau, in financing the entire cost of constructing a bridge at the Auburn Dam and Reservoir in California to accommodate projected rather than current traffic, was incurring an additional cost of about \$1.5 million which was not eligible for Federal financing under the law. Legislation was subsequently enacted, however, which authorized the Bureau to finance the entire cost of the bridge. GAO recommended that the Bureau establish policies and procedures in accordance with the basic legislation—the Flood Control Act of 1960, as amended—for use in future relocations of roads and bridges.

GAO also recommended that little-used dirt roads and bridges which were going to be replaced by a new highway system costing \$26.2 million be abandoned rather than replaced and that the Bureau reconsider several alternatives to the site chosen for a planned bridge location to determine which is the most economical when both costs and benefits, rather than costs alone, are considered.

The Department disagreed with each of GAO's recommendations. (See Appendix, Section I, Items 75, 76, and 77.)

In other reports to the Congress, GAO expressed its opinion on the financial statements prepared by the Bonneville Power Administration for the Federal Columbia River Power System and the need for substantial improvements in the financial management of the Virgin Islands Government.

In a report to the Subcommittee on Labor, Senate Committee on Labor and Public Welfare, GAO reported that, while some progress had been made in implementation of the Federal Coal Mine Health and Safety Act of 1969 during the first year following enactment, much remained to be done to achieve full compliance. The Bureau of Mines had not made the required number of inspections. Neither had the mine operators made various required samplings and inspec-

tions. In many cases, mine operators had not submitted required plans to the Bureau of Mines for approval on such matters as roof safety and mine ventilation, and the Bureau had not approved many of the plans that had been submitted.

Many repeated violations of safety standards were found by Bureau inspectors which GAO believed were attributable, at least in part, to the fact that the Department's policies for enforcing the health and safety standards have at times been extremely lenient, confusing, uncertain, and inequitable. GAO cited many other weaknesses in the Bureau's implementation of the health and safety program and made various proposals to the Secretary of the Interior to achieve improvements.

The Department of the Interior stated that, with one exception, actions had been initiated or planned to respond to all of GAO's suggestions. GAO believes the Department should give further consideration to the possibility of using less highly qualified persons to make health inspections if the Department experiences difficulty in recruiting the required number of regular coal mine inspectors. (See Appendix, Section I, Item 8.)

Audit work in process included reviews of such activities as power rate and repayment studies, the financial operations of the Southwestern Federal Power System, and the interest rate criteria used in determining the financial cost allocated to municipal and industrial water supply projects. Other reviews were being made of the education and employment assistance programs of the Bureau of Indian Affairs and the results achieved in awarding Federal grants for outdoor recreation.

## Department of Justice

During fiscal year 1971, GAO submitted a report to the Congress in which it expressed its opinion on the financial statements of the Federal Prison Industries, Inc., for fiscal year 1970. A report to the Commissioner of Industries commented on the need for the Federal Prison Industries, Inc., to revise certain accounting, procurement, and administrative practices.

A report to the Attorney General commented on improvements needed in the Immigration and Naturalization Service's accounting system, and a report to the Commissioner, Immigration and Naturalization Service, commented on questionable uncontrollable overtime claims and the need to reevaluate the use made

## CIVIL OPERATIONS

of electronic vehicle and pedestrian counting devices at border-crossing stations between the United States and Canada. (See Appendix, Section I, Items 166, 176, and 188.)

Nine other reports were issued to Department or agency officials during the year.

Audit work in process included reviews of such activities as collection practices, accelerated inspection of persons entering the United States, grants and contracts for law enforcement and education purposes, and efforts to control the abuse of dangerous drugs.

## Department of Labor

GAO's principal audit emphasis at the Department of Labor was directed to reviewing the major Federal manpower training programs and activities of the Manpower Administration. Other reviews included the Neighborhood Youth Corps, Concentrated Employment, and related programs authorized by the Economic Opportunity Act of 1964, as amended, and administered under authority delegated by the Office of Economic Opportunity. Reviews were also made of departmental determinations of prevailing wage rates under the Davis-Bacon Act and other acts.

GAO submitted four reports to the Congress on reviews of Federal manpower training programs. These reports discussed the (1) evaluation of the results and administration of the Job Opportunities in the Business Sector program in five cities, (2) Special Impact program in Los Angeles not meeting its goal of providing jobs for the disadvantaged, (3) need to enhance the effectiveness of on-the-job training in Appalachian Tennessee, and (4) opportunities for improving training results and efficiency at the East Bay Skills Center, Oakland, Calif. A fifth report to the Congress discussed the increase in construction costs for certain federally financed housing projects resulting from inappropriate minimum wage determinations by the Department.

Four reports were submitted to congressional committees or Members of the Congress pursuant to their requests for information on certain Department of Labor operations and activities. In addition, five reports were issued to Department officials.

In April 1971, GAO representatives testified in hearings before the Special Subcommittee on Labor, House Committee on Education and Labor, on matters relating to GAO's review of the Department's

wage determination activities under the Service Contract Act of 1965; a legal decision rendered by the Comptroller General on September 19, 1969, which held against the use of wage escalation provisions in wage determinations; and certain legislative proposals of the 92d Congress, 1st session, to amend the Service Contract Act.

GAO's report to the Congress on the Job Opportunities in the Business Sector program included an analysis of data on the results of program operations. In response to GAO's recommendations to (1) improve the management information system, (2) modify the design of the program, and (3) adopt new procedures and practices to improve the administration of the program, the Department said that it concurred for the most part and cited various corrective actions that either had been taken or were being considered. However, the Department said that it did not concur with GAO's recommendation that, where cost experience is lacking, contracting for training and related services be on a cost-reimbursement basis rather than on a fixed-unit-price basis. (See Appendix, Section I, Item 53.)

In its report on the Special Impact program in Los Angeles, GAO commented that the program had fallen far short of accomplishing its goal of providing jobs for the disadvantaged and had been poorly administered by the Department. The program's shortcomings were exemplified by the fact that at June 1, 1970, the 10 private contractors in the program—who were to receive about \$8.9 million to build or lease manufacturing facilities and to provide 3,751 hardcore unemployed and disadvantaged persons training and jobs—were employing only 526 persons and the hiring periods had expired for eight of the 10 contractors.

GAO concluded that the program could have been effective with proper planning, careful selection of contractors, and adequate monitoring by the Department. The Department agreed with GAO's findings and stated that the GAO recommendations which were germane to the current status of the program had been implemented to the fullest extent possible. (See Appendix, Section I, Item 54.)

The report covering the on-the-job training program in Appalachian Tennessee concluded that the Department, the State Employment Service, and the two community agencies involved needed to substantially improve certain program operations. Most employers visited were not providing any training be-

yond that normally provided to new employees or generally were not hiring persons with different qualifications from those normally hired. Some persons whom the employers reported as receiving entry-level skill training already possessed extensive experience in that skill. Also, closer coordination was needed between the Department, the Employment Service, and the community agencies designated to carry out the program.

The Department told GAO that internal studies had produced substantially the same conclusions as those reached by GAO, and that in many cases the Department had taken steps to correct the problems. (See Appendix, Section I, Item 55.)

In a report to the Congress on the operations of a manpower training skills center in Oakland, Calif., GAO stated that the center's facilities were substantially under-used because of delays between the completion of one training course and the start of a follow-on course and because the use of an inflexible curriculum did not readily permit new trainees to enter courses except at certain prescribed times. Also, GAO commented on the changes in the procedures for funding the center. Other problems concerned the selection of individuals for training, and counseling and followup services provided to trainees. The Departments of Labor and Health, Education, and Welfare stated their general agreement with GAO's recommendations and outlined corrective actions to improve the center's operations. (See Appendix, Section I, Item 56.)

GAO also reported that construction costs on 11 federally financed housing projects in New Jersey, Oklahoma, Pennsylvania, and Virginia could be increased by about \$3.9 million because the minimum wage rates which the Department established under the Davis-Bacon Act were higher than the rates prevailing in these areas for similar private residential housing construction projects. In response to GAO recommendations, the Department stated that action was being taken to (1) seek wage determinations which reflect accurately the prevailing wage rates for residential housing construction, (2) conduct more on-site surveys, (3) revise its procedures to clarify distinctions between different types of construction and to facilitate more adequate collection of relevant data, and (4) obtain from the Department of Housing and Urban Development wage data on residential construction. (See Appendix, Section I, Item 71.)

## Post Office Department

GAO's review of Post Office Department operations during fiscal year 1971 covered such activities as the utilization of manpower and machinery to process mail, the assessment and collection of postage and related fees, and the transportation of mail. As a result of its audit work, GAO submitted 11 reports to the Congress: five to the Congress as a whole and six to committees or Members. Twelve reports were issued to Department officials.

After a review to ascertain whether the Post Office Department was making the most effective use of manpower and machines in processing mail, GAO concluded that the Department was not. Because most mailings occur at the end of each business day, the Department's efforts to process first-class mail within 90 minutes of receipt resulted in costly machines standing idle for long periods after the peak mail volume had been processed and in many clerks and mailhandlers working during evening premium pay hours. Such expeditious processing was not necessary to meet mailers' needs. Also, mail was being hand sorted at small post offices although better utilization of resources could have been obtained if the mail had been funneled into large, mechanized post offices for machine processing. GAO's recommendations for improvement and the Department's response were contained in GAO's report to the Congress. (See Appendix, Section I, Item 177.)

In another review, GAO noted that the Department appeared to place almost complete reliance on information provided by publishers in determining the amount of postage due for second-class mail. A further examination showed that publishers were charged the lower second-class postal rates although the publications did not meet the requirements for the lower rates. The Department had not established adequate specific criteria and its examinations of publishers' records were neither timely nor effective. GAO reported that the Department's revenues could be increased significantly if administrative improvements were made. (See Appendix, Section I, Item 239.)

In another report to the Congress, GAO pointed out that the Department had not been recovering all postage due on mail with insufficient postage and had not been recovering any of the costs of detecting and collecting postage due. GAO's report contained several recommendations designed to help solve this costly problem. (See Appendix, Section I, Item 240.)

## CIVIL OPERATIONS

The Congress, concerned about the amount of expenditures and the size of the staffs of the Department's regional offices, had placed ceilings on the staffing at such offices. Subsequently, the Department transferred 15 activities and related positions from its regional offices to local post offices although the activities were essentially regional ones. GAO reported that the transfers did not appear to be consistent with congressional intent regarding ceilings on regional staffing and costs, and that there was a loss of efficiency in the regional offices. The Department agreed that certain of the transferred work could be performed more efficiently in the regional offices and stated that these activities were being returned to the regions as quickly as they could be absorbed within personnel ceilings. (See Appendix, Section I, Item 238.)

In another report to the Congress, GAO stated that the Department could reduce its maintenance costs on certain mail-handling equipment, without adversely affecting the operation of the equipment, by reducing the frequency of certain routine preventive maintenance and by reducing the time prescribed for performing such maintenance. The Department concurred with GAO's recommendations and stated that it would review its maintenance management system. (See Appendix, Section I, Item 211.)

In a report to a Member of Congress on a review made at his request, GAO stated that the Department had exceeded its legal authority in its use of emergency contracts for air taxi service to transport mail; that a number of contracts were awarded without obtaining formal competitive bids, which may have increased costs; and that questionable contract rate increases were granted because the Department did not have adequate procedures for evaluating rate increases requested by the contractors. (See Appendix, Section I, Item 229.)

Audit work in process included reviews of the eligibility of certain organizations to mail matter at reduced rates, the adequacy of fees charged for certain services rendered, and the system used to ascertain the revenues derived from and the cost of handling the several classes of mail and performing certain services.

### Department of Transportation

A significant portion of GAO's audit effort in the Department of Transportation was devoted to reviewing activities of the Federal Aviation Administration

(FAA), the Federal Highway Administration (FHWA), the Federal Railroad Administration (FRA), the U.S. Coast Guard, and the Urban Mass Transportation Administration (UMTA).

Twelve reports were submitted to the Congress on reviews of Department operations: eight of these were submitted to the Congress as a whole and four were submitted to its committees or Members. In addition, 14 reports were issued to Department or agency officials.

As part of its requirement to promote flight safety of civil aircraft, FAA provides limited surveillance over the production operations of certain aircraft parts manufacturers and their suppliers, but certain parts critical to flight safety that are furnished by suppliers to aircraft manufacturers or owners generally were not subjected to production surveillance by FAA or by the manufacturers.

Officials of the Department were generally aware of the problems noted by GAO in its report to the Congress on this subject and stated that, upon completion in July 1971 of a review then in process, corrective action would be taken to strengthen the administration of the program. GAO suggested, however, that since certain parts had contributed to accidents and incidents, prompter action was needed. The Department then instituted immediate requirements to bring the designated critical parts under production surveillance. (See Appendix, Section I, Item 4.)

Also, GAO reported that although it is FAA's responsibility to promote flight safety of civil aircraft, FAA did not have a program specifically designed to evaluate the safety of public airports, which include air carrier and general aviation airports. Subsequently, the Department indicated that it intended to implement GAO's suggestion for a safety inspection program with respect to air carrier airports as a part of its overall implementation of the Airport and Airway Development Act of 1970, and that it planned to survey general aviation airports and implement safety standards as needed. (See Appendix, Section I, Item 5.)

FAA needed to strengthen its practices for procuring and managing inventories of spare parts for use in maintaining its network of air traffic control and air navigational aid facilities. GAO recommended that, instead of determining needs solely on the basis of usage over a prior period, FAA should develop information on the types and numbers of facilities in use, the particular needs of each type of facility, and their

expected useful lives. FAA should also insure that such information is appropriately used. The recommended procedures would obviate the need for large-scale disposals such as occurred previously when FAA declared as excess spare parts costing about \$9 million. The Department acknowledged that FAA's procedures could be improved. (See Appendix, Section I, Item 217.)

In a report relating to the Interstate Highway System, GAO pointed out that FHWA's policy of approving short segments of interstate highway on a case-by-case basis resulted in the approval of one \$47 million route which does not provide the general benefits normally associated with interstate highways. Previously, requests for authority to construct other routes were not approved although they appeared to be more justified in terms of traffic and national significance. GAO suggested a method for ranking requests for additional mileage that would afford all States an equal opportunity to compete for additional mileage, would serve as a means of clearly identifying various alternatives, and would provide more assurance that mileage is allocated on the basis of the most important needs. (See Appendix, Section I, Item 33.)

In another report, GAO pointed out the need for FHWA to (1) require the States to establish and adhere to a system of priorities to insure that highway safety rest areas are constructed first where most needed, (2) provide and require the States to adhere to definitive guidelines which would limit the amount of land and the size, type, quality, and cost of rest area facilities and equipment acceptable for Federal financial participation, and (3) establish review procedures at the national level to insure that such priorities and guidelines are being followed.

The Department advised that, in revising its existing guidelines, FHWA would consider the advisability of specific guidelines along the line suggested by GAO, but that it believed the establishment of specific cost limitations for equipment would not be proper. GAO believes that without cost limitations there will continue to be a lack of assurance that equipment, generally paid for in full by the Federal Government, will be provided at reasonable cost. (See Appendix, Section I, Item 34.)

Metroliner and Turbo-Train services between various east coast cities introduced as demonstration projects sponsored and funded by FRA, were started several years behind schedule and did not become fully operational due to technical problems with the trains.

Since these trains were an advancement of the state of the art, it was not known if they would operate as anticipated. Contracts totaling over \$19 million were let, however, for the lease of two Turbo-Trains and the construction of 50 Metroliners without benefit of prototypes. Also, the contracts contained no provision for adjustment of the amount of funds to be contributed by the Government if the trains could not be used as planned.

The Department agreed with GAO's recommendations to encourage the future use of prototypes on demonstration programs involving new equipment and to provide in future contracts for price adjustments if the equipment is not used to the degree planned. (See Appendix, Section I, Item 123.)

In another report GAO stated that an opportunity existed for the Coast Guard to reduce the cost of vessel construction by not requiring shipbuilders to buy insurance and performance and payment bonds. GAO estimated that insurance premiums and bond costs would amount to as much as \$6 million on planned construction. The Department advised GAO that the Coast Guard would adopt the general Government-wide policy of self-insurance and that it had waived the requirement for performance and payment bonds in its latest shipbuilding award. (See Appendix, Section I, Item 179.)

In another report to the Congress, GAO expressed its opinion on the financial statements of the Saint Lawrence Seaway Development Corporation for the calendar year 1969.

In reports to Department or agency officials, GAO commented on the need for (1) improvement in FRA's contracting practices and procedures, (2) UMTA to improve its procedures for determining the amount of financial assistance to be granted to State and local agencies for providing mass-transportation service in urban areas, and (3) UMTA to improve its accounting and financial reporting system. (See Appendix, Section I, Items 124, 61, and 168.)

Audit work in process included reviews of programs related to FAA's efforts to automate and improve the air traffic control system, selected aircraft programs, FAA's programming and planning of air navigational aid and traffic control projects, construction of complex urban highways, problems associated with urban transportation planning, highway safety programs, FHWA's review and approval process for highway construction projects, and the administration of grants awarded to improve rail rapid transit systems.

## CIVIL OPERATIONS

### Department of the Treasury

During the fiscal year, GAO submitted two reports to the Congress as a whole and one to a congressional committee. Also, 19 reports were issued to Department or agency officials.

As required by law, funds for financing the Office of the Comptroller of the Currency are obtained by assessments against the national banks which it regulates and supervises. GAO believed that it was inconsistent for the Office of the Comptroller to bear the cost of leased space in privately owned buildings and not the cost of space occupied in Government-owned buildings. The Office occupied almost as much space in Government-owned buildings as it did in privately owned buildings for which it paid an annual rental of \$390,000.

Officials in the Office of the Comptroller stated that they agreed with the principle of paying for space occupied in Government-owned buildings and would negotiate rental rates when requested by the Federal agencies that furnished the space. However, no final agreements had been reached as of June 30, 1971. (See Appendix, Section I, Item 243.)

In the other report to the Congress, GAO expressed its opinion on the financial statements of the accountability of the Treasurer of the United States for fiscal years 1968 and 1969.

The report to the congressional committee involved an evaluation of costs cited by the Treasury Department as one of its justifications for raising the minimum denomination of Treasury bills. Reports to agency officials related to such matters as accounting for import duties by the Bureau of Customs automated revenue accounting system, certain tax return processing techniques at Internal Revenue Service service centers, procedures and controls over merchandise entered in a foreign trade zone and bonded warehouses, separate mailing to the same recipients of both proof and uncirculated coin sets, cancellation and destruction of unfit currency at various Federal Reserve banks and branches, and settlement of accounts of accountable officers.

A report to the Secretary of the Treasury commented on the need to improve procedures for the collection of supplemental duties on imported merchandise. Supplemental duties are payable by sureties if the importers do not pay them within 75 days. Certain sureties were not promptly honoring demands for payment of delinquent accounts. At GAO's suggestion, the Com-

missioner of Customs demanded payment of about \$1.4 million from the largest surety which had failed to honor demands from Customs regional offices. Shortly thereafter, all unprotested receivables were paid by the importers or the surety company. The Bureau also issued revised instructions designed to improve its collection procedures. (See Appendix, Section I, Item 244.)

Audit work in process included reviews of the management of trust funds, financial statements of the Bureau of Engraving and Printing, and controls over the collection of delinquent taxes.

### Appalachian Regional Commission

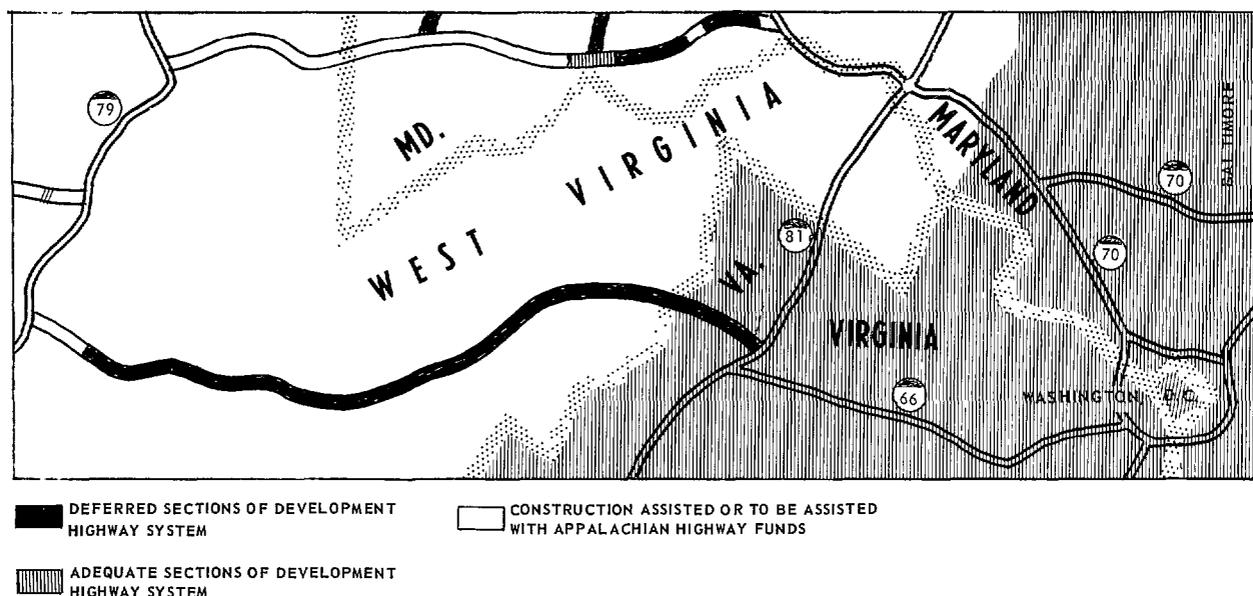
In a review made to determine whether the highway system being constructed to promote the economic development of the Appalachian region was achieving its objective, GAO found that the Appalachian Regional Commission, created by the Appalachian Regional Development Act of 1965, had not established construction priorities directed toward achieving the greatest contribution at the earliest time nor had it determined whether priorities established by the States were directed toward that end.

GAO believed that an opportunity still existed for the Commission to give priority to projects that would contribute most toward improving accessibility to, through, and within the region. Inasmuch as the Commission disagreed with GAO's conclusions, GAO suggested that the Congress might wish to consider requiring the Commission to allocate remaining funds toward that end. (See Appendix, Section I, Item 37.)

### Atomic Energy Commission

GAO submitted seven reports to the Joint Committee on Atomic Energy, one report to the Congress as a whole, and eight reports to officials of the Atomic Energy Commission (AEC) on various activities of AEC.

The report to the Congress commented on the causes for the delay in the design of the Fast Flux Test Facility (FFTF), the highest priority project in the AEC Liquid Metal Fast Breeder Reactor program. The conceptual design of the FFTF, the first step in the design cycle, was delayed and thereby caused compressed schedules on the remaining phases of the work.



These delays were caused by management problems; specifically, the failure to establish an engineering-oriented organization with sufficient capabilities to develop such a complex project. AEC agreed to review the reactor development and technology organization and all levels involved with the project to streamline the organization, to strengthen review channels, and to provide assurance that management and staff would make maximum contributions to this high-priority project. (See Appendix, Section I, Item 128.)

At the request of the Joint Committee, GAO reviewed and issued a report on proposals made by AEC in June 1970 to amend its Uranium Enrichment Services Criteria and to increase its price for such services. GAO stated that, on the basis of its interpretation of applicable legislative history, AEC's proposed change to a commercial criteria should not be adopted without further action by the Congress. With respect to the proposed price increase, GAO concluded that, because of cost escalation and operating levels lower than anticipated, a price increase might be warranted. (See Appendix, Section I, Item 6.)

After issuance of the above report, the Congress enacted legislation amending the Atomic Energy Act of 1954 and clarifying its intent that the criteria for establishing charges for uranium enrichment services be based on recovery of Government costs.

In December 1970, AEC proposed another revision to the Uranium Enrichment Services Criteria as a result of this legislation. AEC also proposed to increase the price for enrichment services. In response to a request of the Joint Committee, GAO reviewed these

proposals and reported that AEC's proposed revised criteria were identical to the original criteria, except for certain language modifications made to conform to the wording of the amendment. GAO expressed the belief that (1) the provisions of the criteria having an effect on pricing provided an adequate basis for recovering, over a reasonable period of time, appropriate Government costs of furnishing enrichment services and (2) the proposed price was consistent with the pricing provisions of the revised criteria.

AEC agreed to accept GAO's suggestions that financial statements showing the results of the enrichment activity, which AEC intended to prepare, be published annually and that AEC periodically prepare current projections of costs and revenues. GAO stated that such information would provide AEC and the Joint Committee with an indication of the extent to which the established price is meeting the objective of recovering the Government's cost over a reasonable period of time. (See Appendix, Section I, Item 6.)

In a report to the Joint Committee on AEC's policies and procedures for management of high-level radioactive wastes, GAO pointed out that, although progress had been made by AEC, some problems remained to be resolved. Delays were being experienced in implementing certain policies and practices because of a need for more definitive technology on such matters as the relative merits of alternative practices and proposals for interim and long-term storage. Also, AEC had not developed an overall coordinated plan for resolving its waste management problems and for achieving its objectives.

## CIVIL OPERATIONS

In response to GAO's suggestions, AEC agreed to place responsibility for development of such a plan in the Division of Waste and Scrap Management and to give that division other responsibilities necessary to provide for effective implementation of the plan. On June 29, 1971, AEC announced an organizational change which established a new Division of Waste Management and Transportation and abolished the Division of Waste and Scrap Management. (See Appendix, Section I, Item 7.)

In a report to the Joint Committee on the use and operating costs of AEC's high energy accelerators, GAO pointed out that there was a need for greater uniformity in the cost data being reported to AEC by contractor-operated accelerator laboratories and that more information should be available to AEC as to the costs of operating the accelerators at various levels to enable AEC to more fully evaluate the effects of alternative funding decisions. AEC agreed to implement procedures to achieve greater uniformity in the cost data reported by the accelerator laboratories and has agreed to require the laboratories to submit additional data on accelerator costs and output at various levels of accelerator operations for use, on a trial basis, in budgeting and program administration. (See Appendix, Section I, Items 169 and 170.)

Audit work in process included reviews of (1) the cost, schedule, and design aspects of selected large construction projects and (2) scientific and technical information dissemination activities.

### Civil Service Commission

GAO's major audit effort in the Civil Service Commission was devoted to reviewing the Federal employees health benefits program. During the year, a report was submitted to the Congress on a review of the Government-wide service benefit plan for Federal employees, operated by Blue Cross and Blue Shield organizations. In addition, two reports were submitted to Members of the Congress and one report was submitted to the Commission on other Commission activities.

In the report on the service benefit plan, GAO pointed out an opportunity for the Commission to increase the interest income earned by the plan by insuring that all funds not immediately needed by the plan's operations center are promptly invested, refunds collected from hospitals by local Blue Cross and Blue

Shield organizations are promptly remitted to the plan's operations center, and advances of funds from the operations center to local organizations do not exceed the amounts needed to meet current obligations.

GAO also recommended that the Commission study the necessity for continuing to make allowances to local organizations to assist in meeting State contingency reserve requirements and require a change in the method of allocating interest income between the reserves for high- and low-option insurance.

A subsequent change made in the procedures for reimbursing local organizations will result in increasing interest income by about \$400,000 a year. Also, the Commission took action or agreed to take action in line with GAO's other recommendations. (See Appendix, Section I, Item 185.)

At June 30, 1971, reviews were in process on the Commission's administration of the Government-wide indemnity benefit plan of the Federal employees health benefits program, certain activities financed out of the Commission's revolving fund, and the Civil Service retirement and disability program.

### District of Columbia Government

During fiscal year 1971, GAO submitted two reports to the Congress on reviews of District Government operations. One was submitted to a committee and the other was submitted to a Member of Congress. Three reports were issued to District Government officials.

The reports submitted to the Congress involved the level of Federal assistance to the District and financial and property administration of Federal City College.

Pursuant to requests from the chairman, House Committee on the District of Columbia, and the chairman, Subcommittee on the District of Columbia, Senate Committee on Appropriations, GAO made an analysis and evaluation of proposed legislation which provided for changing the method of financing the capital improvement program of the District of Columbia. GAO officials testified on this analysis and evaluation during hearings held by the subcommittee on the District's fiscal year 1972 budget. GAO also provided the staff director of the subcommittee with three papers covering reviews of various District activities to assist the subcommittee in reviewing the District's fiscal year 1972 appropriation request.

In reports to District officials, GAO commented on the need for department and agency officials to adhere to procurement manual instructions in negotiating

and awarding contracts for services and in making small open market purchases. (See Appendix, Section I, Items 121 and 134.)

Audit work in process included reviews of selected activities within the public safety, human resources, housing, and urban environment protection programs, as well as general reviews related to grants-in-aid and nontax revenue collections.

## Environmental Protection Agency

The Environmental Protection Agency (EPA) was established pursuant to Reorganization Plan No. 3 on December 2, 1970. EPA comprises the former activities of (1) the Federal Water Quality Administration, Department of the Interior, (2) the National Air Pollution Control Administration, Department of Health, Education, and Welfare (HEW), (3) the Bureau of Solid Waste Management, Water Hygiene, and Radiological Health, Environmental Control Administration, HEW, (4) the Division of Radiation Protection Standards, Atomic Energy Commission, and (5) the Departments of Agriculture, Interior, and HEW activities related to pesticides.

GAO submitted four reports to the Congress on activities of EPA or its predecessor agencies; two reports to the Congress as a whole and two reports to Members. Also, two reports were issued to agency officials. Most of the reports dealt with water pollution control activities.

In one report to the Congress, GAO stated that operation and maintenance problems at municipal waste treatment plants had been widespread for many years and had resulted in inefficient plant operation. These problems resulted from a lack of qualified operating personnel, inadequate controls over industrial wastes, and inadequate plant design or lack of adequate equipment.

EPA amended its regulations to require assurances from grant applicants that possibly harmful industrial wastes will receive pretreatment prior to discharge into the municipal sewage system and assurances from State water pollution control agencies that newly completed facilities will be inspected at least annually for the first 3 years and periodically thereafter. EPA also prepared guidelines dealing with plant design and operation and maintenance, and established an operation and maintenance function in each region to assist the States in developing their programs. (See Appendix, Section I, Item 72.)

In another report, GAO stated that, although some progress had been made in abating industrial water pollution, much more needed to be done. Some States had spurred industry to action, while in other States few tangible results could be seen. Wide variances existed in the levels of financing and staffing of the State water pollution control agencies. Activities such as planning and enforcement had been hampered by a lack of needed data. Enforcement was also limited by the absence of certain legislative authority.

The Department of the Interior indicated that a proposed amendment to the Federal law and certain actions taken or planned by EPA were in accord with three of GAO's recommendations for improvement. The Department disagreed with GAO's recommendation for providing additional guidance to regional personnel on enforcement procedures and with GAO's position that less than secondary treatment of wastes may suffice under certain circumstances. GAO recommended that the Congress consider these matters in its deliberations on proposed legislation. (See Appendix, Section I, Item 73.)

GAO representatives appeared before the House Committee on Public Works, in May 1971, to discuss GAO's issued reports and ongoing work related to EPA's water pollution control program.

Audit work in process included reviews of the water pollution research and development program, the air and water pollution enforcement program, the solid waste demonstration grant program, the solid waste management practices at Federal installations, and the program to control automobile exhaust emissions.

## General Services Administration

A significant portion of GAO's audit effort in the General Services Administration (GSA) was devoted to reviewing the acquisition and management of the Government's automatic data processing equipment, the management of the communications system in civil agencies, the stockpiling of strategic and critical materials, the management of the excess and surplus personal property programs, the acquisition of proposed construction sites, the leasing of office buildings, and the management of space in Government-occupied buildings. Four reports were submitted to the Congress as a whole and six were submitted to committees or Members. Also, five reports were issued to the Administrator of General Services or other agency officials.

## CIVIL OPERATIONS

GSA is responsible under Public Law 89-306 for carrying out a coordinated Government-wide program for the efficient and economical acquisition of general-purpose ADP equipment. GAO's review of progress under the program showed that the Government was not making maximum use of its ADP equipment purchase funds, primarily because agencies continued to make purchase decisions on the basis of their individual funding capabilities and needs.

Also, most of the Government's equipment was being obtained from system manufacturers under negotiated contracts through purchases or short-term rentals. GAO estimated that agencies having short-term leases could have saved up to \$155 million over a 5-year period if they had taken advantage of contracts that were, in effect, 1-year contracts with options to renew, or if they had had authority to enter into multiyear leases.

GAO recommended that GSA assure that the agencies obtain all possible benefits under their contracts, that the advantages of increasingly available competition be obtained both in purchasing and in leasing, that additional capital for purchasing equipment for other agencies' use be requested for GSA's ADP fund, and that GSA and the Office of Management and Budget assure that purchases are made on the basis of the best buy for the Government as a whole rather than for the individual agencies.

GAO suggested also that the Congress might wish to consider granting authority to GSA that would enable those agencies not otherwise able to do so to achieve the savings available from multiyear leasing instead of short-term leasing. (See Appendix, Section I, Item 197.)

Another GAO report showed that if excess Government-owned ADP equipment had been used to replace similar rented equipment, savings of \$920,000 could have been realized. Also, potential purchase credits of \$760,000 that could have been retained were lost in other transactions. GAO recommended that GSA improve its ADP management information system reports, emphasize use of the system to identify opportunities to redistribute excess equipment, and disseminate information on available purchase credits. GSA advised of steps it had taken or would take to implement GAO's recommendations. (See Appendix, Section I, Item 199.)

Another report concerned revised packing specifications for certain types of cabinets, lockers, and wardrobes which resulted in additional contract costs of at

least \$1.5 million. GAO concluded that the revised specifications, for which a cost-benefit analysis had not been made, provided for more elaborate packing than necessary. Although GSA maintained that avoidance of potential damage and loss in subsequent procurements outweighed any advantages that would have resulted from a cost-benefit study, GAO believes that the revised specifications should be reevaluated. (See Appendix, Section I, Item 114.)

GAO also reported that replacing GSA's sedans each year would save the Government an estimated \$5.1 million annually because (1) maintenance, repair, and tire costs are lowest during the first year of ownership and (2) the discount obtained by the Government when it purchases sedans substantially offsets the depreciation factor during the first year of ownership. Further, GAO reported that additional savings could result from extending the 1-year replacement standard to sedans of other Federal agencies and to station wagons and light trucks.

GSA agreed with GAO's findings. The Office of Management and Budget also agreed that a 1-year replacement standard was optimal but recommended that GSA continue the current 6-year replacement standard for the present, primarily because of the impact of the additional one-time capital investment on the Federal budget. GAO believes that the additional investment with imputed interest would be recovered through annual savings in about 2 years. (See Appendix, Section I, Item 130.)

Audit work in process included additional reviews of GSA's activities under its Government-wide responsibilities for the management of ADP equipment, and the continuance of reviews of the stockpiling of strategic and critical materials, the disposal of excess and surplus personal property, the construction and management of public buildings, and the management of communications and supply systems.

## National Aeronautics and Space Administration

During fiscal year 1971, GAO's work at the National Aeronautics and Space Administration (NASA) was performed at NASA headquarters and at various NASA field installations. Eleven reports were submitted to the Congress—four to the Congress as a whole and seven to committees or Members. Four reports were issued to agency officials. The reviews were concerned

principally with contracting, procurement, and various administrative activities.

A GAO review of two cost-plus-incentive-fee contracts for F-1 rocket engines for the Saturn V launch vehicle indicated large underruns of the target costs, which could result in larger fees for the contractor. An underrun could be due to an initial overestimate of cost rather than to contractor efficiency.

Further review showed that the target costs included amounts for certain materials and indirect costs which were overstated by about \$5 million because they were not based on the most accurate, complete, and current cost data available to the contractor when it submitted its pricing certificates. As a result, the total fees the contractor could earn under the contracts were increased by about \$1.5 million.

NASA advised GAO that it had requested the Defense Contract Audit Agency (DCAA) to conduct a postaward evaluation and that contract adjustments would be sought on the basis of DCAA findings and the overstatements GAO noted. (See Appendix, Section I, Item 117.)

A GAO review of a cost-plus-incentive-fee contract for the first stage of the Saturn V launch vehicle also indicated a large underrun of the target cost. Further review showed that the target cost included amounts for certain materials and indirect costs which were overstated by about \$2.6 million on the basis of cost and pricing data available to the contractor before he submitted the pricing certificate. As a result, the total fee the contractor could earn under this contract was increased by about \$695,000. NASA advised GAO that it planned to obtain an appropriate fee adjustment from the contractor.

A revision made in its procurement regulation, if properly implemented, should provide NASA with greater assurance that cost data furnished by contractors is accurate, complete, and current. (See Appendix, Section I, Item 117.)

GAO noted that NASA had made a significant number of equipment purchases without effective competition because, in many instances, restrictive specifications governed the procurement. Generally, specifications were prepared by equipment users or under their direction and included special features which the users desired. These special features usually were available only on a particular piece of equipment from a single supplier. In some cases, the special features were unnecessary. If equipment users had not specified such features, specifications could have been less restric-

tive, which probably would have resulted in increased competition and in savings to the Government.

NASA agreed with GAO's recommendations and stated that it intended to implement requirements emphasizing to contracting and management officials the need to increase competition. (See Appendix, Section I, Item 115.)

GAO also reported that NASA's Kennedy Space Center had not established accountability for equipment costing over \$320 million until as long as 4 years after it had been received. The major reason for the delays in establishing accountability was the absence of unit cost data that should have been provided upon delivery. Also, physical inventories were not being taken as frequently as required by NASA instructions and improvements were needed with respect to the methods and personnel used in taking physical inventories.

Accurate and timely information on property is essential for management to maintain efficient and economical operations, to prepare financial reports to the Congress, and to establish responsibility for custody of the property. NASA took corrective action on all of GAO's suggestions, except for two pertaining to the taking of physical inventories. GAO believes that further action is necessary to improve physical inventory procedures. (See Appendix, Section I, Item 204.)

In a review made at the request of the chairman, Senate Committee on Aeronautical and Space Sciences, GAO noted that a building under construction at NASA's Manned Spacecraft Center was substantially different in function, program application, and cost from the one NASA described and justified to the Congress. Neither the Congress nor its committees had been notified of the change in NASA's plans.

GAO stated that the committee might wish to consider identifying in NASA's authorization acts, the specific projects to be constructed with appropriated funds. This identification would restrict the availability of funds appropriated under the construction of facilities appropriations to the projects and amounts identified in the authorization acts. NASA's 1972 fiscal year authorization bill, as passed by the Senate, provided for such identification. (See Appendix, Section I, Item 129.)

In a report to selected committees of the Congress, GAO stated that NASA's Manned Spacecraft Center might have purchased more aircraft than needed to meet astronaut and staff pilot flying requirements. The flying requirements used to determine the number of aircraft needed exceeded the past utilization rates. In

## CIVIL OPERATIONS

addition, indications were that the number of astronauts was likely to decrease, thereby causing a corresponding decrease in NASA's flying requirements.

Because of the possibility that the purchase of some of the undelivered aircraft could be canceled, GAO suggested that NASA reassess the reasonableness of the procurement action. NASA believed, however, that procurement of the aircraft was justified. (See Appendix, Section I, Item 125.)

In reports to the Administrator, NASA, GAO commented on the payment of award fees to the contractor for aircraft maintenance support services at NASA's Manned Spacecraft Center without using the objective measurement standards in NASA's cost-plus-award-fee contracting guide established for use in evaluating contractors' performance and on the need for revisions in computing the rent for use of Government-owned facilities for commercial work and for improvements in the accounting for and use of Government-owned plant equipment by a NASA contractor. (See Appendix, Section I, Items 116 and 203.)

In a report to the Director of NASA's Ames Research Center, GAO pointed out the need for the Center to revise its procedures to encourage efficient use of its automated data processing facilities and to insure that the facilities are used only for properly approved purposes. (See Appendix, Section I, Item 200.)

Audit work in process included reviews of such activities as the cost effectiveness of the space shuttle

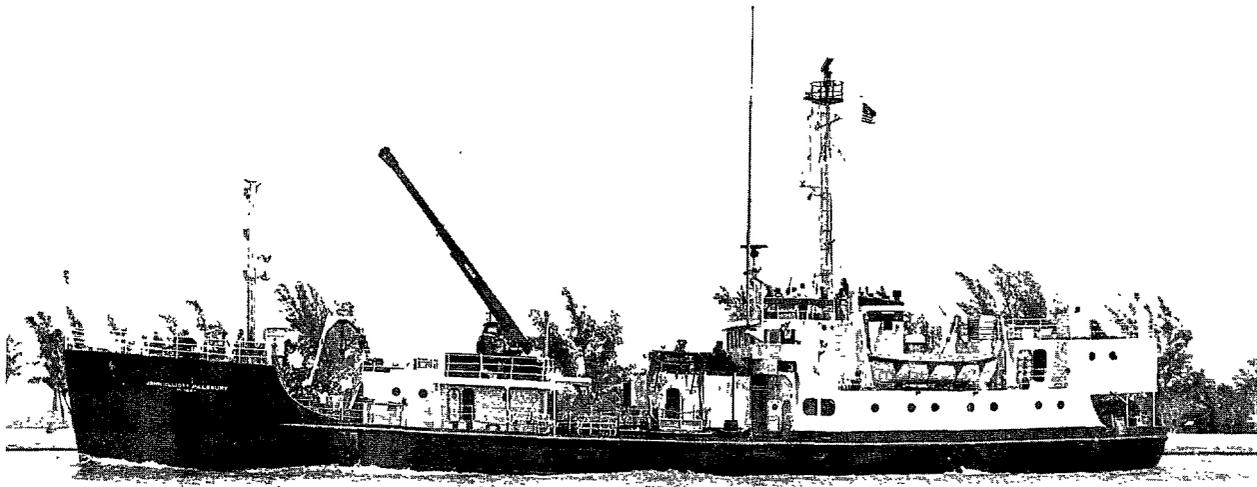
project, cost growth in the Viking and other major NASA projects, and the management of the earth resources survey program.

## National Science Foundation

During fiscal year 1971, four reports were issued on the results of GAO audit work at the National Science Foundation (NSF)—one each to the Congress and a Member of Congress, and two to the Director of the National Science Foundation.

In the report to the Congress, GAO stated that a number of improvements were needed in the administration of Federal support of shore facilities and vessels for oceanographic research activities at educational and other nonprofit institutions. These included the need for uniform policies and procedures concerning construction of shore facilities, development of long-range plans for acquisition of research vessels, formal coordination of plans for vessel acquisition between NSF and the Office of Naval Research, and coordination of Federal support of research vessel operations. NSF stated it had implemented some of GAO's suggestions and that others would be adopted. (See Appendix, Section I, Items 150, 151, 152, and 180.)

In a report to the Director, NSF, GAO pointed out opportunities to improve administration of the National



*Research Vessel Pillsbury, Institute of Marine Science, University of Miami.*

Radio Astronomy Observatory (NRAO), a contractor-operated national research center established for use primarily by visiting scientists. GAO suggested improvements in NRAO's procedures for allocating telescope observing time, for evaluating the levels of research efforts and the quality of research programs carried out at NRAO, and for implementing NRAO's policy regarding usage of the telescope systems by visitors and staff to insure that NRAO serves its mission as a national research center primarily for visiting scientists. NSF agreed in general with GAO's recommendations. (See Appendix, Section I, Item 153.)

Audit work in process included reviews of the ocean sediment coring program and of programs for supporting the development and improvement of information systems in the various scientific disciplines and research in the atmospheric sciences.

### Office of Economic Opportunity

GAO submitted 10 reports to the Congress on reviews of Office of Economic Opportunity (OEO) operations. Two of these reports were submitted to the Congress as a whole and eight were submitted to committees or Members. Two reports were issued to agency officials.

In one report to the Congress, GAO stated that improvements were needed in the operating efficiency and effectiveness of the Neighborhood Health Services program administered by St. Luke's Hospital Center, New York City, in that (1) the space available to the project limited the range of services which could be offered, (2) the relatively low number of patients seen by project personnel indicated that maximum use was not made of the professional staff, (3) continuity of care was lost when patients were admitted to hospitals because project physicians did not have hospital privileges, (4) care was individual-oriented rather than family-oriented, and (5) free care was provided to persons who were not eligible. OEO agreed with GAO's recommendations and described actions that had been or would be taken to effect needed improvements. (See Appendix, Section I, Item 11.)

In another report to the Congress, GAO reported on the progress being made by OEO-financed credit unions in becoming self-supporting, the benefits they provided, and the results of their financial operations.

The principal benefits were the availability to low-income persons of (1) depositories for their savings and (2) loans that they otherwise might not have obtained or loans at lower interest rates than those

available from other sources. However, the credit unions encountered a number of problems which resulted in relatively high operating deficits and in little success in attaining the goal of becoming self-supporting. Also, the credit unions had not established target dates for achieving that goal. OEO informed GAO of actions it planned to take in line with GAO's recommendations. (See Appendix, Section I, Item 10.)

Audit work in process included reviews of activities of specific community action agencies made pursuant to requests of committees or Members of Congress, the adequacy of audit reports prepared by independent accountants, manpower programs carried out by the Opportunities Industrialization Centers, contracts for support services and evaluations, the impact of the total Federal effort in improving the living conditions of migrant and seasonal farmworkers in selected geographical areas, and OEO's efforts in innovative approaches to economic development in urban and rural areas.

### Selective Service System

During fiscal year 1971, GAO submitted one report to the Congress and issued nine reports to agency officials on Selective Service System activities.

In the report to the Congress, GAO stated that an estimated savings of \$1 million in transportation and examination costs might have been realized nationwide if local draft board medical advisors had been used to a greater extent to screen registrants with prior histories of medical problems. The Selective Service agreed to have local boards make greater use of medical advisors for this purpose. (See Appendix, Section I, Item 172.)

The nine reports to agency officials concerned personnel management policies and procedures and the settlement of accounts of accountable officers.

### Small Business Administration

GAO submitted one report to a committee of the Congress and one report to a Member of the Congress on Small Business Administration (SBA) activities. In addition, one report was issued to the Administrator of SBA. The report to the Administrator dealt with the need for SBA to improve documentation and evaluation of borrowers' eligibility for business loans. (See Appendix, Section I, Item 41.)

## CIVIL OPERATIONS

Audit work in process at June 30, 1971, included a review of the effectiveness of the minority enterprise program, including section 8(a) contracting activities, and a survey of the effectiveness of Federal disaster assistance programs related to housing construction and business redevelopment.

### 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 10 reports to the Congress, including five reports to the Congress as a whole and five to committees or Members. Also, 12 reports were issued to agency officials.

As the result of a review of VA landholdings and land requirements at 14 VA stations, GAO stated that management controls over the identification and reporting of excess landholdings needed to be improved. GAO identified 832 acres of land at eight stations with an estimated value of about \$26 million which were excess to current and established future VA needs based on VA's landholding standards. VA stated that guidelines would be developed to evaluate current landholdings and that specific consideration would be given to the parcels identified in the GAO report. Also, VA cited specific actions that would be taken to improve controls. (See Appendix, Section I, Item 182.)

Following up on an earlier review, GAO reported that VA was losing \$590,000 a year in rental income because rents charged employees at 13 VA hospitals were too low. GAO stated that VA, in setting the rental rates, had deviated from Office of Management and Budget criteria which require Government rents to be based on rents of comparable private housing. VA stated that it would review all appraisals in detail for compliance with Office of Management and Budget criteria and that reviews of rental rate activities would be made by internal auditors and other central office representatives. The agency also informed GAO of other actions it would take to insure compliance with the criteria. (See Appendix, Section I, Item 186.)

In another report, GAO stated that VA had not made adequate and timely investigations of architect-engineers' cost reduction proposals for the use of less costly construction materials and methods, to determine whether their use should have been made a part

of the VA design criteria applicable to all hospital construction.

GAO's review of four architect-engineers' cost reduction proposals, which VA had accepted in connection with the construction of three hospitals, showed that it took VA from 1 to 4 years to incorporate the items in its design criteria. GAO estimated that VA might have saved about \$486,000 if VA had required the inclusion of the four cost reduction items, where appropriate, in nine contracts which it subsequently awarded for hospital construction.

GAO also pointed out that VA canceled four modernization construction projects during development or shortly after completion of the working drawings and specifications, which cost about \$338,000, even though VA had enough information to raise serious questions about those projects prior to authorizing the working drawings and specifications.

VA informed GAO that it had changed its procedures to incorporate architect-engineers' cost reduction proposals in its design criteria for future construction and had strengthened its review practices before award of architect-engineer contracts for hospital modernization projects. (See Appendix, Section I, Item 181.)

In another report, GAO stated that although VA regulations provide that a comparison of cost and related factors be made before determining whether to use individual service calls or annual maintenance contracts for servicing office machines, VA was not making such comparisons. On the basis of practices found at 13 stations, GAO estimated that, if the same conditions existed at VA's other field stations, savings of as much as \$400,000 annually could be realized through greater use of the per-call service method.

VA subsequently amended its regulations to require field stations to determine the most economical method of servicing office machines and to fully document, where applicable, the reasons for use of a more costly method. Also, the General Services Administration brought this matter to the attention of all Federal agencies and established procedures to notify individual agencies where additional economies in servicing office machines could be realized. (See Appendix, Section I, Item 210.)

In another report to the Congress, GAO expressed its opinion on the financial statements of the Veterans Canteen Service for fiscal year 1970.

Audit work in process included reviews of the administration of VA's educational assistance program,

hospital planning and construction, automatic data processing, and VA's hospital outpatient program.

## Regulatory Agencies

GAO reported on the policies and practices of the Civil Aeronautics Board, the Federal Communications Commission, the Federal Maritime Commission, the Federal Power Commission, the Interstate Commerce Commission, the Federal Trade Commission, and the Securities and Exchange Commission in respect to their assessment of fees for services which convey special benefits or privileges to identifiable recipients. Title V of the Independent Offices Appropriation Act, 1952, the basic authority for the assessment of such fees, provides that these services shall be self-sustaining to the fullest extent possible and shall be as uniform as practicable taking into consideration all relevant and pertinent facts. The Bureau of the Budget (now the Office of Management and Budget) issued policy guidance (Circular No. A-25) to agencies for implementing these requirements.

The report points out that the fee policies of the seven regulatory agencies were not nearly as uniform as practicable nor, in establishing the fees and charges, were all costs to the Government taken into consideration.

Five of the regulatory agencies took action to change their policies and the Office of Management and Budget agreed to reexamine the language of Circular A-25 to ascertain whether it furnishes adequate guidance for fixing fees and charges as required by the act. (See Appendix, Section I, Item 242.)

## 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 the Federal Deposit Insurance Corporation for the year ended June 30, 1970, B-114831, February 18, 1971.

Audit of the financial statements of the Federal home loan banks supervised by the Federal Home Loan Bank Board, for the year ended December 31, 1969, B-114827, August 10, 1970.

Examination of the financial statements of the Federal Home Loan Bank Board for the year ended December 31, 1969, B-114827, September 2, 1970.

Audit of the Federal Savings and Loan Insurance Corporation supervised by the Federal Home Loan Bank Board, for the year ended December 31, 1969, B-114893, November 12, 1970.

Examination of the financial statements of the Tennessee Valley Authority for the fiscal year 1970, B-114850, March 31, 1971.

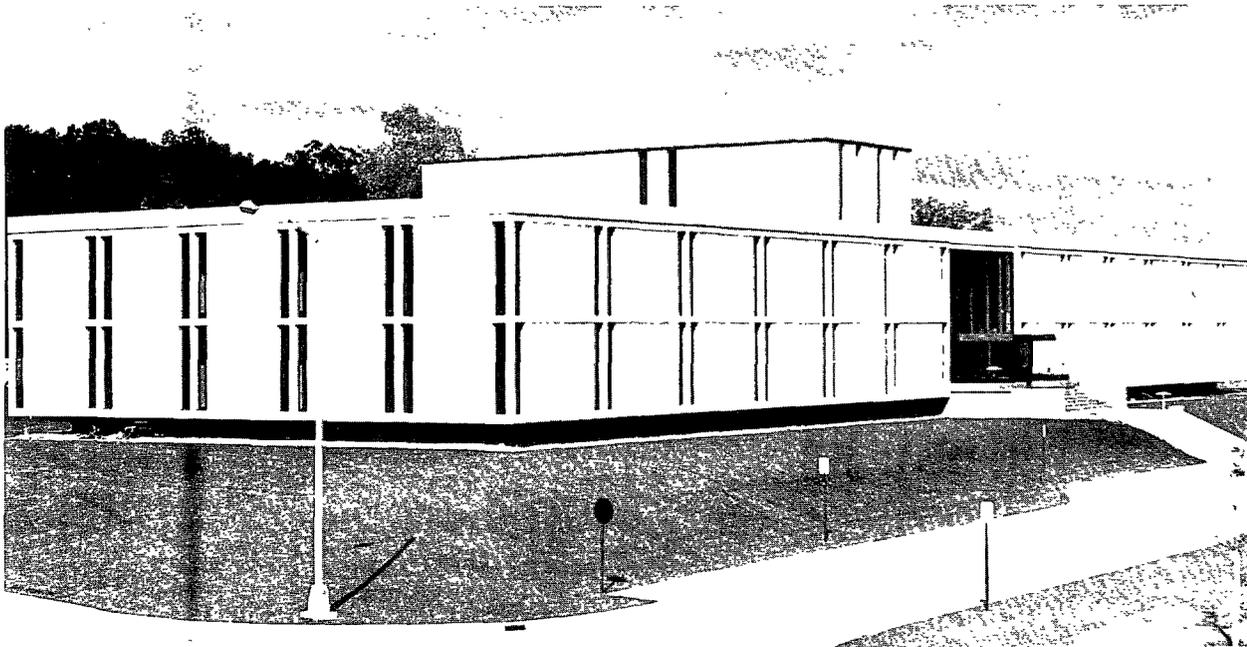
GAO was unable to fully discharge its responsibilities for auditing the Federal Deposit Insurance Corporation because the Corporation would not permit unrestricted access to examination reports, files, and other records relative to the banks it insures. Without such access, GAO was unable to express 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 \$3,346 million in 244 problem banks at June 30, 1970.

## Multiagency Reviews

A number of GAO's reports are classified as reports on multiagency reviews involving two or more departments or agencies and relating to defense or international operations as well as civil operations. Three of these reports are discussed below.

Because of the magnitude of Government-funded research by educational institutions—about \$1.7 billion in fiscal year 1969—GAO made a study of how one of the large institutions—the University of Michigan—manages research supported by the Government and how it views some of the issues that have evolved from the great increase in that research.

As a result of its study, GAO recommended that the Director, Office of Management and Budget, in collaboration with other concerned Federal agencies, study the feasibility of adopting a uniform system of providing universities with sufficient advance funds for performing research for the Federal Government so that the universities are not required to use their own funds. The Bureau of the Budget (now the Office of Management and Budget) concurred in the objectives of this recommendation and advised that it would be considered.



*University-owned Space Research Laboratory on the North Campus of the University of Michigan. Entire construction funds provided by the National Aeronautics and Space Administration.*

Because provisions in appropriation acts relating to cost sharing are not uniform, the extent of cost sharing in federally financed research may vary according to which Federal agency is financing the research. GAO therefore recommended that the Congress consider legislation to prescribe a consistent Government policy for cost sharing. The Bureau of the Budget specifically endorsed this recommendation. (See Appendix, Section I, Items 154, 155, and 156.)

A GAO study, made at the request of the chairman, Special Subcommittee on Alcoholism and Narcotics, Senate Committee on Labor and Public Welfare, to determine the savings that might be realized from a program aimed at identification, prevention, and treatment of alcoholism among Federal civilian employees showed that on the basis of authoritative opinions of knowledgeable individuals, Federal employees suffering from alcoholism numbered between 112,000 and 224,000 and that the resulting employer costs were between \$275 million and \$550 million a year. GAO estimated that an alcoholism program would achieve net cost savings to the Government ranging from \$135 million to \$280 million a year. GAO reported also that other benefits would accrue to the Federal Government and to society as a whole.

Subsequent to the issuance of GAO's report, the Congress enacted Public Law 91-616, approved De-

ember 31, 1970, which provided for the establishment of a Government-wide alcoholism program. (See Appendix, Section I, Item 184.)

Another report concerned GAO's research of the historical background of the Presidential Transition Act of 1963 and the Former Presidents Act of 1958. The basic purpose of the report was to provide information on the transitional process that might be of interest to the Congress and the executive branch. GAO concluded that the amounts and/or period of availability of appropriations authorized by these two laws did not appear to be adequate to carry out the objectives of the laws and suggested that the Congress might wish to consider amending them. (See Appendix, Section I, Item 245.)

## **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

Senate employees barber shop  
Senate office beauty shop

The House of Representatives:

The Sergeant at Arms  
House finance office  
House recording studio  
House office supply service  
House office equipment service  
House beauty shop  
House printing clerks

Architect of the Capitol:

U.S. Senate restaurants  
House of Representatives restaurant

Capitol Guide Force

Joint Committee on Atomic Energy

Library of Congress

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.

Fifteen reports on audits of activities in the legislative branch were issued during the year. Three of these reports related to activities of the Senate, six to activities of the House, two to activities of the Architect of the Capitol, two to activities of the Government Printing Office, and one each to the activities of the Joint Committee on Atomic Energy and the Library of Congress.

In reports to the Congress GAO expressed its opinion on the financial statements of the Government Printing Office (GPO) for fiscal year 1970 and expressed its belief that savings could be realized by GPO by buying automatic data processing equipment or by leasing it from commercial leasing firms rather than from the manufacturer. (See Appendix, Section I, Item 196.)

### Judicial Branch

During fiscal year 1971, a report on opportunities for improvement in the administrative and financial operations of the U.S. district courts was submitted to the Congress and a report on a review of payrolls and lump-sum leave payments made to former judicial

branch employees was issued to the Director, Administrative Office of the U.S. Courts.

The report to the Congress contained GAO recommendations for consideration by the Judicial Conference of the United States, a policymaking body for the Federal judicial system, on the following matters:

Opportunities to reduce jury costs and inconvenience to prospective jurors by reducing the number summoned.

Need to accelerate automation of juror selection procedures.

Savings available from deposit of registry account funds in Federal Reserve banks.

Savings available through consolidating court locations.

Opportunities to improve procedures for safeguarding funds and property and for maintenance of time, attendance, and leave records.

Need to strengthen role of the Administrative Office to accelerate improvements in administrative and financial activities of district courts.

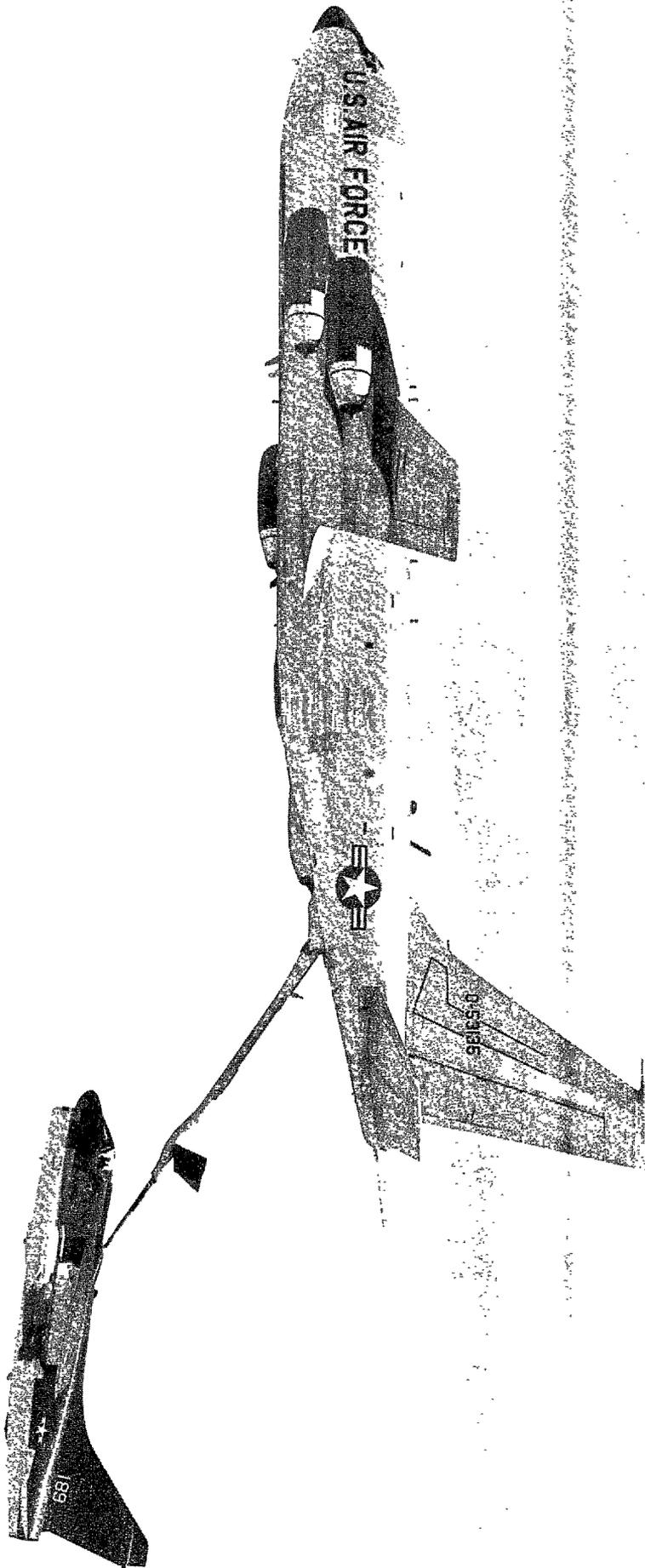
Detailed comments on the foregoing matters are contained in the Appendix, Section I, Items 162, 163, 173, 174, 175, and 187.

Other work in the judicial branch consisted of an audit of the payroll and leave records and a review for the purpose of settling the accounts of accountable officers of the U.S. Tax Court.

### Organizations Outside the Federal Government

In reports addressed to the Board of Trustees, Government Services, Inc., GAO expressed its opinion on the financial statements of Government Services, Inc., and of its Employee Retirement and Benefit Trust Fund and Supplemental Pension Plan for the year ended December 31, 1970. The examinations were made at the request of the Board of Trustees.

GAO also examined the financial statements of the Disabled American Veterans National Headquarters for the year ended December 31, 1969, the Life Membership Fund for the year ended June 30, 1970, and the Service Foundation for the 6 months ended December 31, 1969, pursuant to the requirements of Public Law 90-208, approved December 18, 1967 (36 U.S.C. 90i(b)). 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

The audit work described in this chapter was performed by or under the direction of GAO's Defense Division which has overall responsibility for carrying out all audit work in the Department of Defense and the military departments other than that relating to the Corps of Engineers (Civil Functions), Department of the Army; international activities; and charges for transportation, which are the responsibility of other divisions. The Defense Division is under the supervision of Charles M. Bailey, Director, and Richard W. Gutmann, Deputy Director. An organization chart of the Defense Division appears on the following page.

GAO's audit efforts in the Department of Defense (DOD) 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) research and development, (3) procurement (including negotiation of contract prices and administration of contract terms and conditions), (4) supply management, (5) phasedown of military activities in Vietnam, (6) facilities and construction, (7) maintenance, repair, and overhaul, (8) manpower utilization (including administration of military and

civilian pay and allowances and education and training programs), (9) communications, and (10) accounting systems and accounting operations.

In addition to these reviews, GAO made a number of special audits and surveys at the request of various committees and individual Members of the Congress. On this special work, 127 reports were issued to the committees and Members of the Congress. These reports related principally to (1) administration and current status of weapon system acquisition programs such as the C-5A, S-3A, F-14, and F-15 aircraft, the Maverick, Condor, Tow, and Shillelagh missiles, and tactical data systems designed for command and control functions and for intelligence gathering and processing, (2) administration and current status of other programs such as the Civilian Health and Medical Program of the Uniformed Services and the acquisition of computers for various automatic data processing systems, (3) operations of nonappropriated fund activities in the United States and overseas, (4) airlift/sealift requirements of the military services, (5) questions concerning the existence of waste, extravagance, or other improper practices by the military departments, (6) procurement practices in acquiring specific goods or services and administration of specific contracts, and (7) inquiries concerning proposed transfer, consolidation, or phaseout 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 efforts 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 significant 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 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 make 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 has 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 evaluations of the audits performed by the DCAA and to broader areas of procurement and contract administration. GAO is now giving greater attention to such other important aspects of procurement as (1) price escalation provisions included in negotiated contracts, (2) furnishing of materials to contractors and controls over such materials, and (3) contract terminations.

### Audit Reports Issued

GAO submitted 176 congressional reports on its audits and reviews: 49 to the Congress and 127 to committees or Members of the Congress on special investigations made at their request. In addition, 272 reports were submitted to officials of the Department of Defense. Of these, 37 were directed to the secretarial level and dealt principally with contract administration, pay and allowances, and support service matters which were not deemed to be of sufficient significance to report to the Congress; 235 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 113. 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’s reviews of the management of the operations of the Department of Defense and the military departments frequently result in findings which indicate a need for improvement in management controls. Reports on such findings include recommendations for improvement.

The replies of DOD officials to reports in which administrative actions on the part of Defense offi-

## DEFENSE OPERATIONS

cial are recommended have been generally responsive, indicating, in most 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.

### Acquisition of Major Weapon Systems

GAO is engaged in a continuing review of the weapon system acquisition process to provide the Congress and the Department of Defense with a series of appraisals of those factors most closely related to effective performance in procuring major weapons. In a report on the first such appraisal, issued to the Congress in March 1971, GAO concluded that:

A substantial effort was being made to identify and solve problems that in the past had adversely affected the acquisition of major weapon systems in terms of compromised performance, delayed availability, and increased costs.

The development pace was slower and the procurement practices were more conservative than those of earlier periods.

Procedures were being devised to improve the means by which needs for proposed weapons and the priority to be assigned to their development could be measured against the total needs of DOD.

An intensive effort was being made to improve the processes of defining performance characteristics of proposed weapons, determining feasibility of achieving those characteristics, identifying high-risk areas in the design, and demonstrating successful performance of high-risk components.

GAO found one of the major unresolved problems to be that of organization. The problem appeared to stem from attempts to combine the specialized roles of major weapon system acquisition management into more or less traditional military command structures. This made it difficult to obtain decisions. There was a need to place greater decisionmaking authority for each major weapon acquisition in a single organization, within the service concerned, with more direct

control and with sufficient status to overcome organizational conflict between weapon system managers and the traditional organizations.

The report included certain recommendations to the Secretary of Defense. The Director of Defense Research and Engineering, in commenting on the report, expressed general agreement with the recommendations. (See Appendix, Section I, Item 137.)

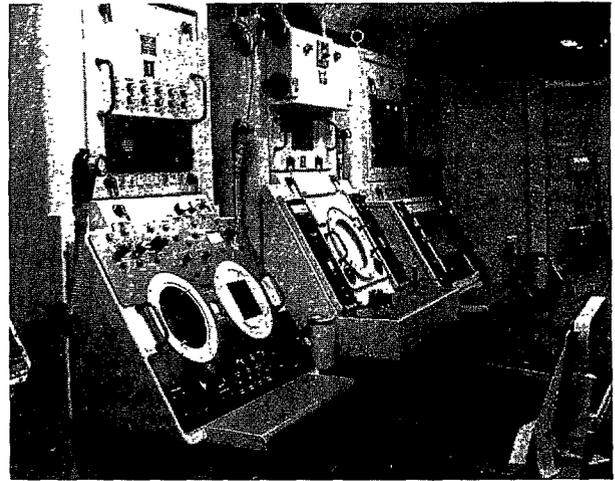
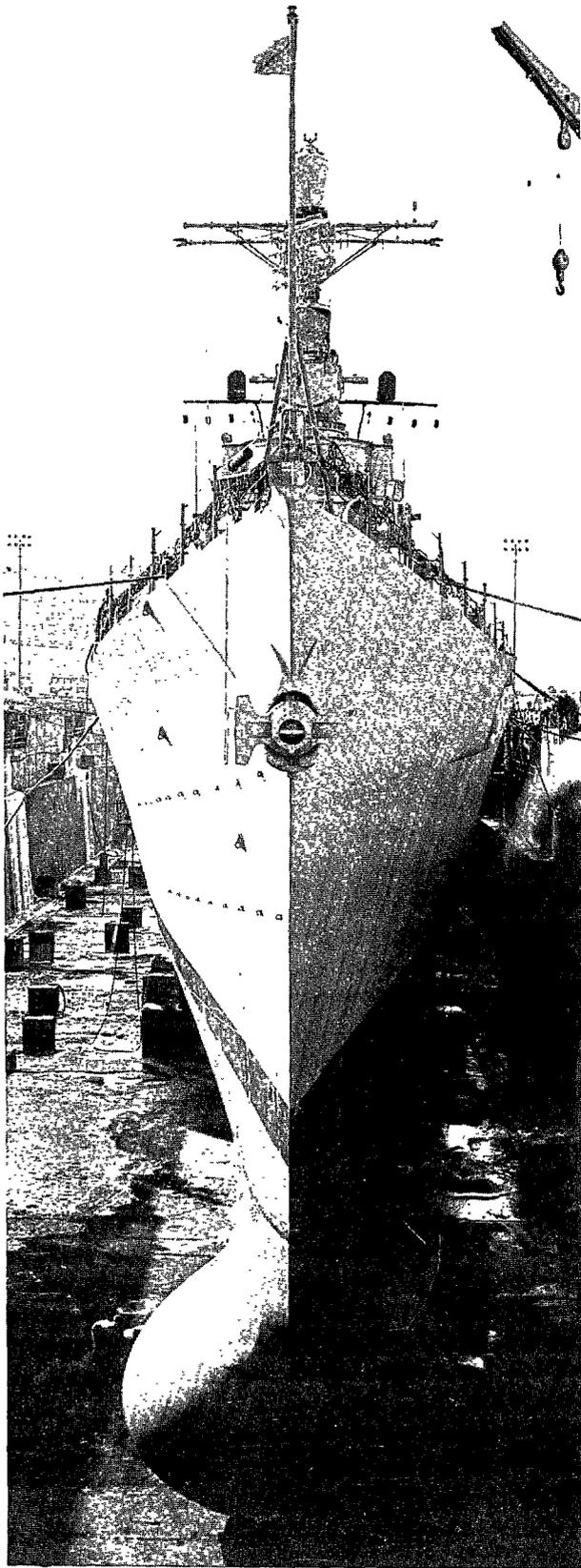
Reviews of four management areas critical to effective acquisition of major weapon systems were in process as of June 30, 1971. These reviews were directed at (1) the adequacy of cost effectiveness studies made in the concept formulation phase of selected weapon systems and the requirements and procedures for updating such studies, (2) the validity and credibility of the cost estimating process, (3) the effectiveness of management of technical changes to weapon systems, and (4) an examination of the theory and practice in testing and the utilization of test results to reduce uncertainties in decisionmaking.

## Research and Development

### Major Weapons

GAO issued seven reports to the Congress on reviews of research and development of major weapons. One of the reports, dealing with tactical reconnaissance development programs in the Department of Defense, is classified "Secret." Six other reports covered findings in reviews of the Navy's practice of approving large-scale production of major weapon systems before completion of development and testing (one report), Navy's development of specific weapon systems (four reports), and Army's development of tactical vehicles (one report).

In one of these reports, GAO stated that most of the Navy's major weapon systems were approved for large-scale production before completion of development and testing. The weapons produced frequently would not perform all the functions intended, and sizeable amounts of time and money were spent to correct deficiencies. It appeared that deployment of effective weapons may not have been accelerated by this practice and, in fact, may have been delayed. Although the Navy had procedures for an orderly progression from development into production, they were not sufficiently effective. Decisionmakers were not presented with all the information that should have been available to them in considering whether to proceed into production. The Navy was in general agree-



*The AN/SQS-26 sonar system is a hull-mounted, surface ship sonar system designed to detect, classify, localize, and track submerged submarines at long range from antisubmarine warfare ships. The picture on the left shows a sonar dome mounted on a ship's hull. The one above is of display consoles of the sonar system.*

ment with GAO's recommendations for improving its procedures and for providing essential information to the decisionmakers. (See Appendix, Section I, Item 138.)

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

The Navy experienced problems with four weapon systems. The difficulties with three of the systems—the drone antisubmarine helicopter, the antisubmarine warfare directional low-frequency analysis and recording system, and the surface ship sonar system—resulted, in large part, from production before completion of development and testing. The difficulties with the fourth system—the deep submergence rescue vehicle—resulted from inadequate preliminary planning and subsequent design changes made without formal approval by top-level management. This increased the estimated cost from \$36.5 million for a 12-vehicle system to \$463 million for a six-vehicle system, and increased the estimated period for development and introduction from 4 to 10 years. The Navy subsequently reduced the program to two vehicles at an estimated cost of \$199.4 million. (See Items 139, 140, 141, and 142.)

Despite organizational and procedural changes by the Army in its management of the tactical vehicles development program, many of the management weaknesses observed in earlier reviews by GAO

## DEFENSE OPERATIONS

and by the Army Audit Agency were found to be continuing. The Army cited additional corrective measures it had since taken which were responsive to GAO's recommendations. (See Item 143.)

### General

Four reports were issued on the general aspects of research and development. Three reports, issued to the Congress, dealt with basic research programs in the Air Force, procurement of munitions under development by the Army, and tours of duty for managers of major research and development projects in the Army. The fourth report, issued to the Secretary of Defense, dealt with incentive provisions in contracts for development of major weapon subsystems. Digests of these reports are presented in the Appendix, Section I, as further identified in the following summaries.

The Office of Scientific Research of the Air Force was supporting about 1,200 projects, costing about \$285 million. Some of the projects appeared to involve basic research which was not closely related to the Air Force mission. Federal policy is that the National Science Foundation will provide support for general purpose research and that other Federal agencies should support basic research only in areas closely related to their missions. The Air Force reviewed these projects and disqualified 115 of them because of insufficient relevance. In addition, the Air Force adopted several GAO suggestions for improving management of the basic research programs. (See Item 144.)

Because of an urgent requirement in the Army, howitzer ammunition in the process of development was authorized to be produced under a "Limited Production" classification for 1 year. The item was still in limited production 3½ years later without authorization from higher echelons or renewal of the "Limited Production" authorization. The Army adopted several GAO recommendations for management improvement and reduced procurement of "Limited Production" items from \$220 million to \$10 million. (See Item 146.)

The Army was not effectively implementing existing policy and regulations that project managers of major research and development projects serve a tour of duty of at least 3 years. All project managers have been military officers who are subject to high turnover through reassignment or retirement. Most had served less than 2 years. Furthermore,

overlapping tours of duty, which provide continuity of leadership and expertise, were almost nonexistent. Limited tests showed similar conditions in the Navy and the Air Force. DOD agreed with GAO's position on the importance of project managers in the weapon acquisition process and with GAO's recommendations. (See Item 145.)

A cost-plus-incentive-fee subcontract of about \$300 million for development of the SPARTAN—the SAFEGUARD's long range missile subsystem— included provision for incentive fees to motivate the subcontractor to achieve higher performance levels. Records of the subcontract negotiations, contrary to the requirements of the Armed Services Procurement Regulation and the prime contract, did not set forth the details leading to the agreed incentive plan. In the absence of such documentation, it was not determinable what "expected" or target performance, which warrants only target fees, was contemplated in the incentive plan. In fact, the incentive plan appeared to allow incentive fees for expected performance. The Army agreed with GAO's suggestion that documentation be obtained covering the factors considered in negotiating the incentive plan for large dollar amount subcontracts. (See Item 147.)

## Management of Procurement Programs

### Special Studies

In fiscal year 1970 a report was issued to the Congress on a study, requested by the Subcommittee on Economy in Government, Joint Economic Committee, of the feasibility of applying "should cost" analyses in GAO audits and reviews of Government procurement. In requesting the 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.

Subsequently GAO made a trial application of the concepts at the plants of four contractors. A report on the trial application, issued to the Congress in February 1971, confirmed both the feasibility and value of the application of "should cost" concepts. Because such

reviews require examinations into many facets of contractors' operations and management not covered in GAO's statutory authority to examine contractors' records, GAO suggested that the Congress might wish to consider expanding GAO's statutory authority to enable it to make effective "should cost" reviews on an independent basis. (See Appendix, Section I, Item 111.)

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. The study covered the profits of 74 large defense contractors for the 4-year period of 1966 through 1969. GAO computed the average rates of profit before Federal income taxes for both defense work and comparable commercial work. The following results were presented in a report issued to the Congress in March 1971.

Based on sales, the rate was significantly lower on defense work: 4.3 percent on defense work, 9.9 percent on commercial work.

Based on the contractors' total capital investment used in generating the sales (that is, total liabilities and equity but exclusive of Government capital), the difference in the rates narrowed: 11.2 percent on defense work, 14.0 percent on commercial work.

Based on capital investment of stockholders, the difference in the rates was negligible.

The major factor causing comparability of the rates of return on contractors' capital investment for defense and commercial work was the substantial amount of capital provided by the Government in the form of progress payments, cost reimbursements, equipment, and facilities. This reduced the contractors' capital investment requirements for defense work. Under current procedures for negotiation of defense contracts, little consideration is given to the amount of capital investment required from the contractor to perform the work. Profit objectives are developed as a percentage of the anticipated costs.

GAO recommended that the Office of Management and Budget take the lead in the development of uniform Government-wide guidelines for determining profit objectives in negotiation of Government contracts and that the guidelines emphasize consideration of the total amount of contractor capital required, when appropriate, where effective price competition is lack-

ing. In July 1971 the Deputy Secretary of Defense issued a memorandum to the Assistant Secretaries of Defense indicating his support of the concept of profit based on capital investment and requested that a comprehensive profit policy proposal be submitted by December 1, 1971. (See Appendix, Section I, Item 120.)

A 1968 amendment to the Defense Production Act of 1950 directed GAO to study the feasibility of applying uniform cost accounting standards to negotiated defense contracts of \$100,000 or more. A report on the study, issued to the Congress in fiscal year 1970, presented GAO's conclusion that it is feasible to establish and apply such standards to provide a greater degree of uniformity and consistency in cost accounting as a basis for negotiating and administering procurement contracts. The Congress acted affirmatively on the report. A 1970 amendment to the Defense Production Act of 1950—Public Law 91-379, approved August 15, 1970—established a Cost Accounting Standards Board, as an agent of the Congress, to develop cost accounting standards. The Board consists of the Comptroller General as chairman and four members appointed by him. The Board began to operate in January 1971 and separate reports on its activities will be made to the Congress.

#### Negotiation of Contract Prices

Three reports were issued to the Congress on reviews of negotiation of contract prices. The reports dealt with implementation of the Truth-in-Negotiations Act, waivers of preaward audits of contractors' noncompetitive price proposals, and contractors' claims based on Government-caused delays.

Under the Truth-in-Negotiations Act, contractors are required to submit cost or pricing data in support of their price proposals and to certify that the data are accurate, complete, and current. This requirement applies generally to noncompetitive contracts or contract amendments expected to exceed \$100,000. GAO reviewed the reasonableness of prices negotiated under the act for 35 contracts valued at \$135 million. For 18 contracts, valued at \$47 million, negotiated prices were \$1.5 million higher than warranted by the cost data available to contractors at the time of negotiation. The overpricing stemmed basically from the same circumstances which the Truth-in-Negotiations Act was designed to remedy: contractors' submission of incomplete, inaccurate, and noncurrent data. Little or no overpricing was found in the other 17 contracts valued at \$88 million. GAO brought the findings of overpric-

## DEFENSE OPERATIONS

ing to the attention of agency officials and they took action to obtain price adjustments where appropriate. (See Appendix, Section I, Item 118.)

Preaward audits of contractors' noncompetitive price proposals may be waived by the contracting officer whenever it is clear that information already available is adequate for the proposed procurement. GAO's review of 344 noncompetitive, fixed-price procurement actions amounting to \$500 million showed that preaward audits had been waived for 130 of the actions amounting to \$51.7 million. Of the 130 waivers, 31 appeared to be justified; 99 did not appear to be justified on the basis of available information. The Department of Defense agreed that waivers of audit should be better documented and that internal surveillance of such waivers should be increased. (See Appendix, Section I, Item 119.)

Claims submitted by ship construction contractors for costs sustained because of Government-caused interruptions and delays were vague and lacked adequate support. The claims submitted by three contractors in the amounts of \$114,300,000, \$486,000, and \$1,342,000 were settled in the amounts of \$96,500,000, \$354,000, and \$760,000, respectively. The contractors provided no tangible evidence of the additional costs incurred. In the absence of such evidence, the Navy, in GAO's opinion, could not adequately evaluate the validity of the claims. The rationale on which the contractors based their determinations of additional costs attributable to Government-caused interruptions and delays included such broad factors as increases in costs over original estimates of costs, increases in costs over costs incurred in construction of the same class of ships under earlier contracts, and general judgment factors.

The Navy generally concurred in GAO's recommendations for improving documentation of claims. (See Appendix, Section I, Item 109.)

### Other Aspects

Six reports to the Congress covered other aspects of procurement. Digests of these reports are presented in the Appendix, Section I, as further identified in the following summaries.

Department of Defense regulations provide that, with some exceptions, contractors furnish all plant equipment needed for contract performance. Special test equipment is not considered plant equipment and is generally acquired by contractors for the account of the Government. A review at plants of five contractors showed that, of the equipment acquired

for the account of the Government at a cost of \$62 million, about \$12 million worth should have been classified as plant equipment and acquired for the accounts of the contractors. DOD concurred in GAO's recommendations for distinguishing between plant equipment and special test equipment. (See Item 110.)

Many engineering changes are made to aircraft in production to make them safer, more reliable, or easier to maintain. Engineering change proposals must be approved by the military service involved before the contractor is authorized to make the changes. A review of the processing time for 547 engineering change proposals implemented on 11 types of aircraft showed extensive delays. The average processing time for the 547 proposals was 131 days as compared with time standards established by the Department of Defense of 45 days for routine proposals, 15 days for urgent proposals, and 24 hours for emergency proposals. DOD agreed with GAO's suggestions for reducing the processing time. (See Item 112.)

DOD's program for review of contractors' procurement systems was sound in concept but its implementation was not fully effective. Some of the problem areas involved a need for (1) motivation of contractors whose procurement systems were found to be unacceptable to make needed improvements, (2) definitive standards for approval or disapproval of contractors' procurement systems, and (3) greater discretion in scheduling detailed annual reviews of contractors whose systems had been found to be satisfactory in the past. (See Item 113.)

The Department of Defense negotiated about \$2.5 billion of emergency procurement in fiscal year 1970. Nearly three-quarters of the procurement was negotiated without competition. Many of the noncompetitive procurements might have been made competitively, at lower costs, and with acceptable time for delivery. (See Item 132.)

A followup review of small purchases (purchases which do not exceed \$2,500) showed that the corrective measures established by DOD and the military services after an earlier review had been effectively implemented at most of the locations visited by GAO. Among the improvements noted were better training of buyers, improved procurement data, and more extensive internal reviews of small purchase activities. (See Item 133.)

Department of Defense procurement of weapons, support equipment, and other goods and services

totals tens of billions of dollars annually; involves hundreds of thousands of procurement transactions; is subject to numerous statutes, policies, regulations, and directives; and requires procurement personnel with a great deal of special knowledge, skill, and dedication. Although a career program for procurement personnel was promoted by the Secretary of Defense in 1965, the program was not fully implemented because of resistance from some of the services. A major effort was needed to revitalize the program by updating it to meet the procurement needs for the 1970's and beyond; recognizing the conflicting career objectives of civilians and military officers in procurement; raising the status of the procurement field; attracting young, high-caliber people; and making other management improvements. DOD advised GAO that it would undertake an intensive effort to improve its procurement career development program. (See Item 131.)

### Supply Management

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

In one report GAO pointed out that, following its earlier report on inventory controls in the Department of Defense, the Department prescribed new procedures to improve the accuracy of recorded inventories. Although the Army was attempting to implement the new procedures, accuracy of its records was not improved because the Army had underestimated the magnitude of the task and had not provided adequate manpower and automatic data processing equipment. In 1969 the Army's inventories of about \$3 billion in the continental United States required downward adjustments of \$439 million and upward adjustments of \$391 million to reflect quantities based on physical counts. Its inventories of about \$1.1 billion in Europe required even greater adjustments in 1969: downward adjustments of \$648 million and upward adjustments of \$768 million. The Army generally agreed with these findings and took action on GAO's recommendations. (See Appendix, Section I, Item 205.)

Another report pointed out the unreliability of the Army's projections of future requirements for major items of military equipment. The Army relied on two computerized management information systems for the projection. One provided information on needs; the other provided information on equipment available to

meet the needs. Both systems had weaknesses and the information provided by them was not adequate for the intended purpose. GAO questioned the validity of the fiscal year 1970 budget and procurement actions which relied on such information. The Army took corrective action in response to GAO's findings and recommendations. (See Appendix, Section I, Item 206.)

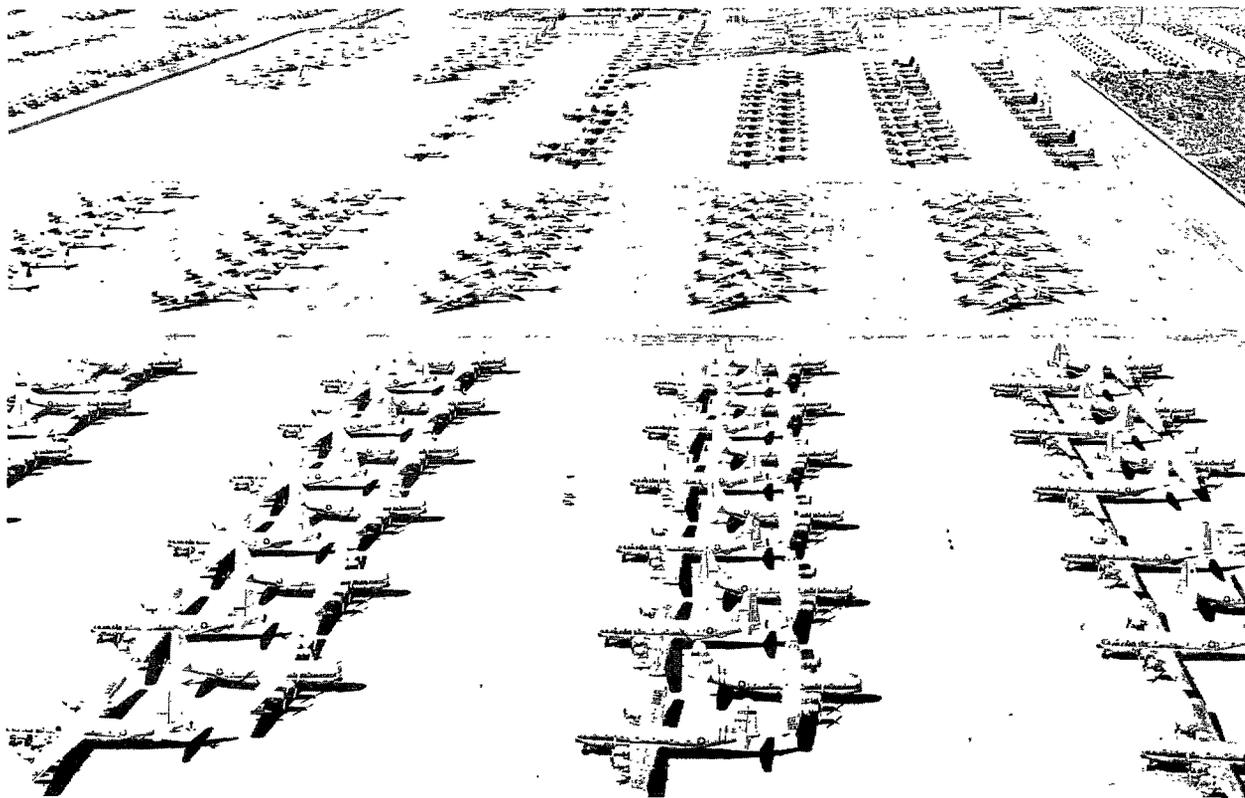
Digests of eight other reports are presented in the Appendix, Section I. These reports are further identified in the following summaries.

In a report issued to the Congress in 1967 GAO pointed out that substantial savings could be achieved by eliminating some 1.2 million low-cost, low-usage items from the DOD supply system, and the Department cited a program undertaken for that purpose. A followup review showed that there were still about 900,000 such items in the supply system. (See Item 207.)

The Marine Corps supply system included many items which duplicated the inventories in other supply systems. This increased the investment in inventories and the costs of supply management. At June 30, 1969, there were about 185,000 items valued at \$148 million in the supply system of the Marine Corps which were also managed by the Defense Supply Agency, the Army Tank-Automotive Command, or the General Services Administration. (See Item 208.)

Although the Department of Defense had taken certain actions on earlier recommendations to improve management of laboratory equipment, some of the weaknesses in management continued. There were weaknesses in identifying excess or little-used equipment, in the use of equipment pools to avoid unnecessary duplication of equipment, and in the use of elapsed-time meters to provide equipment usage data. (See Item 209.)

To promote redistribution of excess materiel within and among the military services in the Pacific area and in Europe, DOD established two agencies: the Pacific Command Utilization and Redistribution Agency, Okinawa, and the Materiel Asset Redistribution Center, Europe. Although these agencies were instrumental in redistributing much excess materiel, their operations would have been more effective had there been greater participation in the program. Some activities were not reporting their excesses to the agencies or using the agencies as a possible source of supply. (See Items 218 and 219.)



*A portion of the storage and reclamation areas at the Military Airlift Storage and Disposition Center.*

Aircraft for which there is no foreseeable need are scrapped. Since many of the components and parts in such aircraft can be used in repairing operational aircraft, they are reclaimed before the aircraft are scrapped. The criteria and procedures of the Army and the Air Force were generally effective in identifying and reclaiming needed components and parts. Those of the Navy were not. (See Item 220.)

A review at four of the 10 naval shipyards showed that about 30 percent of the inventories of industrial materials at the four yards was excess to needs. The excess material—valued at over \$17 million—had not been reported to the naval supply system for redistribution or other disposal. (See Item 221.)

Supply depots of the military services were using air parcel post without adequate consideration of alternative methods of shipment which were more economical and would have permitted delivery in the required time. (See Item 228.)

The Department of Defense and the military departments concurred generally in the findings in these reports and took action to implement GAO's suggestions and recommendations for improvement.

**Phasedown of U.S. Military Activities in Vietnam**

With the Department of Defense now being engaged in reducing its combat operations and related military activities in Vietnam, GAO has undertaken a series of reviews of the policies and procedures being applied in the phasedown. The first report on the phasedown, issued to the Congress in March 1971, covered the third reduction in troop strength (50,000 troops) which was completed April 15, 1970, and reduced the strength to 425,500 troops.

Despite the relatively short time provided, the military services met each of the directed troop withdrawal schedules. The phasedown of the large quantities of supplies and equipment was and continues to be a formidable task. The organizations in Vietnam, subordinate to the command headquarters of the services, could not be provided specific information as to size and time of force reductions until announced by the President. Therefore they could not make advance plans for control and efficient disposition of the supplies and equipment which became excess, and plans had to be improvised even as withdrawals were taking place.

Further, they were placed in the position of having to continue their assigned missions until a few days prior to the reassignment of personnel and turn-in of equipment. Notwithstanding these constraints, a concerted effort was being made to account for and control the supplies and equipment which became excess as the phasedown proceeded.

Some of the continuing problems in disposing of excess supplies and equipment stemmed from a lack of procedures for determining which excesses were to be turned over to the Vietnamese Armed Forces and which were to be shipped back to the United States, a shortage of facilities for cleaning the excesses to be shipped back (to meet the standards of the U.S. Public Health Service and the Department of Agriculture), and a lack of qualified people to pack and crate the excesses to be shipped back.

The military departments concurred generally with GAO's conclusions and suggestions and cited recent actions to implement the suggestions. (See Appendix, Section I, Item 108.)

### Facilities and Construction

GAO issued two reports on this subject to the Congress: one dealt with the administration of construction contract provisions, and the other with reports to the Congress by the military departments on nonadvertised military construction contract awards.

The inspection procedures and practices of the Army Corps of Engineers and of the Naval Facilities Engineering Command—the agents for the Department of Defense in construction of military facilities—were not sufficiently effective to insure that construction was in accordance with contract specifications. A number of facilities accepted by the Government as completed did not meet contract specifications. As a result, the facilities were not fully satisfactory for their intended use and/or the Government had to spend additional time and effort to correct deficiencies. DOD agreed with GAO's recommendations for strengthening the two construction agencies' procedures and practices relative to the inspection of military construction. (See Appendix, Section I, Item 126.)

Under the military construction authorization acts, the military departments are required to report to the Congress all nonadvertised (negotiated) military construction contract awards. GAO noted that most of the nonadvertised awards for work overseas were not included in the reports to the Congress. There were at

least 125 such awards in fiscal year 1968: 100, totaling \$184 million, in Southeast Asia; and 25, totaling \$7 million, in the Republic of Germany. In response to GAO's suggestions for improving the reporting to the Congress, the DOD cited new instructions that had been put into effect to insure proper reporting in the future. (See Appendix, Section I, Item 127.)

### Maintenance, Repair, and Overhaul

Five reports were issued to the Congress on this topic. Digests of the reports are presented in the Appendix, Section I, and are further identified in the following summaries.

The Army's backlog of helicopters awaiting repair and overhaul had increased substantially in the months preceding January 31, 1970. At that date there were 200 helicopters and large quantities of engines and components in the backlog. At the same time the Army had on order or was planning to buy about 1,700 helicopters and large quantities of engines and components. GAO concluded that the Army could attain the same or increased availability at less cost by expanding its maintenance program and reducing or stretching out its procurement program. The Army agreed and later informed GAO that overhaul programs had been or would be increased, and that procurement requirements for some of the new items had been reduced. (See Item 213.)

The costs to the Army and the Air Force of maintaining their commercial vehicles in Europe were higher than planned because of repetitive repairs, excessive preventive maintenance and inspections, and excessive time spent on repairs and inspections. Neither of the services was using established labor standards to measure efficiency of the operations. GAO's suggestions for improving efficiency of the operations were concurred in by DOD. (See Item 214.)

About \$1 million could have been saved in Europe in fiscal year 1969 if the motor vehicle tire-rebuilding programs of the Army and the Air Force had been more effective. Neither of the services had surveillance systems to monitor the programs, and significant quantities of tires that could have been rebuilt were sold at nominal prices as scrap. DOD concurred in GAO's suggestions for strengthening the programs. (See Item 215.)

## DEFENSE OPERATIONS

*Helicopters awaiting repair at the Army Aeronautical Depot Maintenance Center.*



The cost accounting systems of depot-level maintenance operations—the major overhauling or rebuilding of military equipment—differed among the three services and among installations within each service. This made it impossible to compare results of operations of installations performing similar work. The Department of Defense agreed that there were inconsistencies in cost reporting and that there

were some areas requiring more explicit instructions. (See Item 159.)

There was no coordination among the three services in their operation of spectrometric oil analysis laboratories. (The analysis is a technique for measuring worn metal parts in oil, taken from engine-lubricating systems, to determine the extent of wear and the need for repair or replacement of engine

parts.) The services operated their laboratories independently of each other, differed in their criteria for frequency of analysis, and were separately planning to acquire 357 additional laboratories at a cost of \$7.1 million. At GAO's suggestion DOD studied the operations and established a new program under the direction of the Navy. (See Item 216.)

### **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 recurrence, 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 been submitted by the Department.

GAO issued one report to the Congress on military pay and allowances. The report dealt with the accounting for military leave in the Army and pointed out that inaccuracy in the accounting, which had been the subject of a number of GAO's earlier reports, was a continuing problem despite the Army's adoption of additional procedures and controls. Inaccurate balances of unused leave have been a major factor contributing to improper payments by the Army to its military personnel. Based on the incidence of the errors, GAO estimated that overpayments of about \$23 million and underpayments of about \$3 million could result annually. Should the military personnel choose to use their erroneous leave balances, rather than receive payment at time of separation, a net loss of about 4,600 man-years of manpower availability could result. The Army concurred, in general, with GAO's findings and recommendations for corrective measures. (See Appendix, Section I, Item 192.)

GAO's review of civilian pay and allowances included an evaluation of the effectiveness of the internal controls and internal audit work, a statistical sampling of the propriety of salary rates, a review of the procedures for determination of entitlements to severance pay and computation of the amounts payable, and an evaluation of the effectiveness of the conversion of National Guard technicians to Federal employee status as provided by the National Guard Technicians Act of 1968.

The 1968 act converted Army and Air National Guard technicians from State to Federal employee status, effective January 1, 1969. One of the principal purposes of the act was to provide an adequate and uniform retirement and fringe benefit program. In a report issued to the Congress, based on a review of the records of over 1,000 technicians selected at random in 12 States, GAO noted that the conversion, generally, had been carried out in accordance with the act and implementing regulations and instructions. There were many discrepancies, however, in data pertaining to prior service. The erroneous data had no significant effect on the status of the technicians at the time of conversion and generally will have no significant effect so long as they are employed by the Federal Government. But the errors could have an effect on the technicians' retirement rights and benefits and on the related cost to the Government. DOD agreed with GAO's recommendation that the National Guard Bureau, in cooperation with the States, review and correct the data pertaining to prior service of the technicians. (See Appendix, Section I, Item 195.)

### **Manpower Utilization**

GAO issued three reports to the Congress on this subject. Digests of the reports are presented in the Appendix, Section I, and are further identified in the following summaries.

GAO concluded that civilian personnel ceilings or hiring restrictions, whether imposed by statute or by the Office of Management and Budget, do not provide the most effective management control. They tend to be arbitrarily applied, inflexible, and uneconomical. GAO proposed that the Director of the Office of Management and Budget permit departments and agencies to accomplish their programs without restrictions on numbers of personnel—being limited only by the availability of funds. In December 1970 the Director agreed to eliminate employ-

## DEFENSE OPERATIONS

ment ceilings in the Department of Defense for a 1-year trial period. (See Item 234.)

About 10 percent of the enlisted personnel at the four Army installations in the continental United States where GAO made its review were assigned to duties for which they had not been trained. Information obtained in other reviews showed that the rate at overseas installations was even higher. GAO recognized that the number of men entering and leaving the Army and the number being assigned and reassigned had increased in recent years and had added to the problem of personnel management. The Army agreed with the general thrust of GAO's findings and recommendations for corrective measures and stated that increased attention to the personnel management area had been programmed by the Army Audit Agency. (See Item 235.)

The Naval Air Reserve units at the four naval air stations visited by GAO were not achieving their primary purpose of having trained units and suitable equipment available for active duty in time of war or national emergency. Priority given to the Active Navy was a contributing factor to the low-readiness status of the units. The development of a 5-year plan to improve the readiness of the Naval Air Reserve had been approved by the Navy in April 1969 but, as of June 30, 1970, had not been fully developed. Development and implementation of the plan would provide a sound basis for the needed corrective action. (See Item 236.)

### Administration of Education and Training Programs

Three reports were issued to the Congress on this subject.

One report pointed out that over 4,200 military officers were enrolled in full-time graduate education programs in fiscal year 1969 at an estimated cost of at least \$70 million. These officers were selected for the graduate education on the basis of certifications that the positions they were to occupy required such education. The criteria for determining the graduate education requirements for the positions and the ways in which the criteria were applied were so broad and permissive that almost any officer position could be certified as requiring such education. Furthermore, many officers with graduate education were not assigned to positions requiring their specialized education.

In response to GAO's findings and its suggestions that the objectives of the graduate education program be clarified and that the existing criteria be revised to limit the broad, permissive interpretations, the Department of Defense contended that GAO had failed to take into account the intangible accepted values and benefits of graduate education. In view of this position, and the announced plans of the military services to expand the program, GAO suggested that the Congress might wish to consider limiting the full-time, fully funded graduate level education program to those positions for which such education was essential for the satisfactory performance of duty and to those officers who could be used primarily in the positions. (See Appendix, Section I, Item 193.)

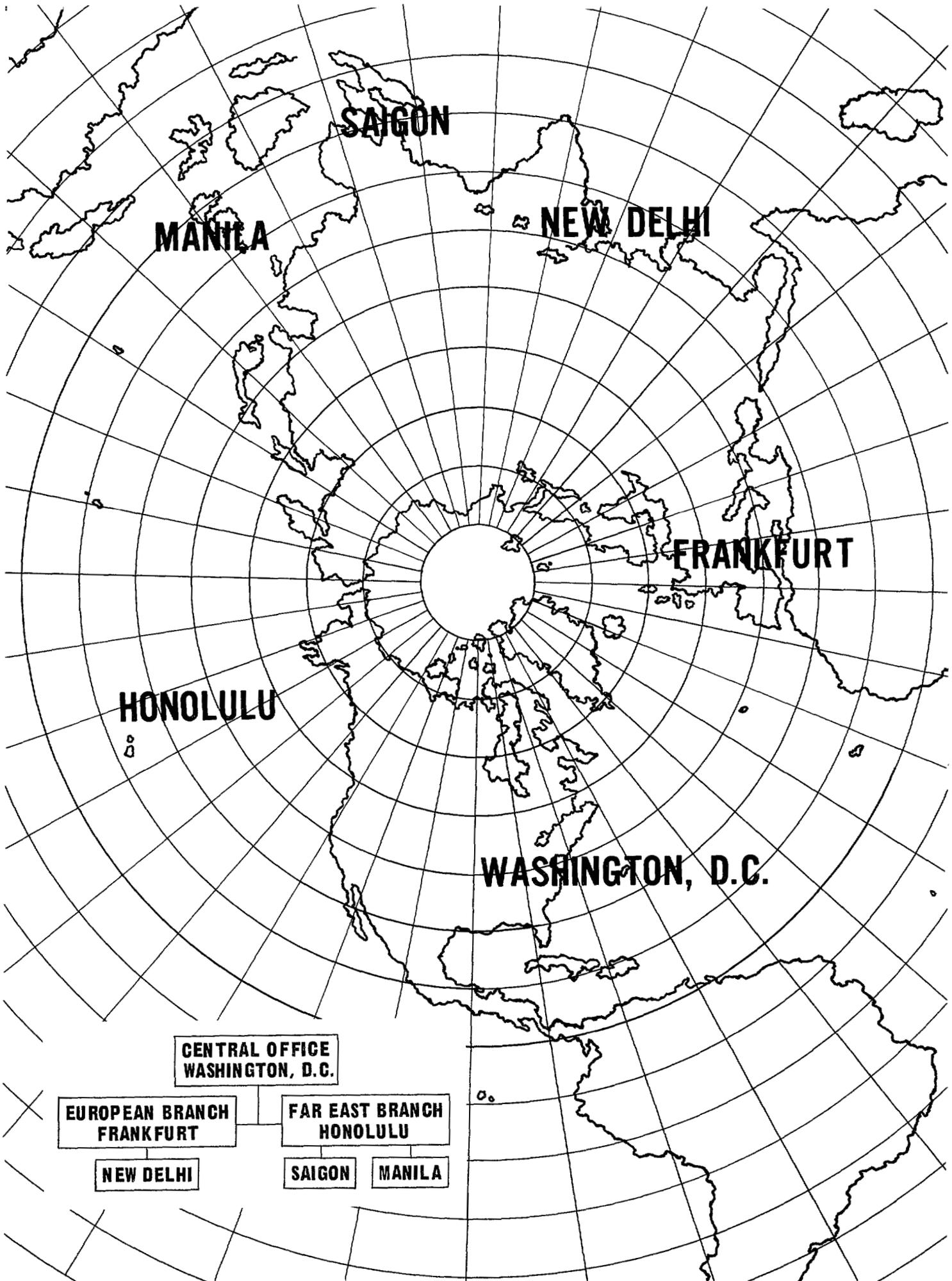
Another report noted that the U.S. Armed Forces Institute, which provides educational services to members of the Armed Forces on subjects normally taught in civilian academic institutions, had experienced low course-completion rates in recent years. The rates were about 10 percent in the correspondence program and about 31 to 39 percent in the group-study program. Although DOD internal auditors had observed this situation in a 1965 review and had made recommendations for improvement, no action had been taken by the Institute. However, during the course of GAO's review the Institute took action to deal with the low completion-rate problem. The action included a study to provide an information base on dropouts and student nonstarts (students who, after enrolling, do not submit lessons). (See Appendix, Section I, Item 194.)

Another report presented findings of weaknesses in accounting and reporting of costs incurred under the Government Employees Training Act. The act provides for Government-sponsored programs to supplement and extend self-education, self-improvement, and self-training of employees. A 1967 House Report on the operations of such programs had identified accounting for training costs as one of the problem areas and had recommended certain improvements. The weaknesses identified in 1967 regarding training costs continued to exist within the Department of Defense. The cost accounting and reporting systems were inadequate and did not include all training costs. Internal training costs, which represent more than 75 percent of the total costs, and trainee salaries were not included. DOD and the Civil Service Commission agreed, in general, with these findings and cited corrective actions which appeared to be responsive to the conditions cited in GAO's report. (See Appendix, Section I, Item 60.)

**Administration of Communications**

In a report issued to the Congress, GAO pointed out that, although some progress had been made toward the integrated communications system contemplated in 1960 when the Department of Defense established the Defense Communications System, much remained to be done. There was a lack of coordination

among the organizations involved in communications and, other than the Secretary of Defense, there was no one person or office serving as a focal point with authority and responsibility to coordinate all aspects of communications. DOD accepted some of GAO's recommendations and established a new position of Assistant to the Secretary of Defense (Telecommunications). (See Appendix, Section I, Item 246.)



**CENTRAL OFFICE  
WASHINGTON, D.C.**

**EUROPEAN BRANCH  
FRANKFURT**

**FAR EAST BRANCH  
HONOLULU**

**NEW DELHI**

**SAIGON**

**MANILA**

In addition to the foreign assistance programs, other major elements subject to review in 1971 included foreign trade programs; U.S. participation in international organizations and institutions; management and utilization of U.S.-owned foreign currencies; activities affecting the U.S. balance-of-payments position; and management and operations of U.S. embassies, consulates, and other installations in foreign countries.

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.

During the year, GAO conducted audits in countries 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)	26
Far East Branch Area (Southeast Asia and Pacific)	15
Latin America and other foreign areas	10
Total	51

To a limited extent GAO provides advisory assistance in improving financial management to Government officials, heads of foreign audit institutions, officials of international organizations, 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 21 countries, the Organization for Economic Cooperation and Development, and the World Health Organization. GAO efforts in this area are limited to a few hours of orientation and briefing and do not involve long-term training.

The visiting foreign nationals included ambassadors; embassy officials; heads of audit organizations and their staff members; finance, budget, and treasury officials; members of parliaments; national bank officials; staff members of international organizations, and others holding senior financial management positions in government. They were interested in the functions and operations of the General Accounting Office and its role in relation to activities of the executive and legislative branches. 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.

## CHAPTER SIX

# AUDIT OF INTERNATIONAL OPERATIONS AND PROGRAMS

GAO's audit efforts relating to international operations and programs during fiscal year 1971 have been devoted primarily to the U.S. activities in Southeast Asia and foreign assistance programs throughout the world. In these reviews GAO has emphasized the need for improved management and operating controls, and financial administration.

The International Division is responsible for carrying out the audit work of the General Accounting Office relating to all U.S. Government programs and activities conducted in foreign countries and Hawaii. The division is under the supervision of Oye V. Stovall, Director, and Charles D. Hylander, Deputy Director. An organizational chart is shown on page 100.

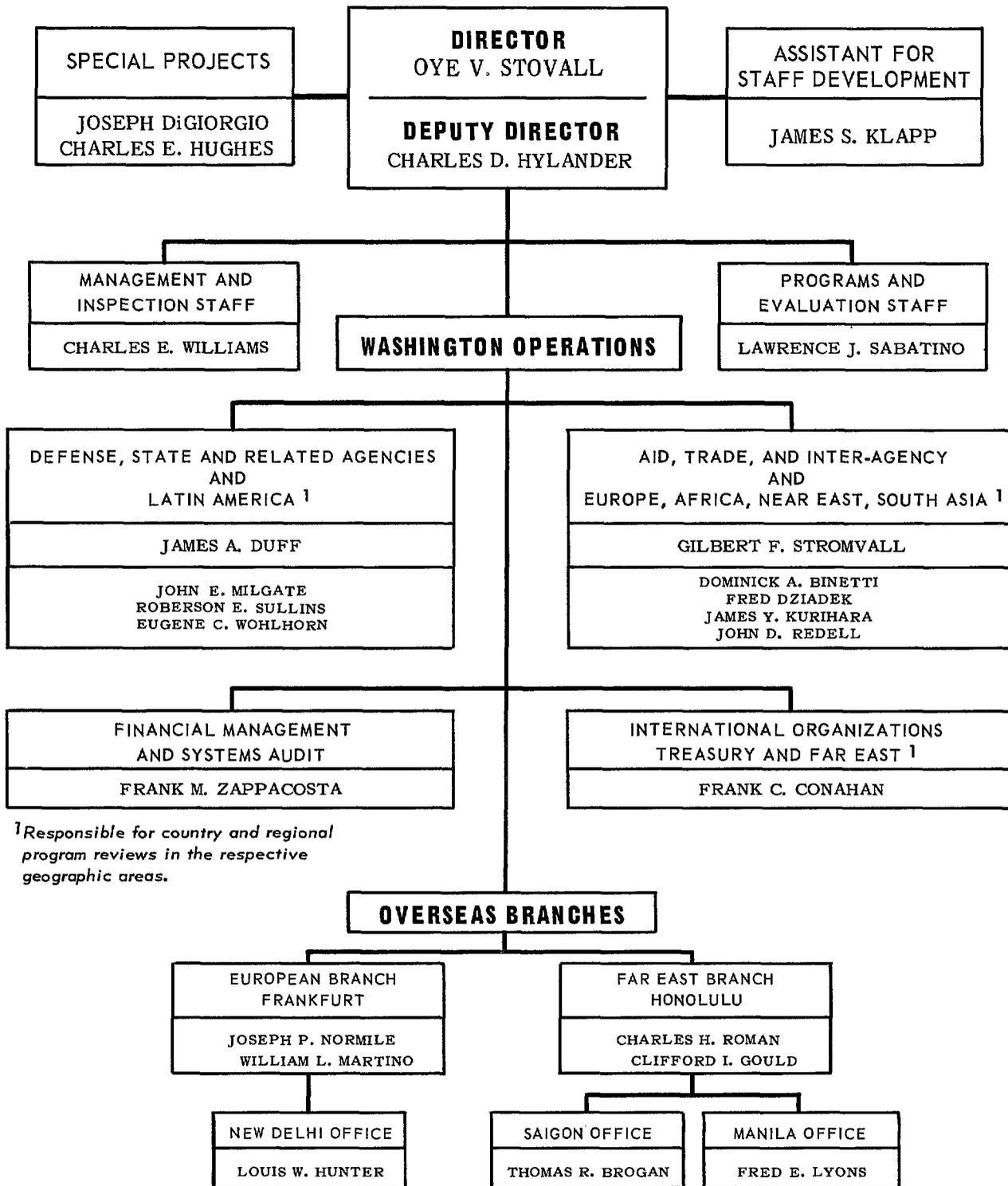
During fiscal year 1971 the following reports on international matters were issued:

To the Congress as a whole	17
To committees or Members	30
To department and agency officials	28
Total	75

About one-fourth of the total GAO effort applied to international programs during the year was in response to congressional requests.

The principal international programs, areas, and agencies to which GAO applied its audit resources are discussed in the following sections of this chapter.

INTERNATIONAL DIVISION



<sup>1</sup>Responsible for country and regional program reviews in the respective geographic areas.

## Reviews of U.S. Activities Relating to Vietnam and Southeast Asia

GAO issued 44 reports relating to programs and activities being conducted in Vietnam and Southeast Asia. Twenty-six of these reports were made in response to requests from congressional committees or individual Members of the Congress. The reports included such matters as:

Need for increased control over local currency made available to the Republic of Vietnam for support of its military and civil budgets.

Opportunities to economize on purchases of dairy and bakery products for U.S. forces in Southeast Asia.

A case history showing need for improvements in the management of overseas military construction contracts.

Economic advantages of using American-made trucks abroad to transport military cargo.

Problems in the administration of the military assistance training program.

A followup review showed long missing Government-owned materials in Vietnam still unaccounted for.

Review of U.S. purchases of local currencies in countries which are recipients of military aid.

Some of these reports are discussed elsewhere in this chapter. At June 30, 1971, reports were in process relating to reviews of (1) U.S. assistance and support to the Philippines and (2) U.S. participation in the foreign assistance programs for Indonesia.

## Broader Based Reviews of Program Results

### Countrywide and Regional Reviews of U.S. Foreign Assistance

GAO continued to place emphasis on countrywide and regional 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 or region, were programmed, managed, and meeting U.S. objectives.

Five reports on countrywide and regional reviews were issued. Three of these were submitted to the Congress and related to country reviews of Liberia and Honduras, and a regional review of U.S. aid to the economic unification of Central America.

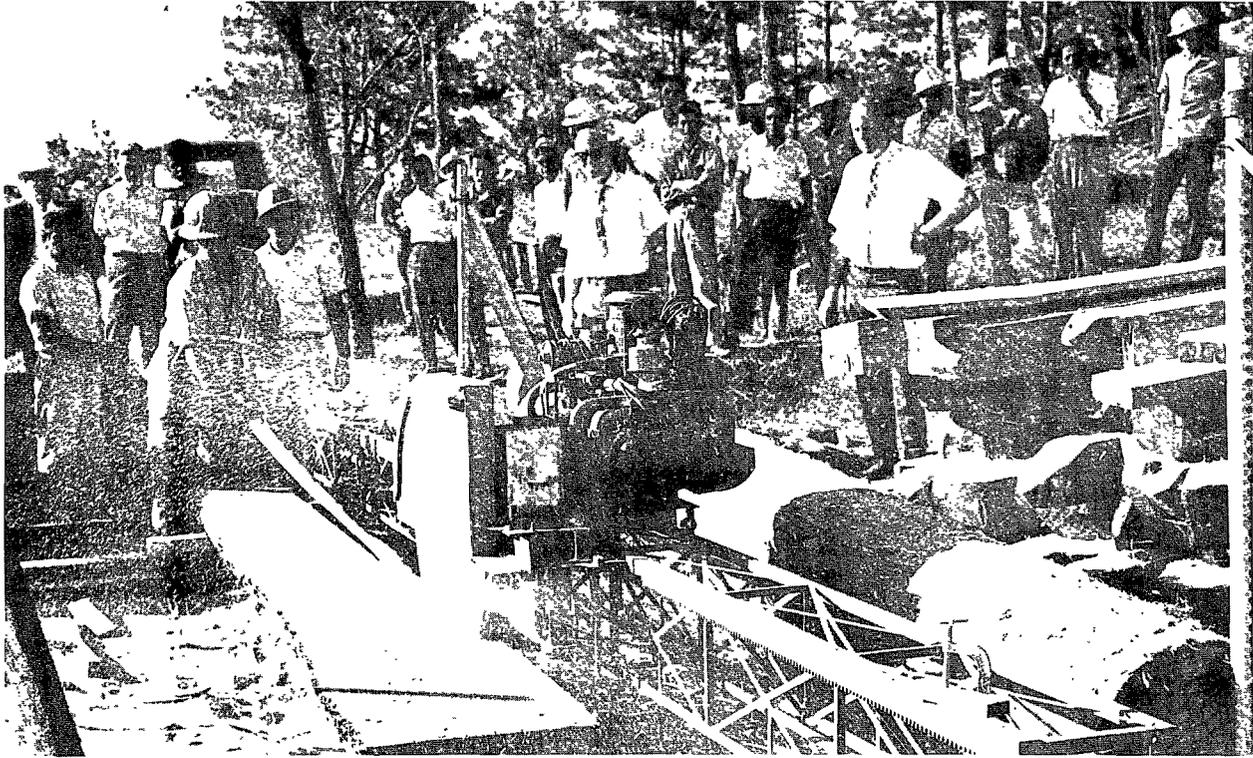
Two other reports were submitted to agency officials and related to (1) a country review of Nicaragua and (2) a regional review which identified several improvements needed in the planning and programming of developmental assistance programs in Latin America to meet U.S. objectives and goals.

At the close of the fiscal year reports were in process on country reviews of Afghanistan, Ecuador, Indonesia, Morocco, and the Philippines.

In the report to the Congress on assistance to Liberia GAO noted that U.S. assistance to that country totaled \$212 million between fiscal years 1960 and 1969. GAO found that a number of problem areas existed, including (1) lack of Liberia's financial support, (2) poor location of physical facilities, and (3) inadequate commitment by Liberia to institute changes necessary to attain project objectives. Action taken by agencies on these matters, if followed, should improve the effectiveness of the U.S. program. (See Appendix, Section I, Item 85.)

In the report on Honduras, GAO pointed out that while economic growth during the Alliance for Progress years had accelerated, there was no evident acceleration of its overall social or political development when compared with the 1950's. GAO concluded that among other things improvement was needed in the planning and evaluation of Agency for International Development (AID) programs in Honduras. In response to GAO's recommendations the Department of State and AID mentioned that they were considering ways to improve their present methods in this regard. They also stated that the GAO report did not appear to reflect fully the progress made in recent years by AID in the planning and evaluation of individual projects and activities. (See Appendix, Section I, Item 84.)

In August 1970, GAO submitted a report to the Congress on the administration by the Agency for International Development of U.S. assistance channeled through the AID Regional Office for Central America and Panama (ROCAP). ROCAP was created primarily for the purpose of developing and administering programs of a regional nature to bolster and expedite the regional economic integration movement in Central America. GAO observed that the



*Honduran and AID personnel observing demonstration of portable saw mill furnished by AID to help expand forest product output in Honduras.*

achievement of a Central American Common Market that was fully effective was some time away. In addition, GAO stated that a majority of the assistance was allocated by AID for matters and activities similar to those undertaken by individual country AID missions without distinguishing the relative merits of financing such matters on a regional basis. The Administrator, AID, agreed in principle with the four recommendations included in the report. (See Appendix, Section I, Item 82.)

In a report to the Secretary of State in June 1971 concerning developmental assistance programs in Latin America, GAO stated that despite a number of improvements in the project formulation process, a significant opportunity existed for improving the planning and programming of developmental assistance programs in Latin America to meet U.S. objectives and goals. GAO found, in a review of selected fiscal year 1972 programming documents for developmental programs for six Latin American countries, that in a majority of cases program objectives and goals were not stated in objectively measurable terms and did not include a time frame for accomplishment. At June 30, 1971, the Department of State was still reviewing GAO's

recommendation. (See Appendix, Section I, Item 83.)

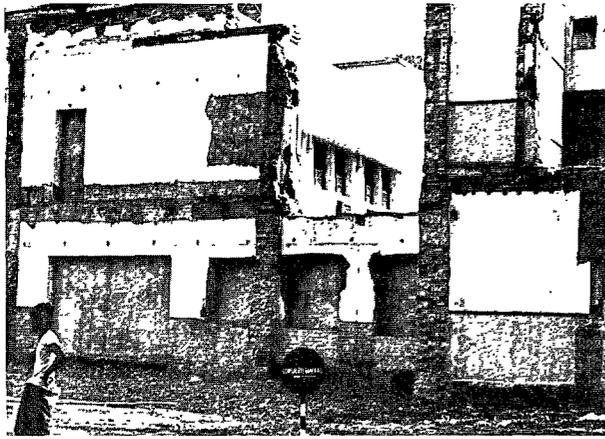
Another report to the Secretary of State on a review of developmental assistance programs in Nicaragua remains classified and accordingly is not summarized here. It related to improvements needed in the administration and planning of the programs to meet U.S. objectives.

### **Interagency and Trade Programs**

The need for enlarging the foreign commerce of the United States has long been recognized, particularly in relation to the Nation's favorable balance of trade. In the past, U.S. trade surplus has helped the country to finance its international programs. Since 1964, however, this trade surplus has declined progressively and has been a major reason for the continued U.S. balance-of-payments deficits. Responsibilities for trade development are divided among several U.S. departments and agencies. In an effort to assist the export expansion programs of the Government, GAO is continuing a substantial effort in this area.

Fourteen reports on GAO's reviews of trade programs and other interagency activities were issued dur-

*Potential use of excess rupees to modernize the U.S. Consulate building in Calcutta, India.*



*Front view of the Consulate building.*



*Rear view of and entrance to the Consulate building.*

ing the year. Four were submitted to the Congress: two concerning utilization of U.S.-owned foreign currencies, one on the agricultural barter program, and one relating to the displacement of U.S. agricultural exports. Three reports were submitted to congressional committees and one to an individual Member of Congress on reviews made at their request. Six were submitted to agency officials relating to U.S. trade programs, Food for Peace, utilization of U.S.-owned foreign currencies, and balance-of-payments benefits.

In a report submitted to the Congress in January 1971 suggesting possible uses of the excessive amounts of Indian currency which the United States has amassed, GAO noted that the amount of Indian rupees available for U.S. expenditure in mid-1969 totaled \$678 million which would last about 19 years at current expenditure levels. GAO recommended that (1) executive branch agencies be allowed to seek approval

for well-documented, excess-currency-funded projects without regard to overall agency dollar ceilings, (2) the Office of Management and Budget explore with the appropriate committees of the Congress the acceptability of direct appropriations of foreign currency, and (3) the Treasury Department establish more flexible procedures for valuing U.S.-owned Indian rupees in dollars in making sales to U.S. agencies to encourage greater productive use of the funds for U.S. programs in India without compromising congressional control over use of the funds. The agencies generally agreed with GAO's recommendations, but insofar as GAO is aware no plan of action has been agreed upon in the executive branch. (See Appendix, Section I, Item 106.)

In July 1970, GAO issued a report to the Congress concerning the need for strengthening controls over the budgeting, release, and use of U.S. owned or controlled local currency made available for support of Vietnam's military and civil budgets. The report pointed out that large sums were released for civil budget activities before the cash was needed and that local currency was released for both military and civil budgets on the basis of unreliable and unverified reports furnished by the Government of Vietnam. The Department of Defense and the Agency for International Development advised that actions had been taken and would continue to be taken to strengthen controls over local currency for support of Vietnam's military and civil budgets. (See Appendix, Section I, Item 101.)

GAO recommended in a report to the Congress in May 1968 that the Department of Agriculture relax its existing barter constraints in order to increase agricultural exports and thereby benefit the U.S. balance-of-payments position. Based on a followup review, GAO reported to the Congress in February 1971 that the Department had taken steps to increase such exports through its barter program. Barter contracts awarded increased from \$181 million in fiscal year 1969 to about \$885 million in 1971. (See Appendix, Section I, Item 94.)

In another report GAO suggested to the Department of Agriculture that it give priority to a special export sales program before committing stocks of non-fat dry milk powder to foreign donation programs under Title II of Public Law 480. The potential for more than \$3 million of additional export sales per year was identified in this report. Officials of the Department generally agreed with GAO's recommenda-

## INTERNATIONAL OPERATIONS

tions and, to the extent feasible, will continue to give consideration to the proposals. However, the officials further stated that in addition to providing donations of nonfat dry milk to overseas voluntary relief agencies to feed the needy, consideration is also given to certain political and humanitarian interests of the United States, such as donations to feed people displaced by earthquakes or other natural disasters and to war refugees. (See Appendix, Section I, Item 105.)

Work in process at June 30, 1971, relating to trade programs included reviews of the (1) effectiveness of overseas trade exhibitions, (2) utilization of foreign trade zones, (3) evaluation of the impact of foreign assistance programs on agricultural exports to the European Economic Community, and (4) effectiveness of market promotion activities. Interagency reviews in process included the implementation of a required transition to dollar sales of commodities, and the management and accounting for convertible local currencies acquired by sales of commodities.

### Other Reviews

Other reviews consisted 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.

At the request of the chairman of the Senate Committee on Foreign Relations, GAO reviewed and reported on activities under the military assistance training programs in 10 foreign countries. The report showed that some of the training was unnecessary or was not of a high priority and other training was unrelated to the equipment on hand. It also showed that sufficient consideration was not always given by military advisors to the recipient countries' capabilities to provide training from their own resources, and there was no attempt made to correlate military assistance training programs with other U.S. Government training programs. In the selection of foreign students to be trained, GAO found that the U.S. advisors had not taken the necessary steps to insure that a sufficient number of qualified candidates were available. As a result, many unqualified personnel entered some courses and other courses were canceled or deferred. In the report, GAO suggested that the Congress might wish to consider the desirability of enacting legislation requiring the Secretary of Defense to establish a measurement system to assist in determining the effective-

ness of expenditures for the military assistance training programs. (See Appendix, Section I, Item 80.)

In another review, GAO stated that comparative cost studies showed that substantial savings and balance-of-payments advantages could have been realized at several overseas locations by using more American-made trucks in place of foreign vehicles being used by commercial carriers under contract with the military. A study of contract services costing \$10.7 million revealed that expanding the military's capability could annually produce cost savings of \$1.8 million and reduce dollar payments abroad by \$6.4 million. Department of Defense officials stated that the services concurred with most of GAO's findings and recommendations and agreed to take steps along the lines proposed. (See Appendix, Section I, Item 92.)

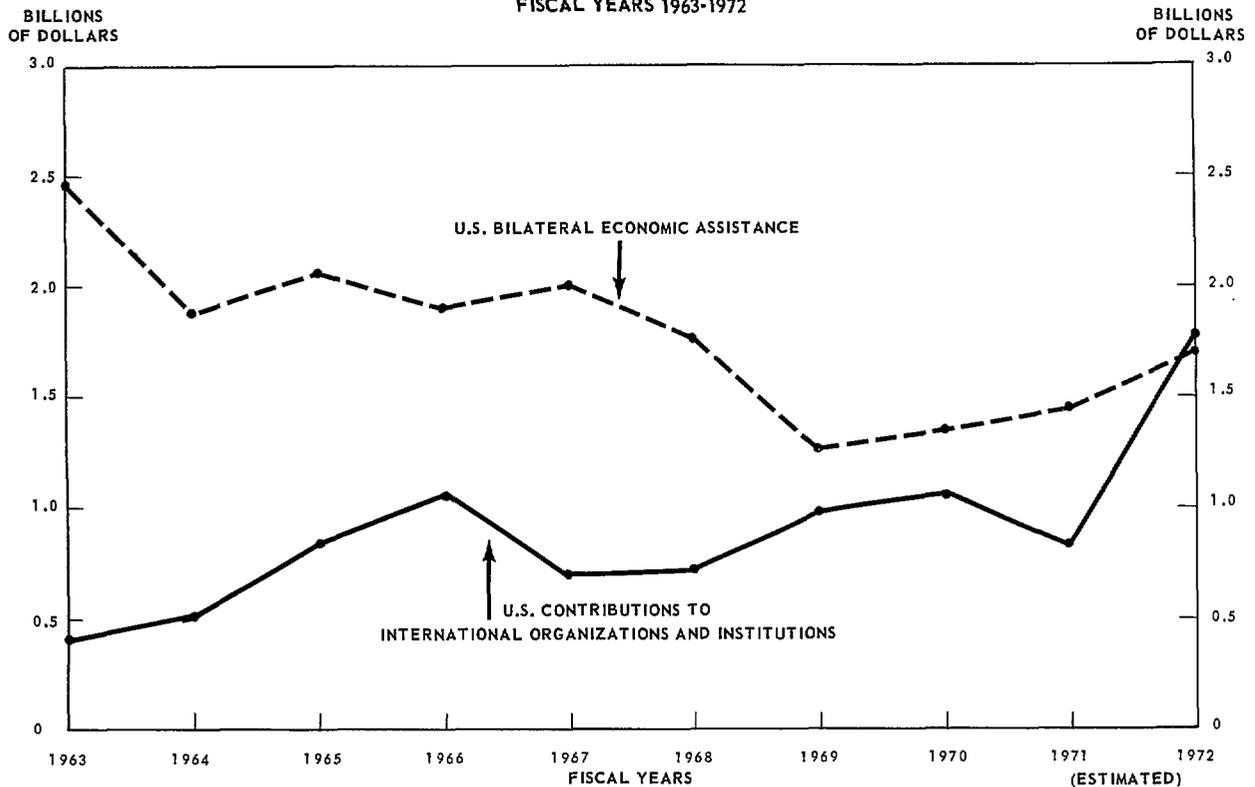
A report was submitted to the Congress concerning the economic advantages of using American ingredients to satisfy milk requirements of military personnel and their dependents in Western Europe, rather than purchasing whole milk from European sources. The Department of the Army expressed concern at the possible effects that discontinuance of fresh whole milk procurements might have on troop morale in Europe, but agreed to conduct an objective consumer acceptance test in Europe. (See Appendix, Section I, Item 99.)

### U.S. Participation in International Organizations and Institutions

Over the past decade, the U.S. Government has increasingly relied on international organizations and institutions as a means for channeling resources to assist in the economic development of other countries. During this period, annual U.S. contributions to these organizations and institutions have increased by several hundred percent. In contrast, funds made available in the annual foreign assistance appropriations acts for U.S. bilateral economic assistance have decreased. Administration proposals for fiscal year 1972, if approved, would result in U.S. contributions to the international organizations and institutions being slightly higher than U.S. bilateral economic assistance. (Only a small percentage of funds contributed to the international bodies is used for other than developmental assistance activities.)

The United States participates in two categories of international organizations. One category includes the United Nations system of organizations and regional

COMPARISON OF FUNDS APPROPRIATED  
FOR U.S. BILATERAL ECONOMIC ASSISTANCE  
WITH U.S. CONTRIBUTIONS TO  
INTERNATIONAL ORGANIZATIONS AND INSTITUTIONS  
FISCAL YEARS 1963-1972



organizations such as the Organization of American States. The Secretary of State has primary responsibility for managing U.S. interests in these organizations. The other category consists of the international financial institutions such as the World Bank and the regional development banks. Responsibility for managing U.S. interests in these institutions rests with the Treasury Department and the National Advisory Council on International Monetary and Financial Policies under the chairmanship of the Secretary of the Treasury.

GAO's reviews of the first category of organizations pointed to the need for the Department of State to obtain sufficient information from international organizations to adequately assess the programs and projects proposed to be implemented as well as the 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.

In December 1970, at the request of the chairman of the House Foreign Affairs Committee, GAO set

forth its views on the essential elements it considered necessary for achieving effective independent reviews and evaluations of international organizations and institutions. In response to GAO's suggestions, the Department of State informally proposed, at the 25th session of the United Nations General Assembly, that a United Nations-wide review and evaluation body be established for the purpose of improving the financial control mechanisms of that organization. Although the Department found little support for the proposal, it has advised that it will introduce the proposal again in the future. GAO intends to work with the Department and other agencies in its continuing efforts to encourage the establishment of effective evaluation functions for other major international organizations and institutions in which the United States holds membership.

As GAO's review progressed, it became evident that there was no effective working mechanism within the Department of State for the Department to discharge its responsibility for directing and coordinating the activities of all U.S. departments and agencies involved

## INTERNATIONAL OPERATIONS

in international organization affairs. Accordingly, GAO prepared an outline suggesting a more effective organization for the management of U.S. participation in the developmental assistance activities of international organizations. The Department of State subsequently advised GAO that it had considered the organizational and staffing changes which were needed and, to improve its operations, had initiated actions essentially in line with the suggestions set forth by GAO. (See Appendix, Section I, Item 89.)

Another report dealt with a purchase commitment made to an international organization prior to the availability of funds. GAO found that, in March 1960, the Department of Defense (DOD) entered into a written agreement with a consortium of five NATO countries, formed for the purpose of producing HAWK surface-to-air guided-missile systems in Europe. It was GAO's opinion that DOD lacked authorization to enter into a purchase commitment without sufficient funds being available, and DOD acted in a manner which did not comply with the intent of the Anti-Deficiency Act. DOD advised GAO that it did not agree with the reported findings and recommendations. After considering DOD's comments, GAO remains of the view that DOD violated the Anti-Deficiency Act. (See Appendix, Section I, Item 88.)

GAO's review of U.S. participation in the second category of international organizations—the international financial institutions—was discussed early in the fiscal year in testimony by GAO representatives before the House Banking and Currency Committee. The GAO representatives set forth GAO's objectives in reviewing the management of U.S. interests in the international lending programs of these institutions. The representatives expressed the belief that there was a pressing need for better information in both the planning and the measurement of the results of the programs. GAO believes that major improvements in the financial processes and stewardship reporting of the international organizations and institutions should be sought through the U.S. representatives and without interference in the internal operations of the international organizations. At the close of the fiscal year, GAO was reviewing, in this context, U.S. participation in the World Bank/International Development Association, the Inter-American Development Bank, and the Asian Development Bank.

During the year, a review was completed of the progress made toward independent and comprehensive audits of the Inter-American Development Bank.

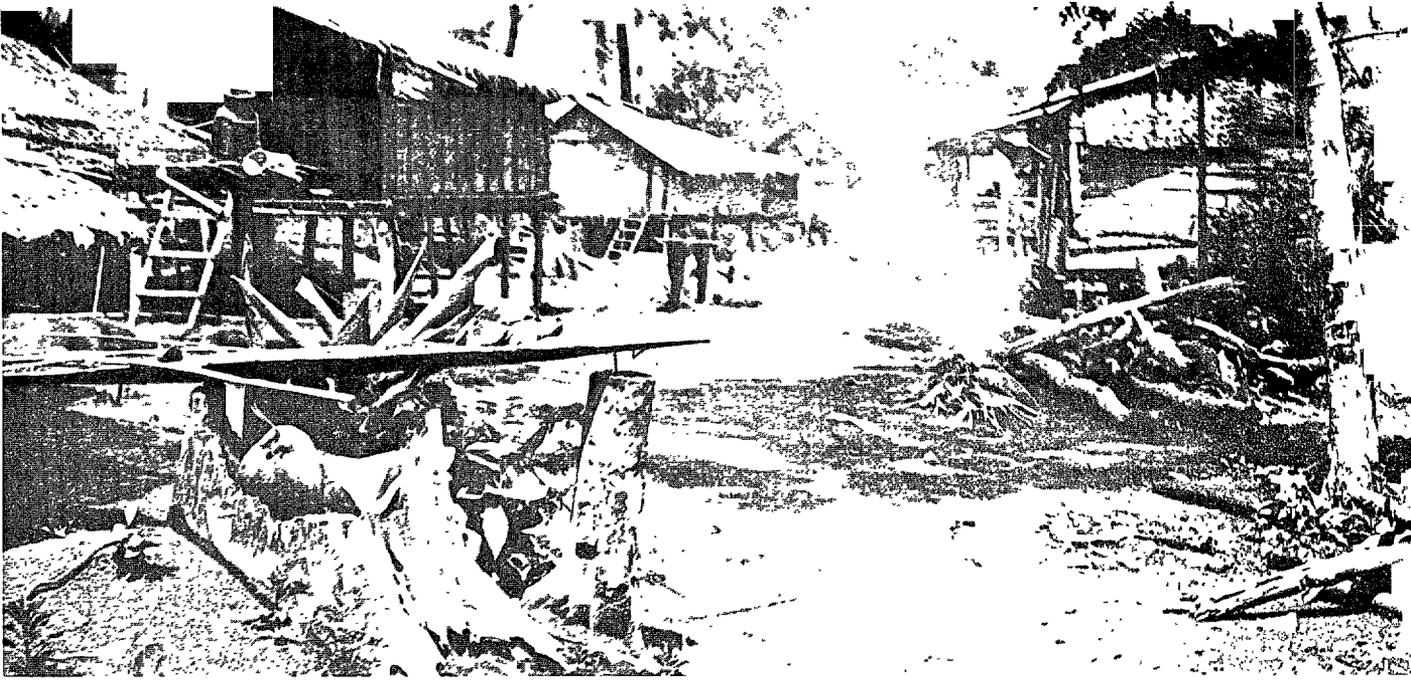
The independent audit body was established in 1968 as an outgrowth of a 1967 amendment to the Inter-American Development Bank Act which directed the Secretary of the Treasury, as the U.S. representative to the Bank's governing body, to work toward the establishment of an independent external audit function for that Bank. The legislation provides that the Comptroller General shall review periodically the audit reports issued by the independent audit group and shall report his findings to the Treasury and to the Congress. A report to the Congress on this review was issued in July 1971.

### Agency for International Development

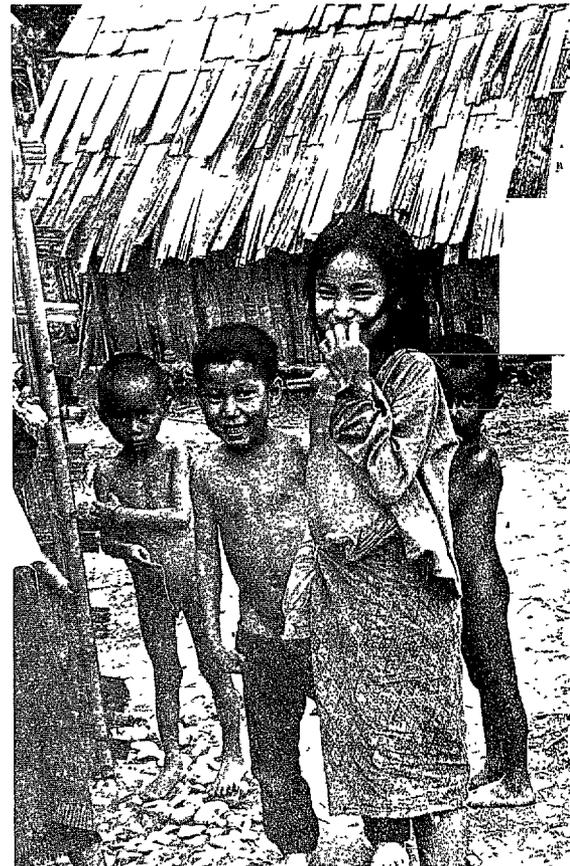
The Agency for International Development administers U.S. economic assistance programs under the provisions of the Foreign Assistance Act of 1961, as amended, and other related legislation.

During fiscal year 1971, GAO conducted audits and special reviews pertaining to various economic assistance programs and related activities primarily administered by the Agency. Some of GAO's reports relating to the Agency's programs are discussed more fully in this chapter under the caption "Broader Based Reviews of Program Results." Sixteen reports were issued in response to requests from congressional committees on various matters of their respective interests. Nine reports were issued to agency officials, relating generally to improvements needed in the administration and management of economic and other foreign assistance programs and to internal operating procedures.

A report to a congressional committee covered the results of a limited review of the refugee relief program in Laos. GAO found that U.S. officials had been reacting to the exigencies of the refugee situation in Laos but plans had not been developed for the movement of refugees in the event of certain contingencies. GAO noted that the AID Mission in Laos did not have enough staff to manage the refugee programs along with its other ongoing activities, that the refugee relief program was not adequately evaluated, and that no written operating procedures or clearly defined standards had been developed by the mission to care for the refugees. During field visits to a number of refugee villages, it was observed that the refugees were poorly clothed, water supplies appeared inadequate, housing



*Living conditions in Loatian refugee camps.*



## INTERNATIONAL OPERATIONS

was inadequate for the crowded conditions, and farmland was limited. GAO suggested that the committee might wish to bring this report to the attention of AID for possible use in improving its management of the program. (See Appendix, Section I, Item 86.)

Other reports to congressional committees included (1) an examination into AID's audit of invoices in connection with a contract for rehabilitation of excess property and (2) a review of the status of previously made recommendations for the civilian medical program in Vietnam.

In a report to the Administrator of AID, GAO stated that it had reviewed 40 contract files and found that contract representatives had failed to prepare required evaluations of contractor's performance. As a result, contracting officers had not received the technical and managerial advice needed to evaluate a contractor's performance or his qualifications for future AID contracts. In addition, GAO found that AID's cost-reimbursement contracts in Vietnam for technical services of third-country nationals frequently did not specify salary rates, and that AID was reimbursing contractors for salaries in excess of the limitations. GAO recommended that AID review the salaries paid under cost-reimbursable contracts for third-country nationals, to determine whether employees' salaries were established in accordance with the limitations contained in their contracts. GAO further recommended that the Area Auditor General, in making final audits of completed cost-reimbursement contracts, place special emphasis on determining allowable salaries. (See Appendix, Section I, Item 104.)

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. During fiscal year 1971, GAO reports to local officials included the following suggestions for improving internal controls over financial transactions.

GAO examined into selected payroll records applicable to centrally paid American employees of the Agency for International Development. Based on the results of the work, GAO recommended that the design of the payroll system be changed because it was based on a concept which did not provide for sufficient controls to insure that valid data had been taken into account in determining employee entitlement to pay and leave. As a result of the GAO recommendation, AID initiated corrective action needed for the planned

redesigned system. (See Appendix, Section I, Item 191.)

In connection with GAO's examination of AID vouchers and related documents, GAO suggested that AID should improve existing procedures to insure that overseas transactions are adequately documented. At year end, AID had not advised GAO of any planned procedural changes to improve the documentation of overseas financial transactions.

## Defense International Activities

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, GAO submitted five reports to the Congress on reviews of these activities. In addition, five reports were issued in response to requests from chairmen of congressional committees and individual Members and six were issued to agency officials.

Three of these reports, relating to (1) problems in the administration of the military assistance training programs, (2) economic advantages of using American ingredients to satisfy milk requirements in Western Europe, and (3) economic advantages of using American-made trucks abroad to transport military cargo, are discussed under the subcaption "Other Reviews" in this chapter beginning on page 104.

In October 1970, GAO issued a report to the Congress concerning the justification of the Air Force in engaging a separate contractor to build a single airfield after DOD, in early 1966, had directed a U.S. Navy construction program to support the buildup of U.S. military forces in the Republic of Vietnam. DOD later authorized the Air Force to use a separate contractor to build the airfield.

It was GAO's opinion that, had the Navy proposal been followed, several million dollars in added costs would have been avoided. These costs consisted of duplicate equipment purchases (for example, under the Air Force contract a subcontractor purchased heavy construction equipment for about \$9.5 million while similar equipment, valued at about \$7.4 million, had already been bought by the Navy's contractor for the same job), duplicative overhead and administrative costs, premium prices paid for construction equipment, and disproportionate fee payment rates.

In response to GAO's comments DOD stated that improvements in the management of any operation are always possible and GAO's recommendations are accepted in that spirit and will be given full consideration in continued efforts to improve management. (See Appendix, Section I, Item 102.)

Another report described the method used by the principal construction contractor for the United States in Vietnam to account for all but \$5 million of \$120 million worth of the missing materials and supplies previously reported as unaccounted for by GAO, and the reasons the method cannot be regarded as valid. These reasons include the fact that numerous receiving reports used to account for the arrival of the majority of the shipments in Vietnam were prepared by the contractor many months after the goods were supposed to have arrived, and that questionable adjustments were made affecting the reliability of the contractor's inventory records. When informed of the questionable validity of the adjustments, the contractor canceled them. In commenting on the report, the Department of Defense agreed that no further efforts should be made to account for the \$120 million worth of materials. DOD also commented that the magnitude of the unaccounted for materials was the result of the unprecedented conditions in Vietnam. The GAO considered the DOD responses to be favorable and noted great improvements in almost every aspect of the contractor's material controls since GAO's first report. (See Appendix, Section I, Item 100.)

In February 1971 GAO reported to the Congress on the opportunities to economize on dairy and bakery purchases for U.S. Forces in Southeast Asia. GAO found that more than half of the wheat used for bakery products by U.S. Forces in Thailand came from Australia because the contracts for bakery products did not require the use of U.S. wheat. This resulted in lost sales of U.S. wheat and an unfavorable effect on the U.S. balance of payments. GAO recommended that the Department of Defense include a requirement in its contracts for bakery products in Thailand that wheat from the United States be used.

In response to GAO's recommendations the Department of the Army stated that it would examine into the economy of using U.S. wheat, and, if it can be clearly demonstrated that there would be an advantage in using U.S. wheat, the Thailand procurement office would be requested to make this a requirement in its contracts. (See Appendix, Section I, Item 93.)

In a report to the Secretary of Defense, it was pointed out that savings and balance-of-payments benefits estimated at about \$227,000 annually could be realized by the Government if the Army would reduce its contracts for laundry services in Vietnam and obtain such services from the Air Force's laundry facilities operating at a fraction of their capacity in the same locales. Until the time of GAO's examination, the two services had not cooperated to reduce expenditures by consolidating their laundry service operations. After GAO discussed the matter with Army and Air Force laundry specialists, steps were taken to consider an interservice laundry support arrangement for the Cam Ranh Bay area. GAO proposed that the Department of Defense undertake studies to determine whether similar interservice support agreements would be beneficial at other overseas locations in view of the potential cost and balance-of-payments benefits that might be realized. On July 21, 1971, DOD officials advised that the U.S. Army in Vietnam had initiated action with the Air Force for laundry services at Cam Ranh Bay through an approved Military Interdepartmental Purchase Request, which became effective July 1, 1971. (See Appendix, Section I, Item 98.)

In addition to reports to the Congress and the reports to the committees or individual Members of Congress, a considerable number of informal congressional inquiries were received and responded to. These concerned all types of military assistance to recipient countries including economic supporting assistance and military service-funded appropriations assistance.

At the close of the year, a report on U.S. assistance to the Government of Thailand in consideration of the deployment of Thai forces to Vietnam was being prepared. This proposed report, requested by the chairman of the Subcommittee on U.S. Security Agreements and Commitments Abroad, Senate Committee on Foreign Relations, will provide information on payments, direct and indirect, to the Thailand Government and its officials for their forces sent to Vietnam and the factors relevant to such payments.

Other reports in process relating to defense international activities included reviews of:

Military operations and commitments in the Philippines.

Military assistance program and related activities in the Republic of China.

Assistance related to Free World Forces in Vietnam.

**Department of State and Related Activities**

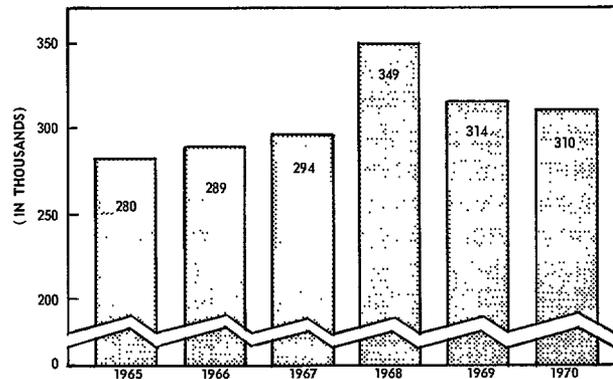
During the year, two reports were submitted to the Congress on improvements needed in the administration of departmental responsibilities. Four reports were submitted to agency officials and generally related to programming and internal management procedures. In addition, two reports were issued on Peace Corps activities in response to requests from individual Members of the Congress.

GAO reported to the Congress on the need for improved review and coordination of the foreign affairs aspects of Federal research. The Department of State has the responsibility to insure that federally sponsored research does not adversely affect U.S. relations with other countries. However, the Department does not review all proposals for foreign research. GAO made suggestions for departmental issuance of review guidelines to other agencies and for improvement of the Department's review procedures. The Department of State generally agreed and stated that it was taking certain actions, including clarifying procedures to other agencies and the Foreign Service posts, to improve its review function. In February 1971, the Under Secretaries Committee within the National Security Council system was directed to assume responsibility for insuring interagency coordination of foreign affairs research and for an annual plan for such research to be submitted to the President for approval. (See Appendix, Section I, Item 148.)

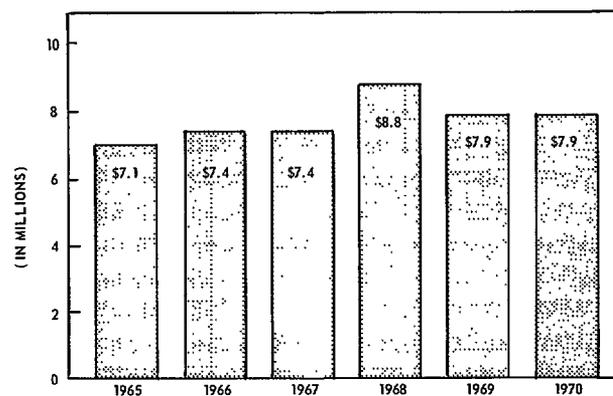
The Department of State provides consular services to both U.S. and foreign nationals. GAO reported to the Congress that although established Government policy provides that services provided by any Federal agency to the public should be self-sustaining to the fullest extent possible, the costs to the Department for providing immigrant visas exceeded revenues by an estimated \$9 million in fiscal year 1970. In addition, the report stated that definitive policy and criteria had not been promulgated for the establishment of consular fees nor was there an accounting system adequate for providing data necessary for the effective financial management of the various consular activities.

In response to GAO's proposals the Department agreed to study the need for a change in the fees and to develop definitive policy and criteria for the establishment of consular fees. However, the Department felt that cost-finding techniques were sufficient to periodically determine the costs of providing consular

IMMIGRANT VISAS ISSUED  
FY 1965 - 1970



FEEES COLLECTED FOR  
IMMIGRANT VISAS ISSUED  
FY 1965 - 1970



services and that the systematic accumulation of such information through an accounting system was unnecessary. GAO firmly believes that without an acceptable accounting system the Department of State is not in a position to obtain reliable cost information necessary for the effective management of the consular services program. (See Appendix, Section I, Item 103.)

Another report was issued to the Department of State suggesting improvements in the establishment and administration of allowances and differentials paid to U.S. civilian employees stationed overseas. (See Appendix, Section I, Item 190.)

As a result of a GAO survey of the activities of the Department of State's Regional Finance and Data Processing Center in Paris, France, a report was issued to the Department which made several suggestions for improving its practices in the processing of payrolls, the utilization of disbursing officers, and the accounting for overseas allotments. The report also included suggestions for improving internal activities of the Paris

Center. The Department agreed with the GAO objectives mentioned in the letter, but differed as to the means, timing, and assignment of responsibilities to assure moving toward those objectives. (See Appendix, Section I, Item 158.)

During the year GAO continued its review of vouchers and supporting documentation for the settlement of accounts of accountable officers of the Department of State, as well as following through on 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.

## Treasury Department

Chapter 4 of Public Law 91-599, approved on December 30, 1970, provides that the General Accounting Office shall audit the administrative expenses of the Exchange Stabilization Fund administered by the Secretary of the Treasury and previously excluded from GAO audit authority. The Treasury previously had considered its international affairs costs also to be a part of the Exchange Stabilization Fund. In fiscal year 1971 GAO began a survey of the organization and management of the international affairs functions of the Treasury Department. The current GAO survey of all Treasury international functions will provide a foundation and the necessary background information for the audits required under Public Law 91-599, beginning with fiscal year 1972.

## 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 1970 was made and a report furnished to the Congress. A short-form report was also issued to Eximbank on GAO's examination of its financial statements for inclusion in the Bank's annual report.

The financial statements, except for Eximbank's treatment of sales of certificates of beneficial interest, presented fairly the financial position of Eximbank at June 30, 1970, and the results of its operations for

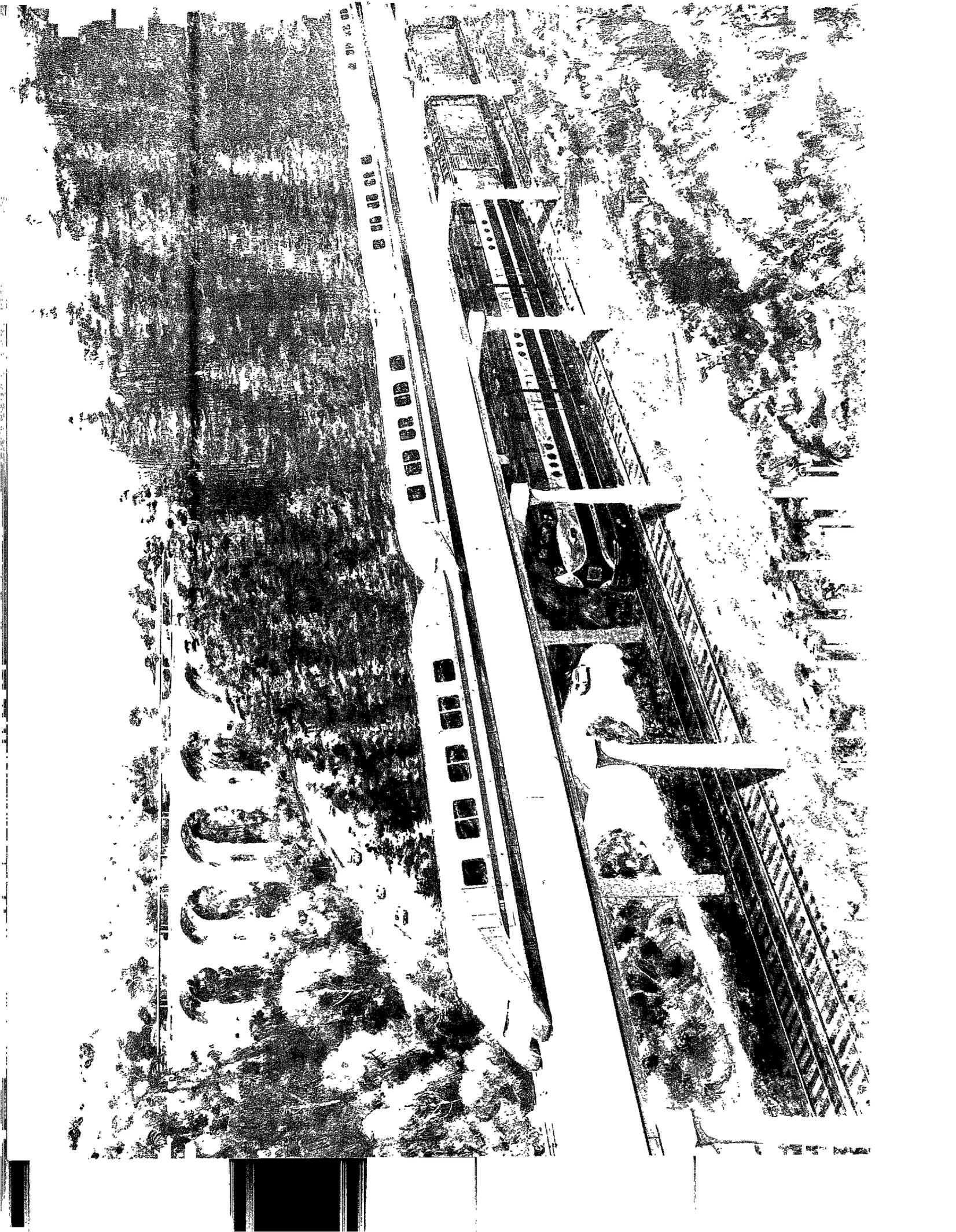
the year then ended. The certificates of beneficial interest sold subject to contingent repurchase should, in GAO's opinion, be considered as borrowing or financing transactions rather than sales of assets. Eximbank disagreed with GAO's views but is seeking new methods of handling its certificates of beneficial interest.

In its report to Congress GAO recommended that Eximbank should (1) increase borrowing from the Treasury so that the substantially increased costs of borrowing in the private market can be avoided and (2) document and describe in its annual reports to the Congress any activities performed in the national interest that would not be performed in the ordinary course of its business. GAO also recommended that the Secretary of the Treasury and the President of Eximbank should renegotiate the agreement concerning reduced interest rates charged on certain Treasury borrowing. Only portions of these recommendations have been accepted by Eximbank. (See Appendix, Section I, Item 157.)

## Problems in Obtaining Access to Information and Documents

GAO has experienced increasing difficulties during the year in obtaining access to information and documents needed to adequately perform its reviews of international programs and activities.

The Departments of Defense and State have increasingly employed delaying tactics in preventing the necessary access to records which would enable GAO to perform its reviews of their programs. The Department of State has continued to refuse GAO access to any records of U.S. occupational costs in Berlin. In April 1971, GAO notified the chairmen of the congressional committees primarily concerned of the continuing refusal. GAO representatives testified before the Subcommittee on Foreign Operations, Senate Appropriations Committee, in June 1971, on the general problems of obstruction and delays. In July 1971, GAO also appeared before the Subcommittee on Separation of Powers, Senate Committee on the Judiciary. The access to records problem is further discussed in Chapter Two on page 13.



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 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 commuted 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 responsibility, GAO reviews, evaluates, and reports on the transportation and traffic management activities of Government agencies and assists the agencies in their traffic management and transportation activities.

The Transportation Division of the General Accounting Office is responsible for carrying out these functions. Its staff of over 700 professional, technical, and clerical personnel is headed by Thomas E. Sullivan, Director, and Fred J. Shafer, Deputy Director. An organizational chart of the Transportation Division follows on page 114.

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 \$4 billion annually. Approximately \$2 billion of this amount

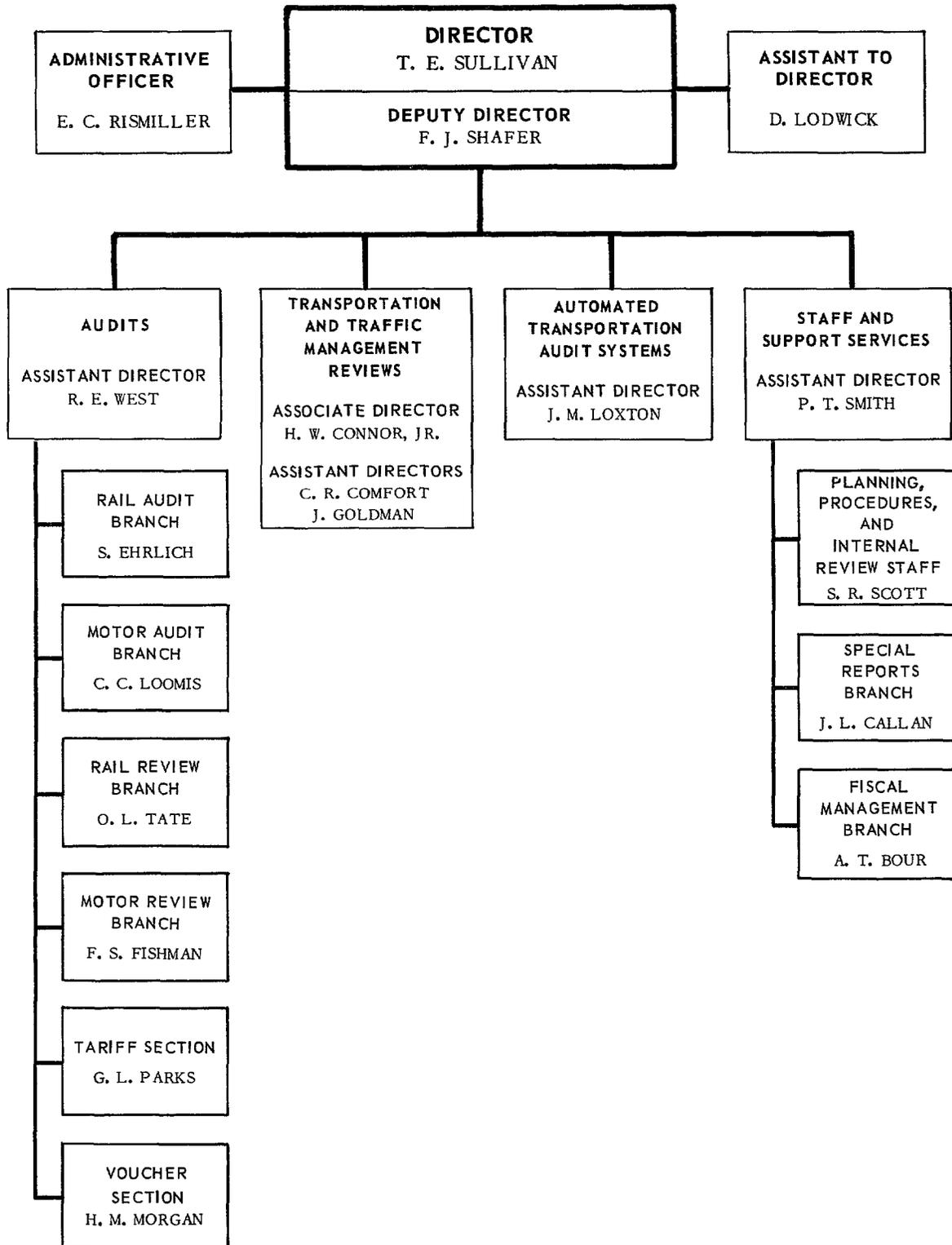
**Audit of Transportation Payments and Settlement of Claims****Transportation Payments**

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 U.S. Postal Service mail contracts and Military Sealift Command shipping contracts. GAO audit of transportation charges is normally completed in 6 to 7 months after payment.

GAO audited 5.3 million bills of lading for freight shipments, for which the Government had paid about \$1.2 billion, and 2.9 million transportation requests for

TRANSPORTATION DIVISION



JUNE 30, 1971

passenger travel, for which the Government had paid about \$.8 billion. From the audit of transportation payments, GAO issued 102,326 overcharge notices to commercial carriers requesting refunds totaling \$16 million. Collections from carriers amounted to \$14.8

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 for fiscal year 1971 is shown below.

**BILLS OF LADING AND TRANSPORTATION REQUESTS EXAMINED DURING FISCAL YEAR 1971**

Audit:	Number	Amount paid	Notices of overcharge issued	
			Number	Amount
Bills of Lading.....	5, 272, 008	\$1, 174, 527, 007	84, 192	\$14, 432, 626
Transportation Requests.....	2, 922, 200	776, 753, 577	18, 134	1, 578, 547
<b>Total.....</b>	<b>8, 194, 208</b>	<b>1, 951, 280, 584</b>	<b>102, 326</b>	<b>16, 011, 173</b>

The amount of payments audited was about 18 percent less than the prior year, and the amount of overcharges detected and reported to carriers was about 10 percent less. This activity was accomplished with 8 percent less audit hours than were utilized on the transportation audit in fiscal year 1970. A schedule showing transportation audits and collections for fiscal years 1962-71 is included as Exhibit 4 on page 164.

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 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 GAO 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 19,000 claims and settled or otherwise disposed of 15,957 claims for approximately \$20.7 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 \$17 million, about \$265,000 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 demand for repayment of overcharges collected by GAO. In disposing of these claims, amounting to about \$3.7 million, \$2.1 million was certified for payment and \$1.6 million was disallowed or terminated. A summary of this activity is shown below.

**TRANSPORTATION CLAIMS RECEIVED AND SETTLED DURING FISCAL YEAR 1971**

Class of claims	On hand July 1, 1970	Received	Settled			On hand June 30, 1971
			Number of claims	Amount claimed	Amount allowed	
Freight.....	8, 635	17, 455	14, 617	\$6, 051, 515	\$4, 268, 139	11, 473
Passenger.....	410	1, 418	1, 340	14, 672, 352	14, 597, 701	488
<b>Total.....</b>	<b>9, 045</b>	<b>18, 873</b>	<b>15, 957</b>	<b>20, 723, 867</b>	<b>118, 865, 840</b>	<b>11, 961</b>

<sup>1</sup> Includes allowance of \$14,070,463 for Military Airlift Command movements audited before payment.

## TRANSPORTATION

A schedule showing transportation claims settled during fiscal years 1962-71 is included as Exhibit 5 on page 164.

### Transportation Management Reviews

The General Accounting Office continued to increase its emphasis on coverage of civil agency transportation activities. For example, of 17 working transportation assignments at yearend, six were concerned solely with civil agency matters. The majority of GAO's efforts in the transportation field, however, were directed to Defense Department activities and were concerned with the way the Federal transportation dollar is being spent.

During fiscal year 1971, GAO issued four reports to the Congress on transportation and traffic management problems. One report cited the need for centralized control over procurement of overseas air passenger transportation to eliminate DOD's unnecessary purchase of seats on commercial flights. GAO estimated that savings of \$4 million in DOD's cost of commercial air transportation could have been realized during fiscal year 1968 if the passenger capability of DOD had been used more effectively. DOD agreed that centralized control of overseas air passenger transportation had not been established at the time of GAO's review but reported that a joint regulation had been issued establishing such control for air travel after January 1, 1970. (See Appendix, Section I, Item 222.)

In another report, GAO stated that the use of cargo space on military controlled aircraft had improved significantly since its earlier reviews, but that optimum use of cargo and passenger flights still had not been achieved. Available cargo capacity in the belly compartments of aircraft had been left largely unused. GAO estimated that the unused space in the belly compartments of aircraft controlled by the military would have accommodated an additional 20 million pounds of cargo annually. The cost of procuring an equivalent amount of cargo airlift would have been about \$11 million. DOD agreed with GAO's findings and cited corrective actions taken or planned. Because of the significant reduction in cargo shipments to Southeast Asia, GAO was not able to estimate the savings that will result. (See Appendix, Section I, Item 224.)

Another report showed that DOD could save about \$3.8 million annually by contracting with a commercial firm to print the *Pacific Stars and Stripes* news-

papers in Bangkok, Thailand. Instead of airlifting about 15 tons of newspapers daily from Japan, only the printing negatives (about 25 pounds) would be shipped by air. Less costly surface transportation would be used to move the common newsprint to the printing facility which was nearer to the ultimate readers. DOD agreed that the commercial printing concept was feasible and stated that negotiations were planned to try the concept for the copies distributed in Thailand. DOD added that the printing of the Thailand copies would be a valuable trial run and, if successful, could be extended to other areas in Southeast Asia. However, subsequent to the issuance of this GAO report, the commercial printing firm in Bangkok was merged with another firm and could no longer print the newspapers required for delivery in Southeast Asia. DOD has indicated that it is currently studying less expensive means of delivering the *Stars and Stripes*. (See Appendix, Section I, Item 225.)

GAO also reported to the Congress that the number of Government transportation requests (TRs) issued by DOD to procure bus transportation and the related paperwork could be reduced significantly through greater use of the bulk purchase program. Under this program, DOD is authorized to use a single TR to procure quantities of bus tickets. DOD has agreed with GAO's findings and is taking corrective action. GAO did not attempt to measure the savings in paperwork in terms of dollars, but, based on cost of issuing and processing a TR as estimated by an independent study group, the savings should be between \$300,000 and \$800,000 annually. (See Appendix, Section I, Item 223.)

Other reports which were substantially completed at the end of the year concerned (1) the transportation of ammunition worldwide, (2) contracts for container-ship service, and (3) the need to improve utilization of cargo space on ammunition ships.

GAO answered specific requests from individual Members of the Congress concerning various transportation and traffic management activities. For instance, at the request of the chairman of the House Committee on Merchant Marine and Fisheries, GAO made a study of the comparative economies of using regular commercial service and chartered vessels for the ocean movement of military cargo. At the request of another Member of the Congress, GAO studied the feasibility of using a deactivated airbase as a transportation facility.

Other matters of congressional interest reported on were:

- Charges incurred by DOD for detaining rail cars.
- Selection of air carriers by DOD.
- Proposed rate increase of the Alaska Railroad.
- Closing of the St. Louis Field Office, Eastern Area, Military Traffic Management and Terminal Service.
- Evaluation of a DOD test involving use of Great Lakes ports for moving military cargo to Europe.

GAO also issued reports concerning transportation matters to heads of departments and agencies. One of the more significant reports involved the consolidation of household goods shipping activities in Hawaii. In response to an earlier GAO report, DOD established a joint household goods office in Hawaii, but, instead of abolishing various local offices, it superimposed the joint office on the existing offices. GAO reported to the Secretary of Defense that the consolidation had resulted in significantly higher costs to accomplish the same functions. (See Appendix, Section I, Item 227.)

Other reports issued to heads of departments and agencies involved:

- The legality of certain negotiated air rates.
- A survey of the transportation activities of the Social Security Administration.

Significant transportation matters now being studied include (1) traffic management in the U.S. Postal Service, (2) controls over the procurement and use of household goods containers, (3) transportation of petroleum fuels via pipelines, and (4) effectiveness of Government programs to strengthen the American Merchant Marine.

### 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.

GAO reported debts against carriers involving 771 items in the total amount of \$218,498 to the Department of Justice for collection. During the fiscal year similarly reported debts covering 232 items in the

total amount of \$107,058 were settled by the collection of \$45,165 through judgments, compromises, or otherwise.

GAO received from the Department of Justice notice of the filing of 401 suits by carriers covering 230,100 shipments. Three hundred and seventy-five of the suits filed and about 228,333 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 GAO estimates the liability of the United States on the 795 suits filed in this and prior years to be about \$10 million if the final rulings of the Court are adverse to the Government. In the same period GAO furnished technical advice and other assistance to the Department of Justice in 22 suits for \$353,646 involving 1,254 shipments. Twenty-seven suits, the subject of reports in this or prior years, involving 2,404 shipments and \$507,208, were settled by payment of judgments for \$185,154 and by dismissal or withdrawal of the balance.

Following the refusal in October 1970 by the Department of Justice to follow the GAO recommendation that a petition for a writ of certiorari be filed in *Trans Ocean Van Service v. United States* (Ct. Cl. No. 137-66, decided May 15, 1970), GAO prepared a report of amounts due the parties according to its understanding of the decision of the court. Due to the difference between the GAO interpretations and those of the plaintiff in this representative case, a subsequent hearing before the Court of Claims will be held before a settlement can be reached.

In another of the five representative cases selected for trial of the issues in the 795 household goods suits, *Global Van Lines, Inc. v. United States* (Ct. Cl. Nos. 259-65 and 355-65), a report of the Commissioner to the Court of Claims was filed February 1, 1971. GAO took exceptions to the Commissioner's report and, at the request of the Department of Justice, prepared an evaluation of the potential financial impact to the Government.

Another activity of continuing 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

## TRANSPORTATION

the U.S. District Courts. During the year GAO identified and prepared reports on motor overpayments involving 610 shipments and claimed reparations of \$244,400. Eight of these cases were referred to the Department of Justice and GAO understands that as of June 30, 1971, 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 316 shipments amounting to \$160,900.

### Assistance in the Traffic and Transportation Field

GAO assisted various Government agencies in their traffic management and transportation activities. This assistance included:

Furnishing recommendations about billing procedures to the Military Traffic Management and Terminal Service (MTMTS) for incorporation in their Revised Tender of Service as an appendix to their Personal Property Management Regulation covering the transportation of employees' movements of household goods on Government bill of lading service.

Furnishing recommendations to MTMTS regarding a proposed tender to cover freight forwarder movements of freight-all-kinds shipments.

Working with the Post Office Department on an arrangement to audit the transportation accounts for the U.S. Postal Service, effective July 1, 1971, on a reimbursable basis.

Furnishing data to the Department of Justice in connection with its investigation of billing irregularities of van carriers transporting shipments of electronic equipment and office furniture.

Furnishing information to MTMTS regarding the application of Ex Parte 256 increases incorporated in rail line-haul rates in certain class tariffs and the effect on rate quotations on file.

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.

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 its practice of meeting 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 six meetings with various domestic and international carrier associations and had numerous discussions in Washington with carrier and carrier association representatives.

### Joint Agency Transportation Study

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 was under the chairmanship of an official of the General Services Administration with full-time staff members assigned from the General Accounting Office, the General Services Administration, the Office of Management and Budget, the Treasury Department, and the Departments of Commerce, Agriculture, and Health, Education, and Welfare. The report outlining the conclusions and recommendations of the study group was released to the public in September 1970.

The study resulted in 58 recommendations which offer the means not only to simplify and expedite payment of the 9 million yearly transportation transactions but also, in many instances, to integrate the audit of payments as a natural outgrowth of the payment process and to produce savings.

Of the 58 recommendations, 30 will require implementing action by GAO as part of its responsibility to promulgate accounting principles, standards, and material for the guidance of Federal agencies in developing accounting systems and internal auditing programs; uniform procedures for use of Federal agencies; and regulations governing the relationship between GAO and other Federal agencies and between GAO and individuals and private concerns doing business with the Government. Of the 28 remaining recommendations, four will be implemented by GAO in concert with carriers and various other agencies, 16 will be individually or collectively acted upon by various other agencies, one will be handled under the Joint Financial

Management Improvement Program, and seven require no further action.

GAO is proceeding to implement those recommendations for which it has responsibility. In this connection, the Comptroller General in a letter to the Heads of Departments, Independent Establishments, and Others Concerned, B-163758, dated May 6, 1971, provided for the use of imprest funds to pay transportation

charges on small domestic freight shipments and re-delegation of authority to approve the use of commercial forms and procedures in documenting transportation shipments. Other recommendations in the study report are being similarly considered and will be implemented by letter and in the GAO Policy and Procedures Manual for Guidance of Federal Agencies.



In addition, the division has responsibility for superintending the collection of debts. This responsibility stems from (1) section 304 (31 U.S.C. 93) of the Budget and Accounting Act, 1921, which incorporated by reference the authority formerly contained in section 4 of the act of July 31, 1894, to superintend the recovery of debts due the United States, and (2) the Federal Claims Collection Act of 1966 (31 U.S.C. 951-953). Under the latter act, the General Accounting Office is required to collect, compromise, or terminate collection action as appropriate, on all claims of the United States arising out of its activities or referred to it by another agency as being administratively uncollectible.

## CHAPTER EIGHT

### CLAIMS

#### General

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. The Claims Division, under the direction of James M. Campbell, Director, and John P. Gibbons, Deputy Director, has been assigned the responsibility 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. An organization chart of the Claims Division as of the close of the fiscal year is presented on page 122.

The authority and responsibility vested in the Claims Division to adjudicate claims is not 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. Other laws have been enacted, however, which provide that payment of designated classes of obligations may be made only upon settlement by the General Accounting Office. These latter classes of obligations include claims for underpayment of wages under the Davis-Bacon Act (40 U.S.C. 276a-2) and the Contract Work Hours and Safety Standards Act (40 U.S.C. 330(a)), as well as judgments against the United States.

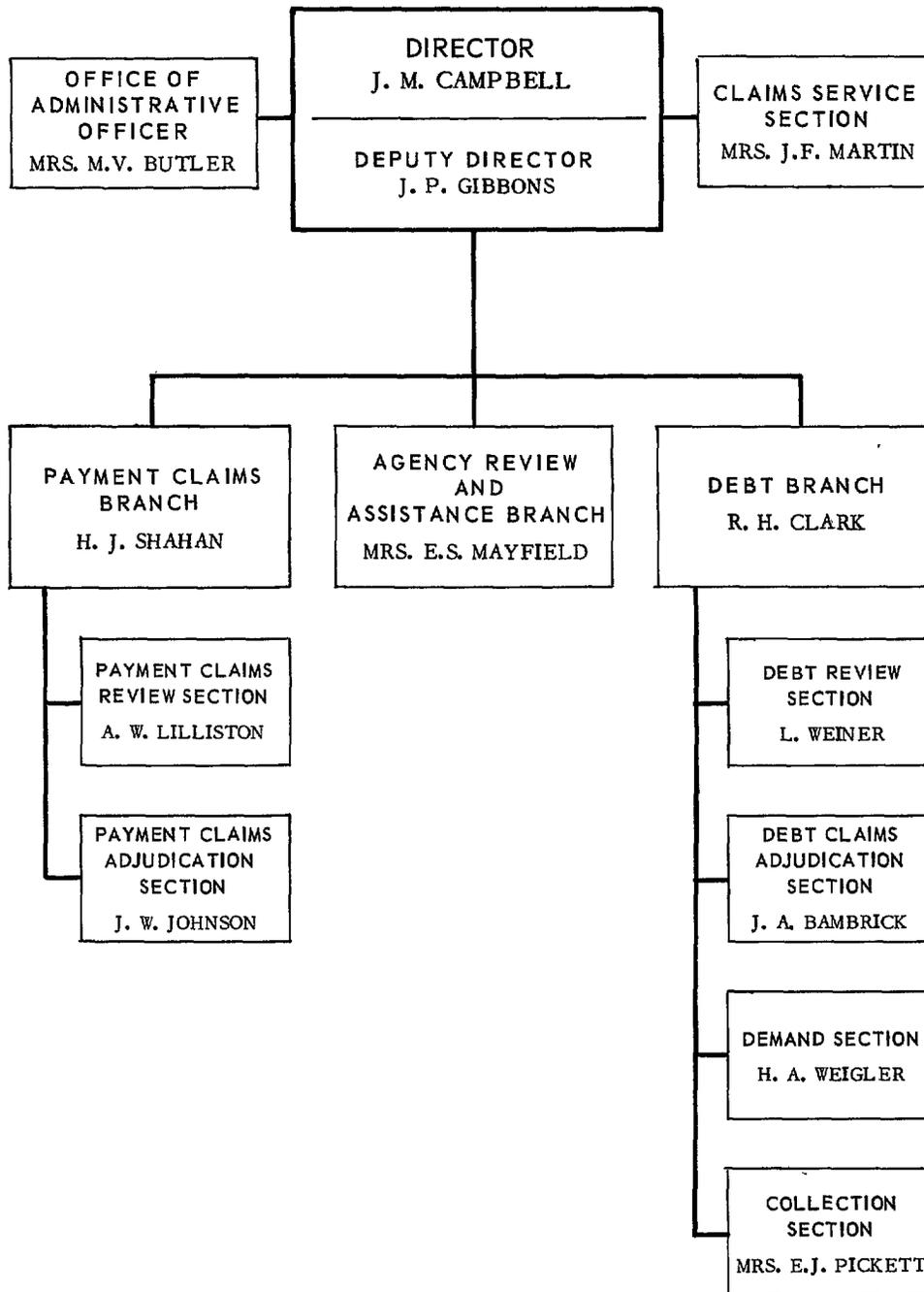
#### Claims Against the United States (Payment Claims)

Generally, all Government agencies have the primary responsibility for paying the obligations incurred in connection with their operations. There are, however, two classes of claims which must be adjudicated by GAO before payment is made or denied. The first includes those in which there exists such reasonable doubt as to preclude action by the administrative agency in the absence of specific statutory authority, and second, those which the administrative agencies are specifically prohibited by law from paying prior to settlement by the General Accounting Office. In addition, the Claims Division considers all reclaims of items previously denied by administrative agencies, unless it is determined by the agency involved that the administrative disallowance was clearly in error and can properly be corrected at the agency level.

On July 1, 1970, the Claims Division had on hand 1,400 claims against the United States and received 9,681 during the fiscal year 1971. During the same period, 8,686 claims were certified for payment, amounting to \$117,782,204. As of June 30, 1971, there was on hand a closing balance of 2,395 claims. In addition, since September 1970, final action was taken on 5,234 claims which were barred because of the 10-year statute of limitations on the filing of claims in the General Accounting Office (31 U.S.C. 71a).

Claims against the United States arise from every kind of Government transaction, and the claimants include private citizens; Government personnel, both civilian and military; business entities; and State and foreign governments. The categories of claims include

CLAIMS DIVISION



JUNE 30, 1971

Government contracts; compensation due civilian employees, including overtime and premium pay; quarters and cost-of-living allowances; travel; transportation of household effects; per diem; allowances on change of official station; pay and allowances due military personnel; retired pay; compensation due deceased civilian officers and employees; pay due deceased members of the Armed Forces and the National Guard; as well as miscellaneous claims by Government personnel and public creditors.

Perhaps one of the least known functions of the Claims Division is the processing of the necessary certifications for payment of the salary and expense allowance of the President of the United States. Section 102 of title 3, United States Code, provides that the President shall receive compensation in the aggregate amount of \$200,000 a year, to be paid monthly, and in addition an expense allowance of \$50,000 to assist in defraying expenses relating to or resulting from the discharge of his official duties.

Near the end of each month, a certificate of settlement, payable to the President, is processed in the Payment Claims Section, Claims Division, General Accounting Office, setting forth the monthly salary

of the President and the monthly portion of his expense allowance. After the certificate is reviewed, it is forwarded to the Bureau of Accounts of the Treasury Department for recording in the administrative accounts. In compliance with the provisions of 31 U.S.C. 82b, a bonded certifying officer of the Bureau of Accounts certifies payment to the Washington Regional Disbursing Office of the Division of Disbursement. The Washington Regional Disbursing Office then draws checks on the Treasurer of the United States in the name of the Chief Disbursing Officer, and the checks are delivered to the White House.

The function performed by the Claims Division in settling claims against the United States clearly is one that is not only 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 over-

**SETTLEMENT CERTIFICATE**

UNITED STATES  
GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

In correspondence please refer to:  
Division: Claims  
Claim No.: Z 2415801

Miss Jane Smith  
3720 R Street, N. W.  
Washington, D. C. 20007

Madam:

Your claim for additional compensation for services alleged to have been rendered during the period August 12 (at noon) through September 1, 1969, as an employee of the Office of Economic Opportunity, is disallowed for the reasons stated below.

The record shows that on April 8, 1969 you were given a temporary appointment, not to exceed August 7, 1969, as a Program Assistant, GS-7, \$6981 per annum. The appointment specified that the total employment must not exceed 700 hours. You were given an extension of your temporary appointment not to exceed August 12, 1969, since you worked only 680 hours under the first temporary appointment. The file further shows you submitted your resignation effective August 12, 1969.

The report of the Office of Economic Opportunity indicates that you were not reemployed by that agency until January 7, 1970 when you were given a new temporary appointment as a Program Assistant, GS-7, in VISTA.

Accordingly, there exists no legal basis upon which your claim may be allowed.

Very truly yours,  
For the Director, Claims Division  
*[Signature]*  
Adjudicator-Authorizer

cc: Office of Economic Opportunity  
1200 Nineteenth Street, N. W.  
Washington, D. C. 20506

USGAD FORM 38 (REV. 9-28-70)

**CERTIFICATE OF SETTLEMENT**

UNITED STATES GENERAL ACCOUNTING OFFICE  
CLAIMS DIVISION  
WASHINGTON D C 20548

Claim No. Z-24153305      May 28, 1971 (date)

Department of the Interior  
Bureau of Indian Affairs  
Washington, D. C. 20240

D O You No. \_\_\_\_\_  
PAID BY \_\_\_\_\_

(See directions below)

I CERTIFY there is due from the United States to the above-named claimant(s), payable from the appropriation(s) indicated, the sum of \$ 4,959,350.00 on account of final award of the Indian Claims Commission dated December 2, 1970, in the case of The Washoe Tribe v. The United States of America, Docket No. 288.

20X1746

(House Document No. 92-103, 92nd Congress, 1st Session, page 10, Second Supplemental Appropriations Act, 1971, approved May 25, 1971)

For credit to: L7372

*[Signature]*  
Director, Claims Division

By \_\_\_\_\_  
Check No. \_\_\_\_\_  
Date \_\_\_\_\_

PAID BY CHECK DRAWN ON TREASURER OF THE UNITED STATES

**CLAIMS**

crowding of court dockets. Similarly, GAO's claims settlement 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.

**Claims by the United States  
(Debt Claims)**

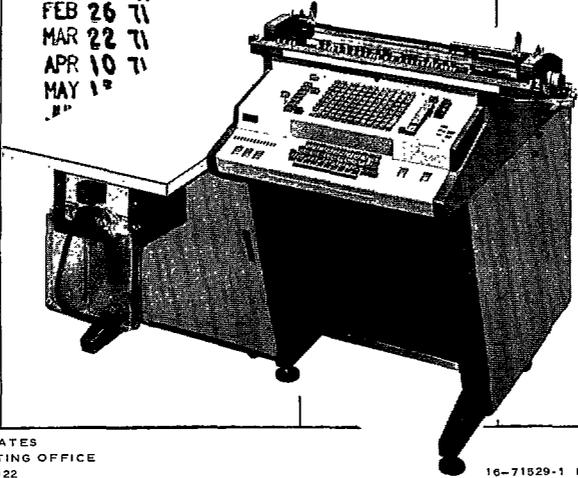
Regulations promulgated jointly by the Attorney General and the Comptroller General (4 CFR 101-105) pursuant to the Federal Claims Collection Act of 1966 (31 U.S.C. 952) require that debts due the United States on which administrative agencies have taken appropriate collection action, but which cannot be compromised or on which collection action cannot be suspended or terminated in accordance with such joint regulations, be reported to the Claims Division for further collection action. In addition, numerous claims of the United States are referred to the Claims Division for adjudication when they involve doubt as to

the amount due, the legal liability of the parties, or the action to be taken. Similarly, the Claims Division independently adjudicates claims submitted by debtors requesting review of disputed claims asserted against them by Government agencies.

On July 1, 1970, GAO had on hand 27,919 claims by the United States and received 25,768 claims during fiscal year 1971. GAO collection proceedings yielded approximately \$2.9 million on the 20,394 claims which were settled. Claims referred to GAO for collection are written off by the administrative agencies prior to referral to GAO. Claims currently on hand, totaling 33,293, have a face value of approximately \$50 million. With the exception of 7,853 claims which are under collection, representing accounts receivable of about \$5.4 million, the claims have been assigned to claims examiners and adjudicators for further processing.

GAO processing procedures include attempts by various methods to locate debtors whose whereabouts are unknown, issuance of demands for payment, and development of information on the financial status of debtors. GAO also instructs Government agencies to

z- 2373902 CLAIM NO.		John F. Smith DEBTOR			
CONTROL NO. 60 X 8011		REMITTER			
APPROPRIATION OR FUND		ADMINISTRATIVE REFERENCE			
OLD BALANCE PICK UP	DATE	SCHEDULE NO.	AMOUNT DEBT	RECEIPTS	BALANCE DUE
DEC 22 1970					\$850.34
850.34	DEC 22 70			50.00 \$	800.34 \$
800.34	JAN 15 71			40.34 \$	760.00 \$
760.00	FEB 26 71			30.00 \$	730.00 \$
730.00	MAR 22 71			30.00 \$	700.00 \$
700.00	APR 10 71			50.00 \$	650.00 \$
650.00	MAY 1 71			25.00 \$	625.00 \$
625.00	" "			25.00 \$	600.00 \$
600.00				20.75 \$	579.25 \$



UNITED STATES  
GENERAL ACCOUNTING OFFICE  
FORM 4022

16-71529-1 U.S. GOVERNMENT PRINTING OFFICE

withhold, if otherwise proper, amounts due debtors for application to their debts.

If 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 compromise settlement is encouraged when it becomes clear that a debtor is unable to pay the full amount of his debt within a reasonable time, the cost of collection does not justify the enforced collection of the full amount, there is a real doubt concerning the Government's ability to prove its case in court for the full amount claimed, or for a combination of reasons.

During fiscal year 1971, GAO solicited 16,129 compromises from debtors. There were 299 compromise settlements actually effected during the year, in the aggregate amount of \$156,662 in liquidation of debts totaling \$369,858. In many cases in which compromises are accepted, collection action against other liable parties continues. Compromise settlements accepted by GAO are final and conclusive on the debtors and on all officials of Government agencies and courts of the United States. The vast majority of compromise settlements are predicated upon the financial hardship of the debtors.

If collection action by the Claims Division is unsuccessful due to the debtor's refusal to answer correspondence or his willful refusal to arrange for settlement of his indebtedness with GAO, the Government's claim is referred to the Department of Justice for suit to enforce collection, provided that the debtor's financial circumstances warrant this action. In such case, a certification by GAO of the parties liable and the amount due the United States is transmitted to the Department of Justice, together with all of the information and documents necessary to support court proceedings, including where appropriate proofs of claim against the estates of decedents and bankrupts, answers to interrogatories, motions for summary judgments, and other documents used by district attorneys. A total of 2,084 such cases were referred to the Department of Justice during the past year.

Public Law 90-616, approved October 21, 1968 (5 U.S.C. 5584), provides that the Comptroller General or the head of each executive agency may waive a claim of the United States arising out of an erroneous payment of pay occurring on or after July 1, 1960, made to an employee of such executive agency, when collection would be against equity and good conscience and not in the best interest of the United

States. However, any case in which the propriety of granting waiver is doubtful, regardless of the amount involved, is for consideration by the Claims Division, and only the GAO may waive overpayments of pay to an individual aggregating more than \$500 or those which are the subject of an exception made by the GAO in the account of any accountable official. Waiver may not be granted in any case after the expiration of 3 years following discovery of the overpayment.

In every case before a request for waiver is granted, it must be established by the application of recognized legal principles that there is no indication of fraud, misrepresentation, fault, or lack of good faith on the part of the employee involved or other person having an interest in obtaining a waiver of the Government's claim.

A person who has been granted a waiver of a claim may be refunded any amounts which he has repaid to the United States for such claim, provided that he applies in writing to the employing agency within 2 years following the date of the waiver. Payment of the refund is made by the employing agency, not by the GAO.

During fiscal year 1971, GAO considered 714 requests for waiver of erroneous payments of pay totaling \$562,379. Of these, 453 in the amount of \$387,459 were waived in full; 223 requests for waiver, amounting to \$137,797, were denied; and the remaining 38 were waived in part—\$24,708 being waived and \$12,415 being denied.

On March 22, 1971, the GAO, in a letter to the Heads of Departments, Independent Establishments, and Others Concerned, directed attention to Public Law 89-505, approved July 18, 1966 (28 U.S.C. 2415), which imposed limitations on the time within which the Government must institute suit for recovery on various categories of claims of the United States. Each agency was admonished to review its debt claim files and to take timely action to refer cases to GAO and/or the Department of Justice, in order to prevent the Government from losing its right to sue through default.

### **Agency Review and Assistance Branch**

In an effort to improve agency effectiveness in claims settlement and debt collection operations, on August 8, 1970, the Comptroller General established,

## CLAIMS

within the Claims Division, a new branch known as the Agency Review and Assistance Branch.

One of the primary functions of the Branch is to review agency regulations, procedures, and actual operations relating to the adjudication of payment and debt claims and to the collection of debts due the United States. Also, in accordance with 4 CFR 92.7, the Branch reviews the record of agency actions and operations under 5 U.S.C. 5584, relating to waivers of claims of the United States arising out of erroneous payments of pay made to civilian employees. After reviews are completed, reports concerning GAO findings and recommendations are submitted to the heads of agencies or, in appropriate cases, to the Congress.

Each agency has primary responsibility for the payment of obligations incurred during the course of its operations. This authority, however, 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. The new Branch is making every effort to render assistance to the executive branch of the Government by helping to establish or improve agency procedures and operations, especially in connection with their operations under the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, the provisions of the Federal Claims Collection Act of 1966, and the regulations which were issued jointly by the Comptroller General and the Attorney General of the United States to implement the act.

During fiscal year 1971, GAO reported to the Congress on the progress and problems in implementing the Federal Claims Collection Act of 1966. The report was based on a review of the claims collection activities of seven agencies and on data obtained from questionnaires executed by 15 agencies. This act was the first general statutory authority to give Federal agencies broad administrative power to compromise and terminate collection action on claims. The Joint Standards of the Comptroller General and the Attorney General require agencies to (1) issue internal regulations or instructions for claim collection, (2) collect, compromise, or terminate collection action on claims, and (3) report those claims which cannot be settled by the agency to the GAO for further collection action.

GAO found that some agencies did not issue internal

regulations and that some of the regulations issued did not provide for the collection procedures required by the act and the standards. Collection actions taken by administrative agencies frequently were not documented.

GAO also found that backlogs developed because of the lack of implementing agency instructions or regulations and uncertainty regarding the proper procedures to be followed. In attempting to dispose of these backlogs, collection action, on a large number of claims, was improperly terminated during the first 12 or 18 months after the legislation became effective.

GAO cannot state precisely how many claims are presently outstanding in the Government or how much money is involved. Statistics furnished by only a few agencies, however, indicate that hundreds of millions of dollars are involved.

GAO will continue to make periodic reviews in the various departments and agencies to determine agency compliance with the GAO Manual and the Federal Claims Collection Act. GAO will provide assistance and guidance to insure greater uniformity and efficiency in administrative claims collection operations. (See Appendix, Section I, Item 230.)

## Review of Payment and Debt Claims Operations and Regulations

### Department of State

During fiscal year 1971, GAO reviewed the regulations of the Department of State as well as its actual operations in connection with both payment and debt claims. In a report to the Secretary of State, GAO noted that with minor exceptions payment claims were being handled in conformity with the GAO Manual. GAO did find several areas in the Department's debt collection procedures and practices which it felt should be changed, including guidelines issued to implement the Federal Claims Collection Act. GAO also found that collection action was not taken in a timely manner against debtors, or in the case of deceased debtors, against their estates. At the time GAO issued its report to the Secretary, the Department had already adopted many of the changes in its operating procedures which were suggested at the time of the review. (See Appendix, Section I, Item 231.)

### **Veterans Administration**

GAO previously reviewed regulations and claims operations at the Veterans Administration (VA) Central Office, Washington, D.C., and at the Veterans Administration Center in Philadelphia. At the time of its report to the Administrator, GAO recommended changes in the regulations insofar as they were in conflict with the GAO Manual and the Joint Standards.

VA did revise its regulations and called attention in its all-station publications to the areas which GAO had brought to its attention.

Reviews made during fiscal year 1971 in the Regional Offices in Denver, Colo., and Newark, N.J., revealed collection deficiencies similar to those found in the Philadelphia Center. Most of them occurred, however, before the regulations were revised. (See Appendix, Section I, Item 232.)

### **Office of Education**

GAO has undertaken a review of the indebtedness to the Government arising incident to the Federal loan insurance portion of the Guaranteed Student Loan Program which is administered by the Office of Education, Department of Health, Education, and Welfare. On January 5, 1971, GAO informed the Secretary of the Department that, in view of the magnitude of the Federal Loan Insurance Program and the significant indebtedness to the Government resulting from the operations of such program, it was incumbent that

adequate resources be allotted to establish and maintain an effective collection operation within the Office of Education. At the end of fiscal year 1971, GAO was preparing a report to the Congress on all significant matters disclosed by its review of the loan program.

### **Defense Supply Agency**

Following reviews of regulations and claims operations at the Defense Supply Agency (DSA) Headquarters and at four of its field activities in Philadelphia, GAO reported to the Director of that agency that instructions contained in the DSA Accounting and Finance Manual were generally adequate and in conformity with the GAO Manual and the Federal Claims Collection Act. GAO noted, however, several instances in which the instructions needed to be corrected or clarified.

GAO noted at one of the field activities that appeals for reconsideration or adjustment of a claim were not always forwarded to GAO after an administrative denial. The GAO Manual provides that reclaims of items previously denied by the administrative agency must be forwarded to the Claims Division, GAO, unless it is determined administratively that the action taken in denying the claim was clearly in error and properly can be corrected by the agency. DSA officials took prompt action to insure the correct processing of payment claims administratively denied. (See Appendix, Section I, Item 233.)



## CHAPTER NINE

## LEGAL SERVICES

The Office of the General Counsel is headed by Paul G. Dembling, General Counsel. Assisting Mr. Dembling in directing the work of this office are the Deputy General Counsel, Milton J. Socolar, and Associate General Counsels F. Henry Barclay, Jr., John T. Burns, and Stephen P. Haycock. The entire staff comprises some 208 attorneys and support service personnel. An organization chart of the office is presented on page 130.

The legal work of the General Accounting Office stems from article 1, section 9, clause 7, of the Constitution of the United States which provides that:

“No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law;  
\* \* \* ”

The design of this provision, as explained by Alexander Hamilton, was “to secure these important ends—that the purpose, the limit, and the fund of every expenditure should be ascertained by a previous law.” Thus, under the Constitution, control over the public purse was placed in the hands of the Congress.

The Comptroller General of the United States is responsible on behalf of the Congress for determining, with certain exceptions, the legal propriety of executive branch expenditures. A major function of the Office of the General Counsel is to provide legal advice

to and on behalf of the Comptroller General concerning any public expenditure upon which he may be called to rule.

In addition to matters covering the legality of Government payments, the Office of the General Counsel prepares reports to the Congress on proposed legislation, often working in close collaboration with committee staff members, and reviews all GAO audit reports to assure that legal implications have been appropriately considered.

It is difficult, in a brief report, to convey adequately the broad extent to which legal assistance is furnished in the form of formal decisions, comments on proposed legislation, office opinions to operating divisions, audit report reviews, and informal advice furnished daily by the staff. To appreciate fully the range of the legal activities of the Office, it is necessary to reflect upon the growing complexity of the legislative approaches being taken to deal with the social, political, economic, and military needs faced as a nation and to recognize that the General Accounting Office is responsible for determining the legality of a major portion of all Government expenditures.

The legal work is handled under the following subject categories:

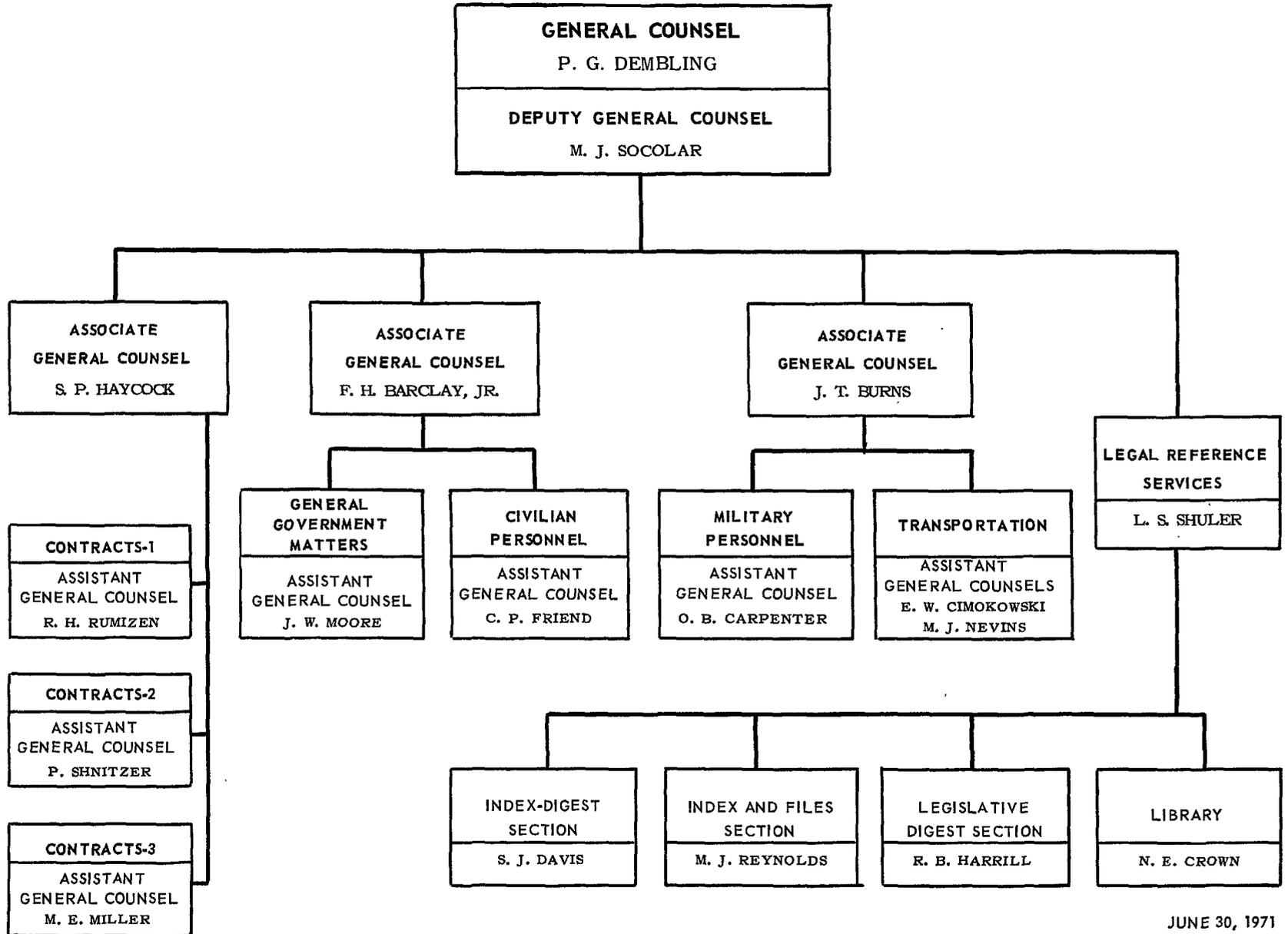
- Civilian Personnel
- Contracts
- General Government Matters
- Military Personnel
- Transportation

Within these broad areas, the work includes over 400 decisions a month involving all fields of law and requires expertise in statutory construction procedure, evidence, and contract interpretation. While it is not possible to review all of the major legal efforts of each category, the following descriptions provide an insight into the nature and extent of the assistance rendered.

### Civilian Personnel

The civilian personnel structure of the Federal Government is founded upon a complex array of statutes, regulations, and instructions designed to assure equitable treatment for all employees. Rights and authorities are spelled out to cover such matters as entitlements to pay, including severance, overtime, holiday, Sunday,

OFFICE OF THE GENERAL COUNSEL



JUNE 30, 1971

and night differential compensation; reimbursement of travel, transportation, and relocation expenses; vacation and sick leave; removals from the service; and other subjects concerned with personnel management.

The General Accounting Office affords officials of the Government an avenue of assurance that personnel payments authorized by them are in accord with existing requirements. The Office also provides for each employee of the Government an inexpensive forum for deciding his entitlement to claimed additional pay or allowances.

A decision covering a broad range of employees involved a request from the Civil Service Commission as to whether retroactive increases in compensation were authorized for wage board employees whose pay had been determined without proper recognition of certain pertinent wage data under the so-called "Monroney Amendment." It was held that the statutory basis for the requirements at issue served to take the question of retroactive pay adjustment outside of the general rule against such adjustments, and the Commission was permitted to grant retroactive increases to the wage board employees involved. (50 Comp. Gen. 266) Since there are some 520,000 wage board employees in the Federal Government, the significance of this decision is readily apparent.

In a case involving a single employee, the Office considered the pay implications related to a finding that a female employee had been assigned work at a level higher than that for which she was paid and had been improperly denied appointment to the higher level position by reason of discrimination based upon sex. It was concluded that the circumstances, as a matter of law, required payment of retroactive compensation. (50 Comp. Gen. 581)

In a case involving duties performed by customs inspectors to prevent air piracy it was ruled that the inspectors were not to be regarded as performing customs functions so as to come under 1911 act for purposes of paying premium compensation for overtime, Sunday or holidays services. Rather, payment for such services was held to come under the Federal Employees Pay Act of 1945. (50 Comp. Gen. 703)

In a dual employment situation we held that a member of the Advisory Council on Urban Transportation which meets intermittently may not also serve on a different day as a member of the National Water Commission which also meets intermittently in view of prohibition in the Water Commission Act

against any member of the Commission holding any other position as an officer or employee of the United States. (50 Comp. Gen. 736)

## Contracts

The award of public contracts is governed by various statutes as implemented by detailed regulations generally designed to assure that the Government will obtain required goods and services under procedures which are fair and equitable to those in the private sector desirous of meeting the Government's needs.

While GAO deals with myriad problems in the contract area, the bulk of the decisions it is called upon to render involves so-called "bid protests." A statistical summary of bid protest decisions rendered during the fiscal year follows on page 132.

The General Accounting Office provides an established forum to which a party who believes he has been wrongfully denied a Government contract may appeal. The legal work of the Office in the "contracts" area is largely devoted in such appeal cases to determining whether statutes and regulations were properly adhered to and the party to whom a Government contract properly should be awarded.

This forum, independent of the administrative agencies responsible for initial determinations giving rise to "protests," serves to protect the integrity of the Government's procurement processes and offers bidders—especially important to small bidders—an inexpensive and quick avenue of relief when compared to other types of judicial proceedings.

The Congress and agencies throughout the Federal Government as well as private legal practitioners and business firms rely heavily upon GAO in this area to assure that the Government's contracting policies are sound and that such policies are properly reflected in the contracting procedures followed.

Many of the contract decisions rendered during a fiscal year establish guidelines for the administrative agencies and for persons and firms desiring to do business with the Government. In addition, the Office works with the Armed Services Procurement Regulation Committee and the General Services Administration Federal Procurement Regulations Directorate to implement through regulations the decisions of the General Accounting Office. It also expresses its views

## LEGAL SERVICES

### NUMBER OF DECISIONS RENDERED DURING FISCAL YEAR 1971 ON BID PROTESTS

<i>Department</i>	<i>Total</i>
Agency for International Development . . . . .	2
Agriculture . . . . .	13
Air Force . . . . .	114
Architect of the Capitol . . . . .	3
Army . . . . .	168
Atomic Energy Commission . . . . .	6
Civil Service Commission . . . . .	1
Commerce . . . . .	3
Defense . . . . .	3
Defense Supply Agency . . . . .	68
District of Columbia Government . . . . .	11
Federal Communications Commission . . . . .	2
Federal Housing Administration . . . . .	1
General Services Administration . . . . .	57
Government Printing Office . . . . .	4
Health, Education, and Welfare . . . . .	13
Housing and Urban Development . . . . .	8
Interior . . . . .	20
Internal Revenue Service (Treasury) . . . . .	3
Justice . . . . .	2
Labor . . . . .	5
Marine Corps . . . . .	1
Maritime Administration . . . . .	1
National Aeronautics and Space Administration . . . . .	18
National Institutes of Health . . . . .	1
Navy . . . . .	142
Office of Economic Opportunity . . . . .	3
Panama Canal Company . . . . .	1
Post Office Department . . . . .	10
Department of State . . . . .	2
Tennessee Valley Authority . . . . .	1
Department of Transportation . . . . .	19
Treasury . . . . .	1
Veterans Administration . . . . .	8
	<hr/>
	715
	<hr/>
Protests denied . . . . .	641
Protests sustained . . . . .	74
	<hr/>
Total . . . . .	715

on all proposed regulations of these two groups whose regulations cover most Government procurement. The following examples illustrate the kinds of issues considered and resolved.

Increasing attention has been devoted to the review of all aspects of the conduct of negotiated procurements. The introduction and unequal application by the Post Office Department of a transition cost factor in the evaluation process resulted in a decision strongly recommending that a contract be terminated without delay. Subsequent to the close of negotiations, the agency introduced an imprecise cost factor into the

evaluation process. None of the competitively situated offerors was advised or given an opportunity to submit price revisions after discussions taking the factor into account. The failure to apprise offerors of a significant cost evaluation factor for the purposes of discussion and the unequal application of the cost factor were held to have constituted serious and substantial deviations from the regulatory requirements regarding the competitive negotiation of contracts. After receipt of the decision, the Post Office Department canceled the contract. (50 Comp. Gen. 637)

The negotiated procurement of supplies and services on a sole-source basis has been a fertile field of protests over the years. In view of the statutory finality accorded findings in support of a contracting agency's determination to negotiate on such a basis, effective corrective action is usually not possible. However, in an instance involving the procurement of portable sterilizers, the Office recommended that the Defense Supply Agency eliminate a sole-source restriction. Investigation had established that there was nothing particularly unique about the design or manufacture of the desired item and that several firms, other than the designated sole source, possessed the capability to produce the desired item. Thereafter, the restricted procurement was canceled and resolicited on an unrestricted basis with results which demonstrated the effectiveness of the competitive system. (50 Comp. Gen. 209)

A recurring question presented in bid protest cases is whether a prospective contractor is sufficiently responsible. Determination of a bidder's responsibility is generally conclusively determined by the administrative agency. In one case a contracting officer's determination of nonresponsibility was reversed because he failed to afford the protesting firm a reasonable opportunity to furnish financial information, which if obtained would have reasonably established its financial ability to perform the contract. While it was not possible to terminate the contract awarded to another firm, the contracting agency was directed to expunge the nonresponsibility determination from its records so that future eligibility for Government contracts would not be adversely affected by the erroneous determination. (50 Comp. Gen. 281)

The armed services procurement act was amended in 1962 to require that, in the case of any negotiated contract in excess of \$2,500, written or oral discussions shall be conducted with all responsible offerors whose proposals are within a competitive range, price and

other factors considered. There are certain exceptions, the chief of which is that no discussions need be held if award is made on the most favorable initial proposal as submitted, provided that fair and reasonable prices would result and the offerors were notified of the possibility that this procedure would be used. The net effect of the general provision is to require negotiations with any responsible offeror whose proposal may reasonably be improved to the point where it becomes the most acceptable. While the statute applies only to contracts negotiated under the authority of the armed services procurement act by the defense agencies, the National Aeronautics and Space Administration, and the Coast Guard, an equivalent provision has been made applicable by regulation to agencies which operate under the authority of the Federal Property and Administrative Services Act. In order to establish which initial proposal is most favorable for possible immediate award, or which proposals are within a competitive range so as to qualify for written or oral discussions, it is customary for solicitations to list the factors to be considered in the evaluation of proposals and the maximum point score allocable to each factor. In one instance a number of factors were included under a single heading with the provision that if all factors were met, the proposal would receive 100 points for that grouping, otherwise the proposal would receive a zero score for the grouping. GAO held that the assignment of scores on such an "all or none" basis was improper and partial scores should have been assigned for meeting some but less than all of the factors in the grouping. (B-171113, Mar. 3, 1971)

In negotiated contracts, unlike formally advertised procurements, factors other than price may be involved. This past year a case was considered in which a lower priced proposal was technically acceptable but a higher priced proposal was found to be technically superior. Where the technical superiority was determined to justify the additional cost, it was concluded that there was a proper exercise of administrative discretion by the contracting officer to award the contract on the basis of the higher priced technically superior proposal. (B-170633, May 3, 1971)

Negotiation procedures should be conducted in such manner as to give all offerors equal opportunity to compete. Thus, it was held improper for the National Aeronautics and Space Administration (NASA) to have set deadlines for the submission of revised proposals which were 1 week later for the General Electric Company than for the Fairchild-Hiller Company. As a result of this decision the matter was recon-

sidered by NASA and the contract was finally awarded to the Fairchild-Hiller Company. (50 Comp. Gen. 1)

While it has been the policy of the Office where differences of technical opinion arise between protesting bidders and agencies, to accept the position of the agency, there were several noteworthy departures in the past year. Thus, in a protest by Link Division, Singer-General Precision, Inc., a question was raised as to whether Honeywell, under its proposal to supply a sophisticated computerized aircraft navigator training system, was meeting certain material requirements of the specifications. To resolve this question, the National Bureau of Standards was requested to evaluate Honeywell's proposal against the specifications and to render an advisory opinion on exactly what the specifications required and what Honeywell's proposal offered. (B-171609, May 12, 1971)

In another case an engineering question arose in a protest concerning the type of sail rotor blade proposed in connection with a "High Altitude Platform Study." An analysis of the offer submitted by the protesting bidder was made by a member of the Office staff who is an engineer as well as a licensed helicopter pilot. Based upon this analysis, an independent determination of the merits of the protest was made. (B-171305, June 8, 1971)

The Office was required to consider and apply principles of labor law in a bid protest filed by Trans World Airlines (TWA) in connection with a contract for support services at Kennedy Space Center. As the incumbent contractor, TWA had entered into wage rate agreements with its union employees and contended that any new contractor who proposed to hire a substantial number of TWA's employees would be bound by the "successor employer" doctrine to pay the same wages. Since TWA was required to compute its bid price for the new contract at such wage rates, it urged that all other bidders should be required to bid on the basis of paying the same wage rates. TWA's protest was denied on the ground that there was no valid basis for concluding that the "successor employer" doctrine was applicable to Government service contracts; and it was held that Boeing's low bid, computed on the basis of the lower wage rates in its agreement with the same union, could be accepted. The soundness of this decision appears to be upheld by subsequent National Labor Relations Board and court decisions. (*Emerald Maintenance, Inc.*, 188 NLRB No. 139, Mar. 5, 1971; and *William J. Burns International Detective Agency, Inc. v. NLRB*, 411 F. 2d 911) (50 Comp. Gen. 592)

## General Government Matters

The scope and complexity of Government programs are ever expanding. The Federal Government is moving into changing relationships with State and local governments and with the private sector in connection with new approaches for meeting our social needs. As annual budgets increase, attention is being directed toward restructuring the administrative framework in which the Government will function to enable successful accomplishment of the tasks which must be undertaken. The changes taking place are founded upon policies established through legislative enactments which require continual interpretation to assure that the executive authorities exercised are consistent with the congressional intent underlying them.

The range of cases decided by the General Accounting Office on general Government matters is virtually as broad and varied as the full scope of Government activity.

For example, GAO held in response to a request for a ruling that the Postal Reorganization Act establishing the Postal Service did not require or permit the transfer of some \$300 million to fund accrued annual leave of personnel transferred from the Post Office Department to the newly established Postal Service. (B-164786, June 28, 1971)

A number of decisions concerned the use of Federal funds for costs associated with impecunious parties in cases heard by the Federal courts. These decisions involved such matters as determining the appropriations chargeable with the expense of court-appointed counsel and expert witnesses under the Criminal Justice Act of 1964 (50 Comp. Gen. 128, 589), and the availability of appropriated funds to pay for transcripts on behalf of indigent litigants appealing in *forma pauperis* to the District of Columbia Court of Appeals (50 Comp. Gen. 205).

The Secretary of Health, Education, and Welfare announced that he intended to close down all Public Health Service hospitals and clinics throughout the country. In a highly publicized advisory opinion to a congressional committee and in testimony before the committee, it was held that the Secretary did not have the requisite authority to accomplish his intended purpose. (B-156510, Feb. 23, 1971)

## Military Personnel

Like the civilian personnel structure of the Government, the pay and allowances of military members of the Armed Forces of the United States are administered under an extraordinarily detailed composite of statutes, regulations, and instructions. General Accounting Office decisions in the military personnel area are relied upon by the Department of Defense and the military services in formulating the regulatory materials designed to implement the basic intent of statutory entitlements and authorities enacted by the Congress.

Decisions are requested on matters involving pay and allowances for active and inactive duty personnel, retirement pay, and travel and transportation allowances for military members and their dependents.

In the active duty pay and allowance area, consideration has been given to such questions as entitlement to two kinds of hazardous duty pay at the same time (50 Comp. Gen. 425), the necessity for submission of monthly flight certificates to support payment of flight pay (B-125037, May 24, 1971), and computation of reenlistment bonus (B-172695, June 14, 1971).

In the retirement and retired pay area decisions were rendered on questions relating to the concurrent payment of retired pay and disability compensation under the Federal Employees' Compensation Act (50 Comp. Gen. 491), the proper application of the retired pay reduction formula in cases involving dual compensation (50 Comp. Gen. 604), the correct retirement grade of an officer promoted following reappointment from the temporary disability retired list (50 Comp. Gen. 677), and the entitlement of aliens to retired pay after 20 years' active enlisted service (50 Comp. Gen. 269).

## Transportation

Payment of Government transportation bills is generally made upon presentation by the carriers to the executive agencies subject to postaudit and adjustment in the General Accounting Office. Virtually all of the Government's transportation liabilities are determined in the Office.

Decisions and litigation reports prepared by attorneys assigned to transportation cases involve highly

technical concepts relating to the interpretation and application of voluminous tariffs and rate tenders as well as to numerous statutes, decisions, opinions, and regulations pertaining to transportation matters; computation of charges for air, motor, rail, and ocean carrier services; and proceedings before regulatory agencies and the courts.

During the year attorneys of the transportation staff participated in some 15 cases filed in U.S. District Courts and referred by those courts to the Interstate Commerce Commission (ICC) for determination. The suits resulted from refusal by motor carriers to refund overpayments arising from the application of rates considered unjust and unreasonable under precedent rulings of the ICC.

GAO transportation attorneys write trial briefs for use by the Department of Justice in court cases involving transportation matters. In *United States v. Curry Motor Freight Lines, Inc.* (USDC, Nor. Dist. of Tex., Civil Action No. 2-872, decided May 14, 1971), the court relied on the GAO brief to grant the United States judgment for the amount sought.

GAO attorneys participated in the case of *United States v. Southern Pacific Co.* (337 I.C.C. 504), wherein ICC sustained the view that port service charges were inapplicable to shipments consigned to Pacific coast military installations for export. This ruling reasonably can be expected to result in savings to the United States in excess of a million dollars.

Many suits have been instituted in the U.S. Court of Claims by so-called exempt freight forwarders of household goods. GAO maintains close cooperation with the Department of Justice in defending these suits. Some of the decisions in the leading cases have been objectionable and further proceedings have been recommended as being in the best interests of the United States, since the potential monetary liability of the Government is substantial. (B-157382, B-157840, Mar. 24, 1971)

Following issuance of the Joint Agency Transportation Study Group report in early 1970 (sec p. 118), the transportation staff, which participated with the Study Group, assisted in preparing proposed legislation to establish an exemption from the general prohibition against advance payments to carriers performing transportation services for the Government. Contact with the Study Group continues as action is being taken to implement its recommendations for improvement of Government transportation procurement, payment, and audit procedures. (A-24222, July 27, 1971)

## Legal Reference Services

Legal Reference Services, through its Law Library and its Index-Digest, Index and Files, and Legislative Digest Sections, provides the support requisite to carrying out legal and other activities of the General Accounting Office.

To inform departments and agencies promptly of significant decisions, general distribution of advance decision copies and digests is made. Wider notice of significant decisions is obtained through the publication of monthly pamphlets and an annual volume of those decisions which are considered to be of widespread interest to members of the public as well as to Government personnel. Information as to those decisions which are not published is made available to Government agencies and libraries by the distribution of quarterly digest pamphlets covering each of the general subject areas discussed above.

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

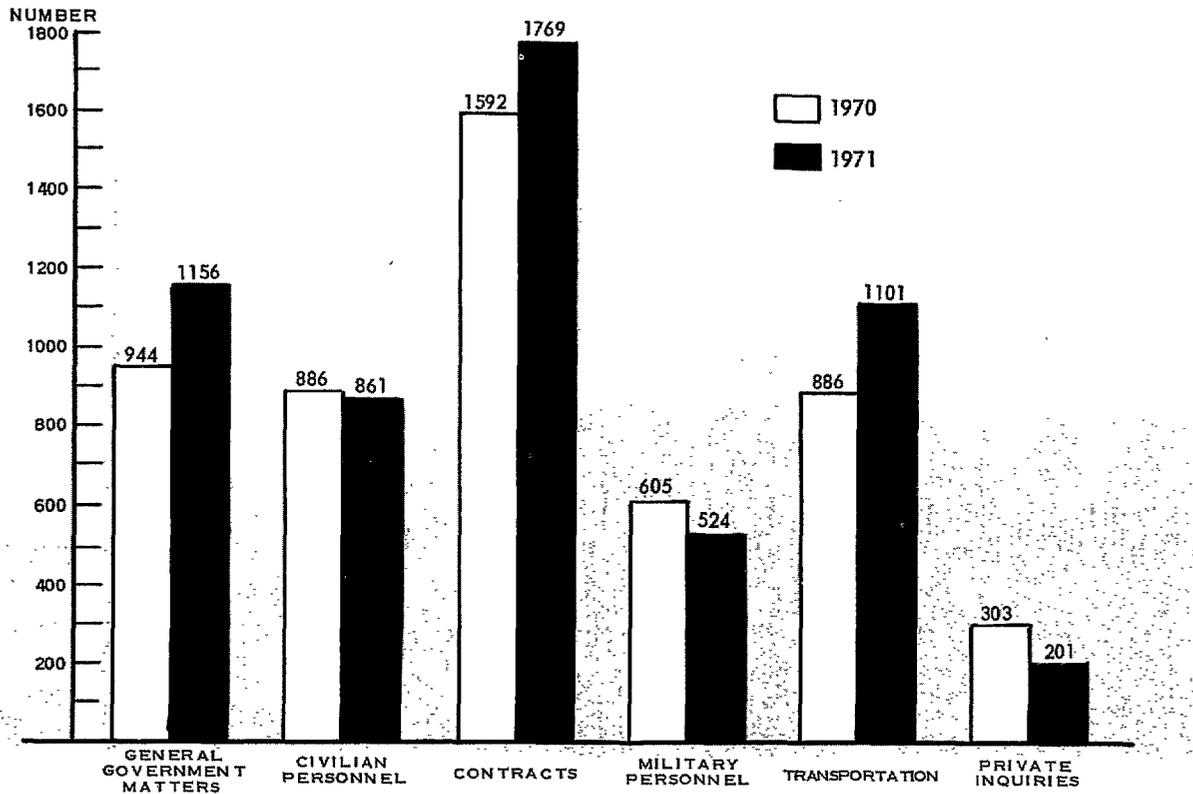
A cumulative citation and card index is maintained on all decisions, and research services are furnished upon request. During fiscal year 1971, the Index-Digest staff serviced 3,746 research inquiries.

The Index and Files Section recorded and analyzed 14,908 pieces of incoming correspondence and dispatched 21,375 decisions, reports, and letters. This section prepares a daily report summarizing the content of incoming and outgoing correspondence to keep offices and divisions within GAO advised.

The Law Library, which serves all offices, divisions, and branches of the General Accounting Office, as well as the legal reference needs of the other agencies located in the GAO building, handled 5,396 requests for reference services. Its annual inventory showed a total of 58,989 bound volumes, looseleaf publications, and pamphlets and magazines.

The Legislative Digest Section prepared 17,045 legislative history files on all public and private bills introduced in the Second Session of the 91st Congress and the First Session of the 92d Congress during fiscal year 1971 and processed requests for reports on 751 bills from congressional committees, Members of Congress, and from the Office of Management and Budget.

DECISIONS DISTRIBUTED BY ASSIGNMENT AREAS



Decisions and Other Legal Matters

Handled During Fiscal Year 1971

Assignment areas:

Civilian Personnel.....	861
Contracts.....	1,769
General Government Matters.....	1,156
Military Personnel.....	524
Transportation.....	1,101
Private Inquiries.....	201
<hr/>	
Total.....	5,612

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

eral and the operating directors highlight the course. To illustrate how the various offices and divisions of GAO work together, a model for management auditing is used which outlines the major functions and responsibilities of management and relates auditing to these functions. The importance of continued professional and personal growth is emphasized throughout the course.

c. *Intermediate Training.* This 10-day course is given to staff members with from 1½ to 3 years' experience in the Office. The objectives are to (1) introduce techniques and practices that improve job performance, (2) describe how staff and line organizations can work together, and (3) familiarize staff members from the various divisions and regional offices with each other's work and responsibilities. The following topics are covered during the program: improving writing style, identification and analysis of evidence, statistical sampling techniques, and evaluation of various audit approaches. Case studies and simulated audit situations are used to demonstrate approaches and techniques of planning audit assignments, carrying out audits and reviews, and preparing and processing audit reports.

d. *Basic Supervision.* This 10-day course is an introduction to basic concepts of effective supervision. Its objectives are to augment the participant's knowledge of supervisory theory and practice and to motivate him to develop and use a constructive supervisory style. The session summarizes traditional and contemporary theories of organizational and human behavior and strategies for dealing with day-to-day-problems of supervision in GAO. Case studies based on GAO situations are used to illustrate how theory relates to practices of supervision and management and how the individual can improve his supervisory style. Subjects presented include communication, motivation theory, responsibilities for personnel administration, job planning, problem solving and decisionmaking techniques, delegation and group interaction, factors influencing the formulation of new policies, and managing organizational change.

e. *Executive Forum.* This 5-day program is given to upper level managers to help them (1) understand the factors causing changes in organizational priorities, (2) recognize operating requirements as priorities change, and (3) update their knowledge on techniques of motivation and personal development. Discussions



*GAO professional staff taking part in the Intermediate Training Program.*

## ADMINISTRATION

are problem oriented and proposed solutions are analyzed, evaluated, and eventually forwarded to top management for its consideration.

f. *Systems Analysis*. This 10-day course is available to senior staff members to introduce them to analytic techniques which can be used in audits. The course shows participants how the analyst approaches a problem and helps auditors recognize where analytic techniques can be applied.

g. *Overview of Systems Analysis*. The objective of this 6-day course is to familiarize the top managers of GAO with the philosophy and fundamental concepts of systems analysis.

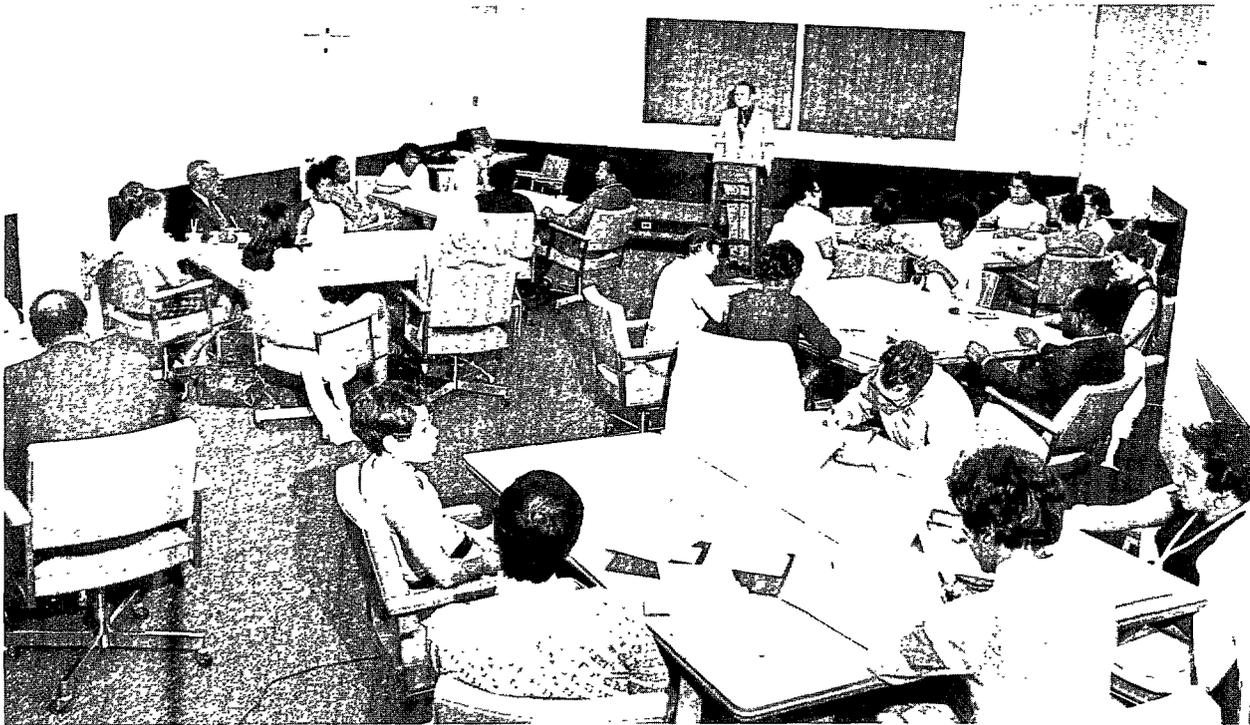
h. *Report Development*. The objective of this 5-day workshop is to help GAO's staff to develop better reports more quickly. The workshop is designed to (1) improve coordination and communication between report planners, writers, and reviewers and those who read GAO reports and (2) increase each staff member's interest in writing clear, logical, and accurate reports. The workshop is based on the philosophy that planning both the audit and the report is critical to a lucid and timely report, and that writing is a craft that can be developed through clear understanding of the English language and extensive practice.

i. *Writing Skills*. This 3-day workshop supplements

the Report Development Workshop and is designed to improve report- and letter-writing skills. The philosophy of communication, organization of sentences and paragraphs, editing, and the effective use of the logic, syntax, and grammar of the English language are the topics covered.

j. *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 the coordination of Federal programs in the Nation's 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; life in the inner city; and a survey of how city dwellers view the Government. Participants are senior staff members of GAO and representatives of Federal, State, and local governments.

k. *Intergovernmental Relations*. The General Accounting Office, the Brookings Institution, and the U.S. Civil Service Commission sponsor this 3-month program for Federal officials who are or will be administering or auditing grant-in-aid programs. Its purpose is to help officials understand their roles and the impact of grants-in-aid at the State and local levels. Partici-



*Technical and support personnel in a problem-solving session for first-line supervisors.*

pants include Federal officials from GAO and the executive agencies who are assigned to work at the State and local level. In addition to the actual work experience, the participants meet periodically to share and discuss common experiences.

2. *Other Programs*

a. *Reading Skills.* This workshop, which meets for ten 2½-hour sessions is aimed at helping GAO staff members acquire the skills needed to quickly assimilate, organize, and communicate the substance of written material. The program is designed to increase reading speed and comprehension and to develop techniques for better listening and concentration.

b. *GAO Orientation.* Through this 3-hour program, all new employees are made aware of the functions, policies, and procedures of GAO involving personnel matters. Employee rights, benefits, and responsibilities are also reviewed during this session.

c. *Better Office Skills and Services (BOSS).* This course is designed for support services personnel in grades GS-2 through GS-4 and consists of eight 3-hour sessions. The materials reviewed are typical of those encountered during an 8-hour working day. The course was designed originally by the Civil Service Commission and has been adapted for use in GAO.

d. *Communications Skills.* This workshop, which consists of fourteen 2½-hour sessions, is designed to increase reading speed and comprehension, improve written and oral communication, and increase the listening ability of employees. It is aimed at support services personnel in grades GS-2 through GS-4.

e. *First-Line Supervision.* This 5-day course is offered to first-line supervisors, principally technical and clerical employees, in the divisions which support the professional staffs. Current concepts and techniques of supervision, the importance of effective delegation, personnel management responsibilities, and the importance of attitudes, assumptions, and values held by supervisors are emphasized.

Programs for Professional Staff—Continued

Basic supervision . . . . .	240
Executive Forum . . . . .	139
Systems analysis (survey) . . . . .	79
Systems analysis (overview) . . . . .	69
Report development . . . . .	330
Writing skills . . . . .	180
Federal Action and the People of Our Cities . . . . .	52
Intergovernmental relations . . . . .	4

Other Programs

Reading skills . . . . .	61
GAO orientation . . . . .	673
Better office skills and services (BOSS) . . . . .	83
Communications skills . . . . .	20
First-line supervision . . . . .	30

Total . . . . . 3, 156

TRAINING GIVEN THROUGH  
OTHER GOVERNMENT AGENCIES  
OR NON-GOVERNMENT FACILITIES

The evolutionary character of GAO's work, and with it the burden to produce exacting work products in a short time, demands that GAO foster programs that will broaden the interdisciplinary skills and the managerial capabilities of senior staff members. To meet the challenges at hand, GAO staff members are assigned to formal training programs conducted by colleges, universities, professional organizations, and other Government agencies including the Civil Service Commission.

GAO managers take part in executive development programs conducted at the Graduate Schools of Business Administration of Harvard University, Columbia University, the University of Michigan, and the Massachusetts Institute of Technology. A number of staff members attend the Federal Executive Institute at Charlottesville, Va.; the Industrial College of the Armed Forces; the Executive Seminar Centers at Kings Point, N.Y., and Berkeley, Calif.; the Brookings Institution Conference for Federal Executives; and the Intergovernmental Affairs Fellowship Program sponsored by the Civil Service Commission in cooperation with the Brookings Institution.

To provide for specific operational needs, a total of 263 employees attended various programs offered by the Civil Service Commission. Courses in the following areas were the most utilized: management and supervision, systems analysis, automatic data processing, accounting and auditing, personnel operations, and various secretarial courses. Eighty-six staff members

SUMMARY OF TRAINING GIVEN THROUGH  
GENERAL ACCOUNTING OFFICE FACILITIES

<i>Name of training program</i>	<i>Number attending</i>
<b>Programs for Professional Staff</b>	
General orientation . . . . .	581
Central orientation . . . . .	363
Intermediate training . . . . .	252

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attended courses available at other Federal agencies, and private industrial concerns were a source of training for 119 employees. Various other professional and service organizations and institutions held seminars or conferences or conducted training attended by 303 staff members.

In addition, a total of 608 staff members attended college and university courses on their own time in order to keep abreast of various topics including management sciences, quantitative approaches used in business, economics, law, and automatic data processing.

**SUMMARY OF TRAINING GIVEN THROUGH OTHER GOVERNMENT AGENCIES OR NON-GOVERNMENT FACILITIES**

<i>Name or type of training program</i>	<i>Number attending</i>
<b>Civil Service Commission</b>	
Federal Executive Institute . . . . .	12
Accounting and auditing . . . . .	40
Management and supervision . . . . .	73
Automatic data processing and computers . . . . .	25
Communications (writing, speaking, and listening) . . . . .	30
Secretarial skills . . . . .	27
Personnel management . . . . .	33
Miscellaneous (systems analysis, statistics, procurement, economics, and PPBS) . . . . .	19
<b>Other Federal Government Agencies</b>	
Management and supervision . . . . .	22
Accounting and auditing . . . . .	13
Economics . . . . .	10
Law and contracts . . . . .	9
Systems analysis . . . . .	7
Procurement . . . . .	6
Miscellaneous courses and seminars (mathematics, communications, statistical sampling, ADP, traffic management, economics, and personnel functions) . . . . .	19
<b>Private Industries and Organizations</b>	
Automatic data processing . . . . .	75
Management . . . . .	15
Secretarial skills . . . . .	11
Accounting and auditing . . . . .	5
Traffic management . . . . .	4
Foreign Service Institute . . . . .	4
Miscellaneous . . . . .	5
<b>Service and Professional Organizations</b>	
20th Annual Symposium—FGAA . . . . .	28
International Conference—NAA . . . . .	5
Annual Management Symposium—FGAA . . . . .	12
Operational Auditing in Industry and Government Annual Symposium . . . . .	9
American Power Conference Annual Meeting . . . . .	6
Various other seminars and conferences . . . . .	91

**Service and Professional Organization—Continued**

CPA review . . . . .	125
Bar review . . . . .	3
Miscellaneous . . . . .	24

**Colleges and Universities**

Management development . . . . .	285
Accounting and auditing . . . . .	105
Automatic data processing . . . . .	42
Economics . . . . .	40
Communications (technical writing and effective speaking) . . . . .	32
Systems analysis . . . . .	30
Law and contracts . . . . .	28
Statistics . . . . .	18
Traffic management . . . . .	6
Miscellaneous courses and seminars . . . . .	22
<b>Total . . . . .</b>	<b>1,375</b>

**Professional Recognition**

During the past year, 35 staff members passed the CPA examination and received their certificates immediately. During the same period 14 employees received CPA certificates after fulfilling their experience requirements and three employees with CPA certificates joined GAO's staff. Five hundred and nine staff members are now certified public accountants, and 96 others have passed the examination and will receive certificates when they complete their experience requirements.

Most States now recognize the professional nature of GAO's work as meeting their eligibility requirements for the CPA certificate. 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.

**Educator-Consultants**

Leading educators from colleges and universities continued to assist GAO in formulating its programs to obtain, develop, and retain an outstanding professional staff. For 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.

Don L. Bowen, Professor of Public Administration, College of Business and Public Administration, University of Arizona.

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.

William W. Cooper, Dean, School of Urban and Public Affairs, Carnegie-Mellon University.

Robert W. French, Assistant to the President, Office of Institutional Planning and Programs, University of Alabama.

Paul V. Grambsch, Professor of Management, University of Minnesota.

C. Jackson Grayson, Dean, School of Business Administration, Southern Methodist University.

Kermit O. Hanson, Dean, School and Graduate School of Business Administration, University of Washington.

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.

Alfred M. Pelham, President, Wayne County Community College, Detroit.

Frank P. Sherwood, Director, Federal Executive Institute, U.S. Civil Service Commission.

required, and at the same time requires only a minimum expenditure in supervisory time and in records processing costs. Under the new system, performance ratings of "Satisfactory" may be communicated orally or by means of a standard form. Performance ratings of "Outstanding" and "Unsatisfactory" must still be documented by a detailed justification. Also, the requirement for written performance standards has been eliminated in favor of a policy of increased emphasis on the responsibilities of supervisors and managers to orally communicate job and skills requirements to those under their direction.

In addition to the new performance evaluation system, a revised, uniform, agencywide system has been implemented to provide for the appraisal of employee effectiveness to assist supervisors in conducting job counseling and in connection with the merit promotion program. One very important feature under the new system is that upon receiving counseling, the employee is given a copy of his effectiveness appraisal. While not mandatory under current Civil Service Commission regulations, this particular provision is regarded as essential to improved employee-management relations. In conjunction with the counseling for improved effectiveness, professional employees and their supervisors jointly execute a Career Development Status Report. This report is an improved version of the professional and career development planning form which it replaces. The revised form provides a comprehensive record of supervisory-employee counseling and is an added help to the individual in personally assessing his strengths and weaknesses.

## **Personnel Operations**

The review and evaluation of basic regulatory functions, employee benefit and service programs, appeals procedures, and related administrative functions and services have been carried out on an as-needed basis and as required by the directives of the Civil Service Commission.

## **Performance Evaluation**

During the past year, a streamlined performance evaluation program was developed and implemented with the approval of the Civil Service Commission. The new system meets the basic requirement that employees be appraised of their current performance status on an annual basis, or for such lesser periods as

## **Grievance and Appeal Procedures**

Changes in the regulations of the Civil Service Commission necessitated the revision of GAO procedures for the disposition of grievances and appeals from adverse actions. The major points affected were (1) the definition of specific time frames for the processing of both grievances (90 days) and appeals from adverse actions (60 days), (2) the granting of discretionary authority to an examiner to grant or deny a hearing to an employee in the resolution of a grievance, and (3) the definition of specific procedures to be followed in hearing an issue of discrimination when it is introduced into the appeal proceedings on an adverse action.

## ADMINISTRATION

### Equal Employment Opportunity and Upward Mobility

During the past year GAO carefully reexamined its Equal Employment Opportunity Program to identify improvements to make it as effective as possible. This program was completely revised as recently as July 1, 1969. Since then the number of equal employment opportunity officers and counselors and related training advisors has been increased substantially to provide more far-reaching effectiveness. In addition, in May 1971, the Director, Office of Personnel Management, designated an employee of the Office as the Equal Employment Opportunity Coordinator, a full-time position responsible to the Director.

Recruitment efforts, particularly among minority groups, have been accelerated during recent years and, as a result, appointments to the professional staff have increased substantially.

Upward mobility has been the object of considerable emphasis recently. The GAO has been concerned for a number of years with the lack of opportunity for employees to advance upward, once they have reached certain plateaus. This situation occurs because certain areas in this Office are technical, clerical, or administrative in nature, rather than professional. As a consequence of this concern, several programs were launched during the past year to improve advancement opportunities:

Substantial work was done to redesign clerical and support positions throughout the Office to



*GAO's EEO Coordinator meets with an employee representative.*

create positions having the broader responsibilities required to support job reclassifications to higher grades.

A job rotation training program was developed to give employees the opportunity to gain the experience necessary to qualify for higher grade positions.

A broader schedule of job-related training was instituted to increase knowledge and skills, looking to more effective upward mobility for the participants.

Major emphasis in the new upward mobility program was initially given in the Transportation Division, the Claims Division, and the Office of Administrative Services where the largest concentrations of support staff are employed. Beginning in the spring of 1971, nearly 100 employees took part in training designed to advance their job-related skills and subsequently earned promotions under the program. Other employees are currently taking such training. Career development programs are underway in every division or office where employees can be benefited, and employees are being given the opportunity to elect whether they wish to participate.

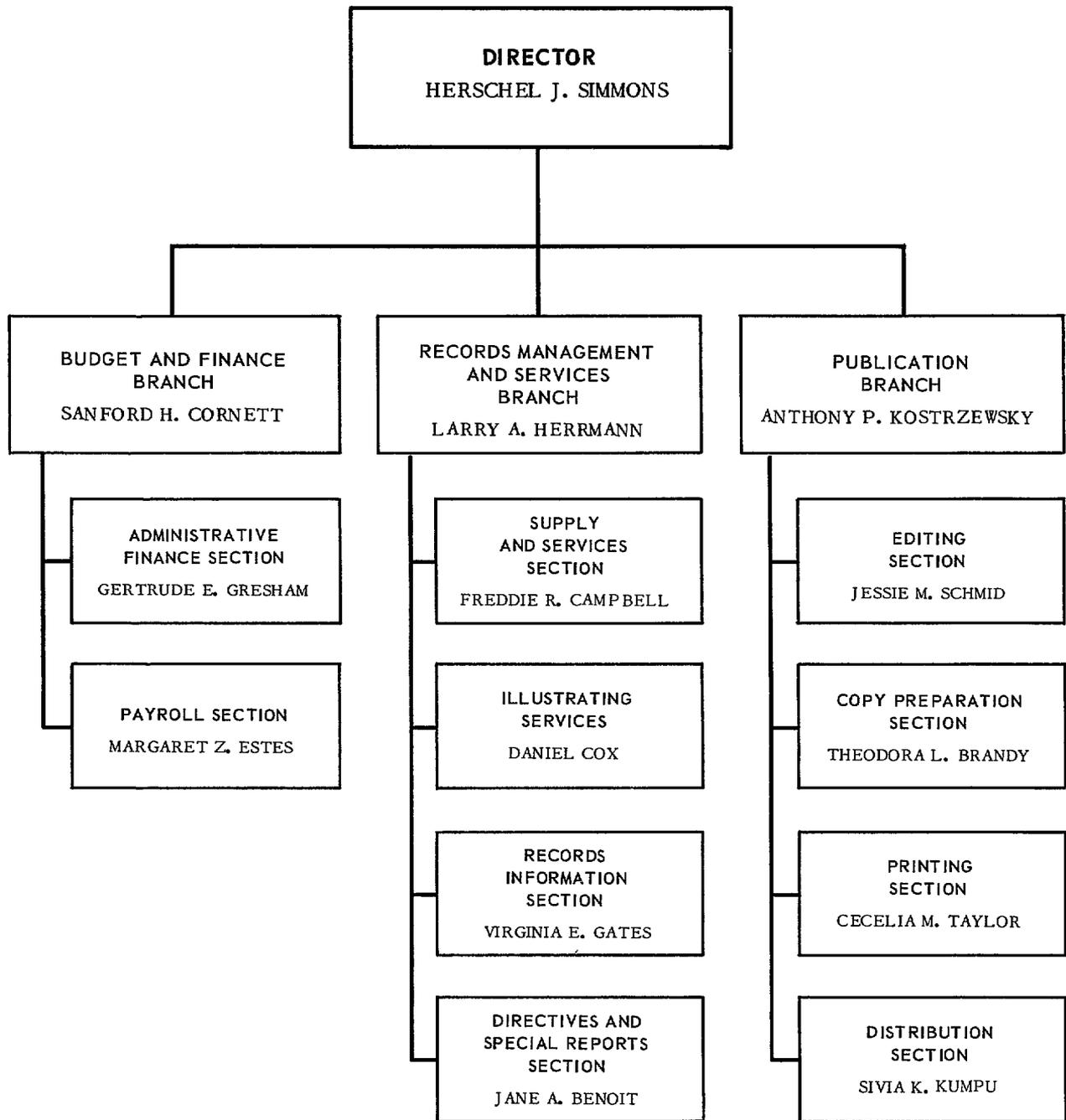
### Administrative Services

The Office of Administrative Services is organized with the following major components: the Budget and Finance Branch, the Records Management and Services Branch, and the Publications Branch. (See the organization chart on the following page.) The office is under the supervision of Herschel J. Simmons, Director.

In the General Accounting Office the budget administration and financial management functions have an important role owing to GAO's responsibility for promoting sound financial management practices. GAO's administrative operations are often utilized as the testing ground for proposed innovations and modifications in accounting systems as they are to be implemented throughout the Government. For example, GAO was among the first agencies to implement a "cost-based" budget concept. Also, the budget and financial management operations are frequently called upon to act as a sounding board for new budgetary policies promulgated by the Office of Management and Budget (OMB).

In addition to preparing and executing GAO's budget, the Budget and Finance Branch:

OFFICE OF ADMINISTRATIVE SERVICES



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Maintains liaison with the Office of Management and Budget and prepares such reports as may be required by OMB, the Treasury, and others on budget, payroll, and related financial matters.

Maintains the administrative accounting and financial reporting systems, including the summary accounting control and deposit of all GAO collections involving all Government agencies.

Examines and certifies all administrative vouchers and invoices covering operating expenses.

Prepares, examines, and certifies GAO payrolls including the maintenance and audit of individual leave and retirement records.

Since virtually all financial and supporting administrative records of the Federal Government are under the jurisdiction of the General Accounting Office, records management is an important responsibility. Some of the functions of the Records Management and Services Branch include:

Advising the Administrator of General Services in the development, maintenance, and review of the general records schedules for the control of the various categories of Federal administrative support records needed for the audit of Government accounts.

Reviewing for approval overall fiscal records programs and requests for approval to dispose of fiscal and accounting documents submitted to GAO by the departments and agencies of the Government. In fiscal year 1971, 54 schedules covering the disposition of agency fiscal records were approved.

Controlling agencies' records holdings transferred to Federal records depositories and granting final approval for the disposal of these records. In fiscal year 1971, the Branch approved the disposition of 129,053 cubic feet of fiscal records that were stored by Federal Records Centers. At June 30, 1971, 891,202 cubic feet of records under GAO's control were on hand in Federal Records Centers.

Maintaining a continuing records management program for GAO, including storage, disposal, and transfer of records generated at GAO's headquarters or field offices. During fiscal year 1971, GAO destroyed 6,707 cubic feet and transferred 15,355 cubic feet of its records to Federal Records Centers or the National Archives, leaving on hand a balance of 75,275 cubic feet.

Furnishing information from records material to other agencies, the courts, and the public. During fiscal year 1971, 953 requests were received and serviced. That total includes requests (1) from Government agencies, (2) from attorneys and subcontractors for certified copies of contracts and payment bonds under the Miller Act, (3) for copies of documents from Revolutionary and Civil War records, (4) for transcripts of pay of military and National Guard personnel, and (5) for contracts and vouchers to be used by GAO's Claims Division in its claims settlement work.

The Records Management and Services Branch also:

Procures, controls, and distributes all supplies, material, furniture, and equipment for GAO and arranges for and provides utility, transportation, and mail and messenger services.

Furnishes illustrating and graphic art services within GAO and, upon request, to congressional committees.

Edits and prepares for printing certain GAO publications.

The Publications Branch edits, types, proofreads, reproduces, and distributes audit reports of the Comptroller General and reproduces and distributes other material originating in GAO, including manuals, decisions, digests, memorandums, regulations, and other documents.

As discussed in earlier chapters of this report, GAO's audit reports are a major product of the Office. During fiscal year 1971, nearly 1,000 reports containing GAO's findings and recommendations on a wide variety of Government activities were issued. The importance of these reports to the Congress, its committees, and Members, the departments and agencies, and other recipients necessitates timely and accurate preparation.

The Office of Administrative Services is also responsible from time to time for furnishing management services to independent commissions and boards which are attached to GAO for support and for serving as an advisor to officials of these independent bodies on management services problems. Currently, such services are being provided to the Cost Accounting Standards Board which began operations during fiscal year 1971 pursuant to Public Law 91-379.

## EXHIBITS

## BRIEF CHRONOLOGY OF EVOLUTION AND HISTORY OF THE U.S. GENERAL ACCOUNTING OFFICE, 1789–1971

*September 2, 1789.* President Washington signed a bill that established the Treasury Department and provided for a Secretary, a Comptroller, an Auditor, a Treasurer, and other lesser officers. The duties of the Comptroller were to superintend the adjustment and preservation of public accounts. All public accounts were to be verified and transmitted to the Comptroller for his decision.

*March 3, 1817.* President Madison signed an act to provide for the prompt settlement of public accounts. This act contained the language that is still in effect under section 305 of the Budget and Accounting Act, 1921.

*July 31, 1894.* President Cleveland approved an appropriation act which included the Dockery Act, named after Representative Alexander M. Dockery of Missouri. Under this act, a single Comptroller of the Treasury replaced the several kinds of comptrollers which had mushroomed under previous laws and which were abolished. Centralized control was vested in the Comptroller of the Treasury. The auditors were designated for the audit of particular departmental accounts.

*June 10, 1921.* The signing by President Harding of the Budget and Accounting Act, 1921, marked the culmination of efforts of more than a decade to modernize the financial management system of the Federal Government. This act created the Bureau of the Budget and established the General Accounting Office under the control and direction of the Comptroller General of the United States. The GAO was designated as an establishment independent of the executive branch reporting to the Congress. The statutory duties formerly vested in the Comptroller of the Treasury and the six auditors were transferred to the Comptroller General.

The principal functions vested in the GAO included (1) investigation of all matters relating to the receipt, disbursement, and application of public funds, (2) making recommendations for legislation deemed necessary and those looking to greater econ-

omy and efficiency in public expenditures, (3) making investigations and reports ordered by designated congressional committees, (4) rendering advance decisions on legality of proposed expenditures, (5) settlement and adjustment of all claims and demands by or against the Government, and (6) prescribing accounting forms, systems, and procedures.

*July 1, 1921.* J. Raymond McCarl of Nebraska, became the first Comptroller General of the United States. Lurtin R. Ginn of Indiana was appointed Assistant Comptroller General.

*March 9, 1931.* Following the retirement of Lurtin R. Ginn, Richard N. Elliott, a former Member of Congress, became Assistant Comptroller General. Upon the retirement of Mr. McCarl on June 30, 1936, at the end of his 15 year term and again after illness necessitated the retirement of the next Comptroller General, Fred H. Brown, Mr. Elliott served as Acting Comptroller General. He retired on April 30, 1943, when he reached the mandatory retirement age.

*April 11, 1939.* Fred H. Brown was appointed as Comptroller General. After 14 months in office, he had a stroke which necessitated his retirement.

*August 1, 1940.* President Roosevelt nominated and the Senate confirmed the same day the nomination of Lindsay C. Warren of North Carolina to be Comptroller General. Mr. Warren resigned from the House of Representatives on October 31, 1940, and assumed his duties as Comptroller General on November 1, 1940.

*May 1, 1943.* Frank L. Yates, a career GAO employee, became Assistant Comptroller General. He served until his death on June 29, 1953.

*December 6, 1945.* A significant development in the Federal Government's financial system was marked when the Government Corporation Control Act was signed by President Truman. This act provided that the financial transactions of all Government corporations should be audited by the General Accounting

## EXHIBIT 1

Office in accordance with principles and procedures applicable to commercial corporate transactions. The need for annual scrutiny and control by the Congress of the financial transactions and operations of Government corporations was first outlined in the Comptroller General's annual report for the fiscal year 1928. Pursuant to this statutory mandate the Corporation Audits Division was established in GAO.

*December 20, 1945.* The Reorganization Act of 1945 made it clear that the General Accounting Office was a part of the legislative branch of the Government.

*March 8, 1946.* The Anti-Kickback Act was passed. GAO was granted power to inspect plants and audit books and records of contractors engaged in performing cost-plus-fixed-fee or cost-reimbursable contracts for the purpose of ascertaining whether fees, kick-backs, gifts or gratuities are paid by subcontractors to secure the award of subcontracts or orders.

*August 2, 1946.* The Legislative Reorganization Act of 1946 authorized the Comptroller General to make expenditure analyses of each agency of the Government to enable Congress to determine whether public funds have been economically and efficiently administered.

*January 6, 1949.* Secretary of the Treasury, John W. Snyder; Director of the Bureau of the Budget, James E. Webb; and the Comptroller General Lindsay C. Warren signed the document which established officially the cooperative effort then designated as the Joint Program for Improving Accounting in the Federal Government. Since 1959 the program has been referred to as the Joint Financial Management Improvement Program.

This program grew out of discussions late in 1947 between representatives of the General Accounting Office, the Treasury Department, the Bureau of the Budget, and the Senate Government Operations Committee. It was agreed that improving accounting and reporting in the Federal Government would be undertaken as a joint venture by the three central agencies. To provide GAO leadership in this program, the Accounting Systems Division was formed in January 1948, headed by Walter F. Frese.

On October 20, 1948, the Comptroller General addressed a letter to the heads of all Federal agencies enlisting their cooperation in the program. This

cooperative program led to many advances in the Government's financial practices through legislation as well as through modernization of agency procedures.

*June 30, 1949.* The Federal Property and Administrative Services Act of 1949 was signed into law. Included in its provisions was authority for the Comptroller General to prescribe accounting principles and standards for Government property, approve property accounting systems, and examine and report on such systems in operation.

*October 19, 1949.* The comprehensive audit program was instituted by the Comptroller General. This program was defined as including the audit of receipts, expenditures, and application of public funds; the verification of assets, liabilities, proprietary accounts, and operating results of Federal agencies; and determination of compliance with all laws, regulations, and decisions applicable to financial transactions.

*August 17, 1950.* The Post Office Department Financial Control Act of 1950 became law. This law transferred to the Post Office Department the accounting for postal operations previously performed by GAO. It directed the Department to develop an up-to-date system of accounting under principles and standards prescribed by the Comptroller General and with his cooperation and subject to his approval. Provision was also made for GAO audit at the agency site in accordance with generally accepted principles of auditing.

*September 12, 1950.* President Truman signed into law the Budget and Accounting Procedures Act of 1950. He described it as "providing a firm foundation for modernizing the Government's accounting along efficient lines to serve management purposes, safeguard the public funds and inform the Congress and the taxpayers clearly of what happens to the funds provided for Government activities."

The act directed the Comptroller General to prescribe accounting principles and standards for Federal agencies, cooperate in the development of their accounting systems, and approve them when deemed adequate. Provision was made for more comprehensive and selective auditing of agency operations, at sites of those operations, and in line with improved agency accounting systems, internal controls, and related administrative practices.

*January 12, 1951.* The first general statutory clause on GAO access to contractor records came into being

with the enactment of Public Law 921 of the 81st Congress, an amendment and extension of the First War Powers Act of 1941. Permanent access-to-records legislation was enacted in Public Law 82-245, approved October 31, 1951. Under this law, GAO has the authority to examine records incident to negotiated contracts. This right of the GAO to access to contractors' records was judicially affirmed in a landmark opinion in the *Hewlett-Packard* case on November 15, 1967.

*October 12, 1953.* Frank H. Weitzel became Assistant Comptroller General of the United States. Following Lindsay Warren's retirement on April 30, 1954, Mr. Weitzel served as Acting Comptroller General until the appointment of Joseph Campbell and subsequently following Mr. Campbell's retirement on July 31, 1965, Mr. Weitzel again served as Acting Comptroller General for seven months.

*December 14, 1954.* Joseph Campbell became Comptroller General. Before his appointment he was serving as one of the three commissioners of the Atomic Energy Commission. Mr. Campbell served until July 31, 1965, when for reasons of health, he retired.

*September 10, 1962.* President Kennedy signed into law the act which during its progress through the legislative machinery became known as the "Truth in Negotiations" Act, Public Law 87-653. This law was designed to enable the departments to conduct

more meaningful negotiations with better cost data so that the Government is able to obtain more advantageous contract prices. In large part, this law was one result of numerous GAO audit reports relating to pricing of negotiated Government contracts.

*March 8, 1966.* Elmer B. Staats became Comptroller General. Mr. Staats, a native of Kansas, served as Deputy Director of the Bureau of the Budget (now the Office of Management and Budget) under Presidents Truman, Eisenhower, Kennedy, and Johnson.

*October 3, 1969.* Robert F. Keller, who had been General Counsel of GAO, became Assistant Comptroller General.

*October 26, 1970.* The Legislative Reorganization Act of 1970 requires GAO to cooperate with the Treasury and the Office of Management and Budget in developing a standardized information and data processing system for budgetary and fiscal data; to review and analyze the results of Government programs and activities, including the making of cost-benefit studies; and to furnish periodic lists of GAO reports to all committees and Members of Congress. Department and agency heads are required by the act to advise the Senate and House Committees on Government Operations and Appropriations of the actions taken on recommendations made in GAO reports.

## LEGISLATION ENACTED DURING FISCAL YEAR 1971 RELATING TO THE WORK OF THE GENERAL ACCOUNTING OFFICE

### AUDITS

#### Home Loan Mortgage Program

Title III of Public Law 91-351, July 24, 1970, 84 Stat. 451, which created the Federal Home Loan Mortgage Corporation contains the following audit and access to records provisions:

Sec. 307.

\* \* \*

(b) The financial transactions of the Corporation shall be subject to audit by the *General Accounting Office* in accordance with the principles and procedures applicable to commercial corporate transactions under such rules and regulations as may be prescribed by the *Comptroller General of the United States*. The representatives of the *General Accounting Office* shall have access to all books, accounts, financial records, reports, files and all other papers, things, or property belonging to or in use by the Corporation and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians. A report on each such audit shall be made by the *Comptroller General* to the Congress. The Corporation shall reimburse the *General Accounting Office* for the full cost of any such audit as billed therefor by the *Comptroller General*. (84 Stat. 456)

#### Federal-State Extended Unemployment Compensation Program

Title II of Public Law 91-373, August 10, 1970, 84 Stat. 708, Federal-State Extended Unemployment Compensation Act of 1970, contains the following audit provision:

Sec. 204.

\* \* \*

(e) The Secretary shall from time to time certify to the Secretary of the Treasury for payment to each State the sums payable to such State under this section. The Secretary of the Treasury, prior to audit or settlement by the *General Accounting Office*, shall make payment to the State in accordance with such certification, by transfers from the extended unemployment compensation account to the account of such State in the Unemployment Trust Fund. (84 Stat. 711)

### U.S. Postal Service

Public Law 91-375, August 12, 1970, 84 Stat. 719, Postal Reorganization Act, establishes an independent establishment of the executive branch, the U.S. Postal Service. Section 2008, Title 39, United States Code, as reenacted by section 2 of this act contains the following audit provision:

“§ 2008. Audit and expenditures

“(a) The accounts and operations of the Postal Service shall be audited by the *Comptroller General* and reports thereon made to the Congress to the extent and at such times as he may determine.” (84 Stat. 741)

Provision is also made for the collection and adjustment of debts by the Postal Service and for the reference of any matter which is uncollectible through administrative action to the General Accounting Office for collection:

“§ 2601. Collection and adjustment of debts

“(a) The Postal Service—

“(1) shall collect debts due the Postal Service;

“(2) shall collect and remit fines, penalties, and forfeitures arising out of matters affecting the Postal Service;

“(3) may adjust, pay, or credit the account of a postmaster or of an enlisted person of an Armed Force performing postal duties, for any loss of Postal Service funds, papers, postage, or other stamped stock or accountable paper; and

“(4) may prescribe penalties for failure to render accounts.

The Postal Service may refer any matter, which is uncollectible through administrative action, to the *General Accounting Office* for collection. This subsection does not affect the authority of the Attorney General in cases in which judicial proceedings are instituted.

“(b) In all cases of disability or alleged liability for any sum of money by way of damages or otherwise, under any provision of law in relation to the officers, employees, operations, or business of the Postal Service, the Postal Service shall determine whether the interests of the Postal Service probably require the exercise of its powers over the same. Upon the determination, the Postal Service on such terms as it deems just and expedient, may—

“(1) remove the disability; or

“(2) compromise, release, or discharge the claim for such sum of money and damages.” (84 Stat. 744)

### Federal Credit Unions

Public Law 91-468, October 19, 1970, 84 Stat. 994, amends the Federal Credit Union Act (12 U.S.C. 1751-1775) to provide insurance for member accounts in State and federally chartered credit unions. Section 209(b) contains the following audit provision:

“(b) With respect to the financial operations arising by reason of this title, the Administrator shall—

“(1) prepare annually and submit a business-type budget as provided for wholly owned Government corporations by the Government Corporation Control Act; and

“(2) maintain an integral set of accounts, which shall be audited annually by the *General Accounting Office* in accordance with principles and procedures applicable to commercial corporate transactions, as provided by section 105 of the Government Corporation Control Act.” (84 Stat. 1015)

### Legislative Reorganization

Public Law 91-510, October 26, 1970, 84 Stat. 1140, Legislative Reorganization Act of 1970, reiterates General Accounting Office assistance to Congress and provides for the development of a standardized budgetary and fiscal information and data processing system and for the utilization of reports and employees of the General Accounting Office by the Congress as follows:

#### PART 1—BUDGETARY AND FISCAL INFORMATION AND DATA BUDGETARY AND FISCAL DATA PROCESSING SYSTEM

SEC. 201. The Secretary of the Treasury and the Director of the Office of Management and Budget, in cooperation with the *Comptroller General of the United States*, shall develop, establish, and maintain, insofar as practicable, for use by all Federal agencies, a standardized information and data processing system for budgetary and fiscal data.

#### BUDGET STANDARD CLASSIFICATIONS

SEC. 202. (a) The Secretary of the Treasury and the Director of the Office of Management and Budget, in cooperation with the *Comptroller General*, shall develop, establish, and maintain standard classifications of programs, activities, receipts, and expenditures of Federal agencies in order—

(1) to meet the needs of the various branches of the Government; and

(2) to facilitate the development, establishment, and maintenance of the data processing system under section 201 through the utilization of modern automatic data processing techniques.

The initial classifications under this subsection shall be established on or before December 31, 1971.

(b) The Secretary of the Treasury and the Director of the Office of Management and Budget shall submit a report to the Senate and the House of Representatives on or before September 1 of each year, commencing with 1971, with re-

spect to the performance during the preceding fiscal year of the functions and duties imposed on them by section 201 and subsection (a) of this section. The reports made under this subsection in 1971 and 1972 shall set forth the progress achieved in the development of classifications under subsection (a) of this section. The reports made in years thereafter shall include information with respect to changes in, and additions to, classifications previously established. Each such report shall include such comments of the *Comptroller General* as he deems necessary or advisable. (84 Stat. 1167)

#### ASSISTANCE TO CONGRESS BY GENERAL ACCOUNTING OFFICE

SEC. 204. (a) The *Comptroller General* shall review and analyze the results of Government programs and activities carried on under existing law, including the making of cost benefit studies, when ordered by either House of Congress, or upon his own initiative, or when requested by any committee of the House of Representatives or the Senate, or any joint committee of the two Houses, having jurisdiction over such programs and activities.

(b) The *Comptroller General* shall have available in the *General Accounting Office* employees who are expert in analyzing and conducting cost benefit studies of Government programs. Upon request of any committee of either House or any joint committee of the two Houses, the *Comptroller General* shall assist such committee or joint committee, or the staff of such committee or joint committee—

(1) in analyzing cost benefit studies furnished by any Federal agency to such committee or joint committee; or

(2) in conducting cost benefit studies of programs under the jurisdiction of such committee or joint committee.

#### POWER AND DUTIES OF COMPTROLLER GENERAL IN CONNECTION WITH BUDGETARY, FISCAL, AND RELATED MATTERS

SEC. 205. (a) The *Comptroller General* shall establish within the *General Accounting Office* such office or division, or such offices or divisions, as he considers necessary to carry out the functions and duties imposed on him by the provisions of this title.

(b) The *Comptroller General* shall include in his annual report to the Congress information with respect to the performance of the functions and duties imposed on him by the provisions of this title.

#### PRESERVATION OF EXISTING AUTHORITIES AND DUTIES UNDER BUDGET AND ACCOUNTING AND OTHER STATUTES

SEC. 206. Nothing contained in this Act shall be construed as impairing any authority or responsibility of the Secretary of the Treasury, the Director of the Office of Management and Budget, and the *Comptroller General of the United States* under the Budget and Accounting Act, 1921, as amended, and the Budget and Accounting Procedures Act of 1950, as amended, or any other statutes. (84 Stat. 1168)

#### PART 3—UTILIZATION OF REPORTS AND EMPLOYEES OF GENERAL ACCOUNTING OFFICE

#### ASSISTANCE BY GENERAL ACCOUNTING OFFICE TO CONGRESSIONAL COMMITTEES IN CONNECTION WITH PROPOSED LEGISLATION AND COMMITTEE REVIEW OF FEDERAL PROGRAMS AND ACTIVITIES

SEC. 231. At the request of any committee of the House or Senate, or of any joint committee of the two Houses, the

## EXHIBIT 2

*Comptroller General* shall explain to, and discuss with, the committee or joint committee making the request, or the staff of such committee or joint committee, any report made by the *General Accounting Office* which would assist such committee in connection with—

- (1) its consideration of proposed legislation, including requests for appropriations, or
- (2) its review of any program, or of any activity of any Federal agency, which is within the jurisdiction of such committee or joint committee.

### DELIVERY BY GENERAL ACCOUNTING OFFICE TO CONGRESSIONAL COMMITTEES OF REPORTS TO CONGRESS

SEC. 232. Whenever the *General Accounting Office* submits any reports to the Congress, the *Comptroller General* shall deliver copies of such reports to—

- (1) the Committees on Appropriations of the House and Senate,
- (2) the Committees on Government Operations of the House and Senate, and
- (3) any other committee of the House or Senate, or any joint committee of the two Houses, which has requested information on any program or part thereof, or any activity of any Federal agency, which is the subject, in whole or in part, of such report.

### FURNISHING TO CONGRESSIONAL COMMITTEES BY GENERAL ACCOUNTING OFFICE OF ITS REPORTS GENERALLY

SEC. 233. At the request of any committee of the House or Senate, or of any joint committee of the two Houses, the *Comptroller General* shall make available to such committee or joint committee a copy of any report of the *General Accounting Office* which was not delivered to that committee or joint committee under section 232 of this Act.

### FURNISHING TO COMMITTEES AND MEMBERS OF CONGRESS BY GENERAL ACCOUNTING OFFICE OF MONTHLY AND ANNUAL LISTS OF ITS REPORTS; AVAILABILITY OF REPORTS TO COMMITTEES AND MEMBERS ON REQUEST

SEC. 234. The *Comptroller General* shall prepare, once each calendar month, a list of all reports of the *General Accounting Office* issued during the immediately preceding calendar month, and, not less than once each calendar year, a cumulative list of all reports of the *General Accounting Office* issued during the immediately preceding twelve months, and transmit a copy of each such list of reports to each committee of the House or Senate, each joint committee of the two Houses, each Member of the House or Senate, and the Resident Commissioner from Puerto Rico. At the request of any such committee, joint committee, Member of the House or Senate, or the Resident Commissioner from Puerto Rico, the *Comptroller General* promptly shall transmit or deliver to that committee, joint committee, Member of the House or Senate, or the Resident Commissioner, as the case may be, a copy of each report so listed and requested.

### ASSIGNMENTS OF EMPLOYEES OF GENERAL ACCOUNTING OFFICE TO DUTY WITH COMMITTEES OF CONGRESS

SEC. 235. (a) Notwithstanding any other provision of law, the *Comptroller General* may not assign or detail any employee of the *General Accounting Office* to full-time duty on a continuing basis with any committee of the Senate or House

of Representatives or with any joint committee of Congress for any period of more than one year.

(b) The *Comptroller General* shall include in his annual report to the Congress the following information—

- (1) the name of each employee assigned or detailed to any committee of the Senate or House of Representatives or any joint committee of Congress;
- (2) the name of each committee or joint committee to which each such employee is assigned or detailed;
- (3) the length of the period of such assignment or detail of such employee;
- (4) a statement as to whether such assignment or detail is finished or is currently in effect; and
- (5) the pay of such employee, his travel, subsistence, and other expenses, the agency contributions for his retirement and life and health insurance benefits, and other necessary monetary expenses for personnel benefits on account of such employee, paid out of appropriations available to the *General Accounting Office* during the period of the assignment or detail of such employee, or, if such assignment or detail is currently in effect, during that part of the period of such assignment or detail which has been completed.

### AGENCY REPORTS

SEC. 236. Whenever the *General Accounting Office* has made a report which contains recommendations to the head of any Federal agency, such agency shall—

- (1) not later than sixty days after the date of such report, submit a written statement to the Committees on Government Operations of the House of Representatives and the Senate of the action taken by such agency with respect to such recommendations; and
- (2) in connection with the first request for appropriations for that agency submitted to the Congress more than sixty days after the date of such report, submit a written statement to the Committees on Appropriations of the House of Representatives and the Senate of the action taken by such agency with respect to such recommendations. (84 Stat. 1170–1171)

The Capitol Guide Service is established subject to direction, supervision, and control of a Capitol Guide Board consisting of the Architect of the Capitol and the Sergeants at Arms of the Senate and House of Representatives to provide guided tours of the interior of the U.S. Capitol Building. Section 443(c) provides for special audit of the Board as follows:

(c) As soon as practicable after the effective date of this section but not later than the close of the sixtieth day after such effective date, the Capitol Guide Board shall, out of the assets and property transferred under subsection (b) of this section, on the basis of a special audit which shall be conducted by the *General Accounting Office*—

- (1) settle and pay any outstanding accounts payable of the United States Capitol Guides,
- (2) discharge the financial and other obligations of the United States Capitol Guides (including reimbursement to purchasers of tickets for guided tours which are purchased

and paid for in advance of intended use and are unused), and

(3) otherwise wind up the affairs of the United States Capitol Guides, which exist immediately prior to such effective date. The Capitol Guide Board shall dispose of any net monetary amounts remaining after the winding up of the affairs of the United States Capitol Guides, in accordance with the practices and procedures of the United States Capitol Guides, existing immediately prior to the effective date of this section, with respect to disposal of monetary surpluses. (84 Stat. 1192)

Authorization is made for audit of organizations conducting activities or performing services in or on the U.S. Capitol buildings or grounds with the results of such audit reported to Congress as follows:

#### AUDIT OF ACCOUNTS OF CERTAIN PRIVATE ORGANIZATIONS

SEC. 451. (a) Any private organization, except political parties and committees constituted for election of Federal officials, whether or not organized for profit and whether or not any of its income inures to the benefit of any person, which performs services or conducts activities in or on the United States Capitol Buildings or Grounds, as defined by or pursuant to law, shall be subject, for each year in which it performs such services or conducts such activities, to a special audit of its accounts which shall be conducted by the *General Accounting Office*. The results of such audit shall be reported by the *Comptroller General* to the Senate and House of Representatives. (84 Stat. 1193)

### Emergency Rail Services

Public Law 91-663, January 8, 1971, 84 Stat. 1975, Emergency Rail Services Act of 1970, authorizes the Secretary of Transportation to provide financial assistance to certain railroads to preserve essential rail service and contains the following audit and access-to-records provisions:

#### AUDIT

SEC. 8. The *Comptroller General of the United States*, or any of his duly authorized representatives, shall have access to such information, books, records, and documents as he determines necessary effectively to audit financial transactions and operations carried out by the Secretary in the administration of this Act. The *Comptroller General* shall make such reports to the Congress on the results of any such audits as are appropriate. (84 Stat. 1977)

### Commodities Produced by Handicapped

Public Law 92-28, June 23, 1971, 85 Stat. 77, amends the Wagner-O'Day Act to extend its provisions relating to Government procurement of commodities produced by the blind to commodities produced by other severely handicapped individuals through the

establishment of a Committee for the Purchase of Products and Services of the Blind and Other Severely Handicapped. The law contains the following provision for audit and access to records:

#### "AUDIT

"SEC. 4. 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 other records of the Committee and of each agency designated by the Committee under section 2(c). This section shall also apply to any qualified nonprofit agency for the blind and any such agency for other severely handicapped which have sold commodities or services under this Act but only with respect to the books, documents, papers, and other records of such agency which relate to its activities in a fiscal year in which a sale was made under this Act." (85 Stat. 81)

### Grants to States

Public Law 91-596, December 29, 1970, 84 Stat. 1590, the Occupational Safety and Health Act of 1970, contains the following access-to-records and audit provisions incident to grants to States for occupational safety and health activities:

#### AUDITS

SEC. 25. (a) Each recipient of a grant under this Act shall keep such records as the Secretary or the Secretary of Health, Education, and Welfare shall prescribe, including records which fully disclose the amount and disposition by such recipient of the proceeds of such grant, the total cost of the project or undertaking in connection with which such grant is made or used, and the amount of that portion of the cost of the project or undertaking supplied by other sources, and such other records as will facilitate an effective audit.

(b) The Secretary or the Secretary of Health, Education, and Welfare, and the *Comptroller General of the United States*, or any of their duly authorized representatives, shall have access for the purpose of audit and examination to any books, documents, papers, and records of the recipients of any grant under this Act that are pertinent to any such grant. (84 Stat. 1615)

Public Law 91-616, December 31, 1970, 84 Stat. 1848, Comprehensive Alcohol Abuse and Alcoholism Prevention, Treatment, and Rehabilitation Act of 1970, authorizes formula grants to States to assist in alcohol abuse and alcoholism prevention, treatment, and rehabilitation programs. As a part of the State plan required of States desiring to participate, a provision for *General Accounting Office* access to records relating to certain report documentation must be included. (84 Stat. 1851)

Section 502(b) of the act provides *General Accounting Office* access to records and audit of recipients that

## EXHIBIT 2

are pertinent to grants or contracts entered under other than competitive bidding procedures. (84 Stat. 1855)

### Public Health Service

Title I of Public Law 91-515, October 30, 1970, 84 Stat. 1297, Heart Disease, Cancer, Stroke, and Kidney Disease Amendments of 1970, amends section 909 of the Public Health Service Act to include contract recipients as well as grant recipients in the *General Accounting Office* audit and access-to-records provision. (84 Stat. 1300)

### Military Procurement—C-5A Aircraft

Public Law 91-441, October 7, 1970, 84 Stat. 905, the military procurement authorization for 1971, establishes a \$200,000,000 C-5A aircraft procurement contingency fund and requires that all payments made to the prime contractor through a special bank account be audited by the Defense Contract Audit Agency and, on a quarterly basis, by the *General Accounting Office* with a report to Congress by the *Comptroller General* not more than 30 days after the close of each quarter. (84 Stat. 911-912)

### Pacific Island Trust Territory

Public Law 91-361, July 31, 1970, 84 Stat. 669, the Department of the Interior and Related Agencies Appropriation Act, 1971, contains the usual proviso for audit of the Trust Territory of the Pacific Islands by the *General Accounting Office* of all financial transactions of the Trust Territory, including such transactions of all agencies or instrumentalities established or utilized by the Trust Territory. The proviso stipulates that the audit shall be made in accordance with the provisions of the Budget and Accounting Act, 1921, and the Accounting and Auditing Act of 1950. (84 Stat. 673)

### National Railroad Passenger Corporation

Public Law 91-518, October 30, 1970, 84 Stat. 1327, the Rail Passenger Service Act of 1970, creates the National Railroad Passenger Corporation and provides for audit and access to records by the *Comptroller General* of the United States of financial transactions

of the Corporation for any fiscal year during which Federal funds are available to finance any portion of its operations. A report of each such audit to Congress shall contain such comments, information, and recommendations as the *Comptroller General* may deem necessary to inform Congress regarding the financial operations and conditions of the Corporation. (84 Stat. 1340-1341)

### Susquehanna River Basin Compact

Public Law 91-575, December 24, 1970, 84 Stat. 1509, grants the consent of Congress to the Susquehanna River Basin Compact creating the Susquehanna River Basin Commission and subjects the financial transactions of the Commission to audit by the *General Accounting Office* in accordance with principles and procedures applicable to commercial corporate transactions and under rules and regulations prescribed by the *Comptroller General of the United States*. (84 Stat. 1534)

### Exchange Stabilization Fund

Public Law 91-599, December 30, 1970, 84 Stat. 1657, authorizes the *General Accounting Office* to audit the administrative expenses of the Exchange Stabilization Fund for the purpose of ascertaining that administrative funds are properly accounted for and that fully adequate accounting procedures and systems for control of the funds have been established. The *Comptroller General* is provided access to records with the exception of information determined by the Secretary of the Treasury to be of an internationally significant nature. (84 Stat. 1659)

### Community Development Corporation

Title VII of Public Law 91-609, December 31, 1970, 84 Stat. 1791, Urban Growth and New Community Development Act of 1970, establishes a Community Development Corporation to administer guarantees and loans in aid of new community development by the Secretary of Housing and Urban Development. Financial transactions of recipients of Federal assistance relating to guarantees, loans, or grants are subject to audit by the *General Accounting Office* and the *General Accounting Office* is provided access to records of such recipients. (84 Stat. 1801)

### **Federal Training for State and Local Government Personnel**

Public Law 91-648, January 5, 1971, 84 Stat. 1909, Intergovernmental Personnel Act of 1970, provides for access to records and audit by the *General Accounting Office* of recipients of grants for strengthening State and local personnel administration, and for training and developing State and local employees. (84 Stat. 1927)

### **Rural Telephone Bank**

Public Law 92-12, May 7, 1971, 85 Stat. 29, amends the Rural Electrification Act of 1936 to provide an additional source of financing for the rural telephone program by establishment of a Rural Telephone Bank subject to the provisions of the Government Corporation Control Act in the same manner as if included in definition of "wholly owned Government corporation" including audit and report by the *General Accounting Office* of the bank's financial transactions until 51 percent of the class A stock has been retired and ownership converts to the bank. Thereafter the Bank will be a "mixed-ownership Government corporation" continuing to be subject to audit but not budgetary review. (85 Stat. 31, 37)

## **ACCESS TO RECORDS**

### **Cost Accounting Standards Board**

Public Law 91-379, August 15, 1970, 84 Stat. 796, amends the Defense Production Act of 1950 by adding a new section 719 to establish a Cost Accounting Standards Board independent of the executive departments and headed by the *Comptroller General of the United States*. The Board is to promulgate standards designed to achieve uniformity and consistency in the cost accounting principles followed by defense contractors and subcontractors under Federal contracts. The *Comptroller General* is given the right of access to records of contractors and subcontractors relating to compliance with cost accounting standards and principles. (84 Stat. 799)

### **Department of Commerce—Ship Construction**

Public Law 91-469, October 21, 1970, 84 Stat. 1018, the Merchant Marine Act of 1970, amends section 502

of the Merchant Marine Act, 1936, to permit the Secretary of Commerce to accept a price for the construction of a ship which has been negotiated between a shipyard and a proposed ship purchaser if, among other things, the shipyard agrees that the *Comptroller General* shall, until the expiration of 3 years after final payment have access to records of the shipyard or any of its subcontractors related to the negotiation or performance of any such contract. (84 Stat. 1019)

### **Foreign Aid Program**

Public Law 91-619, December 31, 1970, 84 Stat. 1856, Foreign Assistance and Related Programs Appropriation Act, 1971, contains a provision for access to records of the Inspector General, Foreign Assistance, by the *General Accounting Office* unless the President certifies that he has forbidden the Inspector General to furnish the records and the reason for so doing. (84 Stat. 1862)

### **Department of Commerce—International Travel**

Public Law 91-477, October 21, 1970, 84 Stat. 1071, amends the International Travel Act of 1961 (75 Stat. 129; 22 U.S.C. 2121-2126) to improve the balance of payments by further promoting travel to the United States. The Secretary of Commerce is authorized to make grants to States and private or public nonprofit organizations and associations for projects designed to carry out the purposes of the act. A new subsection (d) is added to section 3 of the act to provide that the *Comptroller General* shall have access to records of grant recipients pertinent to the assistance received for the purposes of audit. (84 Stat. 1072)

### **Federal Grants**

Public Law 91-667, January 11, 1971, 84 Stat. 2001, Departments of Labor, and Health, Education, and Welfare Appropriation Act, 1971, contains a requirement that all grant agreements provide that the *General Accounting Office* shall have access to the records of the grantee which bear exclusively upon the Federal grant in the case of manpower training activities of the Manpower Administration, Department of Labor (84 Stat. 2001) and the economic opportunity program of the Office of Economic Opportunity (84 Stat. 2018).

## EXHIBIT 2

### ACCOUNTING PROCEDURES

Public Law 91-556, December 17, 1970, 84 Stat. 1442, the Independent Offices and Department of Housing and Urban Development Appropriation Act, 1971, contains the usual provision for approval of the General Services Administration operations fund accounting system by the *General Accounting Office*. (84 Stat. 1448)

### APPROPRIATIONS FOR GENERAL ACCOUNTING OFFICE

Public Law 91-305, July 6, 1970, 84 Stat. 376, Second Supplemental Appropriations Act, 1970, provides an appropriation of \$499,000 for salaries and expenses and \$5,142,000 for increased pay costs of the *General Accounting Office*. (84 Stat. 383, 388)

The *Comptroller General of the United States* is deemed to have administrative control of appropriations, funds limitations, or authorizations available incident to transfers and certifications authorized by sections 302 and 303 to meet increased pay costs of the Federal Employees Salary Act of 1970 (84 Stat. 195) and the act of December 16, 1967 (81 Stat. 649):

SEC. 302. Any officer having administrative control of an appropriation, fund, limitation, or authorization properly chargeable with the costs in the fiscal year 1970 of pay increases granted by or pursuant to the Federal Employees Salary Act of 1970 and the Act of December 16, 1967 (81 Stat. 649), is authorized to transfer thereto, from the unobligated balance of any other appropriation, fund, or authorization under his administrative control and expiring for obligation on June 30, 1970, such amounts as may be necessary for meeting such costs.

SEC. 303. Whenever any officer referred to in section 304 of this title shall determine that he has exhausted the possibilities of meeting the cost of pay increases through the use of transfers as authorized by said section, he shall certify the additional amount required to meet such costs for each appropriation, fund, limitation, or authorization under his administrative control, and the amounts so certified shall be added to the pertinent appropriation, fund, limitation, or authorization for the fiscal year 1970: *Provided*, That any transfer under the authority of section 302 or any certification made under the authority of this section by an officer in or under the executive branch of the Federal Government shall be valid only when approved by the Director of the Bureau of the Budget.

SEC. 304. For the purposes of the transfers and certifications authorized by sections 302 and 303 of this title, the

following officers shall be deemed to have administrative control of appropriations, funds, limitations, or authorizations available within their respective organization units—

- (a) For the legislative branch:
  - The Clerk of the House;
  - The Secretary of the Senate;
  - The Librarian of Congress;
  - The Architect of the Capitol;
  - The Public Printer;
  - The Comptroller General of the United States*;
  - The Chief Judge of the United States Tax Court;
  - The chairman of any commission in or under the legislative branch.
- (b) For the Judiciary:
  - The Administrative Officer of the United States Courts.
- (c) For the executive branch:
  - The head of each department, agency, or corporation in or under the executive branch.
- (d) For the municipal government of the District of Columbia:
  - The Commissioner of the District of Columbia. (84 Stat. 404)

Public Law 91-382, August 18, 1970, 84 Stat. 807, the Legislative Branch Appropriation Act, 1971, appropriated the following amounts for the *General Accounting Office*:

“For necessary expenses of the *General Accounting Office*, including not to exceed \$3,500 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 section 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)), \$74,020,000.” (84 Stat. 824-825)

Public Law 92-18, May 25, 1971, 85 Stat. 40, Second Supplemental Appropriations Act, 1971, appropriates an additional amount of \$120,000 for salaries and expenses and an appropriation of \$5,851,000 for increased pay costs of the *General Accounting Office*. (85 Stat. 49, 57)

NUMBER OF AUDIT REPORTS ISSUED DURING FISCAL YEAR 1971<sup>1</sup>

	Total	Congress <sup>2</sup>	Committees or Members of Congress <sup>3</sup>	Agency officials <sup>4</sup>
<b>Civil departments and agencies:</b>				
Civil departments.....	279	65	61	153
Independent agencies.....	127	29	46	52
Legislative branch.....	15	2	12	1
Judicial branch.....	4	1		3
	425	97	119	209
<b>Military departments:<sup>5</sup></b>				
Department of Defense.....	139	35	68	36
Department of the Army.....	90	7	23	60
Department of the Navy.....	73	9	17	47
Department of the Air Force.....	155	1	23	131
	457	52	131	274
International activities.....	75	17	30	28
Government-wide and multiagency activities.....	14	6	7	1
Organizations outside the Federal Government.....	4	1		3
<b>Total.....</b>	<b>975</b>	<b>173</b>	<b>287</b>	<b>515</b>

## NOTES

<sup>1</sup> A 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.

<sup>2</sup> Reports submitted to the Congress are addressed to the President of the Senate and the Speaker of the House of Representatives. Copies are sent to the Director, Office of Management and Budget; the Senate and House Committees on Appropriations; the Senate and the House Committees on Government Operations; the appropriate legislative committees in the Senate and the

House; Members of the Congress from the districts in which the activities reported are located; others in the Congress as requested; the President of the United States as appropriate; the agencies reported on; and others directly affected.

<sup>3</sup> Includes reports addressed to officers of the Congress.

<sup>4</sup> Comprises reports addressed to heads of departments or agencies, to other officials at department or agency headquarters, to department or agency officials at regional or other local offices, or to commanding officers at military installations.

<sup>5</sup> Exclusive of international, Government-wide, and multiagency activities which are listed separately.

**EXHIBIT 4**

**TRANSPORTATION AUDIT AND COLLECTIONS DURING FISCAL YEARS 1962-71**

Fiscal year	Bills of lading and transportation requests audited	Amount paid	Notices of overcharge issued		Total collections <sup>1</sup>
			Number	Amount	
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
1971.....	8, 194, 208	1, 951, 280, 584	102, 326	16, 011, 173	14, 847, 643
<b>Total.....</b>	<b>79, 037, 614</b>	<b>17, 340, 936, 188</b>	<b>923, 365</b>	<b>154, 096, 444</b>	<b>145, 745, 689</b>

<sup>1</sup> Includes amounts collected in GAO's adjudication of claims reported by other Government agencies.

**EXHIBIT 5**

**TRANSPORTATION CLAIMS SETTLED DURING FISCAL YEARS 1962-71**

Fiscal year	Number of claims	Amount claimed	Amount allowed
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, 352	13, 053, 245
1971.....	15, 957	20, 723, 867	<sup>1</sup> 18, 865, 840
<b>Total.....</b>	<b>235, 463</b>	<b>260, 087, 713</b>	<b>226, 858, 334</b>

<sup>1</sup> Includes allowance of \$14,070,463 for Military Airlift Command movements audited before payment.

## CLAIMS DIVISION SETTLEMENTS AND COLLECTIONS DURING FISCAL YEARS 1962-71

Fiscal year	Claims against the United States		Claims by the United States	
	Number of claims	Amount allowed	Number of claims	Amount collected <sup>1</sup>
1962.....	15, 097	\$50, 617, 957	57, 247	\$6, 233, 491
1963.....	9, 984	31, 141, 152	47, 703	4, 528, 372
1964.....	7, 450	33, 879, 969	43, 267	6, 410, 068
1965.....	8, 296	78, 283, 755	41, 921	4, 070, 156
1966.....	8, 274	52, 596, 937	33, 977	4, 128, 554
1967.....	9, 705	46, 483, 888	32, 208	3, 626, 693
1968.....	13, 812	60, 988, 960	16, 282	2, 938, 681
1969.....	18, 690	70, 140, 076	9, 750	2, 819, 450
1970.....	14, 943	55, 909, 237	13, 201	2, 626, 961
1971.....	<sup>2</sup> 8, 686	117, 782, 204	20, 394	2, 878, 940
<b>Total.....</b>	<b>114, 937</b>	<b>597, 824, 135</b>	<b>315, 950</b>	<b>40, 261, 366</b>

<sup>1</sup> Includes amount collected by the Department of Justice on claims reported to that agency by GAO for possible suit.

<sup>2</sup> This figure does not include 5,234 barred Philippine claims, since September 1970, that have been handled under an improved procedure that keeps

them out of the adjudication workload. It is anticipated that this figure will diminish in future years due to constant efforts on the part of GAO to discourage the filing of this type of claim.

**U.S. GENERAL ACCOUNTING OFFICE  
STATEMENT OF ASSETS, LIABILITIES, AND INVESTMENT  
JUNE 30, 1971**

**ASSETS**

Funds in U.S. Treasury:		
Appropriated funds .....	\$4, 108, 889	
Deposit funds .....	800, 796	
	\$4, 909, 685	
Cash on hand and in transit .....		213
Employees' travel advances .....		435, 569
Accounts receivable .....		97, 584
Inventory of supplies .....		94, 871
Furniture, fixtures and equipment .....	2, 925, 807	
Less: Accumulated depreciation .....	1, 580, 349	
	1, 345, 458	
Legal Library books (Estimated) .....		144, 000
Prepaid expenses .....		18, 611
		7, 045, 991

**LIABILITIES AND INVESTMENT**

Accounts payable .....		\$2, 607, 132
Accrued liabilities .....		1, 285, 964
Funds held for others, principally employees' tax and other payroll deductions .....		800, 796
Liability for accrued annual leave of employees .....	5, 832, 898	
Less: Amount to be financed from future appropriations .....	5, 832, 898	
	4, 693, 892	
Investment of U.S. Government (Exhibit 8) .....		2, 352, 099
		7, 045, 991

**U.S. GENERAL ACCOUNTING OFFICE  
SUMMARY OF CHANGES IN INVESTMENT OF U.S. GOVERNMENT  
FISCAL YEAR ENDED JUNE 30, 1971**

Balance, July 1, 1970.....		\$1, 639, 570
Add:		
Legal Library books (not previously included in investment of U.S. Government).....	\$144, 000	
Appropriation for salaries and expenses, 1971.....	79, 987, 364	
Reimbursements.....	131, 187	
	<u>80, 262, 551</u>	
<b>Total</b> .....		<u>81, 902, 121</u>
Deduct:		
Operating expenses, 1971 (Exhibit 9).....	79, 753, 637	
Less: Amount of annual leave earned by employees and included in operating expenses, which will be financed by future appropriations.....	-474, 999	
Unobligated balance of 1971 appropriation lapsed.....	156, 451	
Funds returned to Treasury because obligations for prior year orders exceeded cost or were recovered.....	114, 933	
	<u>79, 550, 022</u>	
<b>Balance, June 30, 1971</b> .....		<u><u>2, 352, 099</u></u>
Composition of balances:		
Investment in:		
	<i>July 1, 1970</i>	<i>June 30, 1971</i>
Inventories of supplies.....	\$64, 010	\$94, 871
Furniture, fixtures, and equipment.....	1, 164, 920	1, 345, 458
Legal Library books.....		144, 000
Funds reserved for payment of unfilled orders.....	410, 640	767, 770
	<u>1, 639, 570</u>	<u>2, 352, 099</u>
<b>Total</b> .....		<u><u>2, 352, 099</u></u>

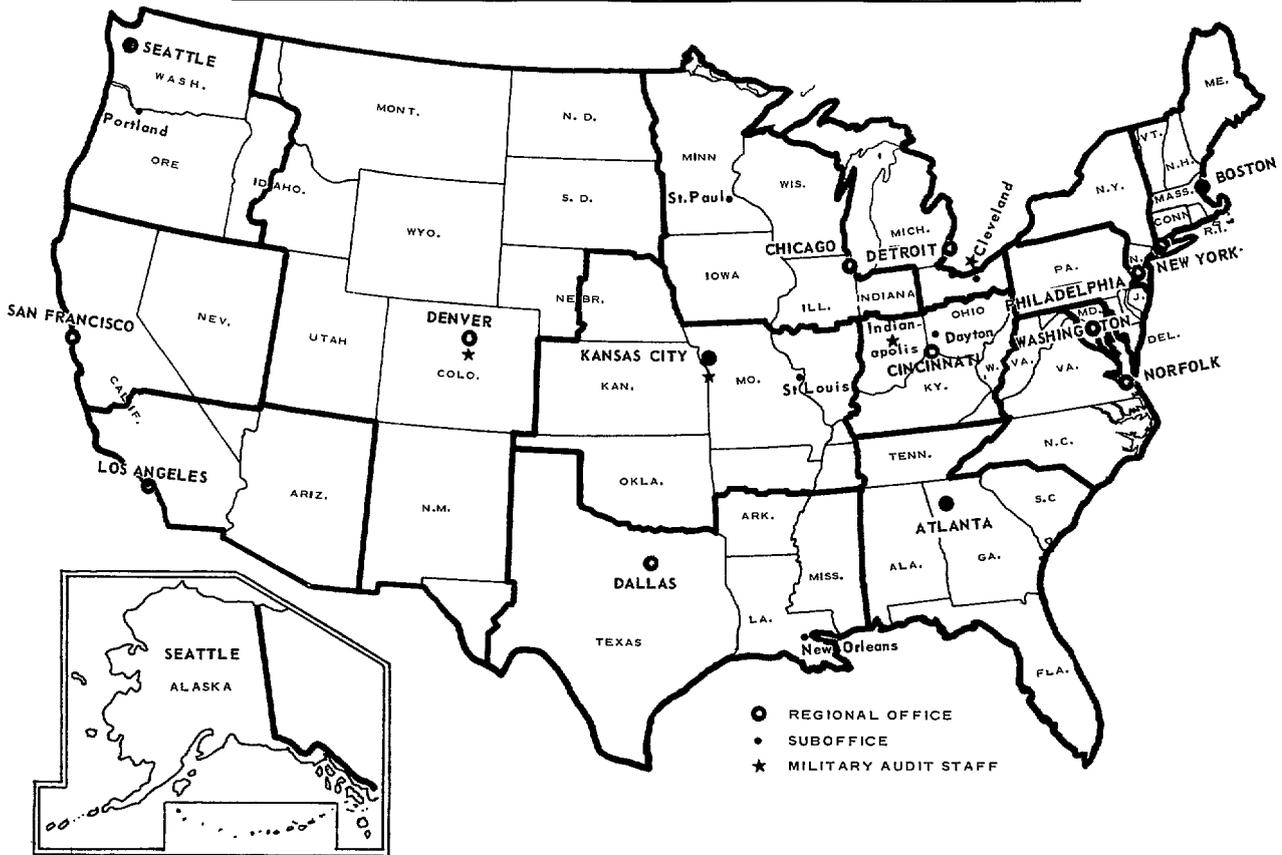
**U.S. GENERAL ACCOUNTING OFFICE  
SUMMARY OF OPERATING EXPENSES  
FISCAL YEAR ENDED JUNE 30, 1971**

	Total	Salaries	Employees benefits	Travel	Other
Office of the Comptroller General.....	\$791,013	\$689,812	\$53,907	\$19,477	\$27,817
Office of the General Counsel.....	3,430,287	3,034,247	243,639	14,077	138,324
Office of Administrative Services.....	2,334,181	1,758,585	221,906	14,290	339,400
Office of Personnel Management.....	978,230	785,169	53,677	47,491	91,893
Office of Policy and Special Studies.....	2,585,065	2,187,015	188,362	58,747	150,941
Civil Division.....	11,771,694	10,316,715	847,108	311,357	296,514
Defense Division.....	6,350,016	5,543,274	450,670	185,951	170,121
International Division:					
Washington, D.C.....	2,978,614	2,508,219	209,057	181,999	79,339
European Branch.....	1,817,750	1,093,380	143,069	224,318	356,983
Far East Branch.....	2,067,357	1,299,621	227,127	320,163	220,446
Field Operations Division.....	33,684,711	27,107,846	2,243,716	3,588,393	744,756
Claims Division.....	1,706,192	1,538,829	124,348	1,546	41,469
Transportation Division.....	8,669,302	7,767,242	635,055	28,076	238,929
Data Processing Center.....	589,225	390,358	31,533	901	166,433
<b>Total.....</b>	<b>79,753,637</b>	<b>66,020,312</b>	<b>5,673,174</b>	<b>4,996,786</b>	<b>3,063,365</b>
Reconciliation of accrued expenditures for year with total expenses:					
Accrued expenditures.....					\$79,490,037
Add:					
Increase in accrued annual leave liability.....					474,999
Depreciation of furniture, fixtures, and equipment.....					178,503
Deduct:					
Purchases of furniture, fixtures, and equipment.....					—359,040
Increase in inventory of supplies.....					—30,862
Operating expenses.....					<u>79,753,637</u>

**U.S. GENERAL ACCOUNTING OFFICE  
SUMMARY OF SOURCES AND APPLICATION OF FUNDS  
FISCAL YEAR ENDED JUNE 30, 1971**

Sources of funds:		
Appropriation for salaries and expenses, 1971 .....		\$79,987,364
Reimbursements .....		131,187
Funds carried over from preceding year to pay for orders placed in that year but filled in the current year .....		410,640
Receipts for audit services .....		388,602
Other receipts .....		53,486
		<hr/>
Total .....		80,971,279
		<hr/> <hr/>
Application of funds:		
Accrued expenditures:		
Expenses .....	\$79,130,997	
Purchase of furniture, fixtures, and equipment .....	359,040	
		<hr/>
		\$79,490,037
Funds reserved at the yearend for payment of unfilled orders .....		767,770
Unobligated balance of 1971 appropriation lapsed .....		156,451
Funds returned to Treasury because obligations for prior year orders exceeded cost or were recovered .....		114,933
Receipts deposited in U.S. Treasury .....		442,088
		<hr/>
Total .....		80,971,279
		<hr/> <hr/>

U. S. GENERAL ACCOUNTING OFFICE REGIONS



## DIRECTORY OF THE FIELD OPERATIONS DIVISION OCTOBER 1971

### HEADQUARTERS

John E. Thornton, Director 202-386-4467  
Stewart D. McElyea, Deputy Director  
Room 6124  
U.S. General Accounting Office Building  
441 G Street NW.  
Washington, D.C. 20548

### REGIONAL OFFICES

#### Atlanta

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James E. Ballou, Assistant Regional Manager  
Kyle E. Hamm, Assistant Regional Manager  
Room 204, 161 Peachtree Street NE.  
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Nicholas Carbone, Assistant Regional Manager  
Paul M. Foley, Assistant Regional Manager  
Louis Lucas, Assistant Regional Manager  
Room 1903, John F. Kennedy Federal Building  
Government Center  
Boston, Mass. 02203

#### Chicago

Myer R. Wolfson, Regional Manager 312-353-6174  
Kenneth W. Hitzeman, Assistant Regional Manager  
Medford S. Mosher, Assistant Regional Manager  
Room 403, Custom House Building  
610 South Canal Street  
Chicago, Ill. 60607

#### *St. Paul Suboffice*

Orlaf B. Hylle, Auditor in Charge 612-725-7844  
Room 1407, U.S. Post Office and Custom House  
St. Paul, Minn. 55101

#### Cincinnati

David P. Sorando, Regional Manager 513-684-2107  
Walter C. Herrmann, Jr., Assistant Regional Manager  
Elmer Taylor, Jr., Assistant Regional Manager  
Room 8112 Federal Office Building  
Fifth and Main Streets  
Cincinnati, Ohio 45202

#### *Dayton Suboffice*

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Wright-Patterson Air Force Base, Ohio 45433

#### *Army Audit Staff*

Daniel V. Loesch, Auditor in Charge 317-542-2870  
Fort Benjamin Harrison  
Indianapolis, Ind. 46216

#### Dallas

Walton H. Sheley, Jr., Regional Manager 214-749-3437  
Deon H. Dekker, Assistant Regional Manager  
Paul C. deLassus, Assistant Regional Manager  
James J. Jodon, Assistant Regional Manager  
Room 500, 1512 Commerce Street  
Dallas, Tex. 75201

#### *New Orleans Suboffice*

Jimmy J. Bevis, Assistant Regional Manager 504-527-6115  
Room T-8040 Federal Office Building  
701 Loyola Avenue  
New Orleans, La. 70113

#### Denver

Irwin M. D'Addario, Regional Manager 303-837-4621  
J. Philip Horan, Assistant Regional Manager  
John E. Murphy, Assistant Regional Manager  
Room 7014 Federal Office Building  
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Denver, Colo. 80202

#### *Air Force Audit Staff*

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Denver, Colo. 80205

#### Detroit

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Franklin A. Curtis, Assistant Regional Manager  
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234 State Street  
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#### *Cleveland Suboffice and Navy Audit Staff*

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1240 East Ninth Street  
Cleveland, Ohio 44199

#### Kansas City

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Arnett E. Burrow, Assistant Regional Manager  
Kenneth F. Luecke, Assistant Regional Manager  
1800 Federal Office Building  
911 Walnut Street  
Kansas City, Mo. 64106

## EXHIBIT 12

### *St. Louis Suboffice*

Clifford I. Gould, Assistant Regional Manager  
Room 1740, 1520 Market Street 314-622-4121  
St. Louis, Mo. 63103

### **Los Angeles**

Jerome H. Stolarow, Regional Manager 213-688-3813  
Samuel Kleinbart, Assistant Regional Manager  
Edwin J. Kolakowski, Assistant Regional Manager  
Dominic F. Ruggiero, Assistant Regional Manager  
Room 7068, Federal Building  
300 North Los Angeles Street  
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### **New York**

Alfonso J. Strazzullo, Regional Manager 212-264-0730  
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Thomas A. McQuillan, Assistant Regional Manager  
Valentine D. Tomicich, Assistant Regional Manager  
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### **Philadelphia**

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Kenneth A. Pollock, Assistant Regional Manager  
Charles F. Vincent, Assistant Regional Manager  
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