

**REPORT TO
THE CONGRESS OF THE UNITED STATES**

**COMPILATION OF
GENERAL ACCOUNTING OFFICE
FINDINGS AND RECOMMENDATIONS
FOR IMPROVING GOVERNMENT OPERATIONS
FISCAL YEAR 1961**



**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES
MARCH 1962**

TO THE READER:

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

B-138162

MAR 23 1962

Honorable John W. McCormack
Speaker of the House of Representatives

Dear Mr. Speaker:

Enclosed for the information of the Congress is a compilation of General Accounting Office findings and recommendations for improving Government operations. These relate for the most part to the fiscal year 1961. The purpose of this report is to provide the Congress with a convenient summary showing the nature, extent, and variety of matters which the General Accounting Office examines into in its audit activities.

The findings and recommendations included in this compilation were made in connection with our responsibilities under the Budget and Accounting Act, 1921, and other laws which require us to independently examine for the Congress the manner in which the departments and agencies are discharging their financial responsibilities.

The compilation also describes the actions taken by the departments and agencies of the Federal Government as a result of our recommendations. It is not always possible to measure in financial terms the savings and benefits resulting from these actions. However, collections of \$37,919,000 were made during the fiscal year 1961 through the efforts of our Office. In addition, actions taken by the departments and agencies during the same year as a result of our findings and recommendations resulted in either definite, measurable savings or possible savings of over \$95 million. A summary statement of these collections and savings appears on page 97 of the report.

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For the convenience of the committees of the Congress and others, the report contains an index of the departments and agencies to which the findings and recommendations relate.

This report is also being sent today to the President of the Senate.

Sincerely yours,

A handwritten signature in cursive script, reading "Roger Campbell".

**Comptroller General
of the United States**

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COMPILATION OF
GENERAL ACCOUNTING OFFICE
FINDINGS AND RECOMMENDATIONS
FOR IMPROVING GOVERNMENT OPERATIONS
FISCAL YEAR 1961

CIVIL DEPARTMENTS AND AGENCIES

REVIEW OF PROCUREMENT PROCEDURES AND PRACTICES

1. Restriction on competition in local procurement practices eliminated--At the Veterans Administration (VA) Center, Sioux Falls, South Dakota, we observed that invitations for bids to supply dairy products contained a provision stating that VA reserved the right to reject bids received from bidders located beyond a radius of 60 miles. One of the results of this restriction was to limit VA's dairy purchases to dairies located in the city of Sioux Falls. This matter was brought to the attention of the Manager of the center who eliminated the right-to-reject provision, and, as a result, the subsequent contract was awarded to a company located in a city about 89 miles from Sioux Falls. We estimated that, on the basis of the prices obtained under the new contract, the center will realize an annual saving of about \$4,900.

2. Bidders mailing lists and contract files improved--Our report issued in February 1961 on procurement operations of the Eastern Regional Business Office, Agricultural Research Service, Department of Agriculture, brought out that (1) lists of potential suppliers were not maintained by commodities to be procured and (2) documents supporting the actions taken in the execution and administration of procurement contracts were not filed to permit ready evaluation of how the procurement responsibility was being carried out. Agency officials advised us that, following our recommendation, they have now developed a bidders list by commodities for ready reference in determining distribution of future bid invitations and that all documents relating to procurement contracts have been placed in appropriate file jackets, bound, and chronologically arranged.

3. Controls to be strengthened over purchases made without advertising--During our review of procurement procedures at the Seattle Regional Office of the General Services Administration (GSA), we noted a number of instances in which procurements were made under the public exigency exception to formal advertising, but the files contained nothing to indicate that a public exigency existed other than a requested delivery date or a scheduled ship sailing date furnished by the requesting agency. We found no evidence that would indicate adverse results from possible interruption of

REVIEW OF PROCUREMENT PROCEDURES AND PRACTICES (continued)

agency programs, financial or other serious injury to the Government from failure to meet delivery or ship sailing dates, or that the need for the supplies was compelling and of unusual urgency.

This matter was brought to the attention of GSA officials. In May 1961 we were informed that GSA intended to revise General Services Procurement Regulations (1) to limit the use of authority to negotiate nonstores public exigency purchases to those cases where requisitioning agencies have furnished statements justifying the exigency and (2) to make clear that delivery dates shown on a requisition do not in themselves justify waiving the requirement for formal advertising.

4. Steps to be taken to reduce amounts of discounts lost--We found that in three General Services Administration (GSA) regions purchase discounts of almost \$15,000 were lost during fiscal year 1960. We brought this matter to the attention of GSA officials who attributed the loss of discounts generally to difficulties in obtaining receiving reports from customer agencies on direct deliveries, to delays in receiving reports from regional warehouses, and to increased workload. We were informed that steps would be taken to expedite the processing of invoices involving discounts in an effort to reduce the amount of discounts lost.

5. Greater competition to be obtained in the making of small purchases--We observed at four Veterans Administration hospitals that quotations for negotiated small-amount purchases were obtained from only one source of supply. Some hospitals had repeatedly made purchases of certain types of supplies from the same vendors, and one hospital had split orders so that a single order would not exceed the existing VA open-market limitation of \$500 beyond which competitive bidding was required. We reported this matter to the managers of the hospitals who informed us that in the future price quotations would be obtained from several suppliers whenever possible. In July 1960 the matter was also brought to the attention of the Administrator of Veterans Affairs for his consideration in planning improvements in the over-all operations and administration of the 170 VA hospitals.

6. Need for obtaining better assurance as to the reasonableness of the price paid for currency paper--In our report issued in June 1961 on our audit of the Bureau of Engraving and Printing, Treasury Department, we pointed out that the Bureau's experience in the procurement of currency paper warranted continuing consideration of procedures which would provide better assurance as to the reasonableness of the price paid for currency paper. Advertising for bids has resulted in the receipt of bids from only one supplier during the past 22 years and in the procurement of all the paper from that supplier. The procurement contracts amount to

REVIEW OF PROCUREMENT PROCEDURES AND PRACTICES (continued)

about \$2.4 million a year. In the absence of competitive bids and cost data, the Bureau cannot resolve with certainty the reasonableness of the price it pays for currency paper.

We proposed to the Director of the Bureau that consideration be given to (1) stimulating competition, (2) obtaining or developing cost data, and (3) using negotiation procedures rather than formal advertised awards when sufficient bids are not received to constitute effective competition, in accordance with the authority contained in the Federal Property and Administrative Services Act of 1949. The Director told us that it is his firm conviction that the Bureau should continue to invite bids for its distinctive paper requirements in line with its current procedure and that he believes that the Bureau is obtaining a quality product from a dependable supplier at a reasonable price under existing procedures.

We believe that the existing need for obtaining better assurance as to the reasonableness of the price paid for currency paper warrants continuing consideration by the Bureau of this problem as it extends the dry process for printing currency.

7. Need for a change in sales practices--In our review of certain contracts entered into by the General Services Administration for the purpose of expanding the productive capacity for nickel and the supply of nickel available to the United States, we noted that GSA's practice of not selling ferronickel at prices based on the market price of nickel metal, because such prices would be less than GSA pays for the material, contributed to the cessation of the sales of ferronickel to industry. As a result, Government funds were being increasingly tied up in inventories of ferronickel, which at September 30, 1960, were valued at \$57.3 million. In addition, GSA was obligated to purchase additional ferronickel at a cost of about \$18 million. GSA informed us that a policy directive issued by the Office of Civil and Defense Mobilization (OCDM) prevented the sale by GSA of ferronickel at prices based on the market price of nickel. After the directive was issued, the nickel supply situation changed drastically.

So that the Government's large and rapidly growing investment in ferronickel inventories may be reduced, we recommended in a report issued in April 1961 that the Administrator of General Services confer with OCDM for the purpose of developing a policy which would permit GSA to dispose of ferronickel to industry.

REVIEW OF CONTRACTING PROCEDURES

8. Improvements made in contracting for procurement of cancer drugs for clinical testing--Our report dated August 4, 1960, dealt with the procurement by the National Institutes of Health (NIH), Department of Health, Education, and Welfare, of an experimental cancer drug under fixed-price contracts negotiated without competition or previous production experience and with no protective provisions in case the prices prove to be unreasonably high in relation to actual costs. Our report contained recommendations designed to reduce the cost of cancer drugs procured by the Government for clinical testing by (1) including price-redetermination provisions in negotiated fixed-price contracts and (2) establishing prices comparable to the costs which would be allowable under NIH cost-reimbursement contracts. NIH carried out both of these recommendations in negotiating a later contract for the purchase of the same drug.

9. Records to be maintained to serve as basis for evaluating contractors' requests for extensions of time and waivers of liquidated damages--The records of the Street Division of the Department of Highways and Traffic, District of Columbia Government, disclosed a number of cases where contractors were granted time extensions of the construction completion date and liquidated damages were waived on the basis of contractors' statements and oral confirmation of the statements by the District construction engineers and inspectors. We suggested that construction engineers and inspectors be required to maintain written records of all significant events that occur during the construction of highway projects as a basis for evaluating contractors' requests for extensions of time and waivers of liquidated damages. The President, Board of Commissioners, informed us in February 1961 that, pursuant to our suggestion, procedures had been established requiring construction engineers and inspectors to maintain accurate records of actual work performed on all construction projects and that records would be kept to show all significant events that occur during construction.

10. Need for recognition of changed conditions in administering contracts--In a report issued in January 1961 on our review of certain Atomic Energy Commission (AEC) contracts for the procurement of uranium concentrates, we pointed out that AEC had not sought a reduction of the fixed unit price when it was determined that ores would be obtained from mines involving a shorter haulage distance than had been contemplated at the time of establishing the fixed unit price. We pointed out also that AEC had authorized the contractor to process ores in excess of the quarterly limitation provided in the contract for the procurement of uranium concentrates without obtaining an appropriate price adjustment. We emphasized to AEC that in administering contracts the contract prices should give effect to changed conditions bearing upon actual costs.

REVIEW OF CONTRACTING PROCEDURES (continued)

11. Need for a price redetermination clause in fixed-price contracts for procurement of uranium concentrates--Our review of certain Atomic Energy Commission negotiated fixed-price contracts for the procurement of uranium concentrates showed that the contracts did not provide for price redetermination even though the contracts were of a long-term nature--6 to 8 years--and available operating cost data were inadequate for negotiating fair and reasonable fixed prices. In two reports issued during fiscal year 1961, we expressed the opinion that the contracts should have provided for periodic price redetermination in view of their long-term nature and the lack of adequate operating cost data needed for negotiating fair and reasonable prices.

REVIEW OF CONTRACT ADMINISTRATION

12. Subcontracting procedures strengthened--Our reviews of the procurement activities of certain Atomic Energy Commission prime contractors disclosed various deficiencies, of which the more important were that:

1. In redetermining prices under redeterminable fixed-price purchase orders issued to a subcontractor, the prime contractor was not aware that the costs of certain purchase orders issued by the subcontractor to a wholly owned subsidiary of the subcontractor were based on estimated costs that included substantial contingency allowances.
2. Fixed-price subcontracts were issued by a contractor without obtaining detailed cost information for determining the reasonableness of the quoted prices or determining whether it was necessary or more economical to have the work done on a subcontract basis.
3. Increases in subcontract prices were allowed by a contractor although no benefits accrued to the Government.
4. In redetermining prices under price-redeterminable purchase orders, a contractor failed to base the negotiation on full consideration of the vendor's actual cost and production data relating to material and labor costs and rejection losses.
5. Government sources of supply were not utilized by a contractor. Also, adequate competition was not obtained, contract default provisions were not enforced, and competition had been restricted through the widespread use of brand names in describing the items to be procured.

These deficiencies in subcontracting procedures were brought to the attention of officials of both the AEC Operations Offices and the prime contractors at various times during fiscal year 1961. As a result, the prime contractors, in most cases, revised their procurement procedures to provide for improved negotiation of subcontracts.

13. Administration of contracts for technical and professional services improved--Our review of the administration of contracts negotiated by the Federal Aviation Agency (FAA) for technical and professional services disclosed (1) that contractors charged for technical and professional services, including travel and subsistence costs, for periods during which the employees assigned to FAA to perform the services (a) were attending conventions and training and indoctrination courses or (b) were at locations other than

REVIEW OF CONTRACT ADMINISTRATION (continued)

FAA without prior authorization by the contracting officer, as required by the contract, (2) that a contractor did not provide the systems employees required by the provisions of an equipment rental contract, (3) that the contracting officer did not approve contractors' employees prior to their assignment to FAA, as required by the contracts, (4) that the attendance records maintained were not adequate to assure that payments to contractors would be made only for services performed at FAA or at other authorized locations, and (5) that one contractor had made charges for various costs not provided for by the contract. We discussed these matters with FAA officials, and in August 1960 FAA issued instructions intended to correct these practices. Also, as a result of our discussions, FAA recovered over \$21,000 from contractors for improper charges.

14. Need for disposing of open commitments under guaranteed minimum purchase contracts--Many contracts awarded by the Central Office of the General Services Administration for the purchase of hand tools guaranteed the suppliers that GSA would buy specified minimum quantities of the tools during the periods covered by the contracts. We noted certain instances in which GSA did not issue purchase order at the end of the contract periods for the balances of the guarantees nor obtain the contractors' agreements to release the Government from its purchase obligations. Without some disposition of the open commitments, GSA could be subject to claims by the contractors at a later date.

We brought this matter to the attention of GSA officials, and, as a result, GSA revised its contract terms to provide that, promptly after contract expiration, the contractors will report to GSA the unordered balances of any guaranteed minimum quantities and that, if the contractors fail to submit such reports within a specified period, GSA will be relieved of its obligation to purchase the remaining guaranteed quantities.

REVIEW OF INVENTORY AND WAREHOUSING PROCEDURES

15. Inventory and accounting controls established over maintenance supplies--The Public Health Service (PHS) hospitals at Fort Worth, Texas, and Lexington, Kentucky, had not established adequate inventory and accounting controls for building and other maintenance supplies. At the time of our reviews, these supplies at Fort Worth and Lexington had estimated values of \$61,000 and \$40,000, respectively. We pointed out that improvements in inventory and accounting controls would (1) provide management with better data for planning future purchases and supply utilization and for determining the cost of supplies consumed and (2) provide better accountability for the materials. PHS officials advised us during fiscal year 1961 that complete physical inventories of these supplies had been taken and that related property and accounting records had been or would be established.

16. Excess inventory of map paper reduced and related inventory controls strengthened--The Geological Survey, Department of the Interior, had in stock at June 30, 1959, over five million sheets of map paper, valued at about \$275,000, in excess of its requirements for 1 year. Recent usage data indicated that there was a 7- to 18-year supply of map paper on hand for certain of the sizes. Also, our review disclosed numerous errors in the perpetual inventory records. We brought these matters to the attention of Survey officials who subsequently reduced the excess stock by about three million sheets by not purchasing additional stock and by cutting slow-moving sizes into smaller sizes for which there was a greater demand. Also, we recommended that maximum and minimum stock levels be established for all sizes of map paper and that administrative supervision over the perpetual inventory records be strengthened.

In December 1960 the Department advised us that the paper stock had been further reduced and that steps had been taken to strengthen the controls over the stock.

17. Inventories taken by methods which produced unreliable results discontinued--Our review of the procedures followed and the inventories taken by the General Services Administration of rubber and cordage fiber stored at two military depots showed that the results of the inventories were of questionable value. The inventories were taken by a method of computation and statistical sampling, and the records at the depots of the quantities located in each storage area were not sufficiently accurate to permit comparison with the computed quantities. Moreover, GSA did not intend to change the inventory records to show the results of the physical inventories made in this manner. We therefore suggested to GSA that the inventorying of rubber and fiber at military depots be discontinued under these procedures. GSA subsequently discontinued the inventorying and estimated that costs about \$2,100,000 were avoided as the result of this action.

REVIEW OF INVENTORY AND WAREHOUSING PROCEDURES (continued)

18. Cost of metal die stamping reduced--As a part of the re-storage and physical inventory of metal bars in the various strategic and critical materials stockpiles, the General Services Administration initiated a program to die stamp individual bars of certain metals with grade markings. Because of the magnitude of this program, involving many millions of bars and estimated by GSA to cost up to \$1,250,000, and because many of the bars could be readily identified as to grade by the manufacturer's trade name already imprinted on the bars, we recommended further study of this program and suggested alternative means to be used to identify the grades of the bars. GSA accepted one of the methods we suggested which resulted in a less costly die-stamping program.

19. Uniform system established for identifying location of strategic materials--The General Services Administration did not have adequate procedures relating to the preparation and maintenance of records for locating strategic materials in storage at GSA depots. As a material locator system is an integral part of sound warehouse operations and essential for the location of commodities in the event of a national emergency, we recommended that uniform procedures be developed by GSA for use in each depot where strategic and critical materials are stored. In March 1961, GSA issued instructions prescribing a standard locator system.

20. Control over inventory levels strengthened--Our reviews of activities of Region 4 and of the Facilities and Material Depot, Federal Aviation Agency, disclosed a need for better planning of depot stock requirements. In July 1961, FAA advised us that the need for improved management of field inventories had been recognized and that the actions taken to overcome the deficiencies in the control of inventory levels had permitted an over-all reduction of \$2.8 million in the fiscal year 1961 stock purchases program.

21. Stock control cards to be reconciled to physical count; obsolete and unserviceable supplies to be disposed of--Our physical count of 120 items of expendable property at two of the Bureau of Mines, Department of the Interior, helium plants disclosed that for 60 percent of these items the stock actually on hand did not agree with the balances shown on the related stock control cards. We noted also that the inventory contained numerous obsolete and unserviceable items. These matters were reported to the General Manager, Helium Operations, in a report dated August 31, 1960.

Bureau officials advised us that a physical inventory would be taken at each plant to correct the differences between the balances shown on the stock control cards and the inventory actually on hand and that a program to dispose of obsolete and unserviceable stocks was being initiated.

REVIEW OF INVENTORY AND WAREHOUSING PROCEDURES (continued)

22. Central Office and depot inventory records to be coordinated--General Services Administration inventory records of strategic and critical materials were maintained in detail from the same transaction documents at both the military depots and the GSA Central Office and GSA did not periodically reconcile the depot and Central Office inventory records. At some military depots visited by us, we found differences between the depot and GSA Central Office records. We believed that, if two sets of records were to be maintained, procedures should be established to make sure that they were kept in agreement. We suggested that a preferable method, providing reliable information without being unduly burdensome, would be the use by the depots of periodic machine inventory listings prepared from the GSA Central Office records in sufficient detail to enable the depots to exercise their custodial duties; the records kept at the depots could be discontinued under this method. We recommended that GSA consider the feasibility of using the inventory listing method. In June 1961 GSA informed us that it intended to furnish the depots with inventory listings for the purpose of trying the suggested method.

23. Limitations to be established on Federal Supply Schedule items stocked in GSA warehouses--In previous reports to the Congress, we commented on a practice of the General Services Administration of stocking and issuing from its stores depots supply items which are available to using agencies through Federal Supply Schedule contractors. In view of the wide differential in operating costs between the stores depot and Supply Schedule methods of supply, we recommended that GSA examine its policy with respect to storage and issue with a view to reducing to a minimum the volume of warehouse deliveries of Schedule items, particularly where large-quantity orders are involved without any indication of urgent delivery requirements to justify the more costly method of handling through the stores depot.

GSA officials informed us in November 1960 that there were advantages to the dual method of supply but that, to prevent abuses, GSA planned to establish precise quantity or dollar-value limitations for Schedule items included in GSA warehouses and to develop procedures to be followed by regional offices for enforcing the limitations.

REVIEW OF PROPERTY MANAGEMENT ACTIVITIES

24. Procedures for reporting and disposing of excess property improved--Our review of selected activities of the Southern Utilization Research and Development Division, Agricultural Research Service, Department of Agriculture, disclosed an accumulation of property no longer required by the Division. In our August 1960 report to the agency, we recommended that the Division (1) review the property management practices of individual laboratories to determine the adequacy of the reporting action taken with respect to excess property and (2) take timely action to circularize or dispose of excess property reported. The agency advised us that procedures for reporting and disposing of excess property have been revised to implement our recommendations.

25. Supplies and equipment in excess of needs disposed of--Substantial quantities of supplies and equipment on hand at June 30, 1960, at the Weather Bureau, Department of Commerce, were greatly in excess of the Bureau's current or anticipated needs. Certain technical supplies on hand appeared adequate to meet requirements for about 10 years. Also, the Bureau had in storage considerable quantities of property, acquired from other Government agencies at no cost, that was surplus to the Bureau's needs. Some property items had been on hand for over 7 years and were still in the original packing crates. Certain of the property had been transferred among at least three warehouses since its acquisition.

At our suggestion, the Bureau instituted a program in fiscal year 1961 for the survey and disposition of excess and obsolete equipment. This program resulted in the disposal of equipment valued by the Bureau at \$500,000 and the release of 7,000 square feet of rental space for other use.

26. Procedures adopted to eliminate duplicate receiving functions--Supplies purchased by the Weather Bureau, Department of Commerce, were delivered by the manufacturers to the Bureau's storeroom where they were counted and inspected for breakage; re-shipped to the instrumental engineering division, about 2 miles from the location of the storeroom, where they were recounted, tested, and accepted; and then sent back to the storeroom where they were again counted and put into stock. Among the supplies so handled were such common-use items as pliers, wrenches, screwdrivers, and padlocks.

To eliminate unnecessary handling and shipping costs, we suggested in April 1961 that the Bureau (1) establish acceptance criteria for receipt of purchases so that items requiring inspection only could be accepted at its storeroom, (2) determine at the time purchase orders are issued which items require testing and have them shipped directly from the manufacturer to the location of the

REVIEW OF PROPERTY MANAGEMENT ACTIVITIES (continued)

instrumental engineering division, and (3) transfer the receiving function of the instrumental engineering division to the procurement and supply section of the administrative operations division. The Bureau concurred in our suggestions and advised us that action had been taken to streamline receipt and testing of purchases.

27. Deficiencies in accounting for office furniture and equipment to be corrected--In our review of accounting for office furniture and equipment in the Bureau of Old-Age and Survivors Insurance (BOASI), Department of Health, Education, and Welfare, we found that (1) accounting procedures for recording acquisitions did not establish financial control over property, (2) property disposals were not recorded promptly in the general ledger property account, (3) detailed records of office furniture and equipment were not reconciled to the general ledger property account, (4) physical inventories were not taken periodically, and (5) criteria for determining which property items are to be capitalized and which are to be treated as expense when acquired were not nor sufficiently clear and were susceptible to inconsistent application and interpretation. Similar deficiencies had been disclosed by an interagency survey team in 1954, and, although BOASI's investment in office furniture and equipment had increased by about \$7.1 million since that time, no significant changes had been made in its property accounting procedures and practices.

These deficiencies were commented on in our report to the Congress in May 1961. Agency officials advised us that subsequent to our review a work group had been established to review property accounting in BOASI with the objective of instituting procedures that would achieve adequate financial control over acquisitions and correct the other deficiencies noted in our report.

28. Equipment repair program to be improved--It appeared that certain repair work performed by the Weather Bureau, Department of Commerce, had not been economically justified, timely repairs of equipment had not been made, and items were saved for repair that should have been disposed of. The records of the Bureau were not sufficiently accurate or complete to properly evaluate the economy of its repair program, and reports on costs of repairs did not include all material and labor costs. In addition, a sizable inventory of equipment to be repaired was on hand with some items having been in a repair category since 1952. It appeared that the Bureau had several years' supply of certain types of repairable equipment on hand. In many instances, unnecessary costs had been incurred for handling and transporting damaged equipment that could not be repaired and had to be scrapped. We suggested in April 1961 that the Bureau (1) install a cost-finding system to facilitate comparison of the cost of in-shop work with the cost of work by contract or the cost of purchasing a new item and (2)

REVIEW OF PROPERTY MANAGEMENT ACTIVITIES (continued)

establish guidelines for use of Washington and field office technical personnel in determining when to dispose of equipment not considered to be worth repairing. The Bureau informed us that it had accepted our suggestions and was putting them into effect.

29. Need to establish more effective controls over property--
The National Institutes of Health, Department of Health, Education, and Welfare, did not have effective controls over nonexpendable property inasmuch as (1) it had difficulty in obtaining compliance with prescribed procedures for property management, (2) the general ledger account did not provide independent accounting control over property transactions, and (3) the property records were incomplete. Also, NIH had not established accounting controls over substantial stocks of supplies and materials.

Our report issued in May 1961 included a number of proposals to NIH designed to promote more effective control over both nonexpendable and expendable property, including the taking of physical inventories and the establishment of independent accounting controls. In addition, we recommended that NIH (1) include nonpermanent fixed equipment in the physical inventory of, and the accounting controls to be established for, nonexpendable property and designate a custodian for this class of equipment and (2) develop a reliable record of interchangeable accessories to basic equipment in its custody.

While NIH generally concurred in our findings and took some corrective action, considerable work remained to be done at June 30, 1961, in order to establish more effective controls over nonexpendable property.

30. More effective action needed to identify excess property--
The National Institutes of Health had not taken adequate action to identify property excess to its needs and to make such property available for use elsewhere or for disposal, as required by section 202 of the Federal Property and Administrative Services Act of 1949.

We recommended in our report issued in May 1961 that, to minimize expenditures for property elsewhere in HEW and the Government, NIH take effective action to identify property excess to its needs. NIH believes that much remains to be done to improve the excess property situation but that the establishment of an extensively revised property management program will help to alleviate the problem.

REVIEW OF MOTOR VEHICLE ACTIVITIES

31. Steps taken to increase vehicle utilization--We reported to the General Services Administration that a number of GSA motor pool vehicles in five of the six regions we visited were driven substantially fewer miles than the minimum annual utilization standards established by GSA for the vehicles. On the basis of our findings, we concluded that GSA should make regular and systematic analyses and evaluations of vehicle utilization by customer agencies and that a positive and effective program was needed for rotating vehicles among using agencies where feasible.

We were informed by GSA in December 1960 that instructions in the Motor Pool Operations Handbook were being expanded to provide more detailed guidelines for reviewing the utilization of inter-agency motor pool vehicles and for implementing improved vehicle rotation programs.

32. Use of Government-owned service station facilities emphasized--In our review of selected interagency motor pool systems operated by the General Services Administration, we found in two GSA regions that Federal agencies to which motor pool vehicles had been assigned were purchasing gasoline and oil for the vehicles from privately owned service stations when the purchases could have been made conveniently and at lower prices from Government-owned service station facilities.

Following our inquiries into this matter, GSA advised us in May 1961 that vehicle users were being encouraged to use Government-owned service station facilities whenever available and that appropriate instructions would be contained in a uniform Motor Pool Operator's Packet which was to be placed in all vehicles.

33. Deficiencies in operating practices of District of Columbia Department of Highways and Traffic to be corrected--Our review of selected operations of the Department of Highways and Traffic, District of Columbia Government, disclosed various deficiencies in the operating practices. The more important findings were that:

Two automotive repair shops equipped to do similar work were maintained as independent units in the same building.

An increase in the size of the motor vehicle fleet due to acquisition of vehicles as surplus property was not shown in the budget justifications requesting funds for replacement of vehicles.

Twenty-one of 49 passenger-carrying vehicles were driven only 2,000 to 5,000 in one fiscal year, indicating that vehicle assignments were not based on a sound evaluation of need.

REVIEW OF MOTOR VEHICLE ACTIVITIES (continued)

Various motor vehicles were repaired at costs which were high in relation to the value of the vehicle. In several instances vehicles, after having been extensively repaired, were sold or exchanged for new ones before it was possible to derive any benefits from the costly repairs.

Stock room inventories of materials and supplies were inadequately controlled and safeguarded and related inventory records were inaccurate and incomplete.

We were advised by District officials in February 1961 of the actions taken or to be taken which were generally consistent with our proposals for corrective action.

34. Need to review utilization of general-purpose vehicles--
Some general-purpose motor vehicles in the 1st and 12th Coast Guard Districts had low mileage utilization compared with the minimum-use standards established by the General Services Administration, and it seemed to us that the Coast Guard could realize substantial savings in vehicle replacements and operating costs by ascertaining and disposing of any excess vehicles and by rotating vehicles. In May 1961 we recommended procedures for reviewing vehicle utilization, by reference to minimum-use standards, and for rotating vehicles. The Commandant advised us in June 1961 that, because of the nature of the Coast Guard's activities, minimum-use standards would have to be subject to so many qualifications and justifiable exceptions that they would be virtually useless but that semiannual reviews of vehicle usage at both the district and headquarters levels would possibly serve to weed out underused and apparently excess vehicles. He informed us that consideration was being given to establishing a policy requiring rotation of vehicles.

REVIEW OF CHARGES FOR GOVERNMENT-FURNISHED SERVICES

35. Cost of Government-owned space to be considered in establishing fees for certification services--The Food and Drug Administration, Department of Health, Education, and Welfare, did not consider the cost of Government-owned space occupied by personnel performing certification services, when establishing fees charged users of the services. Such costs to the Government amounted to about \$94,000 a year. We proposed (1) that the cost of space be included when fees for the certification services are established and (2) that a transfer be made periodically to the general fund of the Treasury of that portion of the fees representing the cost of Government-owned space. We were informed in July 1960 that the Administration would recognize space cost as an element of the cost of performing certification services and that, in addition, other elements of cost such as depreciation and terminal leave liability would be included in the fee structure. We were informed also that beginning in fiscal year 1961 appropriate transfer of funds would be made to the general fund of the Treasury.

36. Charges for District of Columbia prisoners in Federal penal institutions to be based on applicable costs--Our review of the charges made to the District of Columbia Government by the Bureau of Prisons, Department of Justice, for the custody and care of District prisoners accepted in Federal penal institutions showed that the charges were not based on all applicable costs. We recommended that the charges be based on the institutional per capita costs plus a factor to cover the central office administrative costs. The Director of the Bureau informed us that effective April 1, 1961, billings would be made in accordance with our recommendation.

37. Depreciation to be included in cost of operations--The Coast and Geodetic Survey, Department of Commerce, was not charging depreciation of fixed assets as a cost of its operations. We pointed out to the agency that recognition of depreciation expense would provide management with operating cost information necessary in the determination of prices to be charged for charts and other publications and for reimbursable services rendered to State governments and to private organizations and individuals. Also, as the fixed assets of the agency constitute a substantial portion of the resources used in its charting operations, depreciation accounting is essential for full disclosure of the financial results of these operations. Accordingly, we suggested that the Survey incorporate depreciation in its accounting system. We were subsequently advised by the Survey that an agencywide system of depreciation accounting to be applied to all projects had been developed and implemented at the start of fiscal year 1962.

REVIEW OF CHARGES FOR GOVERNMENT-FURNISHED SERVICES (continued)

38. Continued efforts needed to implement equitable and uniform policy of establishing adequate fees and charges--In our review of the activities of the Bureau of the Budget, Executive Office of the President, in promoting the establishment of adequate fees and charges for services, property, or other resources furnished by the Federal Government, we found a need for more effective action on the part of the Bureau. The Federal Government provides many special benefits to individuals or groups by rendering various services and by selling or leasing resources and property. Legislation enacted in August 1951 expresses the sense of the Congress that these services shall be self-sustaining to the fullest extent possible and authorizes each agency head to prescribe fair and equitable fees or charges for such services. In November 1957, the Bureau promulgated the President's policy with respect to requirements for all Federal agencies to develop an equitable and uniform Government-wide policy for making charges for the use of Government services or property.

Although the Bureau had made efforts to maintain surveillance over compliance with the criteria approved by the President, our review disclosed certain specific situations which warranted more active consideration by the Bureau, for example (1) the charging of grazing fees at varying rates for similar types of range land, (2) the practicability of establishing charges for meat and poultry inspections, (3) the absence of a uniform policy for certifying, testing, and licensing activities with respect to drugs and related products, and (4) the assessment of title fees for mining lands which fees no longer have a realistic relationship to the value of the land. Also, we noted a need for more effective follow-up by the Bureau to assure that the responsible agencies submit timely and useful reports of progress made toward establishing fair and equitable charges in accordance with the law and applicable regulations.

REVIEW OF ORGANIZATION

39. Duplication of dietetic organizations in certain Veterans hospitals eliminated or to be eliminated--Two dietetic organizations each were maintained at the Veterans Administration centers in Kecoughton, Virginia; Los Angeles, California; and Temple, Texas, resulting in duplication of supervisory and administrative functions. One division provided dietetic services to the domiciliary members and another division provided similar services to the hospital patients. We expressed the opinion that the duplication of supervisory and administrative functions was uneconomical and that the activities should be consolidated. In November 1960 the VA informed us that the dietetic activities at Temple had been consolidated and the dietetic activities at Kecoughton would be consolidated but that, because of the size and location of the activities at Los Angeles, separate dietetic operations would be continued.

40. Savings could be achieved by transferring certain Coast Guard fiscal functions to Navy Finance Center--In a report issued in June 1961 we commented on a proposal that certain Coast Guard fiscal and personnel functions relating to military pay be transferred to, and integrated with similar functions performed by, the Department of the Navy at the Navy Finance Center, Cleveland, Ohio. It had been estimated that, in addition to certain other benefits to the Coast Guard, recurring annual savings of approximately \$122,000 would result from the transfer of the fiscal functions alone. The Commandant of the Coast Guard advised us in February 1961 that the proposal had not been adopted because the Coast Guard was reluctant to rely on the Navy Finance Center in view of the importance the Coast Guard attaches to the functions, because of the possible effect on the morale of Coast Guard personnel, and because of the absence of legal assurance that the Navy would not discontinue performing the functions whenever it considered such action necessary or desirable. Also, the Commandant mentioned the possibility that a broad systems study which was to be started by the Coast Guard might result in a reduction of Coast Guard costs to a level competitive with what the Navy proposed to charge.

In our report we expressed our belief that the proposal to transfer the fiscal functions to the Navy Finance Center had merit and we recommended that the Secretary of the Treasury give favorable consideration to the proposal.

REVIEW OF FISCAL PROCEDURES

41. Action to be taken to strengthen follow-up with administrative agencies on undeliverable negotiable checks--In our report of June 14, 1961, on our audits of Treasury Department regional disbursing offices, we commented on the accumulation of a large volume of undeliverable checks held in negotiable form and the possibility of these checks' becoming lost or misappropriated. We recommended a periodic follow-up to dispose of checks remaining undeliverable beyond the maximum time limits prescribed by General Accounting Office regulations. Also, we recommended that regional disbursing offices be authorized to make checks nonnegotiable by defacing them if disposition action is not taken by administrative agencies within a reasonable length of time. The Chief Disbursing Officer informed us that existing procedures would be revised in accordance with our recommendations.

42. Steps to be taken to eliminate weaknesses in disbursing controls--We reported to the Commandant of the Coast Guard in May 1961 that a large number of Coast Guard authorized certifying officers also served as agent cashiers and that the concurrent assignment of individuals to perform both certifying and disbursing functions constituted a serious weakness in disbursing controls. We recommended that the agent cashier positions be eliminated where the disbursing functions could be performed by assistant disbursing officers in Coast Guard district offices and that where agent cashiers are necessary the functions be assigned to persons who are not authorized certifying officers.

In June 1961 the Commandant informed us that it is possible that there are many locations where these functions could be separated, or one or both eliminated. He stated further that the designations would be reviewed and, wherever possible, the dual assignments would be separated. He informed us also that a study would be made to determine the feasibility of transferring agent cashier functions to the district offices.

43. Check payment and reconciliation activities to be subject to more effective internal review--At the time of our review, the Office of the Treasurer of the United States had not fully developed plans for periodic, systematic, and independent reviews of its check payment and reconciliation activities. Such reviews as had been made were limited to a few single-purpose studies performed by the internal review staffs of the Office of the Treasurer. We commented on this matter in a report issued in August 1960 and recommended that the Treasurer provide for periodic reviews of these activities. At June 30, 1961, outlines for such reviews were being written by the Office of the Treasurer.

REVIEW OF FISCAL PROCEDURES (continued)

44. Procedures for reconciling checks outstanding account simplified--In our report of September 6, 1960, on the audit of selected central accounting procedures and records, Bureau of Accounts, Treasury Department, we pointed out that the method used in reconciling the checks outstanding account was excessively time consuming and, in some instances, duplicated the work of the Office of the Treasurer. We recommended a simplified reconciliation procedure which we estimated would result in an annual saving of almost \$10,000. Although the Bureau had no immediate plans for eliminating the duplication in reconciliation functions pointed out by us, it did adopt certain procedures which, while not identical to those we recommended, simplified the reconsideration procedure to some extent.

REVIEW OF FINANCING

45. Action taken to increase interest paid to the Treasury-- Interest payable to the Treasury on net disbursements from the Small Business Administration (SBA) revolving fund accrues from the date SBA delivers its loan checks to borrowers; thus, loan checks written but not delivered at the end of each month affect monthly interest computations. Because of the time lag in SBA regional office reporting, the amount of loan checks delivered at month end was understated resulting in an understatement of interest payable to the Treasury. Understated interest expense payable to the Treasury from the inception of the revolving fund to June 30, 1959, totaled \$363,000.

After we brought the matter to its attention, SBA made an additional interest payment of \$363,000 to the Treasury, instructed its regional office to report check deliveries more promptly, and revised its instruction for computing interest expense.

46. Action taken to adjust excessive rates charged for services financed by working capital fund--In our report to the Chief, Forest Service, Department of Agriculture, January 31, 1961, on the review of selected activities of the Forest Service regional office at Milwaukee, Wisconsin, we pointed out that billing rates used in charging the various Forest Service program appropriations and beneficiaries outside the Forest Service for services initially financed by the working capital fund had resulted in reimbursements to the fund considerably in excess of the cost of the services provided. The law establishing the fund requires that billings be made at rates approximately equal to the cost of furnishing facilities and services. Although substantial profits had been realized by the Milwaukee regional office since inception of the fund in 1957, the regional office increased the billing rates in both fiscal year 1958 and fiscal year 1959. On the other hand, our review indicated that other regional offices were apparently undercharging for services financed by the working capital fund.

We recommended to the Chief, Forest Service, that the bases for existing rates in the various regional offices be reviewed and that necessary action be taken to provide for reimbursement to the working capital fund at rates approximately equal to the cost of services rendered as contemplated by the enabling legislation. The agency informed us in August 1961 that, in furtherance of our recommendations, standardized methods and criteria for establishing billing rates for rental of working capital fund equipment were developed and made mandatory for use by all regions as of July 1, 1961, and that studies of rates applicable to other working capital fund services were under way.

REVIEW OF FINANCING (continued)

47. Action taken to correct unwarranted retention of cash covering accrued annual leave liability--In prior reports to the Congress on our audits of the General Supply Fund, we commented that General Services Administration procedures for recording the liability of the Government for annual leave accrued to employees prior to fiscal year 1959 permitted an amount of \$141,260 to remain to the credit of the Fund although this sum should have been credited to the general fund of the Treasury.

We pointed out that, although the entire leave liability should be recorded and disclosed, retention of cash in the Fund in an amount equivalent to the accumulated liability for annual leave earned in prior years is unnecessary and inappropriate as the funds are not needed until the employees leave the Government or the total leave taken is in excess of current leave earned. We recommended that GSA transfer the amount of \$141,260 to the general fund of the Treasury. In May 1961 GSA informed us that the transfer had been made.

48. Practice of making quarterly rather than monthly advances to States being studied--In our report, issued November 21, 1960, on our reviews of the administration by the Children's Bureau, Department of Health, Education, and Welfare (HEW), of the programs for grants to States for maternal health, child health, and child welfare services, we commented on the practice of making quarterly rather than monthly advances of grant funds to States. This practice has the effect of providing States with funds in advance of their needs, of accelerating United States cash requirements, and of unnecessarily increasing interest cost to the Government.

HEW informed us that it was studying the feasibility of converting the smaller grant programs to a monthly payment basis.

REVIEW OF ADMINISTRATIVE OPERATIONS

49. Plans developed to provide better coordination of Federal, State, and local food and drug inspection activities--Activities of the inspection force of the Food and Drug Administration (FDA), Department of Health, Education, and Welfare, and those of State and local regulatory groups were not fully coordinated to protect against practices detrimental to the consumer. Closer cooperation at the working level was needed for the plants--about 100,000--subject to inspection. At the existing rate, each plant would have been federally inspected only once every 5 years. FDA did not have information available as to the number or type of inspections performed by local government agencies or as to the establishments inspected by local agencies. Moreover, FDA did not have a scheduled program for meeting with appropriate local officials responsible for the enforcement of local food and drug laws.

We proposed that the FDA make concerted efforts to (1) assist local governments in the development and training of their inspection forces, (2) encourage local participation in FDA's training program, (3) make available to local inspection groups various types of technical information, and (4) develop cooperative work programs with State and local regulatory groups to minimize duplication and overlapping of inspections.

In July 1960 FDA informed us that it agreed that there should be better coordination of Federal and State and local efforts and that plans had been developed to follow our proposals.

50. Leadership in management improvement program to be strengthened--In a review of selected activities of the Bureau of the Budget, Executive Office of the President, to improve management in the executive branch of the Government, we noted that greater effort was needed to provide leadership and assistance to the executive agencies. Our report on this review was issued to the Congress in June 1961. Although in general the Bureau had established a framework for conducting broad improvement activities and, over the years, had initiated action through special studies to solve specific management problems and improve operations in the executive branch, we noted a need for (1) issuing specific guidelines to executive agencies for the development of effective review systems, (2) evaluating the effectiveness of such review systems and the adequacy of actions to achieve improvements, (3) interchanging information on effective management techniques, and (4) requiring periodic reporting on the progress and results of agency improvement efforts. Bureau officials informed us that the need for strengthening management improvement activities had been recognized but that staff increases were necessary for this purpose.

We also noted that the Bureau had made considerable use of the services of outside organizations and consultants to carry out

REVIEW OF ADMINISTRATIVE OPERATIONS (continued)

management studies. In this connection, we suggested that the Bureau consider greater use of Federal career personnel because of certain advantages which would accrue to the Federal Government. Consistent use of Government personnel would, over a period of time, provide the Government with a body of specialized knowledge of Government programs, policies, and procedures which would become a valuable asset in any continuing program for improvement of management practices throughout the Federal Service.

For four of five studies which we examined, we observed that the Bureau had not taken the necessary follow-up action or had not fully documented any follow-up action taken with respect to carrying out the recommendations of the studies. We stated our belief that the Bureau should strengthen its activities designed to realize the results of such studies and to attain the desired objectives in a timely and effective manner.

At the time of our review, the Bureau advised us that its management improvement activities were undergoing considerable reevaluation and that various actions were taken or projected which were intended to provide increased central leadership and assistance to the executive agencies. Also, we were informed that the other matters commented upon had received, or were receiving, appropriate attention by responsible officials of the Bureau and that improvements have been accomplished since our review was made.

51. Possibility of reducing costs of accounting for and distributing revenues from oil and gas leases--The Bureau of Indian Affairs, Department of the Interior, executes oil and gas leases on Indian lands and collects much of the lease income. The collected funds are held in trust for individual Indian landowners, many of whom obtain the funds shortly after the income has been credited to their account. The recording and disbursing of lease income requires a great deal of work on the part of the Bureau, as indicated by the several thousand leases in the Anadarko Area of Oklahoma.

We noted that lessees were sending royalty checks directly to the Indian landowners of several tribes in the Muskogee Area of Oklahoma, resulting in savings to the Bureau. Also, we noted that the owners of 85 percent of the lands involved in leases we selected for review in the Anadarko Area, where the Bureau was collecting and distributing the revenue, were considered competent or capable of managing their trust income without Bureau supervision.

We recommended in a report to the Secretary of the Interior in July 1960 that, in order to further reduce the Bureau's costs, the Commissioner of Indian Affairs make arrangements to have lessee companies prepare and distribute individual royalty checks

REVIEW OF ADMINISTRATIVE OPERATIONS (continued)

to all competent Indians. The Department advised us in October 1960 that it agreed that it would be more economical to the Government if direct payments were made to certain of the Indian owners but that there were many aspects to this matter that must be considered before a final decision is reached and that the matter was under study.

REVIEW OF OPERATING PROCEDURES

52. Operating costs reduced through better planning--In our review of records of the Coast and Geodetic Survey, Department of Commerce, we noted that radio facility charts valued at approximately \$32,200 were declared obsolete during fiscal year 1959 and that additional charts with a book value of about \$69,000 were obsolete but had not been removed from the Survey's inventory. We noted also that the number of radio facility charts produced substantially exceeded issues in every month in fiscal year 1959 except January and March. Inventories of certain of the charts on hand increased during the year by as much as 247 percent.

We proposed that, in order to reduce overproduction of charts and minimize losses to the Government, the Survey improve its planning of production needs and dispose of the obsolete charts in stock. We were advised by the Survey in October 1960 that our proposals had been adopted and that, as a result, the chart obsolescence rate, particularly for certain aeronautical charts, had been substantially reduced.

53. Publication of research manuscripts to be expedited--In our review of selected activities of the Eastern Utilization Research and Development Division, Agricultural Research Service, Department of Agriculture, completed in September 1960, we noted delays of more than 2 years in the publication of some manuscripts covering the results of research conducted by the Division. The publication of research manuscripts is the scientists' principal means of bringing research results to the attention of all who can profit by such information and of getting research results into use.

We were informed that the delays were due mainly to the priority of other research assignments but that pending publication files would be reviewed and placed on a current basis and that the publication of pending manuscripts would thereafter be expedited.

54. Number of hand corrections made on nautical charts to be reduced--In the past the Coast and Geodetic Survey, Department of Commerce, attempted to keep its stock of nautical charts current by making hand corrections to the charts for all important changes in aids to navigation, although stocks of charts on sale to the public through district offices and sales agents were not kept current. In fiscal year 1959, the agency made about 8.4 million hand corrections to nautical charts at a cost of over \$120,000. The agency estimated that only about 10 percent of the charts are correct or corrected at the time of sale to the public.

It was our view that consideration should be given by the agency to reducing the number of hand corrections made to charts,

REVIEW OF OPERATING PROCEDURES (continued)

with the ultimate goal of printing revisions of most charts on a regular time schedule.

The agency advised us in June 1961 that its policy on hand correction of charts had been revised generally along the lines we suggested and that, after a reasonable trial period, a further review would be made and, if additional reductions in hand corrections appeared to be warranted without compromising navigational safety, such reductions would be made.

55. Management controls to be improved--The National Science Foundation (NSF) lacked certain basic elements of management control generally recognized as necessary for carrying out authorized activities in an effective, efficient, and economical manner. In a report issued in February 1961, we recommended that well-defined written statements of responsibilities, policies, and procedures be developed and systematically arranged in manual form for use of NSF personnel.

We were informed in May 1961 by the Director of NSF that steps were being taken to implement our recommendations.

56. Need to improve advance planning and method of evaluating efficiency of design and construction work--In our review of the Eastern Office, Division of Design and Construction, National Park Service, Department of the Interior, which office provides architectural and engineering services, we noted a need for better advance planning of the workload of the office and more effective measures of evaluating performance. We expressed the opinion that the establishment of an annual man-day budget and the comparison of actual performance with standards would enable management to more effectively plan and evaluate the activities of the office. In a report to the Director, National Park Service, in July 1960, we recommended that the agency (1) make a study to determine the feasibility of using the annual fiscal year construction program as a planning document and (2) establish the necessary records to be used in evaluating the activities of the office. The Department advised us later that this and other related matters were under study by two separate survey teams and that consideration would be given to our recommendation when the findings of the survey teams become available.

57. Preparation and auditing of certain tax returns would be facilitated by changing dates for filing--Under current regulations, the Internal Revenue Service, Treasury Department, requires that establishments file alcohol tax returns and tobacco tax returns for semimonthly periods ending on the 8th and 23d days of each month, while other reports and records required by the

REVIEW OF OPERATING PROCEDURES (continued)

regulations are filed on a calendar-month basis. These split return periods complicate the reporting by industry and the auditing of tax returns by the Internal Revenue Service. In May 1960 we recommended that the Secretary of the Treasury revise the regulations to provide for the filing of alcohol and tobacco tax returns on a calendar-month basis consistent with other reporting and recordkeeping. The Commissioner of the Internal Revenue Service informed us that the Under Secretary of the Treasury had decided in May 1960 that a change of reporting dates was not desirable from a fiscal point of view at that time because it would have resulted in an additional \$100 million lag in revenues for the 1960 fiscal year.

We believe that such a consideration should not necessarily preclude desirable changes promoting efficiency and economy of operations and from which benefits would be derived. Consequently, we recommended in our report issued in June 1961 that the Secretary of the Treasury revise the regulations to provide for the filing of alcohol and tobacco tax returns on a monthly basis consistent with the requirement for other reporting and recordkeeping.

58. Need to improve inspections of wineries, breweries, and tobacco establishments--Changes in the law and regulations have resulted in the elimination of most of the physical and independent record controls formerly available to the Alcohol and Tobacco Tax Division, Internal Revenue Service, when inspecting wineries, breweries, and tobacco establishments to determine whether taxes on wine, beer, and tobacco were paid. In lieu of using these controls, other techniques were included in the inspection program but, in pursuing these techniques, the inspection force did not generally utilize industry records in the most effective manner. We proposed to the Director, Alcohol and Tobacco Tax Division, certain measures to improve the effectiveness of the inspection program, including a revised method of conducting inspections and the training of inspection personnel. The Commissioner of Internal Revenue informed us in April 1961 that the agency would attempt to utilize these measures in the development of a more effective inspection program.

59. Need for strengthening controls over admission and collection practices of the District of Columbia General Hospital--Our review of the admission and collection practices relating to the hospital and medical care programs, Department of Public Health, District of Columbia Government, disclosed various deficiencies in the admission and collection practices of the District of Columbia General Hospital. The deficiencies included (1) providing hospital and medical care to many emergency patients without determining their eligibility for care at District expense and (2) nonestablishment of accounts receivable for charges for hospital and

REVIEW OF OPERATING PROCEDURES (continued)

medical care provided to (a) patients who had hospital and medical insurance coverage which would cover all or part of the services provided, (b) patients hospitalized as a result of the alleged negligency of others from whom compensation might be recovered which is subject to a hospital lien to cover the cost of the care provided, and (c) patients of other jurisdictions. Also, the District's collection efforts were found to be inadequate to recover the cost of the hospital and medical care provided to emergency patients and charges for hospital and medical care provided to other patients. Our findings, with appropriate recommendations for corrective action, were included in a report issued in March 1961. District officials generally concurred in our findings and indicated that action had been or would be taken on most of our recommendations.

REVIEW OF OPERATING ACTIVITIES

60. Utilization of surveying vessels to be increased--Although about one half of the 2 million square nautical miles of coastal waters under the jurisdiction of the Coast and Geodetic Survey, Department of Commerce, have not been adequately surveyed, agency vessels based at Seattle and Norfolk were idle about 5 months of fiscal year 1959. Direct costs incurred for these survey vessels averaged about \$150,000 a month during the 5-month idle period and about \$200,000 a month during the operating season. In consideration of the substantial vessel costs incurred during idle periods and the extent of the backlog of survey work to be accomplished, we proposed that the Director of the Coast and Geodetic Survey review the practicability of extending, at least in part, the operating season of the Bureau's surveying fleet. The agency advised us in June 1961 that, as a result of its review, the fiscal year 1962 survey program provides for expansion of the vessel operating season to about 9 months for four major surveying vessels.

61. Steps being taken to correct deficiencies in the administration of industrial activities--In April 1961, we issued a report to the Commandant of the Coast Guard on our review of the management of selected industrial activities at the United States Coast Guard Yard, Maryland. Our review disclosed an uneven workload stemming from faulty planning and scheduling of industrial work and resulting in many fluctuations in the productive labor force. New procedures were adopted by the Coast Guard in fiscal year 1961 which, if properly implemented, should result in more reliable planning-costs estimates for vessel overhaul and repair work at the Yard and should alleviate one of the principle causes of the uneven workload.

62. Extension of dry-dock periods for vessels would reduce the need for overtime work--A reduction in overtime labor costs could be achieved at the Coast Guard Yard in Maryland by extending the period of time that vessels are in dry dock. Our review disclosed that there was sufficient flexibility in the dry-dock schedules to permit extensions of vessel time in dry dock and that extending the dry-dock time probably would not result in delaying a vessel's scheduled departure from the Yard. In April 1961 we recommended that dry-docking periods be scheduled so that, generally, sufficient time would be available to perform necessary repair work without the need for working overtime except in unusual circumstances. In June 1961 the Commandant of the Coast Guard informed us that he doubted whether over-all economy would be achieved by extending dry-dock periods, but that this measure would be considered along with other factors that might produce economies.

REVIEW OF OPERATING ACTIVITIES (continued)

63. Need for action to resolve growing economic problems of Pribilof Island - In our review of the fur seal operations and administration of the Pribilof Islands by the Bureau of Commercial Fisheries, United States Fish and Wildlife Service, Department of Interior, we noted that certain economic problems have arisen from the continued increase in the native population on the Pribilof Islands coupled with the leveling off of the sealing operations, the only substantial source of livelihood for the natives. The Secretary of the Interior is required by law to provide for the general welfare of the natives. We suggested that steps be taken to alleviate the problem by establishing a program to encourage the relocation and rehabilitation of some of the natives. The Department advised us that it is taken action to relocate and rehabilitate some of the native families.

We recommended in our report issued in June 1961 that, in addition to these measures, the Bureau improve the utilization of the native manpower through better planning and decrease the number of employees brought into the Pribilof Islands during the sealing season from other parts of Alaska and the other States. These actions would help to reduce the welfare costs to be financed by the Federal Government.

REVIEW OF ACCOUNTING PROCEDURES

64. Accounting system and procedures for highway construction program revised to provide for accumulating and claiming all recoverable costs--Our review disclosed that the District of Columbia Government was not obtaining full reimbursement from Federal funds for all eligible costs incurred on highway construction projects because the accounting system and procedures did not provide for accumulating and claiming all recoverable costs. We proposed that the District develop and install a system for accumulating all eligible costs incurred in connection with each Federal-aid highway construction project and establish procedures for claiming reimbursement from Federal funds for all such costs. The President, Board of Commissioners, informed us in February 1961 that action had been taken to comply with our proposal.

65. Deficiencies in BOASI appropriation and allotment accounting practices corrected--The accounting for appropriations in the Bureau of Old-Age and Survivors Insurance, Department of Health, Education, and Welfare, was deficient in that (1) disbursements were not being recorded promptly in the allotment accounts, (2) district offices were ordering supplies and services without knowing whether funds were available, (3) allotment advices to BOASI divisions and offices were often issued long after the start of the allotment period, (4) certain contractual obligations were not recorded properly in the allotment accounts, and (5) required documentary support for some obligations was lacking. We reported these deficiencies in March 1961 to the Secretary of Health, Education, and Welfare and were subsequently informed that corrective action was taken.

66. Controls over use of appropriated funds for major building alterations to be strengthened--The costs of major alterations to a building at the Veterans Administration Hospital at Jefferson Barracks, Missouri, were paid from funds appropriated for operations instead of from funds appropriated for alterations. While operating funds may be used to pay the costs of minor maintenance and repair, their use for major alterations circumvents the congressional limitation placed on the amount of funds available for major alterations. We brought this matter to the attention of the Administrator of Veterans Affairs. In March 1961, we were informed that steps were being taken to charge future construction work to the appropriate funds and that the necessary adjustments would be made between operating fund and construction fund appropriations.

67. Deficiencies in accounting system to be corrected--The accounting system of the National Science Foundation was not being maintained on the accrual basis of accounting, and adequate accounting control was not being maintained over all real and personal property. We recommended in a report to the Director of NSF in February 1961 that the accounting system be revised to provide

REVIEW OF ACCOUNTING PROCEDURES (continued)

for (1) the accrual basis of accounting in accordance with the principles and standards of accounting prescribed by the Comptroller General, (2) adequate control over all real and personal property, and (3) distributing program costs, preparing reports, and submitting budgets on the accrued-cost basis. We recommended also that consideration be given to simplifying the method of maintaining control over appropriated funds.

The Director of NSF informed us in May 1961 that the accounting system was being revised to give effect to our recommendations.

68. Changes being made to provide more meaningful financial statements--The financial statements prepared by the Office of the Administrator, Housing and Home Finance Agency, did not fulfill the reporting objectives set forth in the Budget and Accounting Act of 1950 (31 U.S.C. 66) because they did not meet the essential objectives of providing (1) adequate information to management and others and (2) full disclosure of the nature and scope of the various programs. We proposed that the Administrator, HHFA, direct that meaningful and useful financial reports be prepared and that official financial statements be included in his annual reports. We proposed also that (1) a study be made to determine the precise financial data that all levels of management could effectively utilize and that the Division of Finance and Accounts provide such data on a current basis and (2) the financial statements conform to the general principles of financial reporting set forth by the Comptroller General. The Administrator informed us in December 1960 that he would adopt most of our proposals.

69. Adequate procedures for distribution of administrative expenses to be provided--Procedures for distributing administrative expenses in the Office of the Administrator, Housing and Home Finance Agency, had not been completely formalized, were not uniformly applied, and were unnecessarily complex. Moreover, control over financial reporting on budget performance was weakened since the Division of Budget and Management, rather than the Division of Finance and Accounts, was responsible for preparing such procedures. We proposed that the Administrator assign to the Division of Finance and Accounts the responsibility for preparing and implementing formal simplified expense distribution procedures for the Washington office and the regional offices. The Administrator informed us in December 1960 that our proposal was being implemented.

70. Deficiencies in accounting procedures to be corrected--Our review of accounting procedures in the Bureau of Finance, Post Office Department, disclosed numerous procedural deficiencies which resulted in duplication of effort or lack of adequate accounting control. For example, we noted that (1) two sets of general

REVIEW OF ACCOUNTING PROCEDURES (continued)

ledger accounts were being maintained to record headquarters' transactions, (2) certain general ledger control account balances had not been reconciled to applicable subsidiary records, and (3) certain statutory expenditure limitations were not under accounting control. These matters were reported to the Department, and, in letters addressed to us in August and September 1960, we were advised that necessary corrective action had been or would be taken.

71. Procedures for recording and collecting accounts receivable to be simplified--The procedures of the Geological Survey, Department of the Interior, for handling accounts receivable for map sales were cumbersome and costly. Numerous insignificant account balances were maintained, and excessive collection action was being taken. At the time of our review about 850 receivables for map sales were for amounts under one dollar. The Survey used extensive follow-up procedures for the collection of delinquent accounts. We recommended that the Survey simplify the procedures for maintaining accounts receivable with insignificant balances, encourage customers to forward remittances with their orders, and establish less costly procedures for following up delinquent accounts. The Department advised us in December 1960 that steps had been taken to simplify both the maintenance of and the follow-up procedures for accounts receivable and to encourage customers to send correct remittances with their orders.

72. Need for improvements in the accounting operations of Government of Trust Territory of the Pacific Islands--Our audit of the Trust Territory of the Pacific Islands, Department of the Interior, disclosed a large number of errors and serious weaknesses in the accounting policies and practices, and the financial statements prepared by the Trust Territory Government as at June 30, 1960, did not present fairly its assets, liabilities, revenues, and costs. The Comptroller of the Trust Territory agreed to correct the errors and weaknesses which we brought to his attention. The nature and number of these accounting errors and weaknesses, however, indicated a serious breakdown in the accounting operations, and our report to the Director, Office of Territories, in May 1961 pointed out the need to strengthen the administrative supervision over the accounting operations; provide employees with suitable training; develop an adequate internal auditing program; and have an adequate, up-to-date accounting manual prepared. In September 1961, the Director, Office of Territories, agreed to implement these recommendations in an effort to improve the accounting operations of the Trust Territory Government.

REVIEW OF UTILIZATION OF AUTOMATIC DATA PROCESSING EQUIPMENT

73. Excess electrical accounting machines released--In our review of the processing of savings bonds by the Bureau of Public Debt, Department of the Treasury, in Parkersburg, West Virginia, we noted that the work could be done with fewer electrical accounting machines than were being used. After review of the machine utilization records by the agency to ascertain whether any equipment was excess and could be released from the rental contract, equipment rented at an annual cost of about \$7,500 was released.

74. Improved data on electrical accounting machine utilization to be provided--In our review of electrical accounting machine utilization at the headquarters office of the Post Office Department, we noted that information needed to evaluate the efficiency with which machines were used was not being reported to management. We recommended that the Machine Accounting Section be made subject to a program for recording and reporting machine utilization data and that instructions be issued requiring the Machine Accounting Section (1) to check weekly activity reports for completeness before they are released by the Section and (2) to regularly review machine utilization records for completeness and correctness.

We were informed in December 1960 that (1) machine utilization data are now being reported for each accounting period, (2) weekly activity reports of the Data Processing Section have been improved and include all major jobs processed by the Section and the number of hours for these major jobs, (3) employee numbers and card counts are recorded on machine utilization records, (4) a record of machine downtime is now kept, and (5) time records are maintained for clerical operations performed by machine and key punch operators.

REVIEW OF PERSONNEL UTILIZATION

75. Steps being taken to improve scheduling of inspections for attaining more effective utilization of manpower--The Internal Revenue Service required that Alcohol and Tobacco Tax Division regional personnel inspect distilled-spirits plants, wineries, breweries, and manufacturers of tobacco products at least annually. In addition, inspections of breweries for verifying tax payments and testing meters were required at least quarterly. These rigid schedules disregarded the volume of business, the conditions at the plant, or the manufacturer's business history and resulted in inefficient use of manpower. We proposed that the Assistant Regional Commissioners (Alcohol and Tobacco Tax) be given authority to schedule inspections of establishments as and when deemed necessary or advisable on the basis of plant history and conditions, with maximum intervals between inspections. The Commissioner of Internal Revenue informed us in April 1961 that he was in general agreement with our proposal and that steps were being taken to perform inspections on a selective basis.

76. Technical personnel to be relieved of routine property management duties--Highly trained technical employees of the Weather Bureau, Department of Commerce, were devoting considerable time to (1) controlling technical equipment, (2) storing and issuing various technical manuals, (3) maintaining detailed records of inventories of radiosondes and batteries, and (4) preparing shipping instructions for deliveries to field stations. At our suggestion, in April 1961, the Bureau agreed to relieve technical personnel of these routine administrative functions.

77. Recommendation to reduce use of military personnel in civilian-type positions--We found that a large number of civilian-type positions in Coast Guard district offices were occupied by enlisted military personnel, although many of the positions did not require a military background or military training and the duties were such that they could normally be performed effectively by civilians. We estimated that recurring annual savings of approximately \$745,000 could be achieved eventually through greater use of civilian personnel. The Commandant of the Coast Guard told us that he agreed with the basic concept of using civilian personnel in certain types of Coast Guard positions but that he considered the existing assignments in keeping with best service requirements and that an examination of staffing which we had recommended was not needed. In our report, issued in June 1961, we recommended that the Secretary of the Treasury direct an examination of Coast Guard personnel staffing in district offices and initiate action to convert, to the maximum extent practicable, civilian-type positions from military to civilian occupancy.

REVIEW OF PAYROLL PROCEDURES

78. Weaknesses in payroll procedures of Bureau of Mines corrected--We reported to the Bureau of Mines, Department of the Interior, a number of weaknesses in its central office payroll operations. The Bureau advised us in February 1961 that, to correct the reported weaknesses, (1) instructions had been issued requiring time and attendance reports to be maintained on a daily basis, (2) duplicate time and attendance reports had been discontinued, (3) improperly granted compensatory time had been charged to annual leave, and (4) errors in the computation of accrued annual leave had been corrected.

79. Administrative controls over payrolls of Geological Survey strengthened--Our review of the payroll operations of the Geological Survey, Department of the Interior, disclosed overpayments resulting from unauthorized and unsubstantiated overtime. The review disclosed also a number of other weaknesses in the payroll operations. The Survey informed us in May 1961 that instructions had been issued to provide (1) for the accounting section to be furnished copies of overtime approvals, (2) for the maintenance of a systematic and reliable record of overtime worked, and (3) for the verification of the overtime approvals with the overtime reported on the time and attendance reports. The Survey informed us also that controls over compensatory leave earned and taken were improved and that steps were taken to correct the other payroll weaknesses.

REVIEW OF INTERNAL AUDITING

80. Internal auditing to be improved--In reports issued during the fiscal year 1961 on our reviews of internal auditing activities in the Boston, New Orleans, New York, and San Francisco Comptroller Districts of the Bureau of Customs, Treasury Department, we commented on the need for improvement in (1) audit planning, (2) training of audit staff, (3) performance and coverage of audit work, (4) preparation and review of audit working papers, and (5) reporting practices. The comptrollers generally concurred with our findings and agreed to take corrective action.

81. Need for strengthening of internal review function--In our audit of the Small Business Administration's revolving fund for loans and investments, we noted the need for strengthening SBA's internal review function, the responsibility for which was divided between the Audit Division in the Office of the Controller and the Office of Program Analysis. We proposed that the Administrator, SBA, strengthen the internal review function by centralizing the responsibility for the review of field lending activities, extending the scope of internal reviews to cover all significant activities, and improving reporting. In November 1960 the Administrator, SBA, informed us that consideration would be given to our recommendation.

REVIEW OF AGRICULTURAL PROGRAMS

82. Action taken to minimize acceptance of liability for additional insurance coverage after crop damage had occurred or the period of damage had begun--Our review of activities of the Chicago branch office of the Federal Crop Insurance Corporation, Department of Agriculture, disclosed that, in some instances, revised acreage reports were approved by State directors without inspection of the crops, although crop damage had already occurred or weather conditions were such that the period of damage had begun. Acceptance of these reports in some cases resulted in increased indemnity payments.

After we brought this matter to the agency's attention, the agency issued instructions in December 1960 to all State directors and the Chicago branch office manager, emphasizing that, if there is any question regarding the condition of a crop, the crop must be inspected by an adjuster or other authorized person before revised acreage reports increasing previously established insurance coverage may be accepted.

83. Changes made to reduce Federal costs for white pine blister rust control--In our report to the Chief, Forest Service, Department of Agriculture, on the review of State and private forestry cooperative programs conducted by the Forest Service regional office in San Francisco, California, we pointed out that, although an agreement with the State of California provided that up to 50 percent of the blister rust control costs on privately owned land could be borne by the State, the regional office had charged less than 50 percent of the costs to available State funds. During the 5-year period ended June 30, 1959, costs of approximately \$33,800 which could have been paid from State funds were paid from Federal funds.

The objective of the cooperative white pine blister rust control program is to protect white pines on non-Federal forest land from blister rust (a fungus infestation) through a united effort of Federal, State, and private agencies and individuals.

In July 1961 the Chief, Forest Service, informed us that changes were made which were expected to result in approximately equal charges to Federal and State funds to the extent State funds are available.

84. Steps taken to assist in resolving right-of-way problems--In our compilation of findings and recommendations for improving Government operations, fiscal year 1960, we commented on the need for the Forest Service, Department of Agriculture, to resolve right-of-way problems which had forced the postponement of planned timber sales, prevented the attainment of annual allowable cut, and prevented the harvesting of many millions of board feet of

REVIEW OF AGRICULTURAL PROGRAMS (continued)

overmature and blown-down timber in the Snoqualmie National Forest in the State of Washington. In our report to the Congress dated March 15, 1960, on selected activities of the Forest Service's Portland regional office, we recommended that consideration be given by the Chief, Forest Service, to increased use of condemnation procedures in accordance with the expressed policy of the Forest Service to condemn when negotiations are unsuccessful.

In July 1961 the Chief, Forest Service, informed us that road access procurement activities had been assigned as one of the major responsibilities of a new division in the Portland regional office with increased staff provided for this purpose and that condemnation procedures would be used in justifiable cases.

85. Action taken to reduce future expenditures under conservation reserve contracts--Our review of the 1959 conservation reserve program, administered by the Agricultural Stabilization and Conservation Service, formerly the Commodity Stabilization Service (CSS), Department of Agriculture, disclosed instances where conservation reserve contracts contained rental rates and provided for annual rental payments in excess of those authorized in the applicable program regulations. These instances involved ineligible land placed under contract, annual payment rates in excess of the limitation of 20 percent of the estimated value of the land placed under contract, and payments in excess of the \$5,000 annual payment limitation.

These findings and the actions taken by the Commodity Stabilization Service in response to our recommendations were reported to the Congress in December 1959. Subsequently, in view of our findings, the House Committee on Appropriations requested the Department of Agriculture to review all conservation reserve contracts for compliance with regulations and to recover any money erroneously paid. On September 8, 1960, the CSS issued instructions that the State and county committees review all conservation reserve contracts. As a result of our specific findings and the subsequent review of all contracts, changes were made in about 800 contracts in 38 States to eliminate payments of about \$450,600 which otherwise would have been made. These amounts are in addition to the reductions of about \$124,000 and recoveries of about \$9,500 reported in our prior compilation of findings and recommendations for improving Government operations, fiscal year 1960.

86. Control over the identity of cotton samples classed by the Government improved--In our review of activities of selected cotton classing offices of the Cotton Division, Agricultural Marketing Service, Department of Agriculture, we noted the need for improvement in the controls over the identity of cotton samples submitted for classification. In particular, we noted that in

REVIEW OF AGRICULTURAL PROGRAMS (continued)

many instances gin bale numbers and/or warehouse bale numbers appearing on cards accompanying the samples submitted for classification were recorded in a manner which would permit alterations and substitution of other cotton. Acting on our recommendation made in February 1961, the agency issued appropriate instructions to its field representatives aimed at eliminating the weaknesses disclosed by our review.

87. Procedures for review of farm constitutions to be strengthened--Our review of operations at selected Agricultural Stabilization and Conservation Service (ASCS) county offices, Department of Agriculture, disclosed a number of instances where farms were not properly constituted and that procedures were not established for periodic reviews of farms to ascertain whether they were properly constituted. Farm constitution is the combination or division of land into a farm as defined by agency regulations and is of significance in determining a farmer's authorized participation in various farm programs.

In one county, for example, we noted that two farms had been converted to other than agricultural use without the adjustment or cancellation of cotton allotments. One of the farms had been converted into a housing development but still retained a 7.2 acre cotton allotment. The other farm had been converted into a golf and country club without cancellation of an 11.4-acre cotton allotment. Although widespread urban development was noticeable in the county, a survey of farmland had not been made to determine the extent to which such land was being converted to other uses and to adjust or cancel allotments, as appropriate.

In view of the importance of farm constitution in the conduct of the various agricultural programs, we recommended to the Administrator, Agricultural Stabilization and Conservation Service, in reports issued during fiscal years 1960 and 1961 that procedures be established providing for systematic review of farm constitutions by ASCS county offices, in order to minimize any unjust participation in these programs as a result of changed farm conditions. We were advised that action had been initiated to revise current operating instructions to further emphasize the responsibility of county committees in the reconstitution of farms with the aim of achieving a continuing review of farm constitutions.

88. Action to be taken to strengthen verification of farmers' performance of conservation practices--Our review of agriculture program operations at selected Agricultural Stabilization and Conservation Service State and county offices in Colorado, Connecticut, Louisiana, and New Mexico disclosed that a sufficient number of farms had not been inspected to determine whether the required conservation practices had been carried out and that the inspection work had not been reviewed for accuracy by State office representatives.

REVIEW OF AGRICULTURAL PROGRAMS (continued)

In view of the importance of determining whether the farmers were performing the conservation practices for which the Government contributed money, we brought the weaknesses to the attention of State officials. These officials generally concurred in our findings and informed us that corrective action would be taken.

89. Current cost data to be used in establishing cost-share rates and adequate documentation to be maintained--Cost-share rates established for State-wide use by the Agricultural Stabilization and Conservation Service State offices in Colorado, Connecticut, Missouri, and New Mexico were supported by cost data that was obsolete or too limited in scope. The rates govern the Federal share of the cost incurred by farmers or ranchers in carrying out approved conservation practices under the agricultural conservation program.

The rates should be based on representative current costs. Otherwise, they may be too low to encourage participation in the program or so high that the farmers and ranchers would not be making a substantial contribution to the cost of carrying out conservation practices as contemplated by regulations.

We reported this matter to the Administrator, Agricultural Stabilization and Conservation Service, in the early part of fiscal year 1961. We were informed that thereafter the cost-share rates would be adequately documented and based on current cost data.

REVIEW OF CIVIL DEFENSE PROGRAMS

90. Improper use of surplus property donated for civil defense purposes to be corrected--Under the authority of Public Law 655, Eighty-fourth Congress, approved July 3, 1956, surplus property donated for civil defense purposes to States and local communities is to be used for no other purpose except during a natural disaster. Our review of the surplus property program as administered by the Office of Civil and Defense Mobilization, Executive Office of the President (succeeded by Office of Civil Defense, Department of Defense), showed that, of 271 donations selected by us for review, 164 donations involved items that were being used for noncivil defense purposes.

We brought this condition to the agency's attention in April 1961 for necessary action to achieve compliance with the law and pertinent regulations. The agency informed us that management controls over all aspects of the program would be strengthened and that corrective action was being taken in many instances.

91. Controls over Federal civil defense contributions program to be strengthened--The Federal Contributions Program, established by the Federal Civil Defense Act of 1950, provides a means for the States and their political subdivisions to obtain Federal funds for up to one half the cost of civil defense materials, buildings, equipment, and training. Items approved under the program are to be for civil defense and over and above the normal requirements of the States and their political subdivisions. The review of the program was made before its administration was transferred from the Office of Civil and Defense Mobilization (OCDM) to the Office of Civil Defense, Department of Defense.

Our review showed that much of the equipment for which the Federal Government contributed half the cost was purchased by the applicants to meet their normal requirements, and, in these circumstances, there is doubt that OCDM's administration of the program resulted in the increased civil defense capability intended by the Congress. Our reviews also showed procedural inadequacies which resulted in (a) approvals of projects for normal needs rather than for civil defense needs, (b) improper payments to State and local governments, (c) dual Federal financing for generators under two assistance programs, and (d) unnecessary advance of several millions of dollars. OCDM did not require sufficient documentation for determining whether claims submitted for payment were proper and did not make comprehensive continuing reviews of program activities.

We recommended that future approvals of civil defense projects be suspended until adequate criteria could be developed for governing the eligibility of the various program categories, that approved applications be reviewed in the light of these criteria,

REVIEW OF CIVIL DEFENSE PROGRAMS (continued)

and that, where pertinent, ineligible portions be canceled. We recommended also that procedures be revised to prevent dual Federal assistance and that a review be made of existing projects for correcting past dual participation. We recommended further that a system of review and reporting be established to provide necessary follow-up on the use of items financed with Federal funds.

As a result of our review, OCDM canceled or reduced a number of applications, obtained refunds on certain projects already funded, and undertook a review of other questionable applications and projects. Also, the agency informed us that management controls over all aspects of the program would be strengthened.

REVIEW OF FEDERAL-AID HIGHWAY PROGRAM

92. Investigations of soil conditions to be improved--Our review of the highway program in one State disclosed that adequate investigations of subsurface soil conditions, which furnish essential information for estimating quantities of excavation, were not being made. The lack of adequate investigations resulted in substantial underestimates of required excavation work and possibly higher unit costs for such work than might have been obtained had the quantity estimates been more accurate. In a report issued in October 1960, we recommended that the control of the Bureau of Public Roads, Department of Commerce, over the Federal-aid highway program in the State be strengthened by requiring, prior to approval of State plans, specifications, and estimates, State reports of subsurface conditions with respect to all Federal-aid highways involving major excavation or unstable terrain. The Bureau informed us that steps were taken to assure adequate subsurface exploration by the State as a prerequisite to Bureau approvals of plans, specifications, and estimates.

93. Documentation of appraisals used in right-of-way acquisitions to be improved--Appraisal reports and other documentary data relating to the acquisition of rights of way by several States were inadequate, or incomplete in certain respects, to support settlements with property owners. The Bureau of Public Roads, Department of Commerce, agreed to reexamine certain transactions in the light of our findings or to give consideration to our findings in examining States' final claims for reimbursement of the costs of particular projects; in certain instances Federal participation in the cost of specific transactions was disallowed by the Bureau. We were advised by the Bureau during fiscal year 1961 that its field offices would continue to work with the States in an effort to improve documentary support for right-of-way acquisitions and to obtain better compliance with Bureau policies.

94. Charges for liquidated damages to be increased--Our reviews of the administration of Federal-aid highway contracts by the States and the Bureau of Public Roads disclosed that because of apparent leniency in the enforcement of contract provisions contractors in some States have not always been properly charged liquidated damages for failure to complete construction work within specified time limits. Also, inadequate rates were being used in certain States to charge contractors for avoidable delays in completion of contracts. As a consequence, the Federal Government and the States were not recovering the added expenses of engineering supervision and other expenses attributable to such delays. The Bureau has advised us that it has instructed its engineers to ascertain the reasons for unsatisfactory progress of construction whenever such condition is indicated and has emphasized the need for enforcement of liquidated-damages provisions of contracts. These instructions were included in a revised policy

REVIEW OF FEDERAL-AID HIGHWAY PROGRAM (continued)

statement issued during fiscal year 1961. Those States having inadequate liquidated damages rates have been encouraged by the Bureau to increase their rates to a level that will permit recovery of increased costs, and in several States the desired increases have been affected.

REVIEW OF WATER RESOURCES PROJECTS

95. Progress made in obtaining firm allocations of construction costs of multiple-purpose water resources development projects--For several years our reports on water resources development programs have included comments and recommendations regarding the lack of firm construction cost allocations for multiple-purpose projects, particularly those where the Corps of Engineers is responsible for construction and operation and the Department of the Interior markets the hydroelectric power generated at the project. Firm allocations of construction costs are necessary to determine the Federal investment in power which is recoverable through sales of power. Without firm allocations of construction costs it is not possible to make accurate provisions for depreciation and interest on the Federal investment and assign such costs to the several purposes of the projects, including power. Progress in obtaining agreement on firm allocations of construction costs was reported in our October 21, 1960, report to the Congress on our audit of the Southwestern Power System and related activities of the Southwestern Power Administration and the Corps of Engineers. Agreement had been reached on firm allocations for all except one of the projects in operation in the Southwestern area.

REVIEW OF ADMINISTRATION OF FOREIGN ECONOMIC AND TECHNICAL ASSISTANCE PROGRAMS

96. Annual presentation to the Congress of proposed foreign economic assistance programs to be improved--As a result of our review of the mutual security program presentation to the Congress for fiscal year 1961, we offered several recommendations to facilitate analysis and review of future economic aid presentations. We recommended that the significant factors considered in the determination of aid levels for individual countries be further elaborated, in particular, that monetary amounts be shown for all such factors in addition to the mere statement that they had been considered. We recommended also that recognition be given to the pipeline of unexpended aid funds at the beginning and the end of the budget year as an important factor in most aid programs which we believe had not been adequately treated in the 1961 congressional presentation.

With respect to import programs, which constitute a major part of United States-financed support programs, we recommended that the overseas offices submit brief explanations in support of principal commodity categories proposed for financing, so that headquarters officials in Washington, D.C., can determine the reasonableness of the proposals, and that any major revisions in the proposed amounts be recorded in the Washington program files.

Furthermore, we presented recommendations concerning the format of the annual presentation document; namely, that the Department of State (1) include plans for terminating grant aid in future presentations for each country receiving such aid and (2) summarize in the monetary tabulations for each country and area all costs of economic assistance, some of which had been shown only in the specialized program books but not in the geographical presentations.

The Office of the Deputy Coordinator for Foreign Assistance, Department of State, informed us in December 1960 that the responsible executive agencies were generally favorable to our recommendations and that consideration would be given to them in the preparation of subsequent program presentations.

97. Consideration to be given to requiring collateral for development loans to private borrowers--For 13 of the 20 loans made by the Development Loan Fund (DLF) to private borrowers in fiscal year 1960, DLF did not require collateral or other security but accepted the borrowers' unsecured promissory notes or convertible debentures. DLF officials informed us that the Fund generally had not considered it desirable to require mortgage or similar security pledges because foreign policy or other special reasons would make it difficult to enforce such pledges in the event of default.

REVIEW OF ADMINISTRATION OF FOREIGN ECONOMIC
AND TECHNICAL ASSISTANCE PROGRAMS (continued)

We expressed the view that in those cases where the borrowers were able to offer reasonable security, DLF would be prudent to obtain such additional protection, and we proposed therefore that the DLF management formulate a policy requiring collateral on all private loans unless special circumstances made such a requirement undesirable. In January 1961, DLF issued an official policy which provides that loan officials shall determine on a case-by-case basis for each loan whether securities or guaranties are available and needed and record their determination in the loan papers submitted to the Board of Directors for approval.

98. Administration of loans to development banks to be strengthened--The Development Loan Fund was making increasing use of loans to development banks which relend these funds to private enterprises in the respective countries. To assure the proper use of loan funds by the development banks, DLF has relied principally on certain restrictive provisions in the loan agreements and on reports of loans made by the banks. In some but not all loan agreements DLF provided that the banks submit their lending policies to DLF for approval.

We recommended in our audit report issued in March 1961 that, to strengthen its measures for overseeing the lending operations of the banks, especially those which are newly established and inexperienced in this field, DLF (1) require approval of the lending policies and procedures to be followed by the banks and (2) consider using the International Cooperation Administration (ICA) Missions for review of the banks' loan operations. DLF expressed general agreement with the desirability of these measures.

99. Need for improvements in negotiation and administration of construction and technical service contracts--Our review made during fiscal years 1958-60 of selected construction and technical service contracts financed by the International Cooperation Administration, Department of State, disclosed the need for improvements in the negotiation and administration of such contracts. Our findings reported to the Congress in March 1961 showed (1) instances of inadequate planning prior to the award of contracts, resulting in unreliable cost estimates and delays in the execution of projects, (2) failure to solicit comparable proposals from several qualified contractors, (3) extensive use of cost-plus-fixed-fee (CPFF) contracts without protection against cost increases and delays, and (4) the need for adequate standards governing the negotiation of contractors' fees.

During the last few years and subsequent to the negotiation and award of most of the contracts examined by us, ICA revised its contracting procedures to correct or minimize deficiencies

REVIEW OF ADMINISTRATION OF FOREIGN ECONOMIC
AND TECHNICAL ASSISTANCE PROGRAMS (continued)

disclosed by congressional studies, General Accounting Office reviews, and the agency's own review process. Also, in consonance with amendments to the mutual security legislation, the agency made efforts to improve planning in the area of project assistance, which should benefit contract administration, and to use competitive procedures in the award of construction contracts wherever practicable. In addition, however, we recommended that ICA, before waiving prescribed procedures, make a more critical analysis of all pertinent factors to avoid weakening generally recognized rules of prudent contract administration; that, if valid reasons necessitate use of cost-reimbursement-type contracts, ICA seek to include suitable incentive and penalty provisions to encourage economical costs and expeditious contract completion; and that ICA provide additional and more specific guidelines and standards for the approval of contractors' fees, giving recognition to the different types of services procured by ICA and including fee ranges considered reasonable and acceptable.

ICA expressed doubt as to the feasibility of incentive and penalty provisions in connection with CPFF contracts but agreed with our recommendation for setting fee standards and advised that the matter has had its continuing attention.

100. Need for improved administration of assistance program for Iran--In our report dated June 27, 1961, we commented on several unsatisfactory conditions in the assistance program for Iran as administered by the International Cooperation Administration. Our examination, which covered the fiscal years 1956 through 1960 and was a follow-up on a previous examination for the period 1952-55, showed that some of the basic weaknesses disclosed in the earlier period persisted throughout a major part of the subsequent period.

In particular, we found that ICA and the Government of Iran had continued cumbersome and costly administrative arrangements, that the anticipated absorption of United States-sponsored aid projects into Iran's regular governmental programs had not been fully accomplished, and that several ICA-financed projects had made unsatisfactory progress because of planning and operating deficiencies. We noted that the program required more effective over-all direction and coordination by responsible United States and Iranian agencies and that the two countries had not concluded a basic agreement covering the terms of the economic aid program.

ICA officials were generally aware of the deficiencies requiring correction. The agency informed us that action was being taken to remedy some of the matters brought out in our report but, at the same time, pointed to conditions considered to be primarily

REVIEW OF ADMINISTRATION OF FOREIGN ECONOMIC
AND TECHNICAL ASSISTANCE PROGRAMS (continued)

the responsibility of the Iranian Government. We expressed our belief that the principal task faced by ICA was to develop a realistic plan of action, enlist the necessary cooperation of the Iranian Government, and carry out this plan with energy and dispatch.

REVIEW OF FEDERAL GRANTS FOR SCHOOL CONSTRUCTION

101. Need for adequate documentary proof of applicants' eligibility for Federal school construction grants--On June 12, 1961, we issued a report on our review of the regulations, policies, and practices of the Office of Education, Department of Health, Education, and Welfare, relating to Federal grants for school construction under section 305(a)(3) of Public Law 815, Eighty-first Congress, as amended. This section of the law provides that school districts are eligible for Federal grants if they can show an increase in membership during a prescribed period and if they can demonstrate that such increase results directly from activities of the United States carried on either directly or through a contractor.

We reported that the policies, procedures, and practices of the Office of Education permitted the approval of grants for school construction on evidence which, in our opinion, was not adequate to demonstrate that the school districts were in fact eligible to receive Federal grants. We recommended to the Commissioner of Education that (1) applications for assistance be approved only after school districts submit adequate documentary proof of eligibility for grants and (2) suitable criteria, procedures, and instructions be established to require a clear demonstration that the estimated increases in school membership, which serve as a basis for grants, result in fact from Federal activities. Also, we recommended to the Secretary of Health, Education, and Welfare that legislation be proposed which would facilitate development of an adequate showing of eligibility by applicants for Federal school construction grants.

REVIEW OF ADMINISTRATION OF BENEFIT PAYMENTS

102. Legislation enacted to reduce temporary unemployment benefits paid from Federal funds to Federal service retirees--In our report to the Congress, dated April 26, 1960, on unemployment compensation payments made to retired Federal employees from funds appropriated to the Department of Labor, we recommended that the Congress consider amending the law to provide that voluntarily retired Federal employees not be entitled to Federal unemployment compensation based on Federal service.

In February 1961, when the Congress was considering enactment of a temporary Federal program of extended unemployment benefits, we were asked to furnish certain additional information on the subject, and the pending bill, H. R. 4806, was amended to implement our recommendation. The resulting act, Public Law 87-6, provides that unemployment benefits payable to a claimant under the temporary program are to be reduced by the amount of any retirement pension received from an employer who is also charged for the claimant's unemployment benefits. The reduction applies to retirees

REVIEW OF ADMINISTRATION OF BENEFIT PAYMENTS (continued)

from private industry as well as to retirees from Federal civilian or military service. Federal old-age and survivors insurance and disability pensions are excepted.

We estimate that because of this legislation \$2 million in Federal funds will be saved through reductions in unemployment benefits otherwise payable to voluntary and mandatory civilian retirees from Federal service under the temporary unemployment compensation program. We do not have the data available for estimating savings on benefits otherwise payable to retired ex-servicemen and retirees from private industry.

103. Social Security Act amended to encourage rehabilitation of disabled workers--In October 1959, we submitted a report to the Congress on our review of selected aspects of the disability insurance program administered by the Bureau of Old-Age and Survivors Insurance, Department of Health, Education, and Welfare. Included in the report for consideration by the Congress were recommendations for amendments to the Social Security Act which we believed would better promote the rehabilitation of disabled beneficiaries and would remove certain inequities in the program.

The Social Security Amendments of 1960 (74 Stat. 927), approved September 13, 1960, contained provisions that substantially embodied the recommendations in our report, namely (1) to extend the trial work period to beneficiaries who are under non-State rehabilitation programs and (2) to eliminate the inequitable 6-month waiting period in reentitlement cases.

104. Procedural deficiencies to be corrected--Our review of the unemployment and sickness insurance program of the Railroad Retirement Board for fiscal years 1959-60 disclosed certain procedural deficiencies which resulted in some persons' not being paid benefits to which they were entitled. In establishing entitlement to additional unemployment benefits under the 1959 amendments to the Railroad Unemployment Insurance Act, the Board had not, in some cases, adequately developed the creditable railroad and military service or had not recognized certain information already of record, and payments due had remained unpaid. The deficiencies were brought to the attention of the Board in the course of our review and were included in our report issued in March 1961. As of June 30, 1961, the Board had corrected two of the reported deficiencies and had made reviews and test checks in regard to the others, preparatory to taking corrective action.

105. Need for minimizing improperly prepared reports of social security earnings--In our review of the accounting for earnings of covered workers, we noted that, in fiscal year 1959, the Bureau of Old-Age and Survivors Insurance, Department of Health,

REVIEW OF ADMINISTRATION OF BENEFIT PAYMENTS (continued)

Education, and Welfare, spent an estimated \$5.8 million identifying about 22 million earnings items reported improperly by employers and self-employed individuals. We suggested in a report issued in April 1961 that, as a means of reducing the number of incorrectly reported items, BOASI (1) expand its program to educate employers and self-employed individuals as to correct reporting practices and (2) place more emphasis on the policy of personally contacting those employers who are known to report improperly.

Agency officials subsequently informed us that they agreed generally as to the need for intensifying educational activities. We were informed also that BOASI expected to be highly selective in making any additional contacts and that it would select those employers with whom contacts would likely be most productive.

106. Need for documentary identification of applicants for social security account numbers to be studied by BOASI--In a report in April 1961, we pointed out that the Bureau of Old-Age and Survivors Insurance issues social security account numbers without requiring adequate documentary identification of the applicant. This practice results in the issuance of multiple account numbers to many individuals, thus increasing the opportunity for misuse of the social security card and the possibility of paying benefits not authorized by law.

Agency officials recognized the need for strengthening the control over the issuance of account numbers. The Bureau informed us that it planned to make a study, first of applicants in the older age groups and subsequently of those in the younger age groups, to determine to what extent procedures need strengthening.

REVIEW OF VETERANS ADMINISTRATION PROGRAMS

107. Controls over veterans' education and training allowances strengthened--Our review of the education and training programs administered by the Veterans Administration disclosed that within one VA region three colleges had certified to erroneous dates on which student, commenced training for about 73 percent of the veterans whose records we examined. Two schools had reported erroneous training termination dates for 50 veterans who had graduated. These erroneous dates were used in computing Veterans' education and training allowances and resulted in overpayments to veterans enrolled in these schools. We suggested that, in order to provide better control over the amount of veterans' education and training allowances, the VA issue clarifying instructions to all educational institutions and VA regional offices as to effective dates for commencement and termination of training. The VA informed us in August 1960 that it had accepted our recommendation.

108. Administration of veterans' insurance program improved--The Veterans Administration insurance office at Philadelphia, Pennsylvania, did not reject within the prescribed period certain servicemen's insurance applications which were not supplemented by required certificates of health. As a result, the applicants were held in a doubtful insurance status for extended periods, a practice which could lead to controversy over entitlement to insurance benefits arising from deaths or disabilities occurring while the applications were pending. We recommended that applications of servicemen be rejected when required certifications of health were not submitted promptly or within the prescribed period of time. In May 1961 the Manager of the Philadelphia insurance office issued instructions implementing our recommendation.

109. Possibility of granting insurance to unacceptable medical risks reduced--At the VA insurance office at St. Paul, Minnesota, we noted an instance in which insurance was granted on the basis of a medical application when the information in the related physical examination report was in conflict with the applicant's medical history contained in his insurance folder. We noted also instances where insurance was granted without questioning altered dates that were material for determining the applicants' eligibility for insurance. We brought this matter to the attention of the Administrator of Veterans Affairs and recommended that VA procedures be expanded to (1) provide for review of the insurance applicants' medical histories when medical applications are processed and (2) instruct underwriters to question altered dates on medical applications or physical examination reports. In response to our recommendation, appropriate instructions were issued in October 1960.

REVIEW OF LOW-RENT HOUSING OPERATIONS

The Public Housing Administration (PHA) provides financial assistance to local housing authorities (LHAs) in the form of loans for development of low-rent housing projects and annual contributions (subsidies) made pursuant to annual contributions contracts with the LHAs. The contracts provide for (1) contributions in amounts sufficient to pay the interest and retire the outstanding capital indebtedness of the projects over a certain period of years and (2) reducing the annual contributions by the residual receipts, if any, from projects' operations. Thus, the Federal contributions are increased to the extent that the LHAs incur unnecessary expenditures or fail to realize all possible revenues.

110. Delays in renting newly constructed dwelling units to be reduced--Potential rental revenue of about \$475,000 was lost to five LHAs because completed dwelling units in 15 newly constructed projects were not rented promptly. Since about 750 projects providing a total of 116,000 dwelling units were under development in the low-rent housing program at March 31, 1961, effective leasing procedures and timely PHA assistance were necessary to minimize the losses of rental revenue in newly constructed projects. We proposed that PHA instruct the LHAs having projects under development to place increased emphasis on leasing plans and objectives during the early stages of project development in order that potential problems in leasing dwelling units can be resolved prior to completion of construction. In February 1961, PHA informed us that action was being taken in line with our proposal.

111. Maintenance of projects to be improved--Certain low-rent housing projects of the National Capital Housing Authority (NCHA), which has more than 7,500 dwelling units in management operations, were so poorly maintained that we questioned whether the purpose of the United States Housing Act of 1937--of providing decent, safe, and sanitary housing for families of low income--was being fulfilled. Some of the deficiencies were attributable to carelessness or neglect on the part of tenants; others were attributable to inadequate tenant maintenance programs and to the failure of NCHA's maintenance staff to carry out the established maintenance program.

We proposed that NCHA (1) establish appropriate standards for tenant maintenance programs and (2) establish priorities for correcting major maintenance deficiencies in certain projects and take appropriate steps to raise the level of routine maintenance in those and other projects to the extent necessary to provide tenants with decent, safe, and sanitary housing and to minimize losses of rental income when units are vacant. The Executive Director informed us in March 1961 that an accelerated maintenance program was under way to correct the cited deficiencies.

REVIEW OF LOW-RENT HOUSING OPERATIONS (continued)

112. Deficient inventory controls to be corrected--National Capital Housing Authority did not adequately control and account for inventories of equipment, materials, and supplies having a book value of about \$1 million at June 30, 1960:

1. Physical inventories of nonexpendable equipment were not reconciled with the related equipment record cards.
2. A comparison of physical inventories of about 20 categories (2,000 items) of nonexpendable equipment at 3 area offices with the related equipment record cards disclosed substantial differences for 13 of the categories.
3. At 4 area offices reviewed by us, no physical inventories had been taken for expendable equipment, materials, and supplies and inventory records of expendable items either were not maintained or, where maintained, did not show current balances.

NCHA's Executive Director informed us in March 1961 that corrective action was being taken in line with our proposals for strengthening the controls over personal property.

REVIEW OF ACTIVITIES UNDER THE
SLUM CLEARANCE AND URBAN RENEWAL PROGRAM

Our audit efforts during the fiscal year 1961 included a review of selected activities under the slum clearance and urban renewal program carried out by the Urban Renewal Administration (URA), Housing and Home Finance Agency (HHFA). The cost of this program is generally shared two thirds by the Federal Government and one third by State and local governments. Local public agencies (LPAs) administer the program in each locality. The State or local government's share of project costs may be in cash or in the form of grants-in-aid such as construction of schools, recreational areas, or parking facilities. A proper evaluation of local grants-in-aid is important as excessive credits therefor result in additional costs to the Federal Government.

113. Noncash grant-in-aid credits to be recomputed or reconsidered--URA tentatively allowed certain noncash grant-in-aid credits in the West Side Urban Renewal Project, Chattanooga, Tennessee, which credits, in our opinion, did not meet all applicable statutory or administrative requirements.

We proposed that the Commissioner, URA:

1. Reduce by \$56,934 the amount tentatively allowed as credit for the estimated cost of land and improvements to be added to an existing school.
2. Determine the percentage of benefits to be received by residents of the urban renewal project from two parks which adjoin both the urban renewal project and a public housing project and disallow an appropriate part of the \$85,750 grant-in-aid credit for the parks based on the benefit to be received by the residents of the public housing project.
3. Disallow the entire estimated cost of \$41,400 for land and playground facilities to be added to an existing school and allow only a percentage of the estimated cost if it is later determined that the land and facilities will provide a common playground for students of the existing school and a school to be constructed.

URA informed us in February and March 1961 that the noncash grant-in-aid credits would be recomputed or reconsidered in line with our proposals.

114. Provisions to be made for sufficient standard housing for displaced families before proceeding with relocation projects--At the time of approving the undertaking of the Chattanooga, Tennessee, West Side Urban Renewal Project, RUA had not, in our opinion, received adequate evidence that sufficient standard housing

REVIEW OF ACTIVITIES UNDER THE
SLUM CLEARANCE AND URBAN RENEWAL PROGRAM (continued)

would become available for the displaced families. We expressed the opinion that the inadequate relocation of project families in Chattanooga decreased the effectiveness of the project and was not in conformity with the objectives of the slum clearance and urban renewal program. We proposed that (1) before future projects are authorized URA should be furnished adequate evidence that sufficient standard housing will become available to relocate all project families and (2) in situations similar to that in Chattanooga URA should suspend further land acquisition activities pending the availability of standard housing. URA informed us in February 1961 that it agreed with our first proposal and that URA requirements are designed to achieve its objective; also, URA informed us that the second proposal would be considered on a case basis. In addition, URA informed us that the Chattanooga LPA would be requested to take certain actions which, in our opinion, should result in placing more displaced families in standard housing.

115. Procedures for rent collections and write-offs to be improved--The Redevelopment Authority of the City of Harrisburg, Pennsylvania, experienced a loss of rental income because of deficiencies in collection procedures and in writing off delinquent tenant accounts. Also, the Authority did not submit its proposed policies with respect to collection of delinquent rent to HHFA for approval when required. A loss of rental income increases project cost, two thirds of which is borne by the Federal Government. The Commissioner, URA, informed us in July 1960 that he had accepted our recommendation to disallow as an item of project cost the amount of rent written off by the LPA and to disallow any future write-offs not in conformity with URA's criteria for determining the collectibility of delinquent rental accounts. The Commissioner informed us also that LPAs would be required to follow prescribed procedures by URA relative to property management including rent collections.

116. Need for reconsidering questionable credit for public school--URA tentatively allowed the Redevelopment Authority of the City of Harrisburg, Pennsylvania, a noncash grant-in-aid credit of \$884,200 for the estimated cost of a public school, including an adjoining playground. We reported to the Administrator in October 1960 that, in our opinion, the credit should not be allowed because local school officials had not determined that the facility would be constructed or would be necessary to accommodate students from the slum clearance and urban renewal project. We recommended that the Commissioner, URA, not allow the noncash grant-in-aid credit until the Board of School Directors determines that the new school will be necessary and provides URA with evidence of its intention to build the school.

DEPARTMENT OF DEFENSE

AND DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

REVIEW OF CONTRACTING POLICIES AND PRACTICES

117. Action taken to reduce incidence of noncompetitive procurement--Our review of noncompetitive procurement of aeronautical replacement spare parts by the military departments disclosed that the departments were awarding contracts on a noncompetitive basis when they had, or should have had, all the data necessary for competitive procurement. The substance of our findings was incorporated in our presentation made May 24, 1961, before the Subcommittee for Special Investigations, House Committee on Armed Services, at its request, in connection with hearings on sole-source procurements by the military departments.

Our review covered 2,770 different kinds of aeronautical replacement spare parts which had been procured noncompetitively at a cost of about \$106 million.

Of the 2,770 different kinds of parts reviewed, 1,675 parts acquired at a total price of more than \$66 million were not manufactured by the contractors with whom the Government had the contracts but were completely manufactured by subcontractors. Total prices paid by the prime contractors to their suppliers were \$22 million less than the total prices paid by the Government to the prime contractors. We determined that the prime contractors had available to them, and frequently solicited bids from, more than one source of supply for at least one half of these 1,675 replacement spare parts. In these circumstances it is obvious that in each of the 1,675 cases there was at least one other source from whom the part could have been bought and in more than half the cases there were two or more other sources available.

The other items we reviewed represented 1,095 parts, acquired at a total price of more than \$39 million, which were manufactured partially or completely by the prime contractors. Many of these 1,095 parts purchased noncompetitively from the original manufacturer of the equipment were items for which the military departments had or should have had complete technical data with unrestricted right to use such data for any Government purpose, including competitive procurement. We were advised by technical personnel of the services that they considered many of the items suitable for competitive procurement.

We pointed out that noncompetitive procurement, under circumstances where competition could have been obtained, generally results in higher prices, fosters or subsidizes inefficient and uneconomical practices in industry, and ignores or circumvents a basic policy of the Congress that all qualified suppliers have an equal opportunity to compete for the Government's business. We

REVIEW OF CONTRACTING POLICIES AND PRACTICES (continued)

proposed to the Secretary of Defense that immediate steps be taken (1) to avoid the practice of routinely awarding contracts on a non-competitive basis, (2) to improve the military departments' control over and use of the technical data essential to the solicitation of competitive bids, (3) to assure that contract terms relating to the Government's rights to technical data are vigorously enforced, and (4) to provide specific penalties against contractors who fail to furnish on a timely basis the technical data required by the contracts.

The Assistant Secretary of Defense (Installations and Logistics) advised us that the Department of Defense agreed that the military departments were not obtaining competition to the maximum practicable extent in the procurement of aeronautical spare parts. He stated that the problem of noncompetitive procurement in this area and in other areas of military procurement was of major concern to the Department of Defense. He cited various programs of the Department of Defense, already in effect or in the planning stage, which were designed to hasten the progress of competitive procurement and were consistent with the corrective actions we proposed. Some of the programs under way have already attained some degree of success in increasing competitive procurement. The success of other actions taken or planned is largely prospective in nature and their effectiveness will depend upon the manner in which they are carried out.

118. Policy of allowing fees to contractors for financing rescinded--Under the policy established by Department of Defense Directive No. 7800.6, effective November 1, 1957, contractors were required to obtain private financing for a portion of their pre-delivery costs under certain cost-reimbursement contracts. Under this directive, the contractors were not to be paid more than 80 percent of their allowable costs until delivery of the contract items, whereas previously they were reimbursed for the entire amount of their allowable costs as costs were incurred regardless of when the items were delivered. Pursuant to the policy, under 26 contracts which we examined, the Air Force allowed contractors additional fixed fees of about \$17,600,000 to cover their estimated costs of financing the costs to be withheld from reimbursement prior to deliveries. We found that the cost to the Government of contractor financing under these 26 contracts would be about \$8,700,000 higher than the estimated cost of direct financing by the Government and that increased costs for contractor financing had been incurred by the Government under other Air Force contracts which we did not examine. Furthermore, the records of the Army and the Navy indicated that application of this policy to contracts which they issued also resulted in increased costs without any significant benefit to the Government, although we were unable to obtain an estimate of the additional cost.

REVIEW OF CONTRACTING POLICIES AND PRACTICES (continued)

The Department of Defense took the position that this policy provided an incentive for contractors to reduce their costs. We saw no evidence to support this contention. Accordingly, we recommended that the Secretary of Defense reconsider the advisability of continuing the policy established by Directive No. 7800.6.

Subsequent to the issuance of our report on this subject, the Senate passed an amendment to the bill for military construction authorization, fiscal year 1961, to prohibit the incurrence of an obligation, as fee or otherwise, for payment of any amount to a contractor as consideration for agreeing to accept reimbursement on a deferred basis. Although this amendment was stricken from the bill in conference, the conferees placed the Department of Defense on notice that corrective action should be taken immediately. On March 14, 1961, the Deputy Secretary of Defense ordered the rescission of Directive No. 7800.6 and stated that existing contracts should be amended where possible.

119. Action taken to encourage use of less costly air-travel accommodations by defense contractors--Our review of the air-travel policies of selected defense contractors showed a potential savings to the Government through increased use of accommodations less costly than first-class. Although the Government's air-travel policy, as set forth in an amendment to the Standardized Government Travel Regulations effective June 1, 1960, urges persons in official travel status for the Government to use less costly accommodations than those designated as first-class, we found that the Department of Defense had not advised defense contractors using Government funds to adopt a similar policy for travel by their employees. Some contractors had voluntarily adopted policies encouraging their employees to use less costly accommodations; however, other contractors had policies which neither required nor suggested use of less costly accommodations, and the employees of certain of these contractors ordinarily used first-class accommodations. The extent of the savings possible through use of less costly accommodations is indicated by the combined savings of more than \$1 million experienced in 1960 by only two contractors. Since more than 80 percent of defense contracts are awarded by negotiation, under which prices established are based largely on actual or estimated costs, contractors' savings in travel costs in performing Government contracts should result in more economical defense procurement. In our report dated June 7, 1961, we recommended to the Secretary of Defense that all defense contractors and subcontractors be urged to use less costly accommodations than those designated as first-class where the less costly accommodations meet reasonable criteria for convenience, safety, and comfort. We recommended also that the contractors be advised that reasonableness of their travel costs would be considered in the negotiation of contract prices.

REVIEW OF CONTRACTING POLICIES AND PRACTICES (continued)

The Department of Defense agreed that this was an area of potential savings to the Government and issued instructions to the military departments requesting that contracting officers and their representatives encourage defense contractors to use air-coach accommodations. On July 25, 1961, the Assistant Secretary of Defense (Installations and Logistics) advised us that the military departments had implemented the instructions and that as a result of these measures, as well as by direct notification to contractors, the stated policy of the Government is being effectively disseminated and applied.

120. Action taken to provide guidance as to treatment of start-up costs in evaluating competitive prices--On May 29, 1961, we reported a specific instance where a contractor had been awarded a contract by the Air Force on the basis of lowest price among the 27 cost proposals received, although, in making the award, the Air Force had no assurance that the price proposed by the successful bidder was in fact the lowest price. None of the prospective contractors were required to specify (1) what start-up costs (preproduction engineering and facilities costs) they proposed to charge the Government, (2) how much of such costs were included in the current price proposal, and (3) how much was being deferred for recovery through future follow-on production contracts. We found that the contractor which received the contract award had included only a small part of its start-up costs in its price proposal. The remainder (\$660,000), which was equal to about 25 percent of the original contract price, was later included in the pricing of follow-on procurements.

Complete information regarding start-up costs is needed in evaluating competing proposals to determine which proposal is most likely to result in the lowest over-all cost to the Government. Therefore, it is important that prospective suppliers competing for contracts to produce new and complex items be required to furnish information as to total start-up costs and to furnish contractual commitments as to their intentions regarding these costs in negotiating cost or profit allowances in any subsequent contracts that may be awarded. Accordingly, we recommended to the Secretary of Defense that appropriate guidance be provided as to the treatment of these costs in evaluating competitive prices for new procurements.

On July 31, 1961, the Assistant Secretary of Defense (Installations and Logistics) informed us that the Department of Defense had adopted the principle of requiring each prospective supplier, where preproduction costs are anticipated to be significant, to state in its cost proposal the total amount of preproduction costs estimated to be incurred, the portion of such costs included in the submitted proposal, and the intentions for the recovery of the

REVIEW OF CONTRACTING POLICIES AND PRACTICES (continued)

remainder. He informed us also that where a contractor states its intention to absorb a portion of the costs; steps will be taken to prevent subsequent recovery, through inclusion in the pricing of follow-on contracts, of any costs it had previously agreed to absorb.

121. Action taken to reduce domestic transportation costs of shipments destined for delivery outside the United States--The Army and Navy failed to take full advantage of the preferential freight rates available to the Government on domestic shipments to designated Pacific Coast ports when the ultimate destination was outside the United States. We found that the procurement contracts for the material involved in such shipments had been awarded on an f.o.b. destination basis rather than on an f.o.b. origin basis. As a consequence, the material was shipped on commercial bills of lading at regular freight rates instead of on Government bills of lading at the preferential rates. Our analysis of selected shipments of this type disclosed instances where freight costs of about \$477,000 could have been avoided if the material had been procured on the f.o.b. origin basis and shipped on Government bills of lading. We concluded that the principal cause of this situation was the inadequacy of the applicable provisions of the Armed Services Procurement Regulation. As the result of our bringing these findings and conclusions to the attention of the Department of Defense, the Armed Services Procurement Regulation was revised on May 1, 1961. The revision, if properly implemented, will reduce the number of shipments made on the more expensive f.o.b. destination basis.

REVIEW OF CONTRACT PRICES ESTABLISHED THROUGH NEGOTIATION

122. Action taken by military departments to negotiate more equitable prices--Our reviews of negotiated contracts during fiscal year 1961 continued to disclose instances of excessive costs to the Government because of the failure to give sufficient consideration to cost data and other information available at the time the prices were negotiated. During fiscal year 1961, we submitted 12 reports to the Congress on such findings. The reports related specific instances of excessive costs of about \$14 million. The military departments later recovered about \$3 million of this amount by direct refund or by adjustment of amounts due under the contracts and were exploring the possibility of making additional recoveries in other cases.

In one instance the conversion of a military construction contract by the Navy from a cost-plus-a-fixed-fee basis to a fixed-price basis may have added as much as \$9.4 million to the costs to the Government. We found that the negotiated fixed price included (1) an allowance for administrative costs which, based on the contractor's prior experience, was about \$6.7 million in excess of a reasonable estimate of the amount to be incurred, (2) an allowance for profit and contingency which was about \$2.6 million in excess of the fee the Government would have borne had the contract been completed on a cost-plus-a-fixed-fee basis, and (3) certain other overestimates of costs.

In another instance, we found that the prices proposed by the contractor and accepted by the Air Force for the production of missiles included excessive estimates for subcontract costs and a duplicated estimate of cost for tooling. We expressed our belief that, in the light of pertinent information available at the time of negotiation, a thorough review and evaluation by the Air Force of the contractor's price proposals and supporting data would have disclosed that the proposed prices were excessive. As a result of our review, the contract prices were reduced in the amount of \$636,500.

In still another instance a contractor which was producing jet engines under fixed-price incentive contracts awarded by the Air Force had awarded firm fixed-price subcontracts for certain components of the engines although a sound basis for the establishment of firm fixed prices for the components did not exist. At the time the subcontracts were awarded, the method of production had not been determined because of uncertainty as to the availability of tooling. Therefore, it was not known whether the production-line method or the significantly more costly model-shop method would be used to produce the components. Under those circumstances, a firm fixed-price basis for the subcontracts was inappropriate. The subcontractor performed the work under the production-line method and incurred substantially lower costs than

REVIEW OF CONTRACT PRICES ESTABLISHED THROUGH NEGOTIATION
(continued)

the estimated costs on which the firm fixed prices were based. As a result of our review, the subcontractor refunded \$538,800 to the contractor and the latter issued a credit to the Government for \$615,900 which included the contractor's applicable overhead expense and profit.

The departments have given serious consideration to our previous findings and recommendations and have taken action to make certain improvement. These included, among other things, revisions of the Armed Services Procurement Regulation. Two of the more significant revisions by the Department of Defense are cited below.

On October 1, 1959, the regulation was revised to require that, in the negotiation of prices for procurement expected to exceed \$100,000, the contractor or subcontractor submit cost and pricing data in support of the price proposal and certify that such data is current, complete, and correct. On January 31, 1961, the regulation was revised to require inclusion of a "price reduction for defective pricing data" clause in all negotiated fixed-price contracts or subcontracts which are expected to exceed \$100,000, where adequate price competition is lacking. The clause provides that the price shall be equitably reduced when it is determined that the price was overstated because the contractor or subcontractor failed to disclose any significant and reasonably available cost data or furnished significant data which it knew or reasonably should have known was false or misleading. We consider these and the other improvements made by the departments in their contracting activities important steps toward strengthening their controls over the pricing of contracts and subcontracts. In order to test the effectiveness of these corrective actions, our future reviews will be directed to contracts and subcontracts negotiated subsequent to these actions.

REVIEW OF CONTRACT ADMINISTRATION

123. Action taken to preclude excessive progress payments to contractors--In our review of progress payments made on selected ship construction contracts, we found that payments by the Navy to certain contractors exceeded the amounts due them under the progress payments provisions of the contracts. As a consequence, the contractors enjoyed interest-free use of Government funds. Two contractors had had over \$3.8 million of such funds for extended periods of time. Our review resulted in the recovery of the excess amounts and in the collection of \$93,000 from the two contractors for their use of the funds. Also, the Navy accepted our proposals for strengthening its controls over the administration of progress payment provisions of ship construction contracts.

124. Action taken to enforce rental provisions of contract--A contractor proposed and the Air Force accepted a lower rate of rental for the contractor's commercial use of Government-owned facilities than the rates established in the contract. Although the contract provided specific rates to be applied to the various classes of facilities, the rate proposed by the contractor and accepted by the Air Force was a composite rate which favored the contractor. As a result of our review, an additional rental of \$216,800 was collected for prior periods and agreement was reached to conform with the contract provisions for rental in subsequent periods.

125. Need to assure timely delivery of adequate drawings by contractors--The consequences of failure to require a contractor to make timely delivery of adequate drawings were presented in our report submitted on January 10, 1961. The Army had awarded a contract for the development of a semitrailer and for the delivery of certain related drawings and engineering data. However, the Army failed to control adequately the delivery, review, and correction of the drawings and engineering data to assure their suitability and timely availability for subsequent procurement of the semitrailers. As a consequence, the Army was not in a position to invite competition. The contractor who developed the item was therefore considered the sole-source producer and was awarded the first production contract on a negotiated fixed-price basis.

After the drawings and engineering data became available, an additional quantity of semitrailers was procured from another supplier under formal advertising procedures at a substantially lower price. On the basis of our review of these transactions, we concluded that the cost to the Government under the first production contract was about \$875,000 greater than it would have been had suitable technical data been available for procurement under formal advertising procedures and had such procedures been used in awarding the contract.

REVIEW OF CONTRACT ADMINISTRATION (continued)

We recommended that the Army bring our findings to the attention of contracting officers to emphasize the need for close surveillance of drawings during the progress of development contracts in order to assure that the drawings are suitable and available on a timely basis for use in obtaining competition in subsequent procurements.

REVIEW OF STOCK CONTROLS

126. Unnecessary procurement of \$6 million worth of gas cylinders averted--A report submitted on June 30, 1961, presented our findings on the review of a planned procurement program of the Army to replace its compressed gas cylinders with new cylinders of a higher capacity. We found that the Army planned to procure an estimated \$6 million worth of such cylinders for the unnecessary replacement of good cylinders then in stock or in use without having made an evaluation of the limited benefits of the replacement in relation to the estimated \$6 million procurement cost. At the time of our review, initial procurement under the program had been approved in the amount of \$2 million and disposal action was in process with respect to 20,612 cylinders valued at about \$749,000.

Under the circumstances, we questioned the need for the planned procurement and concurrent disposal. Following our inquiry, the Army canceled the planned procurement program, recovered 15,139 cylinders valued at about \$549,000 from disposal, and reestablished the lower pressure cylinders on hand for unlimited use throughout the supply system. In addition, the Army took certain procedural and reorganizational actions to clarify responsibility, strengthen control, and provide for better supply planning.

127. Action taken to improve control over Government-owned spare parts in the hands of aircraft engine overhaul contractors--We found that the San Antonio Air Materiel Area (SAAMA), Department of the Air Force, did not have adequate accounting control over its stocks of spare parts in the hands of contractors for the contractors' use in overhauling aircraft engines for the Air Force. At the time of our review there were about \$1.4 million worth of Government-owned spare parts in the possession of contractors, which, because of deficient reporting by the contractors, were not reflected in the records of SAAMA. As a consequence, SAAMA procured about \$456,000 worth of parts in fiscal year 1959 and planned to procure about \$441,000 worth of parts in fiscal year 1960, which were not needed. Our disclosure of the unrecorded stocks resulted in cancellation of the \$441,000 planned procurement for fiscal year 1960 and in action to strengthen control of Government-owned stocks in the hands of contractors. Corrective measures taken by SAAMA included clarification of guidelines for contractors' use in preparation of reports on status of stocks and establishment of procedures to provide for verification of the accuracy of contractors' reports and for surveillance of stocks in contractors' hands in relation to contractors' requirements.

Although the Air Force took action to remedy the deficiencies we found at SAAMA, we recommended that the Secretary of the Air Force bring our report to the attention of all Air Force Air Materiel Areas in order to avoid overstatement of requirements and unnecessary purchases in other Air Materiel Areas.

REVIEW OF STOCK CONTROLS (continued)

128. Action taken to improve supply support of aircraft--Our review of supply management activities of the Marine Corps Air Facility, Iwakuni, Japan, Department of the Navy, disclosed that 25 to 50 percent of first-line fighter aircraft of a Marine aircraft wing were grounded for lack of parts and that a relatively high percentage of all types of aircraft assigned to the wing were similarly out of commission because parts needed to keep them in operating condition were not available in the supply system in Japan. Some essential aircraft parts had been out of stock for periods ranging from 9 to 22 months. We proposed to the Navy that a study be made to determine what action could be taken to remedy the causes for shortages of necessary parts.

The Assistant Secretary of the Navy (Material) informed us that subsequently the Commander, Naval Air Forces, Pacific Fleet, in conjunction with the Commanding General, First Marine Aircraft Wing, and the Aircraft Material Office, Oakland, California, had developed a system for providing better guidelines for the initial outfitting and subsequent replenishment of spare parts. He stated further that the Commander, Naval Air Forces, Pacific Fleet, had initiated a thorough survey relative to stock levels and requisitioning channels for aeronautical material for Navy and Marine Corps activities in the Western Pacific and that this survey would be coordinated with the responsible bureaus of the Navy and the Aviation Supply Office.

129. Need for centralized management control of idle production equipment within the Department of Defense--We reviewed the management of idle production equipment within the Department of Defense. This equipment consists of machine tools and related items costing in excess of \$1.5 billion held in general reserve or in place in stand-by lines. The primary objective of our review was to examine into the adequacy of efforts to avoid unnecessary procurement of new equipment by redistributing and utilizing existing idle equipment.

Our test of a limited number of current purchases disclosed that the military departments had purchased new items of production equipment costing over \$700,000 without having considered suitable and available idle equipment on hand in the other departments. One of the contributing factors was the use of different identification numbering systems for common-use items, which interfered with the interservice utilization of available equipment. We found also that unnecessary administrative costs were being incurred because there were four independent organizations and numerous supporting activities performing the same or similar management functions. Consolidation of these organizations and activities could be expected to effect significant reductions in administrative costs which exceed \$3 million annually.

REVIEW OF STOCK CONTROLS (continued)

Although the Department took certain measures to improve management of this equipment, we believe that centralization of the responsibilities and functions would result in more effective and economical management. Accordingly, we proposed to the Secretary of Defense that the responsibilities and functions be reviewed and evaluated to determine the manner and means whereby centralization under his direction and control could be effected. The Assistant Secretary of Defense (Installations and Logistics) advised us on February 21, 1961, that a departmentwide study of the management of production equipment, including special consideration of centralized management, would be undertaken. He stated also that our suggestions for interim management improvements either had been or would be adopted.

130. Need for stronger accounting and reporting control over replacement equipment in the Air Force--We found that millions of dollars' worth of replacement equipment, used in performing support functions of individual Air Force organization missions, was needlessly purchased in fiscal year 1960 because the Air Force did not have an effective means of knowing the quantity and location of the equipment it already owned. Our review was limited to about 1 percent of the items and 12 percent of the value of the \$2.8 billion inventory reported. We established that about \$164 million worth of items had not been included by using organizations in the inventory reports used in computing their requirements or otherwise accounted for. We estimated that the purchase of over \$6.7 million worth of replacement equipment in fiscal year 1960 could have been avoided and that the planned purchase of another \$20.8 million worth, on which procurement was deferred principally for lack of funds, could have been eliminated had the Air Force maintained effective accounting control over the equipment procured and received in the supply system. Because of our findings with respect to the items we examined, we expressed our belief that, with respect to the items not covered in our review, there was substantially more equipment unaccounted for and substantially more unnecessary procurement.

The Assistant Secretary of the Air Force (Materiel) agreed, generally, that the results of the system for reporting on replacement equipment were incomplete and inaccurate and did not adequately provide a basis for computation of equipment procurement requirements. He informed us on May 5, 1961, of a number of actions, taken or proposed following our discussion of the problem with Air Force officials, which in the opinion of the Air Force should materially alleviate the deficiencies in the reporting system. The success of the actions taken, as well as those planned, was largely prospective in nature and their effectiveness will depend on the manner in which they are carried out.

REVIEW OF PROCEDURES FOR DETERMINING SUPPLY REQUIREMENTS

131. Action taken by the Navy to make more reliable determinations of its needs for electronic equipment--In a report issued on January 31, 1961, on our review of the Navy's supply management of electronic equipment, we presented our findings of weaknesses in the management of expensive aeronautical electronic equipment. The Navy was overstating its requirements for such equipment by many millions of dollars because of deficient procedures for computing needs and unsatisfactory accounting control and reporting of equipment on hand. This resulted in the purchase of more equipment than was actually needed. Also, the Navy was holding equipment valued at about \$7.5 million in a reserve status for unnecessarily extended periods, thus preventing the use of the equipment to meet current needs. As a result, supply support was affected to the point that some aircraft were not fully equipped for their missions.

Prior to the issuance of our report, we brought our findings and our proposals to correct the deficiencies to the attention of Navy officials. The Navy took prompt action to review all major electronic programs to determine whether its stated requirements were valid and, as a result, canceled plans to procure about \$8.8 million worth of equipment and released from reserve status about \$7.5 million worth of equipment for which the original need for reservation no longer existed. The Navy also expressed the belief that certain supply management improvement programs already initiated or in the planning stage would, when fully operational, correct the basic deficiencies in supply management control.

After the issuance of our report, the Assistant Secretary of the Navy (Installations and Logistics) reported to us on June 1, 1961, the progress being made in the several supply management improvement programs and stated that aggressive and positive steps were being taken, including interim measures, to make the programs effectively operational at an early date.

132. Action taken by the Army to improve reliability of stock requirements determinations--The United States Army Signal Depot, Ascom City, Korea, significantly overstated its stock requirements and, as a consequence, ordered from the continental United States substantially more material than was needed to provide adequate supply support. We found that the depot (1) ordered new units of stock to replace unserviceable units even though the total stock position did not warrant such replacement, (2) based its stockage objectives on the Army's world-wide average replacement factors rather than on its own demand experience, (3) failed to meet its requirements for end items and components by assembling available components and parts or repairing unserviceable stocks on hand, and (4) failed to consider reserved stocks on hand. After we brought our findings to the attention of depot officials, they

REVIEW OF PROCEDURES FOR DETERMINING SUPPLY REQUIREMENTS
(continued)

anceled unfilled orders on the continental United States for about \$2.1 million worth of material identified as excess to requirements of the depot. Also, the depot took action on our proposals for improving the procedural aspects of its requirements determinations. In a letter dated January 10, 1961, the Assistant Secretary of the Army (Logistics) stated that, as a part of the Army's program for improvement, supply specialists had been furnished to the Far East and that the United States Army, Pacific, had been given the responsibility for directing the logistics policies and operations throughout the entire command.

The United States Army Japan Depot-Complex, Sagami, Japan, similarly overstated its stock requirements. We found that, because of inadequate review and analysis of the basic data used in the determination of stock requirements and the failure to conduct frequent periodic reviews of the requirements to assure their continuing validity, requirements were overstated by about \$2.2 million and stocks valued at about \$775,000 were being reserved or retained to fill requirements which no longer existed. During the course of our review, we brought these findings to the attention of depot officials and presented our suggestions for improvement in the existing procedures. As a result, the depot officials canceled \$1.7 million worth of orders on the continental United States, released \$775,000 worth of reserved stock for unrestricted use, and took steps to implement our suggestions. In a letter dated July 29, 1960, the Assistant Secretary of the Army (Logistics) stated that the Commanding General, United States Army, Japan, had been directed to take aggressive review action to assure that the corrective actions initiated at the depot are effectively implemented and that the Commanding General, United States Army, Pacific, had also instituted aggressive command action.

133. Action taken by the Marine Corps to make more reliable determinations of its needs for aircraft spare parts--Our review of supply management activities of the Marine Corps Air Facility, Iwakuni, Japan, disclosed that the Facility had requisitioned aircraft spare parts which were excess to its requirements. Some of the spare parts on order were for support of aircraft which were no longer assigned to the Facility. The requirements determinations as computed by the Facility were based, in many instances, on (1) stock-level objectives which were overstated and were not being periodically reviewed and revised in response to changes in number and type of aircraft to be supported and (2) inventory records which were not being periodically verified by physical count of stock and were therefore unreliable. At the time we were conducting our review, the Facility made a complete physical count of aircraft spare parts on hand and found that the recorded inventory (\$4.9 million) was less than the physical inventory (\$6.2 million) by about \$1.3 million.

REVIEW OF PROCEDURES FOR DETERMINING SUPPLY REQUIREMENTS
(continued)

We brought our findings and proposals for corrective measures to the attention of officials of the Facility and, as a result, prompt action was taken to cancel unfilled requisitions for about \$1.2 million worth of spare parts, to reduce stock-level objectives by about \$500,000, and to implement our proposals for correction of the deficiencies in procedures.

REVIEW OF INTERSERVICE SUPPLY

134. Action taken to use existing excess vehicles in lieu of procurement of new vehicles--We found that the Air Force had established a requirement for 238 commercial-type electric and telephone line construction trucks while at the same time military-type trucks designed to perform the same basic purpose were available for transfer from the Army. Prior to any action to meet the requirement, we advised the Air Force of the existence of the Army trucks and the Army offered to make the vehicles available to the Air Force. However, the Air Force and the Army failed to agree on the financial terms for transfer of the vehicles and the Air Force procured from a commercial source 63 vehicles, at a cost of about \$365,000, as the first increment of the total requirement.

We recommended to the Secretary of Defense that the remaining Air Force requirement for 175 trucks be filled by transfer of the serviceable trucks then held in reserve by the Army. We pointed out that in so doing the needs of the Air Force could be met for about \$300,000 less than by buying new vehicles. On March 10, 1961, the Assistant Secretary of Defense (Installations and Logistics) informed us by letter that instructions had been issued to assure that the Air Force requirements for such vehicles would be satisfied by transfer of the Army vehicles and that no procurement would be made until such time as Army excess stocks of functionally equivalent vehicles were exhausted.

REVIEW OF MILITARY CONSTRUCTION PROGRAMS

135. Changes made to preclude military construction unless authorized by the Congress--We found in our review of the programming and financing of selected facilities constructed at Army, Navy, and Air Force installations that more than \$50 million worth of construction and construction-type work had been performed in fiscal years 1957, 1958, and 1959 outside the military construction program and had been financed with other than military construction funds. As a result, the Congress was not informed of and did not have an opportunity to review and specifically approve all construction as contemplated in the military construction authorization processes established by the Congress to control and limit the extent of military construction. The avoidance of the review process was usually brought about by classifying the construction work as repair, rehabilitation, or modification projects and, as such, financing them from operation and maintenance appropriations. The financing of construction projects in this manner was possible because budget requests for operation and maintenance funds were justified to the Congress in general terms by the military departments and very broad meanings were imputed by the departments to such terms as major repairs, rehabilitation, or replacement of existing facilities.

After we brought our findings to the attention of the Department of Defense, the Department issued Directive No. 7040.2, dated January 18, 1961, which provided, among other things, definitions of such terms as construction, maintenance, repair, alteration, and replacement, for the guidance of the military departments in distinguishing between projects which require military construction funds and projects which require operation and maintenance funds.

In our report submitted to the Congress on January 24, 1961, we pointed out that, regardless of the action initiated by the Department of Defense, the magnitude of construction work financed outside the military construction program and the varying interpretations of terminology that made this possible merited the attention and consideration of the Congress. We recommended that the Congress consider the desirability of establishing, by the enactment of legislation or otherwise, uniform definitions and basic policies to govern military construction program presentations by the military departments. Subsequently, the Congress, in enacting the Department of Defense Appropriation Act, 1962, approved August 17, 1961, provided that funds appropriated in the act for maintenance and repair of facilities and installations "shall not be available for acquisition of new facilities, or alteration, expansion, extension or addition of existing facilities, as defined in Department of Defense Directive 7040.2, dated January 18, 1961, in excess of \$25,000."

REVIEW OF FAMILY HOUSING

136. Action taken to curtail Capehart housing program--In our review of the Capehart housing program of the Department of Defense we found that, at 15 of the 40 installations we reviewed, about 5,900 houses estimated to cost over \$147 million were being built or were programed in excess of actual or apparent needs. Our findings with respect to the excess houses were based on actual needs determined by the proper or reasonable application of the military departments' requirements criteria existing at the time the construction contracts were awarded or the housing projects were approved by the Congress. However, a substantially larger number of houses in the local community could have been considered as available had more realistic criteria been used. We recommended to the Secretary of Defense that the Department of Defense and the military departments reappraise the need for Capehart projects approved for construction, giving recognition to the deficiencies we identified, and that they take appropriate steps to reduce or terminate projects which cannot be reasonably justified. We recommended further that the determinations made in this respect be reported to the Congress.

Our findings were discussed in deliberations of the Congress on the Department of Defense request for authorization to construct additional units of Capehart housing. The Congress denied the request. The Military Construction Act of 1961, approved June 27, 1961, provided no new authorization for construction of Capehart housing. Section 607(a) of the act raised the statutory ceiling on the Capehart housing program from 25,000 units to 28,000 units and extended the terminal date of the program from October 1, 1961, to October 1, 1962. However, this provision of the act merely permitted the Department of Defense to construct a portion of the housing units which had been authorized under earlier legislation but which theretofore could not be constructed because of the over-all ceiling on the program.

137. Legislation enacted to place cost limitation on rehabilitation of individual units of family housing--We found that family housing for officers at the Army Chemical Center, Edgewood, Maryland, had been rehabilitated at costs per unit which approached or exceeded the congressional cost limitation on construction of new houses for officers. The cost of rehabilitating the house occupied by the Commanding General was more than \$61,000, compared with the cost limitation of \$22,000 for the construction of a new house for an officer of that rank.

In our report submitted to the Congress on March 17, 1961, we recommended that the Secretary of Defense issue regulations restricting the extent to which costs may be incurred, on both a yearly and a cumulative basis, for the renovation of military housing. We recommended, also, that the Congress consider establishing a limitation, on a yearly and a cumulative basis, on the

REVIEW OF FAMILY HOUSING (continued)

amount that may be expended for the renovation, repair, modification, or rehabilitation of an existing military house without prior approval of the appropriate congressional committees. The Congress established such a limitation in the Military Construction Act of 1961, approved June 27, 1961. Section 609 of the act provides that, effective July 1, 1961, no family housing unit may be rehabilitated at a cost in excess of the statutory limitation on the cost of new construction of family housing units unless the Secretary of Defense or his designee has notified the Committees on Armed Services of the Senate and of the House of Representatives prior to such rehabilitation. Section 609 provides also that no family housing unit may be rehabilitated at a cost in excess of \$20,000.

REVIEW OF MILITARY ASSISTANCE PROGRAM

In our reviews of military assistance program activities during the fiscal year 1961, we examined individual country programs administered by the Military Assistance Advisory Groups and specific problem areas common to two or more recipient countries. These reviews covered the general areas of programing, delivery, and utilization of materials and equipment provided under the military assistance program. Our reviews continued to disclose deficiencies similar to those we reported in previous years. Although there appeared to be continued improvement in the programing procedures, we found instances of such things as premature delivery of equipment to recipient countries, excesses and deficiencies in spare parts stocks of recipient countries, and ineffective maintenance and utilization of delivered equipment. We found, also, deficiencies in management of the United States Army Logistical Depot, Japan, which is responsible for spare parts support of Army equipment furnished to countries in the Far East. Some specific cases follow.

138. Premature delivery of equipment to recipient countries-- We found that the Air Force had delivered about 2,400 radio sets valued at about \$12 million to recipient countries for use in aircraft when it was known that the kits necessary for operating the equipment were not then available and their delivery would be delayed for some time. Delivery schedules showed that an effective balance between radio sets and kits would not be achieved until about 3 years after delivery of the radio sets. The recipient countries were instructed to store the radio sets until such time as the kits became available and could be delivered. At the time of our review, about 18 months after delivery of the radio sets, most of them were in storage awaiting delivery of the kits. But even if complete equipment had been delivered much of it could not have been used because some of the countries lacked the financial and technical capability to install the complex equipment and because certain essential facilities had not yet been constructed.

After delivery of the radio sets to the recipient countries, the Air Force was faced with a shortage of this equipment to meet its own requirements. We recommended to the Secretary of Defense that the sets not being used by the recipient countries be recovered and redistributed to the Air Force or to other countries where they were needed. We were informed that the Air Force subsequently recovered for its own use 400 sets from one of the recipient countries.

In another case, we found that the Army had delivered to a recipient country missile equipment valued at about \$24 million which was not in a serviceable condition at the time of delivery. An Army inspection team determined that the equipment was in such poor condition as to raise doubt that it could be used for its

REVIEW OF MILITARY ASSISTANCE PROGRAM (continued)

intended purpose. The equipment was not operational because of poor maintenance and supply practices while the equipment was in the custody of the Army and failure of the Army to restore the equipment to serviceable condition prior to transfer to the country. Furthermore, the recipient country had only a limited capability to operate the equipment. We were informed by the Assistant Secretary of Defense (International Security Affairs) that the staff of the Military Assistance Advisory Group in that country was subsequently expanded and that substantial improvement was made in maintenance of the equipment and in the operational readiness of the military units to which the equipment was assigned.

139. Deficiencies in recipient countries' supply management of spare parts--Our reviews in several countries disclosed serious deficiencies in supply management which resulted in accumulation of excessive quantities of some spare parts and shortages of other spare parts. We found that the countries did not have adequate information on the status of stocks in their supply systems and did not give proper consideration to past usage data in establishing stock levels. In one country, as the result of our review, requisitions on United States supply organizations for about \$24.3 million worth of spare parts were canceled and plans for requisitioning additional items were reduced by \$4.3 million. As a result of our review in another country, requisitions on United States supply organizations for about \$3.6 million worth of spare parts were canceled; local procurements of about \$300,000 were also canceled; and spare parts on hand, valued at about \$53 million, were identified as excess and made available for redistribution.

140. Inadequate maintenance and ineffective utilization of delivered equipment--We found in some of the less technically advanced countries that the equipment delivered under the military assistance program was not effectively maintained and utilized. In one country, we found that engineer and signal equipment valued at about \$1.3 million had been in storage for some time. This equipment had not been used because it was either incomplete or incompatible with other equipment with which it is normally used or because the country had failed to provide funds to operate the equipment. Some of the equipment was deteriorating because of inadequate maintenance. We found also that a maintenance and rebuild facility, constructed in this same country at a cost of about \$3 million with funds provided under the military assistance program, was operated at only about 50 percent of its capacity. At the same time, equipment which should have been rebuilt in this facility was being shipped for rebuilding to a facility in another country.

141. Deficiencies in the United States Army supply management of spare parts--We found that the United States Army Logistical Depot, Japan, which is responsible for spare parts support of Army

REVIEW OF MILITARY ASSISTANCE PROGRAM (continued)

equipment furnished under the military assistance program to countries in the Far East, had (1) established stock levels, and ordered spare parts to fill the levels, which were greatly in excess of the quantities actually needed, (2) failed to take into account large quantities of excess spare parts on hand at various other locations in the Far East which were available to meet the stock-level requirements, and (3) failed in some instances to order and issue spare parts on a timely basis. We found deficiencies also in the logistical support by the Department of the Army involving such things as (1) failure to authorize the Logistical Depot to stock certain needed parts, (2) failure to provide recipients of military assistance with adequate and critically needed supply and technical manuals, and (3) the delivery of material to countries despite their prior notice that the material ordered was no longer required.

We brought our findings to the attention of the Logistical Depot officials and prompt action was taken to cancel orders for spare parts valued at approximately \$17 million which were outstanding against supply sources in the United States and to reduce by about \$100 million the stock-level objectives to meet requirements for spare parts. Also, we proposed to the Secretary of Defense that he direct the development of a specific program to insure continuous and intensive action to correct the deficiencies disclosed in our review. The Assistant Secretary of Defense (International Security Affairs) informed us that such a program was being developed. We plan to conduct a follow-up review after there has been a reasonable period of time to implement the program.

REVIEW OF MANPOWER UTILIZATION

142. Reduction of unnecessary proficiency flying in the Air Force--We found that a significant portion of the proficiency flying in the Air Force was unnecessary. Proficiency flying is flying performed to maintain basic flying skills while serving in assignments where such skills would not normally be maintained in the performance of assigned duties. The Air Force was spending over \$112 million annually in maintaining and operating aircraft and \$71 million annually in additional pay for proficiency flying to maintain in flying status nearly 27,000 officers who either were excess to stated Air Force requirements for rated personnel, i.e., pilots, navigators, observers, and flight surgeons, or were occupying positions where maintenance of flying skills contributed little or nothing to effective performance of those positions.

We recommended that the Air Force develop realistic criteria for determining its requirements for personnel to be retained on flying status and take prompt action to discontinue the flying status of personnel determined to be excess to requirements. This would result in saving the cost incurred in maintaining and operating the aircraft used to enable them to qualify for proficiency flying pay. We recommended also that, because the additional pay for proficiency flying was a significant portion of the compensation of many of the individuals, consideration be given to the possible need for adjustments in the compensation for some categories of personnel removed from flying status and that any legislation to effect such adjustments be sought from the Congress.

The problem of excess proficiency flying has been of serious concern to the Congress. The Committee on Appropriations, House of Representatives, stated in its report on the Department of Defense Appropriation Bill, 1959, that the Committee seriously questioned the necessity or the practical value of much of the proficiency flying and that evidently a great deal of the flying was continued for the sole purpose of qualifying for continued flight pay. The Acting Secretary of the Air Force, in commenting on our findings and recommendations, expressed his awareness of the seriousness of the problem and his desire to seek solution. He stated his belief that the logical course to meet the situation realistically would be to obtain legislation which would provide an equitable financial adjustment for those career officers whose skills and talents are still required in the defense effort but who, through the drastic changes in weapon systems, are no longer required on flying status. The Acting Secretary of the Air Force stated further that, on the recommendation of the Air Force, the Office of the Secretary of Defense submitted to the Bureau of the Budget in April 1960 a legislative proposal to provide an equitable financial adjustment for those officers no longer required on flying status and that, after extensive discussion and

REVIEW OF MANPOWER UTILIZATION (continued)

coordination within the executive branch, the President recommended appropriate financial relief in his budget message to the Congress.

The Congress took action to reduce the cost of proficiency flying. Section 614 of the Department of Defense Appropriation Act, 1962, approved August 17, 1961, provided that, without regard to any provision of law or Executive order prescribing minimum flight requirements, payment of flight pay may be made to certain members of the Armed Forces otherwise entitled to receive flight pay during the fiscal year (1) who have held aeronautical ratings or designations for not less than 15 years or (2) whose particular assignment outside the United States or in Alaska makes it impractical to participate in regular aerial flights. Also, there is pending before the Congress an act to amend the Career Compensation Act of 1949. The act (H.R. 7651), which passed the House of Representatives on August 10, 1961, but had not been acted upon by the Senate prior to adjournment of the first session of the Eighty-seventh Congress, would authorize the payment of an accrued portion of incentive pay to aeronautically rated or designated officers who have been eligible to such pay for a minimum of at least 10 years and who are subsequently removed from eligibility upon a determination that their continuation in this capacity is no longer necessary in the interest of national security.

143. Savings resulting from reduction of personnel in vehicle maintenance and motor pool operations--On April 28, 1961, we submitted a report on our review of manpower utilization in selected areas of the Public Works Department, Fleet Activities, Yokosuka, Japan, Department of the Navy. The review was undertaken at the request of the Commander, Fleet Activities, to assist local management in achieving improved utilization of its manpower. We found an inefficient use of manpower in overhauling and repairing vehicles, in performing base maintenance work, and in dispatching and operating Government vehicles. This condition was due principally to the failure to provide, on a timely basis, spare parts for the overhaul and repair of vehicles and equipment; failure to develop and use labor standards in maintenance work; and failure to reduce, in response to a decreased need for Government vehicles, the number of assigned dispatchers and drivers. Prior to the issuance of our report, we brought our findings and suggestions for improvement to the Commander, Fleet Activities, who took immediate action which resulted in a reduction in force of 50 shop personnel and 97 vehicle drivers. The Commander informed us in March 1961 that savings of about \$266,000 a year had been effected by reductions in personnel and by reduction of automotive and other equipment in service and that additional savings were anticipated.

REVIEW OF ORGANIZATION

144. Central agency established to provide coordinated and more economical management of supply systems--In the prior fiscal year we reported that coordination among and between the military departments in the management of electronic supplies and equipment was inadequate and recommended that the Secretary of Defense consider assigning the management responsibility to a centralized organization within the Department of Defense. We had found (1) that the same or similar management functions were being performed by six independent organizations which if consolidated could be expected to effect savings of a significant portion of the \$25 million annual cost of their administration and (2) that, because of independent and uncoordinated management decisions of those organizations, there were failures in supply support, unnecessary procurement, duplication in storage and distribution functions, and inefficient use of facilities and personnel in overhaul and repair operations.

In commenting on our findings and recommendation, the Acting Assistant Secretary of Defense informed us on April 29, 1960, that the Department of Defense had undertaken a study of the management of electrical/electronic supplies and equipment and that our recommendation would be considered in the light of the results of the study. Following completion of the study, the Secretary of Defense established on October 1, 1961, a Defense Supply Agency under his direct control for the purpose of providing centralized supply management of those commodities which are common to the military departments and are determined to be susceptible of integrated management by a single agency. Electrical/electronic materiel was included in the selected categories of commodities initially designated by the Secretary of Defense for management by the Agency.

REVIEW OF PAYROLL PROCEDURES

145. Substantial savings to result from adoption of biweekly basis for paying civilian employees--In our report submitted to the Congress on April 15, 1959, we pointed out that the Navy, contrary to the practice followed by most other departments of the Government, was paying its more than 200,000 civilian employees occupying ungraded positions on a weekly rather than on a biweekly basis and thereby incurring unnecessary costs. We had previously recommended that the Navy adopt the policy of paying such employees on a biweekly basis. The Navy took the position, with which we did not concur, that the change in policy would not be in the best interest of the Government. This position was based on the belief that the change would have a profoundly disturbing effect on employee morale and would work a hardship on many of the employees accustomed to weekly paychecks and that these adverse effects outweighed the direct savings in costs which would result from the change.

The Committee on Appropriations, House of Representatives, took note of our report and urged the Navy to reconsider our recommendation. On March 29, 1960, the Assistant Secretary of the Navy (Personnel and Reserve Forces) reported to the Congress that the Navy had completed a cost study which showed the estimated annual amount of direct savings to be only \$828,000 and had again reached the conclusion that adoption of the biweekly pay system was not in the best interest of the Navy or the public. Our review and analysis of the Navy's computation of annual savings disclosed errors and omissions which significantly understated the amount. We estimated that, taking into account the errors and omissions, the annual savings would amount to more than \$3 million and, on February 15, 1961, so informed the Appropriations Committee.

The Navy's policy was the subject of discussion during the hearings on its fiscal year 1962 appropriations. Following the hearings, the Navy issued a directive on August 11, 1961, adopting the biweekly basis of paying employees occupying ungraded positions, effective January 7, 1962.

REVIEW OF DISBURSEMENT AND COLLECTION PROCEDURES

146. Action taken to strengthen control over disbursement and collection activities--In a report dated April 12, 1961, we described 88 cases of fraudulent transactions, either disclosed by our examinations or reported to us by the military departments, in which the Government was defrauded of about \$668,000. These transactions involved, principally, manipulation of military payrolls, diversion of funds to personal use by disbursing officers and collection agents, and falsification of documents to cover defalcations in imprest funds. We concluded that the fraudulent transactions resulted primarily from deviations from prescribed procedures. Accordingly, we proposed to the Secretary of Defense that more frequent internal reviews be made to determine whether prescribed procedures are being followed. We also proposed certain organizational changes to reduce opportunities for fraudulent transactions by separating the duties of making payments and receiving collections from the duties of preparing and maintaining the related records. We were advised by the Department of Defense that the military departments had taken action or were considering action on our proposals.

REVIEW OF TRANSPORTATION MATTERS

147. Savings in transportation costs through advice on transportation matters--As part of our audit responsibilities we work with the various departments and agencies of the Government on traffic management and transportation matters to minimize overcharges and to promote economies in the transportation of personnel and property for the account of the Government.

An example of our work with the agencies is the advice we rendered on military shipments of jet fuel which moved in railroad tank cars from the Hastings Fuel Storage Station, Hastings, Minnesota, to Ellsworth Air Force Base, Box Elder, South Dakota. For this transportation service, the rail carriers presented bills and were paid charges computed at a rate of \$0.92 per hundred weight.

Our audit of these bills disclosed that the charges were correct for the route actually used. However, we determined that, at the same time, a lower rate of \$0.62 per hundred weight was available between Hastings and Box Elder on the same railroads but via a different route. We notified the Military Traffic Management Agency, which has jurisdiction over the routing of such shipments, of the availability of the lower cost route. That Agency then negotiated a retroactive agreement in accordance with section 22 of the Interstate Commerce Act under which the rail carriers made the \$0.625 rate available for the route actually used for the shipments. As a result, during fiscal year 1961 excess charges of \$47,000 were collected from the carriers and the lower rate was made available for shipments of jet fuel which might move thereafter between the same points.

148. Changes to be made to recover from military and civilian personnel costs incurred by the Government on shipments of household goods in excess of the maximum authorized weight allowances--Our review of the technical and administrative examination of transportation invoices performed by the Army at Heidelberg, Germany, disclosed that excess costs of approximately \$160,000 were incurred by the Government during the 3-year period immediately preceding our review, because amounts paid by the Army for the transportation of household goods above the maximum authorized weight allowances were not determined and recovered from the military and civilian personnel involved. Less than \$200 had been collected during this period principally because of (1) the failure of transportation officers to show on transportation warrants the information needed to determine and recover such excess costs, (2) delays in requesting such information, and (3) the failure of the Army to secure compliance with its existing instructions.

In our report to the Secretary of Defense on May 11, 1961, we recommended that excess costs on past shipments be recovered when economically feasible, that procedures be established to assure

REVIEW OF TRANSPORTATION MATTERS (continued)

that the necessary information is furnished on future shipments, and that adequate efforts be made to recover such costs on future shipments.

The Assistant Secretary of Defense (Comptroller) in his reply of August 31, 1961, concluded that existing procedures and controls did not provide an effective basis for determining excess transportation charges on shipments of household goods. Thus, recovery of past excess costs is questionable. We were advised, however, that arrangements were being made by the Office of the Secretary of Defense with the military departments to develop effective regulations and procedures for preventing the shipment at Government expense of household goods in excess of authorized allowances.

149. Improvement made in management controls over the examination of transportation invoices by the Army in Europe--Our review at Heidelberg, Germany, disclosed a lack of effective management controls over the examination of transportation invoices evidenced by (1) insufficient review of audit actions, (2) inadequacy of management information for evaluating the effectiveness of the examination, (3) inadequate documentation of actions taken, and (4) inadequate statistics on work performance. These deficiencies in controls seriously weakened management's capacity for planning, organizing, and evaluating the examination activities. Our proposals for strengthening review functions, improving control records, and maintaining adequate documentation of actions taken were accepted by local officials, and corrective action either was taken or was promised.

150. Need for use of approved forms for procurement of transportation services--We found that various military components in the European area procure transportation services by use of locally devised forms other than those approved by the General Accounting Office. The use of unapproved forms impedes standardization of procedures, generates problems connected with the determination and collection of excess transportation charges, and materially increases audit costs.

The Assistant Secretary of Defense stated that action was being taken to require military components to use approved forms in the procurement of transportation services or to obtain approval of other forms for which there is a continuing need.

REVIEW OF AUTOMATIC DATA PROCESSING DEVELOPMENTS

151. Need for full use of automatic data processing equipment and techniques in supply operations--In our review of automatic data processing developments in the Federal Government, we noted that the Department of Defense had no over-all plan for making the most effective use of automatic data processing techniques for the interservicing of supply system inventories. Our report of December 30, 1960, described certain tests made at our instigation which demonstrated the feasibility of using such techniques in determining availability of an filling needs for materials by one military department from stocks of other military departments. We endorsed the stated intention of the Department of Defense to initiate work to accelerate the use of mechanized procedures for this purpose. We urged that all appropriate efforts be made by the Department to take full advantage of the capabilities of ADP equipment and techniques in the management of the vast supply operations of the Department of Defense because of the potential for greater efficiency and economy that can be realized.

REVIEW OF DEPENDENTS' MEDICAL CARE PROGRAM

152. Need to strengthen control over fees charged by physicians under the dependents' medical care program--We found, as stated in our report dated May 31, 1961, that physicians' claims for medical services rendered under the dependents' medical care program were higher in States where schedules of fees had been distributed to physicians than in those States where the schedules had not been distributed. This condition prevailed even though the maximum fees negotiated for different States did not vary materially, and in all States physicians are expected to charge their normal fees if such fees are less than the maximum specified in the schedules. We estimated that there was an additional cost of as much as \$3 to \$4 million annually as a result of charging maximum fees in lieu of normal fees. Therefore, we recommended for the consideration of the Secretary of Defense several courses of action to aid in bringing physicians' charges into line with their normal fees.

Specifically, we recommended (1) that lower fees be negotiated with the understanding that they represent fixed fees subject to being raised only on the basis of clearly supported evidence of higher normal fees, (2) that, if lower fees cannot be negotiated, efforts be made to have state medical societies or other appropriate parties to the contracts agree to accept responsibility for determining that claims of physicians are generally not in excess of their normal charges, and (3) that physicians be required to certify on each claim that the amount charged does not exceed normal fees. The Department of Defense accepted our recommendation that physicians be required to certify their claims and adopted a revised claim form which provides for such certification.

REVIEW OF OPERATIONS AT MILITARY INSTALLATIONS, BASES, AND STATIONS

153. Recommendations for improving operations at military installations, bases, and stations--Our reviews at various installations, bases, and stations during the fiscal year 1961 disclosed many deficiencies in local policies, procedures, and practices which adversely affected efficiency and economy of local operations and the operations of other dependent or interdependent military organizations. We reported these deficiencies to local management together with our recommendations for corrective action, and the recommended corrective measures were either taken or promised. Individually, the findings and the resultant improvements relate primarily to local operations of the installations affected. Collectively, they represent an important contribution to the general improvement in the operations of the three military departments and of the Department of Defense. Examples of the deficiencies of this type most frequently disclosed in our reviews are summarized under the following areas of operations:

Maintaining stock at desired levels of supply

1. Failure to review established stock-level objectives and to adjust them in response to changing requirements.
2. Failure to adhere to established stock-level objectives.
3. Inaccurately computed stock-level objectives.
4. Failure to expedite the repair and the return to the supply system of critically needed items of supply.
5. Failure to cancel reservations of stock set aside for specific projects when the requirements under the projects cease to exist.

Requisitioning and issuing stock

1. Excessive frequency of high priority requisitions.
2. Duplicated requisitioning, unnecessary requisitioning, and requisitioning far in advance of actual need.
3. Excessive volume of requisitions for small quantities of stocks of nominal unit value.
4. Failure to issue available and acceptable substitute stocks when the items requisitioned are not available.
5. Issuance of unserviceable stocks.

REVIEW OF OPERATIONS AT MILITARY INSTALLATIONS, BASES, AND STATIONS
(continued)

Stock recording and reporting

1. Inaccurate records and unreliable reports as to status of stocks.
2. Delayed and inaccurate recording of documents relating to stock receipts and issues.
3. Inadequate procedures for physical count of stocks and verification of recorded stock balances.
4. Inaccurate or incomplete information as to physical location of stocks.

Planning and controlling industrial-type operations

1. Ineffective planning and scheduling of work to be performed.
2. Lack of reliable cost estimates and cost records for effective control of production costs.

Civilian pay

1. Promotion of employees prior to completion of required periods of service.
2. Credits for leave at rates inconsistent with length of employees' service.
3. Inadequate support for absences attributed to military leave or to court leave.
4. Inadequate control over distribution of checks to payees.
5. Inadequate control over authorization of overtime and granting of compensatory time.
6. Improper payments for holiday and night work.

Military pay and allowances

1. Overpayments of lump-sum leave, of reenlistment bonus, and of allowances for travel, dislocation, and subsistence.
2. Omitted or inadequate charges for leave taken.

REVIEW OF OPERATIONS AT MILITARY INSTALLATIONS, BASES, AND STATIONS
(continued)

3. Excessive allowances for travel time in connection with change in stations.
4. Inadequate control over distribution of checks to payees.

Allotment accounting and reporting

1. Delay in recording obligation and expenditure documents.
2. Failure to reconcile periodically the control balances of unliquidated obligations with the documentary support of the balances.
3. Failure to investigate and, where necessary, adjust dormant unliquidated obligations.

GOVERNMENT-WIDE REVIEWS

REVIEW OF AUTOMATIC DATA PROCESSING DEVELOPMENTS IN THE FEDERAL GOVERNMENT

154. Matters requiring attention for more effective and economical use of ADP systems in Government operations--During the fiscal year we completed a review of current developments in the automatic data processing activities of the Federal Government. Our report was submitted to the Congress on December 30, 1960, and copies were made available to the Bureau of the Budget and other interested agencies in the executive branch. The report summarizes developments in the Federal Government since 1957 in the rapidly expanding field of automatic data processing, presents an inventory of electronic data processing machines in use and their annual operating costs, and contains our views as to the need for more direct effort to control the use of ADP techniques in Government operations in the interest of greater efficiency and economy.

In an earlier report issued in June 1958, we presented a number of points which we felt required attention in individual agency ADP programs if improvements were to be made in the state of development of electronic systems for more effective and economical use in Government operations. Inasmuch as our later reviews indicated a continuing need for attention to many of these matters, we summarized these needs in our current report for the information of the respective Government departments and agencies, as follows:

1. Need for continuous efforts to improve source data and control over documentation procedures and to improve management analysis and scientific techniques.
2. Need for master planning and development of integrated systems within each agency.
3. Need to eliminate unnecessary reports and duplication in processing procedures when converting to electronic systems.
4. Need to analyze systems to determine optimum data processing cycles in relation to cost and value of information produced.
5. Need for more specific and systematic measurement of costs and progress in development of electronic systems to establish a basis for more effective management control over their acquisition and use.
6. Need for participation and support by top management in order to develop the most effective use of this new

REVIEW OF AUTOMATIC DATA PROCESSING DEVELOPMENTS
IN THE FEDERAL GOVERNMENT (continued)

technology and need to insure management participation in long-range planning efforts for the development of integrated agency systems.

155. Desirability of purchasing rather than leasing equipment--Federal agencies have generally followed the practice of leasing rather than purchasing punched card and electronic data processing equipment. Numerous reasons have been advanced as justification for this practice. On the other hand, agencies that have purchased equipment outright contend that over-all costs to the Government are lower, particularly when the equipment is used on a multiple-shift basis. In our report, we expressed our belief that Government agencies should give more consideration to purchasing ADP equipment, particularly in those instances where savings can be demonstrated over a period of several years even though large capital outlays would be involved initially.

156. Need for a Government-wide program for coordinating procurement and transfer of equipment between agencies--Generally, the practice of each Government agency is to procure equipment for its own needs, on either a purchase or a rental basis, and to trade in purchased equipment or exchange older rented equipment for newer models in accordance with its own particular needs. Possible needs of other agencies for the traded-in or exchanged equipment are generally not considered. However, it is possible that such equipment can be used to serve the needs of other Government agencies.

In our report of December 30, 1960, we expressed our belief that a mechanism should be established in the Government to provide the necessary arrangements whereby the procurement and transfer of data processing equipment between Government activities would be fully coordinated so as to keep costs as low as possible consistent with obtaining needed processing facilities.

157. Need for more positive long-range planning--We also called attention to the need for more positive central planning of a long-range nature within the executive branch of the Government to promote the maximum degree of efficiency, economy, and effectiveness in the administration and management of costly ADP facilities. The following factors were cited in our report as evidence of the need for such planning.

1. Active central coordination is needed to assure good procurement and contract administration practices. An effective central information service within the Government could, in addition to coordinating procurement, assist officials at the many locations where equipment is rented to make the most effective application of contractual terms.

REVIEW OF AUTOMATIC DATA PROCESSING DEVELOPMENTS
IN THE FEDERAL GOVERNMENT (continued)

2. Effective leadership by a central agency could minimize wasteful duplication of effort among the individual agencies. At present, there is no adequate mechanism to prevent repetitive explorations by different agencies into the same or very similar applications which have previously been developed by other agencies. An effective information exchange is needed to help each agency become aware of both the results of completed studies and the nature of current work in progress by other agencies.
3. A central group is needed to be alert to the possibilities of Government-wide integration of systems and to plan for such Government-wide systems. A central planning group could provide assistance with regard to the automatic interchange of records between Government agencies and could plan for reorganizations if better data processing could be achieved through integration of systems.
4. Central coordination could also provide assistance with regard to the interchange of magnetic tape records between industry and Government. We feel that there is a great undeveloped potential in this area which needs to be more aggressively pursued on a coordinated Government-wide basis. Only limited interchange of data in this manner has been accomplished to date. A joint and coordinated effort can significantly contribute to the development of workable programs for the interchange of magnetic tape records between industry and the individual agencies.

We endorsed the leadership function embraced by the Bureau of the Budget as a result of its study of agency ADP responsibilities. We believe that the Bureau of the Budget occupies a position in the executive branch which makes it the logical agency to exercise the kind of central leadership needed. We concluded, however, that more recognition needs to be given to the far-reaching role which electronic systems seem destined to play in governmental processes and the related need for sound planning for their use. Therefore, in carrying out its leadership responsibilities, we believe that the Bureau should extend its role to include more positive central planning within the executive branch so as to provide the kind of integrated long-range planning and coordination which is needed to promote the maximum degree of efficiency, economy, and effectiveness in the continuing development and use of electronic systems in Federal Government operations.

DEFINITE, MEASURABLE SAVINGS OR POSSIBLE SAVINGS

RESULTING FROM ACTIONS TAKEN ON

GENERAL ACCOUNTING OFFICE RECOMMENDATIONS

The following list summarizes some of the definite, measurable savings or possible savings that have resulted from actions taken by various Government departments or agencies on General Accounting Office recommendations.

The list does not include other benefits resulting from the work of the General Accounting Office that are not readily susceptible of measurement in financial terms nor does it include repetitive benefits resulting from recommendations of the General Accounting Office adopted by the departments or agencies in prior years.

Also, the list does not include refunds and collections amounting to \$37,919,000 which were made through the efforts of the General Accounting Office during the fiscal year 1961.

Reduction in prices under negotiated contracts (savings resulting from adjustment of prices under existing contracts or proposed amendments)	\$ 5,020,000
Change in computing escalation payment under contract (estimated savings resulting from use of a more equitable base for computing escalation payment)	2,459,000
Correction of improper allowances under contracts (savings resulting from reductions in payments to be made by Government agencies)	841,000
Cancellation of planned procurement (savings resulting from use of existing supplies in lieu of buying new supplies)	10,755,000
Cancellation of purchase orders or scheduled purchases (savings resulting from cancellation of purchase orders or of plans to purchase materials no longer needed)	8,484,000
Use of excess stocks as substitutes for items on order (savings resulting from the avoidance of disposal action and consequent reduction of new procurement)	1,407,000

Discontinuance of test counts of materials in national stockpile (further expenditures avoided by discontinuance of test which were deemed unnecessary)	\$ 2,110,000
Improvements made in operating procedures of Government agencies (estimated annual savings resulting from changes in operating procedures)	1,938,000
Reduction of unemployment compensation benefits to be paid to retired Federal employees receiving retirement payments (estimated savings resulting from change in law)	2,130,000
Revision of military pay procedures (estimated annual savings resulting from corrective measures taken to preclude overpayments in military pay)	1,076,000
Correction of errors in computing amount of repayable investment in power facilities (additional amounts of principal and interest to be paid into the United States Treasury)	530,000
Cancellation of repair and rebuild projects (savings resulting from the cancellation or termination of unnecessary repairing or rebuilding of equipment)	344,000
Termination of procurement contracts (savings resulting from the use of excess stocks in lieu of buying new stocks)	339,000
Change in plans to dispose of usable supplies (future procurement avoided by cancellation of disposal action)	276,000
Reductions in retirement and old-age insurance benefit payments (estimated savings in future payments arising from correction of erroneous awards)	254,000
Cancellation of requisitions for material and supplies not required by requisitioning agency (amount of savings is dependent on extent supplying agency will be able to cancel or avoid procurement or use stock on hand to satisfy bona fide needs)	7,358,000

Transfers of materials from one agency to another (amount of savings is dependent on extent procure- ments may be canceled or avoided or the materi- als are used to satisfy the needs of the receiv- ing agency)	\$ 217,000
Cancellation of requisitions for materials and sup- plies not required by recipient country under Milit- ary Assistance Program (amount of savings is dependent on extent supply- ing agency will be able to cancel or avoid pro- curement or use stock on hand to satisfy bona fide needs)	45,200,000
Reduction in requirements programed for recipient country under the Military Assistance Program (amount of savings is dependent on extent supply- ing agency will be able to cancel or avoid pro- curement or use stock on hand to satisfy bona fide needs)	4,300,000
Total	<u>\$95,038,000</u>

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