

**REPORT TO
THE COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES**

**COMPILATION OF
GENERAL ACCOUNTING OFFICE
FINDINGS AND RECOMMENDATIONS
FOR IMPROVING GOVERNMENT OPERATIONS
AND ACTION TAKEN
BY THE DEPARTMENTS AND AGENCIES
FISCAL YEAR 1959**



**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES
DECEMBER 1959**



**COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25**

B-138162

DEC 1 1959

**Honorable William L. Dawson, Chairman
Committee on Government Operations
House of Representatives**

Dear Mr. Chairman:

Enclosed is a compilation of General Accounting Office findings and recommendations for improving Government operations and of actions taken by the departments and agencies of the Federal Government as a result of these recommendations. The compilation also includes recommendations which we believe will result in further improvement in Government operations if adopted by the departments and agencies. This report is being submitted in response to the suggestion made by members of your staff that such a compilation be furnished to your Committee.

The recommendations included in this compilation were made in connection with our responsibilities under the Budget and Accounting Act, 1921; the Accounting and Auditing Act of 1950; and other laws which require the General Accounting Office to examine the manner in which the departments and agencies carry out their financial responsibilities. The financial responsibilities of the departments and agencies include the expenditure of funds and the utilization of property and personnel in authorized programs or activities only and the conduct of programs or activities in an effective, efficient, and economical manner.

An essential part of the work we perform pursuant to these requirements is to report our findings and recommendations. This compilation includes, for the most part, recommendations made in audit reports issued during the fiscal year 1959, recommendations resulting from audit work in that year, or actions taken in that year.

The report does not contain a cumulative estimate of the value in dollars of the benefits resulting from the adoption of our recommendations for improving Government operations. In many cases it is impracticable to measure the benefits in this way. Nor does the report show the repetitive benefits derived from our previous recommendations for improving Government operations. One such repetitive benefit that can be measured is the annual savings of over \$26 million in benefit payments resulting from a previous suggestion that the Veterans Administration review certain static benefit awards.

The forementioned laws also require the General Accounting Office to determine whether financial transactions have been

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consummated in accordance with applicable laws, regulations, and other legal requirements. In accordance with our understanding of the needs of your Committee as communicated to us by members of your staff, this report does not include case descriptions of the savings resulting from discovery and correction of illegal transactions. However, refunds and collections totaling \$60 million were made in the fiscal year 1959 as the result of our reporting illegal, erroneous, or otherwise improper transactions or through other efforts of our Office, including our specialized audit of transportation payments. Further illegal expenditures are often averted as the result of changes made to eliminate the underlying causes.

Sincerely yours,


Comptroller General
of the United States

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COMPILATION OF
GENERAL ACCOUNTING OFFICE
FINDINGS AND RECOMMENDATIONS
FOR IMPROVING GOVERNMENT OPERATIONS
AND ACTION TAKEN
BY THE DEPARTMENTS AND AGENCIES

CIVIL DEPARTMENTS AND AGENCIES

Review of contracting procedures

Changes made to eliminate inequities in costs borne by the Government under cost-type contracts.--In a report to the Atomic Energy Commission (AEC) during fiscal year 1959 on our audit of a cost-type contractor, we pointed out certain inequities in the methods used by the contractor in charging costs directly and in allocating indirect costs to AEC contracts. We were informed that AEC was negotiating amendments to the contracts to provide a more equitable distribution of overhead and we suggested that AEC consider our findings during these negotiations. The contract with this company was rewritten in a manner that would eliminate any payment by AEC for home office overhead.

Procurement procedures revised to encourage greater use of formal advertising.--The Federal Property and Administrative Services Act of 1949, as amended, permits General Services Administration (GSA) to make purchases without advertising if the public exigency will not admit of the delay incident to advertising. In our audits of the General Supply Fund, we questioned GSA's practice of using the "public exigency" authority to negotiate purchases of stores stock items under circumstances in which the time of delivery to ordering agencies did not appear to be a significant factor. For example, without any indication of a true emergency either actually existing or being clearly imminent, negotiated purchases were made for stock replenishment when delivery requirements allowed adequate time for procurement by advertising and when routine procurement action was needed to prevent ordinary depletion of existing stock or to relieve low stock situations.

On August 29, 1958, we informed GSA that negotiation under the "public exigency" authority must be justified by the situation in which the item is actually needed and that the language of the governing GSA Manual tended to encourage negotiated purchases in other than actual emergency situations rather than to emphasize that the negotiation should be resorted to only in the exceptional case. GSA subsequently revised its policy and issued instructions in consonance with our decision. This revised policy should result in greater use of formal advertising with consequent benefits to the Government from increased competition.

Legislation enacted to provide for recovery of interest costs and administrative expenses from operators of certified discoveries.--In our reports to the Congress on the Defense Minerals Exploration Administration (DMEA), Department of the Interior, we recommended that DMEA, now the Office of Minerals Exploration (OME), be required to include in its contracts a provision that operators of certified discoveries pay interest on the funds advanced and a fair share of the administrative expenses involved in addition to the principal amount of the loan.

Public Law 85-701 (72 Stat. 700), approved August 21, 1958, which is OME's enabling legislation, provides that exploration contracts shall contain repayment terms which will include interest accruing from the date of the loan. The law provides further that the interest will be at rates not less than the rates the Department of the Interior would have to pay the Treasury--were it to borrow money from the Treasury--plus 2 percent a year to recover the cost of administering the contracts.

Recommendation adopted regarding use of preferences in invitations to bid.--Our review of the Tennessee Valley Authority's (TVA) coal procurement practices showed that TVA's bid invitations contained a series of TVA preferences, with the additional provision that a bid which departed from these preferences would be rejected unless in TVA's judgment the price advantage of the bid outweighed whatever disadvantages arose from the departure. To enable each prospective bidder to determine in advance the effect on his bid price of any departure in his bid from preferences stated in the invitation, we recommended that TVA discontinue the use of preferences in invitations to bid except where a definite monetary value could be assigned. Beginning in April 1959, TVA has assigned definite monetary values to preferences included in its invitations to bid.

Procedures changed to assure that excess costs are billed to contractors in default.--General Services Administration supply contracts provide that, if a contractor fails to deliver supplies within the time specified in the contract, the Government may terminate the contract, procure similar supplies elsewhere under a replacement contract, and charge the contractor in default for the excess costs unless there are excusable circumstances. Our review during fiscal year 1959 disclosed that the Chicago Regional Office procedures did not provide assurance that excess costs paid by GSA under replacement contracts were billed to contractors in default.

Following our review of the matter with regional officials, procedures were changed and controls strengthened to provide for prompt billing of excess costs to contractors in default.

Recovery of damages sustained by Government due to breach of contract.--We questioned the validity of a contract amendment which relieved a contractor, without cost, of his obligation to

furnish the Government the full quantity of tungsten required under his contract because at the time the amendment was executed in 1953 the Government was still buying tungsten and the material was selling in the world open market at a much higher price than the Government was required to pay under the amended contract. The Administrator of General Services conceded that the authority for executing the amendment was doubtful in that it purported to waive vested rights of the Government without consideration. GSA asserted a claim against the contractor for damages suffered. The claim, amounting to about \$265,000, was settled in December 1958 by reducing the Government's obligation under another contract with the same contractor to purchase tungsten which it no longer needed at prices far above the existing market price.

Joint Government-industry ownership of facilities.--During fiscal year 1959, we submitted a report to the Congress on our audit of the Shippingport Atomic Power Station constructed and operated under Atomic Energy Commission contracts with the Westinghouse Electric Corporation and the Duquesne Light Company in which we made the following recommendation for improvement in future arrangements of this type.

We recommended, in view of the experience gained from the contractual arrangements relating to Shippingport, that where there is monetary participation by industry, AEC attempt to enter into an arrangement which would not result in joint ownership of the facilities. AEC's General Manager advised us that, in all of AEC's contract negotiations, they have recognized the desirability of avoiding joint ownership of facilities constructed under contracts that include financial participation by industry but that it is not always possible to do so, as illustrated by the Duquesne situation where the contractor insisted upon title to facilities as a prerequisite to making its monetary contribution.

Steps taken to determine identity of items to become property of the contractor.--We recommended that AEC and Duquesne finalize a listing as to the items covered by Duquesne's \$5 million participation in the Shippingport project. AEC's General Manager informed us that agreement was subsequently reached on the identity of the items to become the property of Duquesne and that steps will be taken to formalize this agreement as soon as construction applicable to certain of these items is completed and final costs are reported.

Reduction in purchase price of nickel and cobalt through elimination of marine cargo insurance.--In our audit of a contract for the purchase of nickel and cobalt refined in Norway, we noted that the contractor was required to purchase marine cargo insurance on metal shipped from Norway to the United States after title to the metal had passed to the Government. The cost of the insurance was included as an element of the price paid by the Government. In view of the Government's policy of self-insurance, we

recommended that General Services Administration take action to eliminate the requirement for insurance and obtain a commensurate reduction in the prices charged the Government. The contract was amended accordingly in February 1959. We estimated that as a result of this amendment the Government will save about \$55,000 on future purchases of nickel and cobalt under this contract.

Deficiencies in maintenance of bidders mailing lists to be corrected.--In a number of instances, bidders mailing lists at the San Francisco Regional Office, General Services Administration, were not kept current. The maintenance of bidders mailing lists (lists of prospective suppliers) facilitates the solicitation of reliable sources of supplies, materials, and equipment for Government use. During fiscal year 1959, we noted instances where (1) suppliers responded that they did not stock or manufacture the items needed but their names were not removed from the bidders mailing lists, (2) suppliers responded and requested to remain on the mailing list but their names were removed, and (3) suppliers could have been added to the mailing list but were not. We brought this matter to the attention of regional officials and pointed out that more care is required in the compilation and maintenance of these lists to have a ready access to adequate sources of supply and to minimize the administrative costs of procurement actions.

Regional officials stated that buyers will be instructed to consider more carefully the various sources of supply and that steps will be taken to give proper effect, in the maintenance of bidders mailing lists, to responses received from those solicited.

We also noted that the Washington, D.C., Regional Office was performing unnecessary administrative work by distributing bid invitations to suppliers who were not interested in bidding under the invitations. Regional officials informed us that steps will be taken to develop more effective bidders mailing lists for use by the regional office.

GSA to make more effective use of Records of Vendor Performance.--The effectiveness of General Services Administration's supply effort is often hindered by the continued failure of suppliers to deliver acceptable products and/or to make delivery within the time specified in their contracts. Instances where vendors' supply shipments do not meet product specifications or delivery requirements, or otherwise fail to meet contract provisions, are required to be recorded on a Record of Vendor Performance. Contracting officers are to consult these records in evaluating and selecting responsible sources of supply when new contracts are awarded and may disqualify a vendor with a history of poor performance. Unless these records are kept current and consulted regularly, inadvertent awards to unsatisfactory vendors could result.

In our reports issued during fiscal year 1959 covering our audits at GSA's Seattle, Denver, and Atlanta regional offices,

we observed instances where (1) contracting officers were not reviewing the Records of Vendor Performance prior to making awards, (2) new contracts were awarded to suppliers who were delinquent under prior contracts, (3) vendors' deficiencies in performance were not currently posted to the Records of Vendor Performance, and (4) delinquent deliveries under national contracts were not reported by the regional office to the National Buying Division (NBD) of GSA as required by internal procedures.

These findings were discussed with officials at the regional offices of GSA who agreed to take appropriate corrective action by bringing the records up-to-date and keeping them current, reminding buyers to consult these records prior to making awards, and reporting instances of delinquencies to NBD as required.

Deficiencies in Public Health Service contracts for part-time physician services corrected.--During the fiscal year we reported to the Secretary of Health, Education, and Welfare that our reviews of contracts for part-time physician services negotiated by the Tampa Outpatient Clinic and approved in Washington disclosed the following weaknesses in contracting practices.

1. One-year contracts included 2-year automatic renewal clauses.
2. A contract amendment gave the contractor increased benefits without consideration to the Government.
3. The terms of the contracts were so indefinite that the related expenditures could not be checked.

We discussed these contracts with Public Health Service officials in Washington and were advised as follows:

1. Contracting will be decentralized and contracts will be limited to 1-year periods without renewal clauses.
2. No amendments to contracts will be made involving price increases unless added benefits to the Government result.
3. Terms of the contract will be made definite and will be specific as to duties and fees. Services not covered by the terms of the contract will be obtained under open-market procedures.

Contractors' accounting procedures permitted unallowable costs to be charged to Government contract.--In our report to the Atomic Energy Commission on the audit of a cost-type contract, we pointed out that AEC had not required the contractor to maintain financial records showing separately costs reimbursable under the contract and costs clearly unallowable under the contract or specifically acknowledged by the contractor to be nonreimbursable.

The contractor had charged to the AEC contract as operating costs items stated to be unallowable. This practice places on the Government the burden and expense of repeatedly searching for and identifying the costs that are specifically and clearly unallowable. In the absence of a complete detailed audit, the contractor's practice increases the possibility of unallowable costs remaining undiscovered and of the contractor being incorrectly reimbursed for such unallowable costs. We recommended that AEC require the contractor to maintain financial records clearly identifying and segregating all costs which are unallowable under the AEC contract.

Unallowable costs admitted to negotiation.--Our review disclosed that AEC permitted certain overhead costs, which are clearly unallowable under the contract or acknowledged by the contractor to be nonreimbursable, to be admitted to negotiation. These costs related to entertainment, advertising, contributions, and car rentals. We recommended that in the future AEC refuse to permit such costs to be admitted to negotiation. We recommended also that an adequate record be maintained of Board determinations concerning cost classifications and reimbursement disallowances. AEC informed us that it concurred in these recommendations.

Recommendation that AEC obtain extended right to receive information and reports on operation of nuclear power plant.--We also found that under certain conditions the rights provided to AEC under its contract with the Consumers Public Power District for examining and studying the technical and economic aspects of the work, and for receiving information and reports, may end in less than 3 years after initial operation of the reactor. We recommended, and AEC agreed, to negotiate with Consumers an amendment to the contract to provide that AEC continue to have the right to receive information and reports until expiration of the terms stated in the contract in the event Consumers exercises its purchase option and continues to operate the facilities.

Recommendation that precontract agreement be confirmed.--Our audit of the Consumers Public Power District, a public corporation and political subdivision of the State of Nebraska and a participant in AEC's Power Demonstration Reactor Program disclosed the need to strengthen and clarify the contractual arrangements to assure adequate protection of the interests of the Government. Under the Power Demonstration Reactor Program, AEC cooperates with industry by bearing costs associated with the nuclear power reactors and, in return, receives technical and economic data for dissemination to the public.

In addition to the costs normally shared, Consumers was granted additional financial assistance by AEC, estimated at \$865,000, to offset excess costs that Consumers would incur because of the necessity of purchasing a conventional boiler for use with the turbine generator until the reactor becomes fully operative. Prior to execution of the contract, Consumers agreed that

if the excess costs actually incurred by it because of the necessity for use of a dual heat source prove to be less than the additional financial assistance granted by AEC to offset such costs, Consumers would review the costs with AEC and negotiate an adjustment. The contract as executed, however, did not contain a provision to this effect. We recommended, and AEC agreed, to obtain a confirmation from Consumers of the precontract agreement.

Review of factors affecting purchases of materials and supplies

Prevention of unnecessary expenditures for stockpile materials.--In our review of General Services Administration stockpiling activities, we questioned, in two cases, the need for procuring and processing stockpile materials in excess of mobilization requirements. Corrective action by the agency resulted in the prevention of unnecessary expenditures of approximately \$526,000.

1. Procurement of antimony from contractor in default

We noted that a contractor had failed to meet scheduled deliveries under a contract for procurement of antimony. The Government's policy at that time was to limit all new purchases of stockpile materials to the quantity necessary to fill established "procurement priority" levels; the level had been exceeded in the case of antimony. Since the contractor was in default on his deliveries, we recommended that GSA consider terminating this contract to avoid the purchase of material no longer required for the stockpile. After review of the prospective antimony situation by the Office of Civil and Defense Mobilization, the contractor's right to proceed with any further deliveries, except for quantities theretofore produced, was terminated by GSA on September 29, 1958. As a result, about \$500,000 reserved for the purchase of antimony was made available for other procurement needs, and an acquisition of surplus antimony was averted.

2. Production of oxygen-free copper from copper cathodes in national stockpile

In the other case, following our recommendation and with the concurrence of OCDM, GSA negotiated a reduction in the quantity of oxygen-free copper to be produced under a proposed contract from copper cathodes in the national stockpile, thus averting an excessive acquisition estimated at \$26,000.

Measures taken to correct deficiencies in computing procurement requirements for depot stocks.--General Services Administration controls depot stock levels largely through the use of predetermined reorder points and replenishment guides based on estimated future demand. Stock items are replenished when the quantity on hand has been reduced to a certain predetermined level (reorder point). Among the factors used in computing the reorder point are (1) lead time or estimated time between stock replenishment action and delivery and (2) the expected monthly rate of issue. These elements should be reviewed and revised periodically, based on current information, to maintain well-balanced inventories, thus avoiding overstocks and shortages.

In our reports issued during fiscal year 1959, we commented on instances at certain regional offices where (1) the estimated

monthly rate of issue was not changed for relatively long periods of time although the actual monthly rate of issue materially increased or decreased, (2) the lead time was significantly greater than actual delivery experience, and (3) estimated stock order requirements were arbitrarily reduced.

Regional officials reviewed our findings, issued instructions stressing the importance of following prescribed procedures, and stated that further efforts will be devoted to increasing the efficiency of inventory management.

Changes to be made by GSA in contract arrangements for furnishing bookcase components to using agencies.--Although bookcase components were intended to be made available to customer agencies by ordering directly from contractors on the Federal Supply Schedule, most agencies were sending their orders to the various General Services Administration depots where they were filled from depot stocks. The depots, which obtained their requirements from the same contractors, could give the agencies faster delivery than the contractors by buying and stocking these items in large quantities. To encourage agencies to place their orders directly with Federal Supply Schedule contractors, thereby saving depot handling costs, we recommended that the Federal Supply Service review existing contract arrangements to determine whether more satisfactory delivery terms could be obtained. If more satisfactory delivery arrangements could not be obtained, we suggested that GSA determine whether it would be more advantageous to replenish stores stock through use of forward-type term contracts under which GSA obtains other items of office furniture, such as desks and chairs, and under which it may be possible to obtain a better and more reliable supply service and possibly lower prices.

GSA informed us that procurement methods for bookcase components were reviewed and as a result steel bookcase sections will be eliminated from future Federal Supply Schedules, and term contracts will be established for these items.

Suggestion that practices regarding acceptance of substandard merchandise without compensating price reduction be reviewed.--When merchandise received by General Services Administration for stores stock does not meet specifications or comply with packing or marking requirements, the contracting officer may accept the item at the contract price or at a reduced price or he may require the contractor to replace or repair the item furnished. In fiscal year 1959, we reported that a number of substandard items had been accepted without price reductions by the Denver Regional Office where, in our opinion, price reductions might have been obtained. Furthermore, the records did not contain what we considered to be valid reasons for not obtaining price reductions.

The Regional Commissioner acknowledged that our observations had alerted the region to the problems of a too liberal attitude

and stated that the regional office practices regarding acceptance of nonspecification merchandise were being carefully reviewed. He also agreed that enough information would be included in the files to properly evaluate the actions taken.

Potential savings in the use of bulk dispensers.--During the year we reported to the Administrator, Veterans Administration (VA) that milk was being served in certain hospitals in individual half pint milk containers. The use of bulk dispensers at one of the hospitals would result in annual savings of \$29,000, or 1.4 cents a serving.

We recommended that the VA Central Office request hospital managers to consider the practicability of using bulk milk dispensers. VA Central Office officials have now authorized hospitals to use bulk dispensers.

Possible savings in purchasing razor blades from General Services Administration (GSA).--We reported to the Administrator of Veterans Affairs that at one VA hospital we observed that razor blades were purchased during the year from a manufacturer at a cost of \$4,590. The same number of razor blades could have been purchased from the GSA at a cost of \$1,293, which would have resulted in an estimated annual savings of \$3,297. We were advised that the GSA blades were not used because about 5 years ago lower cost blades were considered to be unsatisfactory. Hospital officials agreed to use the lower priced blades obtainable from GSA on a trial basis.

Suggestion that GSA's fee for marking materials be reviewed to assure recovery of cost.--The hourly fee assessed vendors by the Atlanta Regional Office, General Services Administration, to cover GSA's expense in marking or remarking materials not properly marked by suppliers did not appear to be high enough to cover these expenses. Improper marking by vendors causes extra expenses to the Government which, in our opinion, should be fully recovered. We recommended that GSA Central Office review that costs in the Atlanta Regional Office and determine whether an increase in the fee charged the vendors should be made. GSA informed us by letter dated June 2, 1959, that a review would be made to determine whether the fee is sufficient to fully recover all applicable costs.

Review of warehousing of materials and supplies

Hazardous conditions removed.--In October 1958, we submitted to the Congress a special report on hazardous conditions at the Washington City Post Office Building. Our report commented on the hazards of storing and dispensing gasoline in the subbasement of the building, the location of a motor repair unit in a section of the subbasement adjacent to gasoline pumps used for refueling vehicles, an inadequate ventilation system in the area used to unload gasoline trucks and refuel motor vehicles, and the questionable serviceability in most cases of the fire extinguishers, fire hose, and nozzles. By letter dated September 11, 1958, we transmitted our findings and recommendations for corrective action to the Department and, on October 1, 1958, the Department informed us that immediate corrective action had been taken.

Action taken to obtain reduced freight rates on shipments to cost-type contractors.--Shipments of stock items from the Atlanta stores depot, General Services Administration, to independent contractors performing work under Government cost-type contracts were not always being made at the most economical freight rates available in that rate tenders made by the carriers under section 22 of the Interstate Commerce Act, at lower than the regular established tariff rates, had not been amended to cover shipments to all cost-type contractors to which they could be applied. Since other GSA stores depots also make shipments to cost-type contractors, we recommended that the Commissioner of the Transportation and Public Utilities Service, GSA, determine whether existing section 22 rates cover shipments to all such contractors to which they could be applied and amend such rate tenders, as necessary, to obtain reduced freight rates where they are available.

GSA informed us by letter dated June 2, 1959, that the Atlanta Regional Office was amending 20 of its section 22 rate tenders to cover shipments to cost-type contractors and that all Regional Directors of the Transportation and Public Utilities Service were requested to take similar action where appropriate. These actions should increase the use of these advantageous freight rates with a consequent savings through a reduction in transportation charges.

Recommendation that effort be made to reduce large number of small orders handled by GSA for Air Force installations.--In our audit reports to the Administrator, General Services Administration, we pointed out that a relatively large number of small orders and single item orders are customarily received by the GSA stores depots from Air Force bases, and it appeared that the Government could save money if such orders were consolidated at the time of issuance by each base. We recommended that GSA review the situation with the Air Force to determine whether the existing procedures should be revised.

GSA stated that consolidating Air Force small orders, which arise from separate operating areas within a base, is very complex

and that part of the problem is caused by the fact that Air Force regulations require single line-item orders when supplies are ordered from Air Force depots and on occasion this results in single line-item requisitions being received by GSA. GSA also advised us that it is endeavoring to find other reasons for these small orders from the Air Force and to determine what corrective action can be taken.

Review of procedures for issuance of supplies

Instructions issued to reduce uneconomical shipment of small quantities.--We reported to the Administrator of Veterans Affairs that we had observed instances where a VA supply depot had made uneconomical separate shipments of open items on back orders to a hospital. The freight cost of the separate shipment amounted to about 50 percent of the value of the goods. We discussed this practice with the Supply Officer at the hospital and were informed that in such instances he had authority to cancel back orders and that, if necessary and advantageous, small purchases could be procured locally.

We recommended that the VA Central Office officials emphasize to hospital managers and supply officers the policy of canceling items back ordered by the depot when such items constitute an uneconomical shipping lot.

VA officials have issued revised procedures to depot managers to withhold shipment of back orders until release of the next regular shipment unless urgently needed.

Control over issuance of subsistence supplies improved.--During fiscal year 1959, we reported to the Secretary of Health, Education, and Welfare that our review of activities at the Boston Public Health Service Hospital disclosed numerous adjustments to the stock control records which indicated inadequate control over subsistence supplies.

We were advised by the Department that controls have been strengthened by prescribing more adequate documentation to cover the issuance of stock, and that no issues will be made without signed receipts.

Greater control over the issuance of supplies required.--During fiscal year 1959, we reported to the Surgeon General, Public Health Service, Department of Health, Education, and Welfare that our review of issues of pharmacy supplies at the Public Health Service Outpatient Clinic, Washington, D.C., disclosed (1) that the quantities of drugs issued on prescriptions appeared excessive to needs for current illnesses and (2) that nondrug items were issued to employees who may have been ineligible.

From a review of 800 prescriptions, it appeared to us that in some instances drug items may have been issued too liberally to individuals. In other instances nondrug items such as sun protective cream and sun skin cream were provided to ineligible employees.

Officials of the Division of Hospitals stated (1) that they would exercise greater care to prevent the issuance of drugs to ineligible persons and (2) that the issuance of drugs should be limited to quantities needed for current illnesses.

Control over prescriptions issued to be improved.--We reported to the Surgeon General, Public Health Service, Department of Health, Education, and Welfare, during fiscal year 1959, that our review of prescriptions issued for civilian employees at a Public Health Service outpatient clinic disclosed (1) instances where drugs were issued free without explanations that the illnesses or injuries were incurred in line of duty and (2) that the quantities of drugs issued for single illnesses appeared excessive. The Public Health Service accepted our recommendations that all prescriptions issued be identified by appropriate case number; that prescriptions issued for civilian employees be marked "employee"; and that the Medical Officer in Charge periodically review the prescriptions for eligibility of recipient and propriety of quantity of drugs furnished.

Review of inventory procedures

Procedures for taking physical inventories to be improved.-- During the year we reported to the Administrator of Veterans Affairs that in our audits of VA hospitals we observed weaknesses in the procedures for taking inventories in that employees recording physical counts were provided with a listing of the quantities shown by perpetual inventory records. Use of lists showing quantities on hand provides an opportunity to record the quantities shown on the list in lieu of making an actual physical count.

We recommended that any lists furnished employees assigned to count physical quantities of inventory should not include the quantities shown in perpetual inventory records. VA officials concurred with this recommendation and indicated that corrective action would be taken.

Instructions to be issued to eliminate excessive recordkeeping for office forms and publications.-- In our review of selected supply activities at various field stations of the Veterans Administration for fiscal years 1957 and 1958, we noted excessive detailed perpetual inventory recordkeeping for office forms and publications. The cost of maintaining these detailed records for 90- and 30-day stock levels was not warranted in view of the nominal cost of the forms and publications.

In our report to the Administrator of Veterans Affairs, we recommended that the VA revise its procedures to eliminate perpetual inventory controls for office forms and publications and to require the handling of these items on a simplified basis of determining reorder levels.

In July 1959, the VA stated that new policy statements were in process which will provide for a simplified method of control and distribution of forms.

Suggestions made to improve procedures for taking physical inventories.-- During fiscal year 1959, we noted the following deficiencies in the physical inventory procedures at certain General Services Administration stores depots.

1. At one stores depot, we noted a high percentage of errors in the stock locator files showing the location of each stores stock item. These files should be kept current and accurate if they are to serve their intended purposes of permitting maximum space utilization, affording speed and accuracy in withdrawing stock, and facilitating issuance of stock on a first-in, first-out basis so that losses from stock deterioration will be minimized.

2. At another stores depot, results of prior counts were available to persons assigned to recheck stock quantities. All recounts should be performed without access to previous count cards so as to require an independent check. GSA inventory procedures

recognize this principle and prescribe the use of new cards each time an inventory recount is made.

3. At one stores depot, approximately 28 percent of the initial count cards required a recount. Some of these recounts were caused by erroneous stock numbers and units of issue on the count cards. These errors could have been corrected and the recounts avoided had the data been entered on the count cards when they were attached to the stock items to be counted and subsequently checked at the time of the count.

Regional officials advised us that appropriate corrective action would be taken or considered in each case.

Need for better control over quantities purchased and on hand.--Our report on review of management controls of the District of Columbia Government pointed out that each of the major departments is responsible for procuring and warehousing common-use materials and supplies, that the lack of coordination of the requirements and stocks with those of other departments results in an increased investment in inventories and is a costly and inefficient practice, and that the controls over the inventories are inadequate.

We recommended that the Board of Commissioners give consideration to adopting procedures for general application throughout the District providing for the maintenance, on a uniform basis, of controlled inventory records. The Board of Commissioners stated that this recommendation would be dealt with in its over-all program for improvement of financial management.

Need for review of supply activities.--Based upon our findings at the Baltimore hospital we recommended that attention be given by the Office of the Secretary, Department of Health, Education, and Welfare, and the Public Health Service (PHS) to a review of the supply activities, including accounting and reporting for supplies and equipment, for the purpose of initiating improved techniques at all PHS hospitals.

After reviewing our findings, officials of the Public Health Service advised us during fiscal year 1959 that, on the several statements and recommendations relating to supply management and property management, a considerable amount of examination of both procedures and cases would be necessary. They stated that the studies would be made promptly to determine the necessary corrective action to be taken.

Review of surplus real property disposal activities

Following our review of surplus real property disposal activities at the San Francisco Regional Office, General Services Administration, the Administration made a number of changes in procedures to improve the Administration of disposal activities.

Changes to result in better administrative control over surplus property disposals.--Our review disclosed unjustified departures from established procedures and a need for more careful attention to all pertinent aspects of individual disposal actions. We reported the detailed circumstances to the Administrator of General Services in fiscal year 1959.

The Administration has informed us that, as a result of changes in the Public Buildings Service Central Office organization and institution of new administrative procedures, the Central Office is now in a position to maintain better control over disposal activities in the regions and to offer timely assistance and advice in an effort to preclude or at least greatly reduce the recurrence of the conditions noted during our review.

Changes made to improve documentation of disposal actions.--Our examination disclosed that the files often did not contain documentation clearly showing the actions taken or the basis for decisions made by regional officials pertaining to the disposition of the properties involved. During fiscal year 1959, we reported this condition to the Administrator of General Services pointing out that, to promote an effective basis for management review and control over disposal activities, the regional officials should devote continuing attention to the preparation and maintenance of adequate disposal records.

The Administration has advised us that, as a result of new procedures, proper and complete documentation of each disposal transaction is now being prepared in the region.

Changes made to assure financial responsibility of purchasers of surplus real property.--Our review disclosed that the regional office had not established adequate procedures to (1) limit extension of credit to financially responsible purchasers of surplus real property and (2) determine whether current payments of taxes and assessments were being made by purchasers to whom credit terms had been extended. We found that credit investigations of prospective purchasers were not always made and that provisions of deeds of trust requiring the furnishing of official tax receipts to the Government were not enforced.

These matters were reported to the Administrator of General Services during fiscal year 1959, and the agency has advised us that adequate procedures are now in effect providing that (1) sales contracts will not be awarded until appropriate credit and financial clearances are obtained and (2) copies of tax receipts will be obtained in all cases where deemed necessary to protect the Government's interests.

Retention of lands in excess of project needs.--Our review of the status of lands controlled by the Bureau of Reclamation, Department of the Interior, indicated that the Bureau is retaining

control over substantial amounts of land not needed for project purposes. To accomplish the Bureau's stated objectives of disposing of unneeded lands and putting to beneficial use those lands which must be retained for reclamation purposes, we recommended in November 1958 that the Bureau place emphasis on compliance with the provisions of the Reclamation Instructions which require comprehensive reviews of lands withdrawn from the public domain and disposal of lands not needed for reclamation purposes.

In April 1959, the Department of the Interior advised us that retention of certain lands was justified and that the need for certain other lands was being or will be reviewed.

Review of construction of public buildings

Savings of \$1,800,000 will result from prepayment of lease-purchase contract on Rock Island public building project.--Our report to the Congress dated November 17, 1958, on the review of the financing and construction of the United States Post Office and Courthouse public building project at Rock Island, Illinois, included comments pertaining to possible prepayment of the unpaid balance of the purchase price of the building being financed under a lease-purchase contract over a 25-year period. We stated that if the Government exercised its right of prepayment to be effective on November 8, 1959, the date on which the third annual payment fell due, savings of about \$1,845,000 would result by eliminating the requirement for future payments of interest under the contract and real estate taxes on the building.

We suggested that, in view of the savings that could be achieved because of a favorable prepayment provision in the contract and the indication of congressional intent evidenced by the legislative history of the Independent Offices Appropriation Act, 1959, to finance public buildings projects by direct appropriation rather than by the more costly lease-purchase method, the Congress might wish to provide a specific appropriation for the purpose of prepaying the unpaid balance of the Rock Island contract.

The Independent Offices Appropriation Act, 1960, subsequently enacted (Public Law 86-255, approved September 14, 1959), provides that the General Services Administration appropriation "Construction, Public Buildings projects" shall be available for prepayment of purchase contracts. Pursuant to this provision, GSA has notified the contractor of the Government's intention to prepay the unpaid balance of the Rock Island lease-purchase contract amounting to about \$1,500,000. Savings that will result from prepayment are now estimated at about \$1,800,000.

Procedure suggested for reducing space loss in public buildings because of location of high-ceiling courtrooms.--During fiscal year 1959, we reported on our review of the financing and construction of the post office and courthouse public building project at Rock Island, Illinois. The courtroom in the new building was located on the first floor and had a high ceiling extending into the second floor. With slight structural modification involving an estimated cost of \$59,000 at the time of construction, the courtroom could have been located on the second floor with its high ceiling extending into the roof, thereby making available additional usable office space of 2,300 square feet on the first floor.

We recommended to the Administrator of General Services that appropriate consideration be given in the design of future public buildings to locating high-ceiling courtrooms in areas having the least effect on the space which would otherwise be available for assignment to Government agencies.

The Administration stated that certain advantages resulted from having the courtroom in the Rock Island building located on the first floor but agreed that, as a general practice, such space should be located on the top floor of a building when conditions are favorable.

Suggestion that provision be made for the possible future enlargement of small public buildings.--Our review of the financing and construction of the post office and courthouse public building project at Rock Island, Illinois, under the lease-purchase program disclosed that no suitable space was available in the new building to meet possible future expansion of Government activities in the Rock Island area. Furthermore, only a limited addition to the building was possible horizontally because the building occupied all but a small part of the building site which was bounded on all four sides by city streets. Notwithstanding the limited potential for horizontal enlargement, no provision was made in the building design for future vertical expansion.

We recommended to the Administrator of General Services that, to provide for the possible need to enlarge future small public buildings which are intended to house substantially all Federal activities in the area and where horizontal expansion of the buildings is not feasible, appropriate consideration be given to the desirability of including in the original design of the buildings the structural and mechanical features necessary to permit subsequent construction of additions.

The Administration stated that its experience has been that future vertical additions to buildings are unlikely, but agreed that the possible need for future expansion should be considered carefully before final plans are approved and stated that it intends to continue this practice.

Review of property maintenance

Policy to be established for controlling maintenance and operating costs.--In our report issued in July 1958 to the Commandant, United States Coast Guard, we commented upon the high cost of maintaining certain officer family quarters and surrounding grounds. The costs substantially exceeded the quarters allowances which otherwise would have been paid to the officers concerned. We recommended that the Coast Guard (1) take action to bring future costs at the reported locations generally in line with the quarters allowances that would otherwise be paid, (2) establish guidelines and criteria to control maintenance and operating costs applicable to all Coast Guard officers' quarters, and (3) consider discontinuing the use or disposition of any officers' quarters which cannot be economically maintained and operated. The Commandant replied in November 1958 that it was considered impractical to limit the cost of maintenance and operation of these quarters to the quarters allowance which would otherwise be paid to the occupants.

The Commandant concurred, however, that such quarters should be economically maintained and operated and stated that a servicewide directive was being prepared to set forth a policy concerning repair and improvement of Coast Guard family quarters.

Claims for rusting grain bins not asserted against supplier.--
During our audit of the Commodity Credit Corporation (CCC), Department of Agriculture, for the fiscal year 1958, we noted that within about a year after purchase and erection of certain galvanized metal grain bins corrosion and rust spots developed. Rehabilitation of the bins was undertaken at the expense of CCC even though it appeared that CCC could have had recourse under the supplier's warranty.

Our discussions with CCC officials indicated that they were considering asserting a claim for the cost of painting the areas where corrosion had developed. Because of the condition of the bins as described in the report of a metallurgical engineer, we expressed our belief that CCC should seriously consider whether its contemplated action was sufficient.

Review of buildings management activities

Decision on use of agency appropriations for payment of costs of air conditioning space in buildings under GSA control.--Our review of selected aspects of General Services Administration activities pertaining to air conditioning in GSA-controlled buildings disclosed that it was a common practice of GSA to obtain reimbursement from Federal agencies for the cost of air conditioning space which the agencies occupied in federally owned buildings under the control of GSA, where the GSA appropriations were considered insufficient for the purpose.

In a decision dated September 11, 1958, to the Administrator of General Services, we advised GSA that, in the absence of a specific provision therefor in an agency's appropriation or of a showing in the legislative history of that act that the Congress intended the funds therein to be available to the agency for air conditioning space it occupies in federally owned buildings under GSA control, we must hold that the agency's funds are not available for such a purpose, except to make space suitable for scientific, laboratory, or other specialized purposes. This decision was called to the attention of all GSA regional offices in a memorandum dated September 26, 1958, by the GSA Central Office.

Need for revision of GSA's standard practices in the management and servicing of buildings.--In a letter dated March 4, 1959, to the Chairman, Senate Committee on Government Operations, we stated that the funds of the Federal Aviation Agency and certain predecessor agencies were not available to reimburse General Services Administration for the cost of certain proposed renovation work at the old Emergency Hospital in Washington, D.C., occupied by the Federal Aviation Agency. GSA had considered the cost of the work to be reimbursable as a special availability of the agencies' appropriations for such work, in accordance with its long-standing standard practices in the management and servicing of buildings. GSA requested our reconsideration of the matter on the grounds that the ruling placed in doubt its whole reimbursable work program.

Our decision of May 13, 1959, 38 Comp. Gen. 758, in reply was based primarily on our conclusions that (1) the proposed renovation work generally must be regarded as a normal service--as opposed to a special service and (2) even if it could be considered a special service, the renovation of the building must be regarded as a "public improvement" within the meaning of section 3733, Revised Statutes (41 U.S.C. 12), and since there is no specific authority for public improvements in the Federal Aviation Agency appropriations as required by section 3733, Revised Statutes, such appropriations were not available to reimburse GSA for the renovation work.

The Administrator of General Services was advised that we would not generally object to the continuance of the present practice of performing special service work for the agencies on a

reimbursable basis without regard to the specific availability of the agencies' appropriations provided the matter is promptly and fully disclosed to the Congress, but that prompt action should be taken by GSA to revise the standard practices in order to (1) exclude from the reimbursable work category the items not qualifying for reimbursement because of the provisions of section 3733, Revised Statutes, or other applicable laws or decisions and (2) define more specifically the classes of work which may and may not be performed on a reimbursable basis. We further stated that this action should be taken in order that necessary revisions in the standard practices may be reflected in GSA's 1961 budget submission to the Congress.

Review of leasing policies and procedures

Steps taken to provide more extensive solicitation of prospective bidders on leases involving construction of large new buildings.--Since 1950 the Atlanta Regional Office, General Services Administration, had entered into at least five leases involving the construction by lessors of new office buildings for Government occupancy, each containing over 50,000 square feet of space. Our review disclosed that solicitation of prospective bidders on leases of this type was limited largely to the area in or near the cities where the buildings were to be constructed. During fiscal year 1959, we recommended in a report to the Administrator of General Services that, to encourage maximum competitive bidding on future leases of this type involving sizeable rental payments, the Commissioner, Public Buildings Service, consider requiring the regional offices to solicit bidders for such leases on a nationwide basis, as is done on contracts for the construction of Government public buildings projects. GSA has informed us that steps have been taken to provide more extensive solicitation of bids for larger lease acquisitions.

Reports on condition of leased premises to be prepared in future.--Our review of policies and procedures relating to leasing of space in the Atlanta Regional Office, General Services Administration, disclosed that the regional office had not prepared reports on the condition of leased premises as of the effective dates of the leases. Detailed reports on the condition of leased premises at the time of acquisition by the Government constitute, in our opinion, an important record for use in protecting the Government against unwarranted claims by lessors for damages to leased premises.

During fiscal year 1959, we discussed this matter with regional and Central Office officials. We were informed that reports on the condition of leased premises would be prepared in the future.

Improved controls to be established over expenditures for alterations, improvements, and repairs to leased premises.--We found during our review of leasing activities in the Atlanta Regional

Office, General Services Administration, that a need existed for improved control over expenditures for alterations, improvements, and repairs to leased premises subject to the 25 percent limitation of the Economy Act (40 U.S.C. 278a) in order to give effect on the limitation control records to variations between job order estimates and expenditures incurred. Need for improvement in controls over this congressional limitation was noted also during our reviews of GSA activities in New York, Chicago, Dallas, and Washington, D.C.

In a report dated April 22, 1959, to the Administrator of General Services, we recommended that GSA establish procedures providing for maintaining the limitation control records on a uniform basis in all regional offices. GSA has advised us that uniform requirements will be worked out under a system which will provide for improved control over expenditures subject to the 25 percent limitation of the Economy Act and which will require periodic internal audits of the records.

Premature renewal of leases to be discontinued.--Our review of about 30 percent of the lease renewals by the Atlanta Regional Office, General Services Administration, disclosed that, on the average, notices exercising renewal options in leases were sent to lessors 65 days in advance of the dates these notices were required under the terms of the leases. Since agency requirements for space may change between the time renewal options are exercised and the time the renewals become effective, we considered it desirable that the options be exercised as near as practicable to the date required under the terms of the lease so as to reduce the risk of leasing either excessive or inadequate space.

This matter was reported to the Regional Commissioner who informed us that in the future renewal notices would not be sent to lessors more than 15 days in advance of the date required under the terms of the leases.

Inspection and reporting on space utilization to be improved.--Our review of policies and procedures relating to leasing of space in the Atlanta Regional Office, General Services Administration, disclosed that much fewer reports were prepared in fiscal year 1958 than in prior years covering regional office inspections of the manner in which agencies were utilizing space assigned to them in Government-owned and leased premises. Under GSA Central Office procedures, systematic detailed physical inspections of space assigned to tenant agencies are required to be made periodically to evaluate the adequacy of assigned space and the effectiveness of agency space utilization. The procedures call for formal reports of findings on each inspection, with recommendations for corrective action where necessary.

Regional and Central Office officials with whom this matter was discussed agreed that a need existed for more space utilization

inspections. It was stated that area managers would make systematic space utilization inspections during fiscal year 1959 of all large areas under GSA assignment control and that written reports would be prepared on these inspections.

Inadequate space utilization inspection activity was noted also during our reviews at the Chicago and New York Regional Offices of GSA. Regional officials at these locations stated that corrective action would be taken.

Relatively low rental rates obtained on negotiated grazing leases.--During our audit at the Columbia Basin Project, Bureau of Reclamation, Department of the Interior, we noted that rental rates for grazing lands leased after negotiation were substantially lower than rental rates for grazing lands leased after solicitation of bids. In November 1958 we recommended that emphasis on award of grazing leases through competitive bidding be continued and that in instances where leases are negotiated every effort be made to obtain a rental rate which is at least equal to the average rate obtained under leases awarded through competitive bidding on comparable lands.

In April 1959, the Department of the Interior advised us that new negotiating procedures were being followed and that the rate used for negotiating grazing leases for the project compares favorably with rates received through competitive bidding on comparable lands.

Review of procedures for recovery of costs

Recommendations adopted to assure recovery of reimbursable costs.--Our review of the Highway Fund activities of the District of Columbia Government disclosed that the District had not claimed reimbursement from Federal funds for certain eligible costs incurred on Federal-aid highway projects.

We recommended that (1) a system of cost accounting be developed for accumulating by project all costs incurred in the construction of Federal-aid highway projects, (2) procedures be developed for claiming reimbursement from Federal funds of all eligible interstate and local highway construction project costs, (3) claims be filed for reimbursement from Federal funds of all eligible costs on incompletd projects, and (4) future highway project agreements provide for obtaining reimbursement from Federal funds of all eligible costs.

The Board of Commissioners advised us that action was being taken to comply with our recommendations. Also, a discussion of these matters with District officials resulted in the District's requesting and obtaining permission from the Bureau of Public Roads to reprogram a specific interstate project which resulted in obtaining an additional reimbursement of about \$195,000 from available Federal funds.

Legislation enacted to clarify responsibilities for recovering cost of construction.--In our audit of the Wapato irrigation project, Bureau of Indian Affairs, Department of the Interior, we noted that, although legislation proposed in the 86th Congress provided for the assignment to the project of certain costs incurred by the Bureau of Reclamation, Department of the Interior, for water rights obtained from the Yakima reclamation project, it did not clarify whether such costs were to be collected from water users on the Wapato irrigation project. This matter involved \$799,954 of construction costs, the disposition of which had remained unresolved since the completion of the reclamation storage works in 1933. We recommended that the Secretary of the Interior make provisions for the payment or disposition of these costs and, if necessary, request legislation to clarify the manner in which this should be accomplished. The proposed legislation, including an amendment submitted by the Department to authorize the Bureau of Indian Affairs to use appropriated funds to pay the Bureau of Reclamation for these costs, was enacted as Public Law 86-204 on August 25, 1959.

Action to be taken to provide for repayment or other disposition of operation and maintenance costs.--In our report on the audit of the Wapato irrigation project, Bureau of Indian Affairs, Department of the Interior, we recommended that the Commissioner of Indian Affairs take collection action or determine proper disposition of \$1,291,416 classified as reimbursable operation and maintenance costs due the Government. We recommended also that

the Commissioner establish effective management controls over the allocation and distribution of all operation and maintenance costs to provide for the equitable distribution of reimbursable costs to the project units.

We were advised by the Department of the Interior that appropriate action will be taken to provide for the repayment or other distribution of the amounts classified as reimbursable operation and maintenance costs. We were advised also that current management controls and procedures for allocation and distribution of operation and maintenance costs will be reviewed and such changes as may be found necessary will be made to equitably distribute these costs among the various units of the project.

Regulations to be changed for better control over local contributions in Corps of Engineers projects.--Our report to the Chief of Engineers, Corps of Engineers (Civil Functions), on our review of selected activities in fiscal year 1958 commented on betterments provided to a city without the required local contribution. During the review we noted that Federal costs in connection with the construction of a bridge at Cape Girardeau, Missouri, were substantially increased because a new and wider bridge had been substituted at the request of local interests for the bridge originally planned. The city of Cape Girardeau benefited from the change in plans, but, because of a lack of effective communication between the district, the division, and the Office of the Chief of Engineers (OCE), the Corps did not request the city to contribute to the increased costs.

We recommended that the Chief of Engineers emphasize to division and district offices the necessity of submitting clear and complete information essential to the evaluation of requests for project design changes. The Chief of Engineers concurred in our recommendation and advised that to prevent future occurrences of this kind, current regulations dealing with the acceptance of contributed funds would be amended to require that pertinent correspondence received from local interests be transmitted to OCE in the future and that a full explanation of the circumstances of the request be contained in the transmittal.

Pricing formula for reconditioned office machines to be studied.--Our review of selected transactions of the office machine repair shop in the Washington, D.C., Regional Office of General Services Administration indicated that prescribed procedures for establishing acquisition values and sales prices for excess office machines (other than typewriters), acquired by GSA without reimbursement for subsequent reconditioning and reissue to Federal agencies, may result in the customer agencies paying considerably more than necessary to reimburse GSA for its costs. We recommended that the Federal Supply Service consider establishing sales prices at the lowest level necessary to recover the costs financed by the General Supply Fund in making these machines available for reissue.

GSA informed us that it would investigate the problems involved in determining selling prices of rehabilitated office machines and take appropriate action based on the findings noted during the investigation.

Review of charges for Government-furnished services

Improvements to be made in policies on fees and charges for airport facilities and services.--In our report to the Congress on our audit of the Washington National Airport for the fiscal years 1956-58, we brought out that the airport management had not had the benefit of an established long-range policy as to the basis of setting fees and charges for airport facilities and services. The effect has been that the level of fees and charges embodied in existing arrangements has not been closely enough tied to the principle of operating the airport as a self-sustaining business enterprise.

We pointed to certain shortcomings and problems in the existing basic-use contracts which govern landing fees and terminal building rents payable by the scheduled airlines, particularly the lack of flexibility for adjusting fees and rentals in long-term contracts, the inadequate cost basis on which rentals were determined, delays in exercising escalation clauses, inequities in the system of landing fees, and the questionable need for ramp charges as a separate fee. We also referred to the inconsistent policy in charging other Federal agencies for facilities and services used by them at the airport.

We recommended that the Federal Aviation Agency (1) issue a general statement of policy that the basis of fees and charges is to be founded on the principle of a self-sustaining operation of the airport, (2) seek appropriate revisions at the time of negotiating new basic-use contracts to overcome the deficiencies of the present contracts and with particular regard to establishing fees and charges in the terminal and landing areas at a level that will be sufficient to meet at least the full operating costs of these areas, and (3) establish a uniform policy for dealing with other Federal agencies as to fees and rentals for facilities and the recovery of out-of-pocket expenses for services furnished to these agencies.

The Agency has expressed general agreement with these recommendations and has advised us that (1) considerable progress has been made in formulating a long-range policy as to fees and charges and that, as existing long-term contracts are negotiated, more will be done toward implementing the policy of operating the airport as a business enterprise, (2) new basic-use contracts, which will be negotiated upon expiration of existing contracts on December 31, 1960, will be calculated to recover all expenses, including depreciation and interest on capital investment, and (3) a uniform policy is being formalized covering charges to other Federal agencies for facilities and services used by such agencies at the airport.

Inadequate utility charges to occupants of Government quarters adjusted.--We reported to the Administrator of Veterans Affairs that, in our audit of a VA hospital, we noted that the utility rates being charged to occupants of Government quarters had not been changed since 1954. We compared local rates and average usage figures for utilities and developed information which showed that the charges to occupants were inadequate.

We recommended that the hospital manager prepare a new rate schedule of charges to occupants which would be comparable with rates charged by local utility companies. A schedule was prepared which will result in an increase in revenue to the Government of about \$5,200 annually.

Improved controls established to assure receipt of payment for meals.--Our review of the controls over payment for nonpatient meals at several Public Health Service locations, on which we reported to the Department of Health, Education, and Welfare during fiscal year 1959, showed that there was need for improvement to assure that the Government received payment for all meals served employees.

Officials of the Public Health Service informed us that meal cards will be issued and punched for each meal taken and that spot checks will be made to ascertain that proper charges are made.

Rates for outpatient services increased.--Review of reimbursement rates for Public Health Service, Department of Health, Education, and Welfare, outpatient services (\$3.75 a visit) disclosed that rates were inadequate to recover costs of services provided. As a result of our recommendation, the Public Health Service made a nationwide study and revised its rates to \$6 a visit effective April 1, 1959. It is estimated that income will be increased about \$26,000 a year.

Rates for quarters revised upward.--In our report to the Secretary, Department of Health, Education, and Welfare, issued in fiscal year 1959, we stated that rental rates for quarters located on the Norfolk, Virginia, Public Health Service hospital grounds and occupied by civilian personnel appeared to be considerably lower than rental rates for comparable private housing in adjacent residential areas. Bureau of the Budget Circular A-45, Revised June 3, 1952, states that rents should be set at levels similar to those prevailing for comparable private housing in the same area.

We were informed by the Department that as a result of our recommendation rates had been increased between 77 and 100 percent. We estimate that this adjustment will result in approximately \$4,000 a year in additional income to the Government.

Review of utilization of motor vehicles

Control strengthened over vehicles acquired from other Government agencies for use in interagency motor pools.--General Services Administration procedures did not provide adequate control over vehicles acquired by transfer from other Government agencies for use in interagency motor pools because complete responsibility for control of the vehicles and preparation of detail for the accounting entries related to them was placed with the motor pool chief. Following our audits during fiscal year 1959, we suggested that the original transfer documents relating to these vehicles be sent directly to the Regional Comptroller from the transferring agencies and that a copy be sent to the motor pool chief. The Regional Comptroller would thus have an independent means of verifying the data reported by the motor pool chief, and the control accounts would serve as a check on the vehicles taken into the pool. GSA amended its procedures to provide for division of responsibilities in line with these views.

Recommendations designed to improve control over purchase, use, and cost of operating motor vehicles.--Our report on review of the Department of Buildings and Grounds, District of Columbia Government, called attention to the absence of written policies or standards for evaluating the use made of motor vehicles and other types of equipment or for determining the amount that may be spent for repairs.

We recommended that the Board of Commissioners give consideration to (1) establishing (a) standards for determining the need for motor vehicles throughout the District, (b) policies providing that surplus motor vehicles may not be acquired unless an economic benefit will result, and (c) limitations on the costs that may be incurred in repairing vehicles and (2) requiring the maintenance on a uniform basis of automotive equipment and operating cost records and the preparation of monthly reports for each vehicle showing all elements of costs and the cost per mile. The Board of Commissioners informed us that the recommendations would be given consideration.

Review of utilization of office equipment

Instructions issued to obtain more effective use of equipment.--VA officials have encouraged the use of addressograph equipment to reduce the costs of processing repetitive, routine, clerical work. About \$625,000 worth of equipment had been installed in about 125 hospitals. Maximum savings were not being realized, however, because of a lack of understanding of the various ways in which the equipment could be used advantageously.

We recommended that the Veterans Administration inform field station employees as to the various uses of the equipment and that

it expand and accelerate the training of personnel in the use of addressograph equipment already installed at VA hospitals.

VA Central Office officials issued instructions informing hospital personnel of the various uses of the equipment.

Review of organization

Consolidation of General Services Administration stores depot activities in Region 5, Chicago, Illinois.--We reported to the Administrator, General Services Administration, in May 1956 that the need for two stores depots in Region 5 was questionable and that substantial economies could be realized by consolidating the Cleveland depot with the Chicago depot without adversely affecting the services rendered to customer agencies. In July 1957 GSA advised us that, after full consideration of program and space projections for the next 5 years, it considered that both depots were necessary to handle supply support requirements in Region 5. However, in accordance with one of our recommendations, certain administrative functions at the Cleveland depot were transferred to the Chicago depot at an estimated annual savings of about \$50,000.

In our audit report to the Congress dated April 24, 1958, we suggested that GSA reconsider the need for two stores depots in Region 5, if actual warehouse sales and resulting space requirements over the next several years should be considerably less than GSA's estimates. Effective March 1, 1959, GSA consolidated a major portion of the Cleveland depot operations with that of the Chicago depot. In line with this consolidation the Cleveland depot was converted to a warehouse annex to stock only selected items which are best adapted to bulk shipment. The accompanying reduction in personnel and relating operating costs will result in additional estimated annual savings of about \$70,000.

Costs to be reduced by suggested transfer of function.--Our review of selected activities at the Atomic Energy Commission's Hanford Operations Office disclosed that the duty officer function at the airport control tower was performed during nonworking hours on an overtime basis. Our review disclosed also that generally the duty officer personnel handle matters of a routine nature and refer matters of a nonroutine or emergency nature to responsible officials for decision as to the required action.

In order to avoid the overtime costs, we suggested that consideration be given to having the duty officer function performed by the airport control tower operators. The AEC informed us that this transfer would be made.

Unnecessary post office closed.--In connection with our review of postal activities, we noted that a third-class post office had been established in 1942 at Ravenna Arsenal, Apco, Ohio, to serve the needs of a defense contractor who employed about 10,000 people during peak operations. In October 1957, the Arsenal was declared inactive and, as a result, the number of employees was reduced to about 400. We discussed the need for the post office with military officials and contractor personnel who informed us that the post office was no longer needed. By letter dated July 22, 1958, we brought this matter to the attention of the

Deputy Postmaster General and requested comments on action contemplated by the Department regarding this post office. By reply dated December 8, 1958, the Deputy Postmaster General advised us that this post office would be discontinued and the net savings to the Post Office Department would amount to \$8,780 a year. The post office was closed December 31, 1958.

High ratio of supervisory positions to nonsupervisory positions.--During fiscal year 1959, we reported to the Administrator of Veterans Affairs that our examination of the staffing pattern of hospital engineering divisions showed certain high ratios of supervisory positions to nonsupervisory positions in some hospitals.

We developed data for 12 of the hospitals we audited to show the ratios of supervisory employees to nonsupervisory employees. The ratios ranged from 1 to 2.9 at the Denver, Colorado, and Fort Meade, South Dakota, hospitals to 1 to 9.5 at the Lyons, New Jersey, hospital. Representative of the hospitals audited, the engineering division of the Richmond, Virginia, hospital had a ratio of 1 to 5.1.

We recommended that the VA Central Office require hospital managers to review the staffing patterns of their engineering divisions and to analyze the utilization and effectiveness of supervisory personnel.

As a result of our audit findings, each hospital manager is being required to review the utilization of personnel and the staffing pattern of the engineering division in order that any indicated improvement may be made. The Director, Engineering Service, Department of Medicine and Surgery, is giving the matter his personal attention. Also, area engineers have been instructed to give special attention to the organization and staffing of engineering divisions.

Line of authority of internal and project auditing staff changed to permit independent reviews of operations.--Our review of project auditing activities of the Public Housing Administration (PHA) disclosed (1) that the organizational placement of the regional and central office auditing staffs did not permit an independent review and evaluation of all PHA development and management activities and (2) that there was need for additional project auditors trained in accounting theory and techniques. We recommended that the organizational location of the project auditing staffs be changed to enable them to independently review operations and report directly to a higher level in the PHA organization. In line with our recommendation, PHA has consolidated its internal and project auditing activities under an Assistant Commissioner for Audits who reports directly to the PHA Commissioner.

Recommendation for consolidation of administrative functions and relocation of activities.--In our report on audit of the Tennessee Valley Authority for fiscal year 1958, we commented on the fact that the activities carried out by the Office of Chemical Engineering and the Division of Agricultural Relations are, in effect, directed at a common goal and a high degree of coordination between the two organizations is required in day-to-day operations as well as in long-range planning. Despite the close coordination required between these two organizations, they are under separate administrative heads and are physically located at distant sites--the Division of Agricultural Relations is located in Knoxville, Tennessee, and the Office of Chemical Engineering is located at Muscle Shoals, Alabama.

Based on our review, we believed that a substantially improved operation and an immediate financial savings to the Authority would result from adoption of the following recommendations:

1. That the Division of Agricultural Relations and the Office of Chemical Engineering be placed under a single administrative head and that the administrative functions of the two organizations be combined insofar as practicable.
2. That the Division of Agricultural Relations be moved from its present location in Knoxville, Tennessee, to the site of the production operation at Muscle Shoals, Alabama.

In December 1958, the Authority informed us that it had given careful study over a period of years to the matters covered by our recommendations and both recommendations were under active consideration.

Recommendation that service functions be consolidated.--Each of the major departments of the District of Columbia Government is responsible in varying degrees for the operation, maintenance, and repair of buildings and automotive and electrical equipment and for procuring and warehousing common-use materials and supplies. In our report on review of management controls of the District of Columbia Government, we pointed out that the performance of these functions on a decentralized basis is uneconomical and hinders the adoption of uniform policies and procedures.

We recommended that the Board of Commissioners give consideration to centralizing the responsibility for the various service functions in one or more organizational units. The Board informed us that this matter is under consideration.

Functions and responsibilities of organizational units should be stated in writing for better control.--In our audit of the first year of operations of the Development Loan Fund, which was established by the Mutual Security Act of 1957, we found that the Managing Director had established under the general authority of

the bylaws several organizational units without designating in writing their functions and responsibilities. For orderly management operations and in the interest of effective internal control, we recommended that the Managing Director issue written orders covering the establishment of all organizational units even though these arrangements may be subject to revision.

The agency expressed agreement with the recommendation and subsequently formalized the functions of one of its principal offices, that of the Deputy Managing Director for Finance and Development.

Recommendation that the disbursing and certifying functions at the Coast Guard be separated.--In April 1959 we reported to the Commandant, United States Coast Guard, on our review of selected administrative and financial activities at Coast Guard Headquarters and at 6 of the 12 Coast Guard districts. Our examination was concerned primarily with the administrative activities of certifying and disbursing officers and civilian payroll procedures. Coast Guard officials generally concurred in our findings of deficiencies and took or agreed to take appropriate corrective action. In our report we commented on and made recommendations with respect to the large number of Coast Guard authorized certifying officers who were also designated as assistant disbursing officers, agent cashiers, or imprest fund cashiers. Coast Guard officials agreed that disbursing controls were weakened by these combinations of functions but stated that workload and staffing conditions did not always permit them to separate the certifying and disbursing functions. We stated that in our opinion these functions could be separated within the existing Coast Guard organization and recommended that this be done.

Recommendation to eliminate duplication of workshops.--We reported to the Administrator of Veterans Affairs that during the year our review of operations at one hospital disclosed a duplication of carpenter and paint shops in the Engineering Division and the Supply Division. The skills required in the carpenter and paint shops in both divisions appeared to be similar.

We recommended that the duplication of workshops be eliminated to achieve better utilization of personnel and equipment and to reduce costs.

The VA officials informed us that the problem would be studied and a consolidation would be effected when the workload was reduced.

Review of work scheduling

Action to be taken for better control over leave and use of overtime.--Our report to the Chief of Engineers on our review of overtime policies and practices in the South Pacific Division contained recommendations designed to coordinate more effectively the workload of the division with available manpower. We recommended to the Division Engineer that action be taken to (1) require adherence to the leave policy contained in the Engineer Manual so that employees may be granted the opportunity to use their yearly annual leave accrual when they can be spared from their duties and (2) control effectively the use of and justification for overtime by supervisory personnel. Both the Chief of Engineers and the Division Engineer expressed general concurrence with our recommendations and stated that corrective action had been or would be taken.

Need for determination of deferred maintenance backlog.--In our report to the Congress dated July 21, 1958, on our review of deferred maintenance on civil works projects, Corps of Engineers (Civil Functions), we recommended that the Chief of Engineers make a more precise determination of deferred maintenance projects, work items, and related estimated costs in order to provide a firm program for the orderly reduction of the maintenance backlog. In his comments on the draft report, the Chief of Engineers advised us that the Corps would adopt a program to establish a more firm estimate for this backlog.

Subsequently, the Senate Committee on Appropriations in its report on the Public Works Appropriation Bill for 1960 was highly critical of the Corps because it had not reduced its backlog of deferred maintenance. The backlog was stated to be about \$65 million during 1956 hearings. During the 1960 hearings this backlog was stated to be \$90 million although over \$27 million had been provided by the Congress for reduction of the backlog for fiscal years 1957, 1958, and 1959.

Review of unnecessary car storage and demurrage costs

Recommendations for improving procedures.--In our report on the audit of the Commodity Credit Corporation for the fiscal year 1958, we stated that the Dallas Commodity Office incurred unnecessary car storage and demurrage charges on shipments of grain to ports. Car storage and demurrage at port terminals were paid on milled rice for periods up to 110 days and on some cars of grain for periods of 30 days or longer. The commodity office estimated car storage and demurrage costs to be \$360,000 during the 1956 fiscal year and \$325,000 during the 1957 fiscal year.

We believe that a general lack of coordination between the commodity office and port elevators on the frequent and large

shipments of grain may have been the principal cause of demurrage charges.

The commodity office has adopted a procedure providing that shipments to a certain elevator, which appeared to be a major trouble spot, will not be made until the Commodity Credit Corporation receives from the elevator notification of available space in the warehouse. Also, an administrative position has been created to coordinate movements of grain from inland warehouses with availability of space at port warehouses, and a memorandum record of car storage and demurrage costs has been established from which monthly reports of such costs will be furnished to management.

We recommended to CCC that the monthly reports of car storage and demurrage costs include an analysis of the delays in unloading, and costs by commodities, locations, and dates. The agency informed us by letter dated July 29, 1958, that it believed the cost of preparing a detailed cost report would exceed benefits to be derived.

We believe, however, that the cost information furnished to management would serve a more useful purpose if it were prepared in a manner which would permit determination of the reasons for unloading delays and car storage and demurrage expense. Such an analytical report would enable management to detect troublesome areas and to take timely corrective action.

Review of justification for payment of retroactive freight charges

Retroactive freight charges recovered.--In our report on audit of the Commodity Credit Corporation for fiscal year 1955, we stated that CCC paid certain railroads an estimated \$600,000 for retroactive increases in freight charges on shipments of cottonseed meal under the 1953 emergency feed program. We recommended that CCC determine whether the retroactive freight charges could be recovered. During fiscal year 1958, CCC referred claims totaling \$496,000 against 14 railroads to the Department of Justice for consideration of legal action. The Department of Justice accepted \$123,469 in full settlement of the claims and transmitted the collection to CCC on June 29, 1959.

Review of method of payment for passenger transportation services

Procurement of passenger transportation services to be simplified.--Our examination at the Boston Regional Office, General Services Administration, disclosed extensive use of Government transportation requests for procurement of passenger transportation services costing less than \$15. GSA procedures did not provide for cash payments in such instances. To simplify the procurement

of passenger transportation services as contemplated by section 4.2 of the Standardized Government Travel Regulations and to reduce the workload of the accounting personnel of both GSA and the carriers, we recommended that the GSA manual instructions on official travel be revised to provide for cash payments by travelers for official passenger transportation in amounts of \$15 or less. GSA advised us in March 1959 that our recommendation would be adopted.

Review of packaging costs

Possible reduction in costs incurred in packaging commodities for donation abroad.--In our report on the use of tin cans for packaging nonfat dry milk and processed cheese for donation abroad, we pointed out that the Commodity Credit Corporation, Department of Agriculture, incurred packaging costs during fiscal years 1957 and 1958 of about \$7 million more than it would have incurred had these commodities been packaged exclusively in plastic bags in cartons.

CCC informed us that the use of tin cans will be eliminated whenever possible but that it considers as impractical a requirement for exclusive use of plastic bags in cartons, basically because of concern for spoilage due to climatic conditions. However, the Agricultural Marketing Service was unable to supply any technical data or studies indicating that packaging in tin cans is essential to avoid spoilage due to climatic conditions or damage due to rough handling in transit, and CCC's records did not disclose any significant claims for losses attributable to packaging in plastic bags in cartons.

We found that only minor spoilage or damage has resulted in the past when these products were packaged in plastic bags. For this reason we believe that substantially all the additional \$7 million costs incurred by packaging in tin cans were unnecessary.

Review of operating activities

Potential savings in disposal of trash and refuse.--During the year we reported to the Administrator of Veterans Affairs that disposal of trash and refuse at one hospital at an estimated annual cost of \$2,000 was being performed by hospital employees. A review of city ordinances showed that this service could be obtained from the city without charge. Hospital officials agreed to confer with the city engineer in order to obtain trash and disposal service without cost to the hospital.

Review of financing

Recommendation that TVA be required to pay interest on Government's investment.--We have consistently recommended in our audit reports to the Congress that the Tennessee Valley Authority be directed to pay interest on the Government's investment in the power program and, if necessary for the sound conduct of the power program, that the statutory repayment requirement be modified. Public Law 86-137, approved August 6, 1959, which authorizes TVA to sell revenue bonds to the public, modified the statutory repayment requirement and provided for TVA to make periodic payments into the United States Treasury as a return on the Government's appropriation investment in TVA's power facilities. The periodic payments are to be equal to the computed average interest rate payable by the Treasury upon its total marketable public obligations.

Recommendation that excess cash be deposited into miscellaneous receipts of the Treasury.--In our audit report for fiscal year 1958 on the Reconstruction Finance Corporation Liquidation Fund administered by GSA, we estimated that the cash balance in the fund on June 30, 1958, was about \$4,000,000 in excess of current needs. We recommended that GSA review the cash needs for the fund and deposit into the Treasury as miscellaneous receipts the amount determined to be in excess of needs. In fiscal year 1959, GSA advised us that a study was being made of the cash needs of the fund and that any excess cash would be deposited into the Treasury as miscellaneous receipts.

Action taken to correct improper retention of funds.--Our review of Maritime Administration activities disclosed that charter revenues amounting to \$1,073,960 had been erroneously deposited to the credit of the Vessel Operations Revolving Fund and were thereby improperly made available for future activities of the fund. Upon notification by us, the agency transferred the amount to miscellaneous receipts of the Treasury.

Legislation enacted limiting amounts available for administrative expenses.--The Federal-Aid Highway Act authorizes a deduction not to exceed 3-3/4 percent of all sums appropriated or authorized to be appropriated for expenditure, to administer the Federal-aid program and for carrying out necessary research and investigation by the Bureau of Public Roads. In our audit report to the Congress on the Bureau of Public Roads for 1955 and 1956, we reported that the amounts of authorizations set aside for administration of the Federal-aid program had in the past been considerably more than the total administrative expenses estimated by the Bureau, in its appropriation requests, to be necessary to carry out the program.

We recommended that the Congress consider legislation to discontinue the present method of funding administrative expenses in favor of (1) a stated amount authorized annually by appropriation or (2) a monetary limitation within the total appropriated for

program activities but available only for the budget year. Thereafter, the Department of Commerce and Related Agencies Appropriation Act, 1959 (72 Stat. 232), placed a limitation on the amount available to the Bureau of Public Roads for administrative expenses during fiscal year 1959. The limitation, \$26,239,000, was the amount estimated by the Bureau for its administrative expenses for that year.

Advances from General Fund appropriations returned to the General Fund.--At June 30, 1956, amounts aggregating \$5,034,072 had been disbursed by the Bureau of Public Roads, Department of Commerce, from General Fund appropriations for (1) advances of \$5,000,000 to states, and (2) advances of \$34,072 for travel and other reimbursable items. This amount comprised accounts receivable of the General Fund appropriations charged therewith, and should properly have been returned to the General Fund subsequent to appropriation of funds to the Highway Trust Fund which was established to finance the Federal-aid highway program after June 30, 1956.

Of this amount, \$250,000 was advanced to the State of Texas for construction of access roads to defense establishments because of legal limitations in that state on construction of highways that are not a part of the state highway system. In these circumstances this advance may be continued, but the Bureau may be in a position to refinance the advance from other funds available to it for access road construction and return the \$250,000 to the General Fund.

The Bureau has informed us that the remainder of the advance, \$4,784,072, has been returned to the General Fund and the availability of funds to finance the advance to Texas is being reviewed.

Federal share of cost of bond-financed interstate highway projects reduced.--In our report on the audit of the Bureau of Public Roads, Department of Commerce, for fiscal years 1957 and 1958, we questioned certain modifications in agreements with states whereby the Federal share of the construction cost of bond-financed interstate highway projects was increased from 50 percent to 60 percent, amounting to about \$220,000, subsequent to enactment of the Federal-Aid Highway Act of 1954 which increased the Federal pro rata share of interstate projects to 60 percent. We recommended that these agreements be reexamined.

The Bureau has agreed to limit payments for bond-financed projects to an amount not to exceed the legal pro rata share in effect at the time agreements were entered into with the states. The Bureau has also taken action to recover overpayments on six projects and to reduce the Federal share in the cost of two other projects.

Appropriated funds improperly used to finance construction of highways on which convict labor had been employed.--Acts appropriating funds to the Bureau of Public Roads specifically prohibit

the use of such funds to finance the construction of highways on which convict labor has been employed. Our review of county records for construction of Federal-aid secondary highways in Maryland, in cooperation with division office personnel of the Bureau of Public Roads, disclosed that convict labor had been used in the construction of several highway projects. The Bureau thereupon took action to recover from the state all Federal funds expended on projects constructed with convict labor. The Bureau computed the amount involved as \$112,000.

Agency agreed to use foreign currencies for travel and related expenses.--In our review of selected activities of the Foreign Agricultural Service (FAS), Department of Agriculture, to June 30, 1958, we noted that the Service used United States dollars instead of foreign currencies to pay certain foreign travel and related expenses although foreign currencies were available for purchase by FAS from the Treasury Department.

Our examination of payments of \$93,000 made in one 6-month period showed that appropriate foreign currencies were available for purchase to pay for \$16,000, or 17 percent of these expenses. Expenses of this type amounted to \$350,000 in fiscal year 1958.

We recommended that FAS use foreign currencies purchased from the Treasury Department, to the extent available and practicable, to pay these expenses. FAS informed us that it will do this to the maximum practicable extent.

Legislation enacted to control the use of foreign currencies through the appropriation process.--Foreign currencies used for agricultural market development programs are not subject to the control over the expenditure of public funds usually exercised by the Congress through the appropriations procedures. Pursuant to section 104 (a) of the Agricultural Trade Development and Assistance Act of 1954, Public Law 480 (7 U.S.C. 1704), the Foreign Agricultural Service (FAS) was permitted to finance these programs with foreign currency transferred to it from the proceeds of sales of agricultural commodities in amounts approved by the Bureau of the Budget. From September 1954 to June 30, 1958, nonappropriated foreign currencies authorized by the Bureau of the Budget for use by FAS amounted to \$22,425,519.

Under the procedures in effect, the Congress does not have control over expenditures by FAS of foreign currencies generated through sales of surplus agricultural commodities under Public Law 480, and the related control over the level of program operations desired, which it would have if, as in the case of several other uses, the expenditure of these foreign currencies were authorized by congressional appropriations. We suggested that the Congress might wish to consider the desirability of requiring FAS to obtain its funds for this purpose through the appropriation process.

In a letter to us dated February 4, 1959, the Acting Administrator, FAS, stated that the presentation of a budget request for

an appropriation would present certain problems. Among these problems would be the difficulty of determining at the time of preparing the budget (1) the participation of cooperators in the projects, (2) the participation of FAS in trade fairs, and (3) the fluctuation in buying power of foreign currencies. Although FAS may encounter problems in preparing the budget requests, we believe that the problems can be resolved inasmuch as similar problems have been resolved by other agencies which obtain the use of foreign currencies through the appropriations procedures.

Congressional action was taken to extend control to these funds after June 30, 1960, under the provisions of section 104 (a), as amended by section 4, Public Law 86-341, approved September 21, 1959.

Progress made in resolving question of assignment of revenues to projects.--We have recommended that the Chief of Engineers, Corps of Engineers (Civil Functions), and the Secretary of the Interior negotiate agreements between the Corps of Engineers and the Department of the Interior on the scheduled amounts of receipts from sale of power allocable to generating projects as a return of the reimbursable power costs of the Corps' projects. At the October 29, 1958, meeting of an interagency staff-level working group consisting of representatives of the Department of the Interior, Corps of Engineers, Federal Power Commission, and the General Accounting Office, it was agreed that the assignment of revenues and related marketing expenses of the hydroelectric energy generated at Corps-operated plants in the southeastern area of the United States was primarily the responsibility of the Southeastern Power Administration (SEPA). Arrangements were made for SEPA to furnish Corps district offices with the amounts of revenues and marketing expenses assigned to specific projects. It was agreed also that there should be joint annual reviews of accounting results. Major adjustments to Corps' financial records are expected to result from these agreements. Through interchange of cost and revenue information, SEPA as the power marketing agency will be enabled to more accurately show repayment information in its records.

Excess cash transferred to miscellaneous receipts of the Treasury.--In our audit of the abaca fiber program of the General Services Administration for fiscal year 1957, we estimated that the available cash balance in the revolving fund used to finance the program was approximately \$3,000,000 more than would be required for the foreseeable needs to the program termination date of March 31, 1960. We recommended that GSA review its cash needs, after decisions concerning future operation of the program were made by the Office of Civil and Defense Mobilization, and return to the Treasury the amount determined to be in excess of needs. Following this recommendation GSA reviewed its needs and in September 1958 transferred \$2,500,000 from the abaca fiber revolving fund to miscellaneous receipts of the United States Treasury, thereby effecting a rescission of unnecessary spending authority.

Requirements for charging fees for revising Federal Crop Insurance coverage should be uniform.--In our report on audit of the Federal Crop Insurance Corporation, Department of Agriculture, for fiscal year 1958, we pointed out that state directors of the Federal Crop Insurance Corporation may at their discretion require payment of a \$10 fee in cases where the insured submits a revised acreage report to adjust his insurance coverage. Our audit disclosed that these fees had been collected in about 1 percent of the cases and that one state accounted for 75 percent of the collections. It does not appear reasonable that the circumstances within this one state that warranted collections of fees did not exist in other states to a comparable degree. We recommended that the Corporation establish uniform requirements that will be applicable in all cases.

In a letter dated January 8, 1959, the Manager of the Corporation stated that "the variety of situations which can be involved in acreage reports and requested revisions makes it most practical to handle this provision [charging the fee] as an authority placed with the State Director *** we will, of course, continue to work toward as much uniformity as is practicable ***."

We believe that the practice of permitting the state director to charge a fee entirely at his discretion may result in inequity to the insureds.

Possible savings of interest on advances of grant funds to states.--In December 1958, we reported to the Secretary of Health, Education, and Welfare on the possibility of reducing Government interest costs by advancing grant funds to states on a monthly rather than a less frequent basis and suggested that the Department review the matter. The Secretary informed us that reviews would be made of all grant programs in which funds are advanced to determine whether the timing of the advances should be modified and that the results would be reported to us.

Review of accounting procedures

Procedures to be corrected to avoid understatement of reimbursable project costs.--Under the provisions of the Flood Control Act of 1941, as amended (33 U.S.C. 701C-3), 75 percent of the moneys received and deposited into the Treasury of the United States during any fiscal year on account of the leasing of lands acquired by flood control, navigation, and allied purposes is to be paid to the states in which the lands are located. The Corps of Engineers records these payments in a manner that results in reducing the amount shown as the Federal Government's investment in the power generating and distributing facilities, thus reducing the amount of the investment to be recovered by charges to power users.

To correct this situation, we recommended that the payments be recorded in a manner that would reflect the proper amount of the power investment. The Chief of Engineers, Corps of Engineers (Civil Functions), concurred in our recommendation and instructions were issued on December 2, 1958, to put this recommendation into effect.

Procedures improved to avoid loss of discounts and to realize other benefits afforded by current reporting.--During the fiscal year 1959, we reported to the Surgeon General, Public Health Service, Department of Health, Education, and Welfare, that accounting documents received at the Public Health Service Outpatient Clinic, New York, N.Y., were not forwarded promptly to the designated accounting point (PHA hospital at Staten Island). Where this situation exists, discounts offered by vendors may be lost and the accounting records are not maintained on a current basis. As a result of our recommendation to Public Health Service the Division of Hospitals advised that the clinic is expediting the flow of documents to the accounting point and that records are being maintained on a current basis.

Improved controls being developed to provide a more reliable record of accountability and basis for actuarial determinations.--In our reports on the insurance operations of the Veterans Administration, we recommended that the VA take steps to obtain adequate accounting control over unidentified remittances, policy premiums, and actuarial records. It is anticipated that these controls will be provided through the conversion to electronic data processing which is now in process and expected to be completed in fiscal year 1960.

We recommended also, in previous reports that insurance death awards which were under a manual system be placed under accounting control. As of June 30, 1959, death awards were fully converted to a punched card system with proper controls.

Manually maintained benefit payment account records converted to a mechanized system.--In working with the Veterans Administration, we noted a need for improvement in accounting controls over

volume benefit payments under the manual system. The accounting control consisted of a visual comparison of Treasury payment lists with individual account records. Our cooperative efforts helped establish a mechanized system of controls at one regional office, and we recommended to VA that it extend this system to all benefit accounting offices.

VA anticipates that all but the smallest regional offices will have converted their benefit accounting systems to mechanized procedures by October 31, 1959. It is estimated that a savings of \$1.3 million will result from the conversion.

Better information for managing Public Health Service hospitals to be obtained.—Our reviews of the budgeting and accounting activities at various Public Health Service hospitals, as reported to the Department of Health, Education, and Welfare during fiscal year 1959, disclosed that the hospital cost accounting systems, based on PHS manual instructions, were inadequate because they did not provide management with complete and accurate information. Examples of the inadequacy of the systems are as follows.

1. Cost centers were not arranged to agree with organizational subdivisions or other activity classifications. For example, cost center, "Medical, Surgical, and Dental Services," covered several separable activities. The activities should be subdivided in the accounts to provide cost data for each major element such as operating room, pathology, radiology and X-ray, dental activities, and nursing service.

2. Salaries were distributed to the various cost centers on predetermined percentages based on an annual time study of the number of employees on duty and the wage rates in effect. At the Baltimore hospital, the percentages were not revised although during the year there were internal transfers of personnel, additions to staff, resignations, pay increases, overtime, and other similar items that materially affected the percentages established earlier. At the New Orleans hospital, the percentages had not been appropriately revised for over 3 years. And at the Staten Island hospital, percentages were seriously out of line with the number of persons actually employed in most of the cost centers.

3. Manual instructions require the distribution of utilities and fuel expenses to certain cost centers on the basis of fixed rates. How the rates at the Baltimore hospital were determined, and if they were still appropriate, could not be ascertained. The Staten Island hospital, in accordance with prescribed cost accounting procedures, did not distribute certain indirect expenses to the benefiting cost centers. For example, communication expenses of \$28,421 in fiscal year 1957 were classified as administration expense. In addition, the outpatient service, a substantial operation, did not share in the distribution of costs for fuel, utility, and maintenance of buildings and grounds.

4. Cost center, "Education and Training," was not used by the Baltimore and Staten Island hospitals primarily because manual instructions were directed toward operation of a formal- and permanent-type school such as a school of nursing. Training programs at the hospitals for interns and a 1-year course for medical record students, for example, were not separately classified for cost accounting purposes. Also, there was no requirement that an approximate cost of special study cases admitted for the purpose of training interns and residents be established and considered in the cost of training.

5. Costs of the tumor clinic, a specialty of the Baltimore hospital, were not segregated from other hospital costs.

In response to our reports, officials of the Public Health Service stated that they intended to make extensive changes in cost accounting procedures in many hospitals at the beginning of fiscal year 1960.

Controls established to provide for timely filing of claims against carriers.--At June 30, 1957, there were 11 loss and damage claims against carriers totaling \$50,885 and 166 overcharge claims totaling \$16,039 in the rejected claim file of the Chicago Commodity Office of the Commodity Credit Corporation, Department of Agriculture, because the commodity office did not submit claims to carriers within the contractual limitation period of 9 months for loss and damage claims and the statutory limitation period of 2 years for overcharge claims. Although many of these claims may eventually be collected either by suit or by offset against certificates issued by the General Accounting Office for amounts due carriers, the failure to file claims promptly causes undue delays in collection and additional administrative expenses. Previously, 755 rejected claims against carriers, amounting to \$71,105, were removed from the accounts of CCC as uncollectible and transferred for offset against certificates issued by the General Accounting Office for amounts due carriers on bills more than 6 years old. All of these claims had been rejected by carriers because the commodity office did not file them within the prescribed time limitations.

In a letter dated May 8, 1959, commenting on our report, the President, Commodity Credit Corporation, informed us that more time is now being devoted to transportation activities and that the system for handling these claims has been improved and controls established to provide timely filing.

Changes made to improve lien collection procedures.--In our report on the insurance operations in the Veterans Administration we stated that VA's lien collection procedures were inadequate in that (1) only one collection letter was being sent to the insured and (2) prompt collection action was deterred by informing the insured in the letter of notification of establishment of the lien

that interest would not be charged for 1 year. We recommended that VA send a series of collection letters to the insured and notify the insured only in the final letter of the series when and at what rate interest would be charged. VA issued procedures in August 1958 in conformance with our recommendation.

Changes being made to improve accounting for leasehold improvements.--Our review of leasing policies and procedures in the Atlanta Regional Office, General Services Administration, disclosed that (1) the financial accounts kept in the regional office pertaining to leasehold improvements were inaccurate and (2) the accounting procedures did not provide adequate control over Government owned property in leased premises. These conditions were found also in GSA regional offices at Chicago, Dallas, and New York.

In a report dated April 22, 1959, to the Administrator of General Services, we recommended that the Comptroller, GSA, (1) revise the accounting manual to more completely identify the types of items properly classifiable as leasehold improvements and (2) establish accounting procedures covering leasehold improvements acquired by means of periodic payments to lessors, including the recording of the related liabilities incurred. GSA has advised us that changes to improve and clarify the accounting for leasehold improvements are being prepared for inclusion in the accounting manual.

Administrative controls over payrolls strengthened.--As a result of our audit findings in various General Services Administration regional offices, regional officials took or agreed to take appropriate action during fiscal year 1959 to correct the following conditions observed in payroll activities: (1) timekeepers' distributing pay checks and savings bonds, (2) timekeepers' failing to record time and attendance on a daily basis, (3) employees' certifying their own time and attendance reports, and (4) employees' approving their own overtime.

Changes made to eliminate improper retention of terminating employees on the rolls and excessive accrual of leave.--Our audit at the General Services Administration Regional and Central offices in Washington, D.C., disclosed a number of cases where employees about to be separated from the Federal service were being granted terminal annual leave, retained on the rolls, and credited with additional leave during the terminal leave periods contrary to section 1 of Public Law 525, Seventy-eighth Congress (5 U.S.C. 61 b). To avoid the disadvantages which the law was designed to correct and to eliminate unnecessary additional paper work, we recommended that GSA take appropriate action to require compliance with the law. GSA issued an order to all its officials on January 6, 1959, to carry out our recommendation.

Procedures changed to provide control over basic workweeks of guards.--Our examination at the Washington, D.C., Regional Office

of the General Services Administration showed certain deficiencies in administrative controls over the basic workweeks (duty hours) established for guards in that (1) basic workweeks were adjusted to give the guards days off for holidays to which they would not otherwise be entitled, (2) guard force personnel established and revised their own workweeks without proper authority to do so, (3) the Regional Comptroller was not furnished the information necessary for proper verification of time and attendance reports, and (4) there was not formal recordkeeping procedure for maintaining the work schedules for guard force personnel. As a result of our examination, a regional order was issued on May 8, 1959, providing a guide and prescribing procedures for establishing and documenting modified tours of duty for employees when the nature of the work so required. If strictly adhered to, this order should correct the deficiencies described.

Changes made to prevent excess annual leave accruals due to errors in establishing service computation dates.--Our audit at the Washington, D.C., Regional Office of the General Services Administration disclosed that changes in rates of annual leave accrual were being made incorrectly because of numerous errors in service computation dates. We recommended that GSA review the establishment of these dates to help eliminate further erroneous leave accruals and the attendant cost to the Government. A review of about 85 percent of all regional employees' service computation dates was completed by February 28, 1959, and resulted in the correction of 2,771 of these dates.

Recommendations adopted to simplify procedures and to reduce errors.--In a report on the Insurance Operations in the Veterans Administration, we recommended that, in order to achieve administrative savings and provide more prompt service to the veterans involved, VA use the latest dividend rate tables available in processing final settlements when a policy is terminated between anniversary dates. VA had been delaying dividend payments until the next year's dividend rate tables were released, although there has been little change in dividend rates from year to year. In June 1959, VA issued instructions adopting our recommendation in death and cash-surrender cases.

In another report, we pointed out that there was a high rate of error on the part of VA employees in applying dividends to pay premiums in advance. We recommended that VA modify its procedures to provide a more extensive check of these transactions. VA issued instructions in November 1958 to carry out this recommendation.

Recommendation for elimination of deficiencies in accounting and reporting.--Our report on review of management controls of the District of Columbia Government, issued during fiscal year 1959, pointed out that the District's system of accounting and reporting does not provide the necessary information for (1) determining the

financial condition and operating results of the various funds, activities, and programs, and evaluating the operating results, (2) controlling all resources, and (3) developing annual budgets on a cost basis.

We recommended that the District establish (1) an accrual system of accounting for each fund and related activity or program that will provide for determining the financial condition of the fund and the results of the activities or program operations, and for adequate control over all funds or other resources and (2) a reporting system that will provide information essential for managing the District's finances and evaluating the operations of the various funds, activities, and programs, and for sound forecasting and budgeting purposes.

The Board of Commissioners informed us that they anticipate that most of the deficiencies in the accounting and reporting system will be remedied under the program for improvement of financial management that was initiated in January 1957. Our report indicated, however, that the improvements contemplated in the program initiated in 1957 were not being made timely primarily because of an inadequate accounting systems procedures staff.

Need for improvement in cost accounting and allotment structure.--In our report issued during fiscal year 1959 on programing, budgeting, accounting, and reporting activities of the Bureau of Indian Affairs, Department of the Interior, we pointed out that considerable progress has been made by the Bureau in properly maintaining its accounting system, but certain changes in accounting procedures are still needed to obtain maximum benefits and to realize the full potential of the system. For instance, there is need (1) for development and use of unit costs for measuring the Bureau's operating efficiency and (2) for providing greater flexibility in the management of appropriated funds. Our review disclosed that certain Bureau practices have resulted in placing emphasis on the use of allotment records rather than cost records for control of the Bureau's various programs and activities. We recommended that the Commissioner of Indian Affairs take action to provide for control of obligations at the highest practical level and promote reliance on costs, in such detail as is required for management purposes, for the control of programs or activities at all levels.

In response to these matters, the Department advised us that it considers the development of unit costs desirable. The Department also advised us that, because it made a commitment to the Appropriations Committees of the Congress that (beginning with fiscal year 1951) appropriated funds will be obligated and expended by budget activities in the manner in which they were presented to the committees, it is necessary for the Bureau to maintain and use the many separate allotment controls and records. In addition, Bureau officials have indicated that the allotment system should be simplified but that this must wait until the Bureau has developed better programing.

We recognize that revision of the Bureau's allotment controls will require appropriate coordination with these congressional committees. We do not believe, however, that simplification of the allotment structure need necessarily be delayed until better programming is achieved.

Need for improvement in budgetary accounting.--Our review of management controls of the District of Columbia Government disclosed that there was an overemphasis on fund control and that insufficient attention was given to seeing that costs were charged to the activities to which they applied and to controlling costs.

We suggested that the allotment and obligation procedures be simplified by reducing the number of allotments and eliminating duplication and that costs be controlled by use of financial cost data to be provided by cost records integrated with the accrual system of accounting.

The Board of Commissioners informed us that this suggestion would be given attention under its program for improvement of financial management.

Deficient controls and procedures in the administration of claims.--In our report submitted to the Maritime Administrator in February 1959, we pointed to significant defects in financial and other administrative procedures of the agency for the effective administration of claims, then totaling about 200 million, for and against the United States.

As a result of the defects, the records and reports of the agency of the number and value of the claims were unreliable, and the effective administration of claims was hampered. Some claims were recorded on the accounting records, some on an administrative record, some on both or not at all. No allowance was provided for uncollectible notes and accounts receivable from outside the Government. The valuation of claims against the Government was excessive. Claims for indemnification were not under control. Further, we could not establish the reliability of the reserve for estimated claims in connection with vessels sold under the Merchant Ship Sales Act of 1946 because of the condition of the underlying records.

The agency has informed us that action taken or contemplated as a result of the report will lead to material improvement in administration.

Disproportionate time and effort spent in determining equipment classification.--In our report on the audit of the National Bureau of Standards, Department of Commerce, we stated that the formulation of a sound and workable plan for classifying and financing the procurement of general and special purpose equipment has been a perplexing problem to the Bureau. Because of limited funds available for the purchase of general-purpose equipment, the

difficulty of projecting in many cases the utility of equipment to the Bureau beyond the immediate project on which it is to be used and the extent of obsolescence due to rapid advances in technology, there has been strong incentive to classify equipment as special purpose. This has been further encouraged by the ready availability of funds on projects financed by other agencies, most of which include some equipment requirements which can be met from such funds provided the equipment can be classified as special purchase. In addition, it has been the practice of the Bureau to allocate the majority of funds available for the purchase of general purpose equipment to the technical divisions on the basis of the annual depreciation charges by the individual divisions rather than on the basis of equipment needs and to permit purchase of new equipment from such funds without justification as to need. As a consequence of these conditions, disproportionate time and effort are expended by Bureau personnel in determining the classification (as to general or special purpose) and the source of financing equipment, and in devising means of circumventing the restrictions imposed by Bureau administrative policies.

We suggested that a more orderly and consistent basis for classifying equipment would evolve and the administration of equipment operations would be made easier if all funds available for the purchase of general purpose equipment were allocated on the basis of demonstrated need and if the procurement of special purpose equipment for a project were controlled through specific approval simultaneously with the approval of the project at the time it is budgeted. The former was done in fiscal year 1958 and the Bureau has agreed to consider our suggestions in formulating a new statement of policy on equipment classification.

Review of budgeting

Corps of Engineers to include additional information on major procurement items in budget presentation.--In our report of February 17, 1959, on the audit of the revolving fund operations of the Corps of Engineers (Civil Functions), we recommended improvement in the presentation of proposed capital outlay expenditures in the annual budget presentation to the Congress to show additional details on major procurement items. The Corps advised us that it had no objection to furnishing the Congress any desired details on activities of the revolving fund and that future budget presentations would include additional details on major procurement items.

Need for improvement in preparing budget estimates for contractor-operated plant.--Our review of selected activities of the Atomic Energy Commission's Hanford Operations Office disclosed (1) that a voluminous amount of detail was used to support the budget request prepared by the operating contractor for equipment not included in construction, (2) that all the detailed engineering data relating to the plant acquisition construction budget was not made available to the contractor's estimator who was responsible for the preparation of the related cost estimates, and (3) that certain duplication of accounting records existed between the fiscal accounts and general accounts sections. AEC advised us that appropriate procedures had been or would be adopted to eliminate the deficiencies noted during the review.

Change made in budget presentation to disclose unused reserve for administrative expenses.--The annual budget submission for the Bureau of Public Roads, Department of Commerce, did not, in the past, disclose the status of the unused reserve for administrative expenses. For complete disclosure of Bureau methods of financing its activities, we suggested that the budget document should show the unexpended amounts of authorizations withheld from apportionment to the states, for Bureau administrative expenses, in relation to the annual budgeted administrative needs of the Bureau. We recommended to the Bureau that this type of information be incorporated in all future budget presentations to the Congress. The Bureau agreed to present the status of its reserve account in the congressional budget justifications. A summary of the status of the reserve appears in the fiscal year 1960 budget estimate.

Recommendation that budget presentation be revised to disclose extent to which appropriated funds are supplemented by funds of other agencies.--In our report on the audit of the National Bureau of Standards, Department of Commerce, we pointed out that one of the more difficult problems of the Bureau has been the development of a more stable program to concentrate the Bureau's technical effort on its own assigned mission rather than on the work of other Government agencies. The Bureau believes that a substantial part of this work for other agencies, while in large part within the sphere and contributing to the accomplishment of the Bureau's

basic program, has different objectives, requiring diversionary effort which would not ordinarily be necessary in carrying out its basic program if sufficient funds were available through appropriations directly to the Bureau.

The most significant effect of this dual financing is that the activities of the Bureau--more importantly, the Bureau's basic program--do not lend themselves readily to analysis, evaluation, and control by the Congress and central control agencies. Budget estimates submitted to the Congress by the Bureau have not shown the extent to which funds appropriated for the Bureau's basic program were supplemented by funds of other agencies. We recommended that the Bureau revise its annual budget presentations to the Congress to disclose (1) the character and scope of its basic program and total estimated cost thereof, (2) the estimated amount that may be expected from other agencies for the work within or closely related to its basic program, and (3) the estimated cost of other projects to be undertaken by the Bureau for other agencies because of its unique facilities and competence. The Bureau believes that there are a number of problems involved in carrying out this recommendation, but has acknowledged that some form of meaningful presentation of total Bureau activity should be incorporated in the budget document.

Recommendation that practice of apportioning charges to projects be described in budget presentation.--Our audit of the National Bureau of Standards, Department of Commerce, indicated that many of the scientific projects undertaken by the Bureau are similar in technical content and are being carried on by the same technical personnel whose work on these projects generally benefits all such projects in varying degree. This poses a problem in apportioning costs to individual projects and the situation has been complicated by the Bureau's practice of apportioning costs to such projects according to the availability of the various funds financing these projects, rather than on the basis of the cost of the effort expended on them. We recommended to the Bureau that such projects be consolidated into single master projects for cost purposes and that the costs be apportioned to the financing sources by the accounting division based on a formula that would produce reasonably equitable charges to each financing source. The Bureau claims that its practice is proper, that it does not violate the intent of the Congress or the financing agencies, and that it permits maximum research effort with the funds made available.

We have no knowledge that the congressional committees are apprised of this practice. Accordingly, we recommended that the Bureau fully describe its practice in its annual budget presentation for the information of the Congress and for consideration as to the propriety of the practice.

Review of utilization of automatic data processing equipment

Lack of justification of need.--In July 1958, the Bureau of Public Roads, Department of Commerce, contracted to rent medium scale automatic data processing (ADP) equipment. On the basis of our examination of information available in Bureau files and from our discussions with Bureau officials, we reported to the Administrator in February 1959 that (1) the administrative determination to rent ADP equipment was not sufficiently documented to show whether a complete critical analysis of Bureau requirements and plans preceded the decision to rent such equipment and (2) there is insufficient documentation of the costs of operating the equipment to permit cost-benefit analyses for individual projects, and criteria have not been established to facilitate evaluation of equipment usage in terms of costs and benefits. Lacking adequate studies on which to base a considered judgment as to the need, utilization, and economic benefits of this equipment, the Bureau is without sound justification for its acquisition. We recommended that the Bureau have a competent staff make such studies as soon as possible. The Bureau has organized an advisory committee to review its needs for ADP equipment.

Savings derived from electronic system for payment and reconciliation of Government checks.--Electronic data processing equipment for the payment and reconciliation of checks drawn on the Treasurer of the United States was first used in fiscal year 1957. In installing automatic data processing systems, it is important to make a post-installation review to determine the costs before and after installation and to evaluate the effect of the system on the procedures and organization of the agency or agencies involved. Agencies directly involved in this installation were the Treasury Department, the General Accounting Office, and the Federal Reserve banks.

Representatives of the General Accounting Office and the Treasury Department made such a review for the fiscal year 1959, the first year in which the payment and reconciliation of current checks was performed solely by use of this equipment. The report on the review, issued to the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General of the United States on August 28, 1959, showed that the original expectations had been exceeded considerably. Instead of savings of \$2,200,000 a year as originally estimated before the equipment was put in use, it is now estimated that the annual savings will be \$2,949,000.

A large part of the savings will be realized by the General Accounting Office where the check reconciliation operation was previously performed. The number of people engaged in this operation in the General Accounting Office was reduced from 369 in 1956

to 70 at June 30, 1959. The latter were retained to complete the residue of reconciliation work under the old system. This was completed on October 1, 1959, after which no employees were engaged in this operation in the General Accounting Office.

Review of preparation and utilization of reports

Changes made to eliminate inaccuracies in records and reports of landholdings.--Our review disclosed that records in certain regional offices of the Bureau of Reclamation, Department of the Interior, on the status of landholdings were inaccurate and that information shown on Status of Lands reports was incorrect. In November 1958, we recommended that the Bureau place emphasis on the establishment and maintenance of accurate land records and the preparation of accurate reports.

The Department of the Interior advised us in April 1959, that some of the inaccuracies have been corrected and that efforts were being made to correct other inaccuracies by updating land records and determining the cause of discrepancies in Status of Lands reports.

Improvement in appraisal procedures and reports.--In our reports on audit of the Forest Service, Department of Agriculture, we recommended that certain measures be taken to improve timber appraisal procedures and reports. In accordance with our recommendations, the agency, both prior to and during fiscal year 1959, has accelerated the making of necessary mill studies and has progressed in training personnel in the collection and evaluation of cost and selling price data used in appraisals.

Action to be taken to eliminate unnecessary reports.--Our report to the Chief of Engineers on our review of overtime policies and practices in the South Pacific Division contained recommendations designed to coordinate more effectively the workload of the division with available manpower. We recommended to the Chief of Engineers that a reappraisal be made of reporting requirements with a view of limiting to those found necessary to management the large number of time-consuming reports currently being prepared by district offices. Both the Chief of Engineers and the Division Engineer expressed general concurrence with our recommendations and stated that corrective action had been or would be taken.

Reports to be changed to provide for more complete disclosure of financial information.--In a report to the Administrator of Veterans Affairs, we recommended that the VA develop reports which would adequately disclose the results of operations and changes in equity in the insurance funds. The Administrator replied that VA did have such reports in its "Actuarial Analysis of Operations." However, this analysis is an internal VA report for management.

We then recommended that the VA, in order to provide for more complete disclosure of financial information, include, in all its external reports for each fund, statements on an accrual basis which would show results of operations and changes in equity or surplus.

In July 1959, the VA stated that such statements would be included in all future reports, both internal and external. These statements should provide a basis for better management control and information.

Review of internal review procedures

Steps taken to provide for systematic internal reviews of programs and operations.--The VA Central Office procedures require that the manager of each hospital conduct a continuing review of programs and operations with emphasis given to the review and appraisal of a particular activity each month. Our examinations disclosed various instances where the review of Veterans Administration hospital programs and operations was not properly carried out by VA personnel. In one instance, the reviews had not been started; in other instances, the reviews had not been applied to all activities; in some, the reviews were inadequate; and in other instances, there was need for improved reporting on the results of the reviews.

We concluded from our examinations that the VA Central Office should have placed more emphasis on the manner in which the reviews were being made at the hospitals and provided for more aggressive follow-up to determine whether the procedures were understood and followed.

In our report to the Administrator of Veterans Affairs, we recommended, generally, that the Chief Medical Director require the hospital managers to make certain that division chiefs are sufficiently indoctrinated in the objectives of the self-evaluation program and that they understand and comply with pertinent VA Central Office procedures. We recommended also that the Chief Medical Director take action to ascertain whether the reviews were being effectively carried out at each hospital or station.

As a result of our audit action, administrative instructions were issued within the Department of Medicine and Surgery, VA Central Office, and to the Area Medical Office staffs for the purpose of strengthening the controls and follow-up of the systematic review program. In addition, the Department of Medicine and Surgery directives governing the review program were revised as of April 30, 1959, to clarify objectives and responsibilities and to improve procedures for making reviews.

Review of internal auditing

Scope of internal audit expanded.--In our review of the activities of the National Bureau of Standards, Department of Commerce, we noted that the work of the Bureau's internal audit staff had been generally limited to examinations of financial transactions and reviews of certain activities of administrative divisions. Review of technical program administration had been almost completely

excluded from the scope of internal audit. For more effective usefulness of internal audit to the Bureau management, we recommended that the scope of internal audit be broadened to include periodic review of the administration of the Bureau's technical programs. The Bureau agreed that the scope of its internal audit should be expanded, and a program for review of technical division administration has been instituted.

Recommendation that internal auditing be improved to serve as an effective element of management control.--In our report on review of management controls of the District of Columbia Government, issued during fiscal year 1959, we called attention to the fact that the District's internal audit program has not functioned as an effective element of management control because of the limited scope of the audits that have been made.

We recommended that the Board of Commissioners adopt a broadened internal auditing policy that would permit an objective evaluation of District activities. The Board of Commissioners informed us that a critical review of the internal auditing function would be made with the objective of making all practicable improvements but that the audit staff would have to be augmented with persons skilled in management appraisal techniques.

Review of external auditing

Need for timely and effective external auditing.--In our report to the Congress, issued in 1959, on our audit of the construction of the Shippingport Atomic Power Station, we recommended to the Atomic Energy Commission that, in order to provide management with the maximum benefits to be obtained from audits, timely and effectively executed audits be made, particularly where substantial cost-type construction projects are involved. Because effective application of this basic administrative control was not made in this instance until the final stages of construction, weaknesses in the contractor's administration and accounting during construction were not brought to the attention of management soon enough to permit timely corrective action. The General Manager stated that AEC is in complete agreement with the recommendation. He stated further that timely and effectively executed audits have been and will continue to be a point of emphasis in AEC-wide audit policy and that AEC's experience at Shippingport has served to increase the awareness within AEC of certain problems likely to arise if effective audits are not undertaken at an early date.

Review of administration of benefit payments

Procedures changed to reduce inaccurate determinations of maximum amount of compensation creditable to employees with concurrent railroad employment.--In our report on audit of selected activities of the Railroad Retirement Board we stated that the Board's procedures for recording creditable compensation paid to railroad employees who worked concurrently for more than one employer resulted in excess compensation credits in individual accounts. Overstating the amount of compensation creditable to an employee results in an unwarranted increase in benefits upon retirement. We estimated that \$250,000 of excess compensation was credited to employee accounts in cases where employers had received credits for overpayment of employment tax and unemployment insurance contributions. Proration adjustment reports submitted by employers, which were the basis for these credits, were not posted to individual accounts. We recommended to the Board that procedures be revised to require posting of employer proration adjustment reports to correct these errors in the individual accounts. In response to the recommendation, we were advised that the procedures had been revised to provide for these adjustments in the future.

Procedures established to disclose excessive payments to retired military personnel.--Two reports, one directed to the Secretary of Defense and the other to the Administrator of Veterans Affairs, on a review of concurrent payments of military retirement pay and VA compensation or pension were issued on September 2, 1958.

Our review of procedures covering payments of VA compensation or pension to retired military personnel disclosed that some retirees are receiving excessive retirement payments from the military services as a result of incomplete information furnished to the services by VA, principally as to the statutory increases in compensation or pension payments authorized by Public Law 356, 82d Congress, Public Law 695, 83d Congress, and Public Law 85-168.

As a result of our recommendation, the VA and the Department of Defense have established procedures to disclose existing errors and to reconcile and correct their records. Procedures designed to prevent improper payments in the future are being considered.

Changes recommended to correct differences in amount of compensation reported for various purposes.--Procedures in the Railroad Retirement Board for reconciling reports of compensation made by employers with the amounts of compensation used by them for computing and paying retirement taxes and unemployment contributions did not establish controls in the accounts over differences produced by the reconciliations. Such controls would provide increased assurance that such differences were resolved. In addition, contribution and tax rates applied to compensation adjustments for prior periods were not verified as to accuracy. In

response to our recommendations, contained in our report submitted in December 1958, the Board advised that they were developing procedures on a trial basis to record differences disclosed in reconciliations and that, as a test check, they had arranged to verify the accuracy of the reporting of prior-period adjustments reported in 1958.

Changes recommended to correct inadequate review of records to detect cases of nonentitlement to annuities.--Procedures of the Railroad Retirement Board designed to automatically disclose annuitants who earn compensation from railroad employment subsequent to award of the annuity do not disclose those who earn such compensation in the remaining portion of the calendar year in which the annuity is awarded. Under provisions of the Railroad Retirement Act, earnings from railroad employment after retirement cause a loss of annuity.

In our report submitted in December 1958, we recommended that the Board revise its procedures to correct this deficiency. We understand that our recommendation will be adopted as soon as compensation accounting has been placed on electronic data processing equipment. This conversion is scheduled for January 1, 1961.

Study to be made to improve controls to reduce erroneous payments of pensions.--A review of pension cases begun in the Veterans Administration, Washington regional office, in fiscal year 1958, was completed in the fiscal year 1959. A report on this review was issued to the Administrator on June 15, 1959. This review included an examination of 2,026 claims folders to determine whether the awards were proper in accordance with current applicable statutes and VA regulations and procedures. We reviewed also the procedures for the control of specific actions that should be taken by the VA at some later date or dates in determining the continued eligibility of veterans to receive payment of benefits.

Our review disclosed that overpayments were made because timely physical examinations were not scheduled and made, and information contained in the claims folders was not evaluated to determine the continued eligibility of veterans to receive payment of benefits. As a result of our review, VA made adjustments resulting in continuing annual savings of \$21,000. In addition, VA began a study of the need for additional controls and will determine the need for a general review of claims folders in other offices to determine the propriety of the pension awards and the continued eligibility of the Veterans.

Recommendation that procedures be designed to correct possible errors in awards.--In our report on the audit of the Railroad Retirement Board submitted in December 1958, we pointed out that, to facilitate timely computation and payment of annuities, the Railroad Retirement Board requires employers to submit supplemental compensation reports covering the period between the last regular

compensation report and the employee's retirement date. We found, however, that, when the next regular compensation report was received, there were discrepancies between the compensation then reported and that reported previously on supplemental reports.

The Board does not have a regular procedure for reconciling the supplemental and regular compensation reports, and consequently possible errors in awards may not be detected. We recommended that the Board establish procedures to permit the prompt disclosure of differences, and we understand that our recommendation will be adopted as soon as compensation accounting has been placed on electronic data processing equipment. This conversion is presently scheduled for January 1, 1961.

Review of soil bank program payment control

Controls established to prevent payments in excess of maximum limitation.--In our report on the 1957 Soil Bank Program, we stated that the soil bank regulations of the Department of Agriculture provided that the total of all annual payments under the Conservation Reserve Program to any producer for any year, with respect to all farms in which he has an interest, may not exceed \$5,000, except under certain conditions.

Although the producers were required to certify that they were not receiving more than \$5,000 in conservation reserve annual rental payments, steps were not taken to verify these certifications. Participants were required to identify on acreage reports all other farms in which they have an interest. With this information available, the state and county Agricultural Stabilization and Conservation (ASC) offices were in a position to establish control over the maximum limitation of annual rental payments to each producer by communicating with the ASC offices in the counties and states listed as locations of additional farm interests.

Under the agricultural conservation program, the county committee has the responsibility of controlling the maximum limitations where the producer has an interest in more than one farm in the same county, and the state ASC office has responsibility for control over those participants having an interest in farms located in two or more counties or in different states. We believed that similar responsibilities should be assigned to control the limitation under the conservation reserve program.

The Commodity Stabilization Service issued procedures dated February 13, 1959, to carry out our recommendation.

Review of commodity price support programs

Legislation changed to permit use of average quality for computing parity and price-support rates on upland cotton.--In our report on the Commodity Credit Corporation, Department of Agriculture, for fiscal year 1955 we pointed out that the Agricultural Act of 1949 specifically provided that Middling 7/8-inch cotton was to be the standard grade for purposes of parity and price support, but since this grade was no longer representative of current production, its continued use for these purposes had the effect of supporting the price of all qualities of upland cotton at an average level considerably above that which would prevail if parity were applicable to the average quality as in the case of other basic commodities. We stated that, in order to change the standard grade to a more representative grade, it would be necessary for the Congress to repeal the applicable provisions of the act. This would permit the Secretary of Agriculture to use the average quality. These provisions were repealed, effective with the 1961 crop, by section 108 of the Agricultural Act of 1958. CCC has

announced that, beginning with the 1961 crop, parity and price support for upland cotton will be based on the average quality of the crop instead of Middling 7/8-inch.

Equity payments to borrowers eliminated.--Under the Agricultural Act of 1949 (7 U.S.C. 1441), the Commodity Credit Corporation, Department of Agriculture, supports prices of agricultural commodities through loans to producers, purchases, and other operations. Loans may be satisfied by (1) repayment of the principal plus carrying charges, (2) delivery of the commodity to CCC, or (3) forfeiture of the pledged or mortgaged commodity. In our reports on our audits of CCC for fiscal years 1955 and 1956, we pointed out that, if, upon forfeiture, loan principal plus interest and other charges exceeded market value of the forfeited commodity, CCC could not collect the deficiency. On the other hand, if market value exceeded the amount due on the loan, the borrower had a residual interest or "equity" in the commodity. CCC took the position that in the absence of specific statutory authority the inclusion in its loan agreements of a clause providing for forfeiture of the borrowers' residual interest or "equity" would be contrary to long established judicial precedents which hold such forfeitures to be invalid.

We recommended that the Agricultural Act of 1949 be amended to authorize CCC to include a forfeiture provision in its loan agreements. We stated that such a procedure would result in savings through reduction in the quantities of unredeemed commodities acquired by CCC and the costs of acquiring, handling, and disposing of such commodities and through elimination of administrative costs incident to "equity" payments. By enacting section 502 of the Agricultural Act of 1958 (72 Stat. 996), the Congress authorized CCC to take over unredeemed collateral under nonrecourse loans without making equity payments.

Recommendation regarding selection of warehouse receipts for application to deliveries.--In our review of the Minneapolis Commodity Office for the fiscal year 1958, we noted that, in settling with country warehousemen for Commodity Credit Corporation-owned grain loaded out of their facilities, the commodity office did not compute (desk blend) the weighted average of quality factors, such as test weight and protein content, for the warehouse receipts selected for loading orders until after the loading orders were released. Consequently, settlements were not always to the best interest of CCC in that the warehouse receipts were not desk blended in the most favorable manner.

We were informed by the commodity office that to attempt desk blending would cause additional delays in issuance of loading orders and would require additional personnel; however, we believe that time consumed in making these desk blends to be insignificant compared with the more favorable settlements to be gained by CCC.

We recommended that weighted averages for test weight, protein content, and other grading factors (where applicable) be computed prior to the issuance of country elevator loading orders and that additional desk-blending efforts be made where practicable in order to afford the most advantageous settlement to CCC. CCC informed us that it has been confronted with many variables in the selection of warehouse receipts which it considers partially or completely beyond its control.

Recommendation regarding pricing of in-store sales.--Our review of the fiscal year 1958 operations of the Minneapolis Commodity Office disclosed that the practice of selling in-store corn at the "backed-off" terminal price resulted at times in sales being made at a price less than market price. By not selling at the local market price, the Commodity Credit Corporation may have sustained significant losses.

In fiscal year 1957, the commodity office sold, basis in-store country warehouses, approximately 9,000,000 bushels of non-storable corn plus a large quantity of emergency feed program corn to storing warehousemen at a "backed-off" terminal price. The "backed-off" terminal price was computed as the Minneapolis or Sioux City cash corn price less the rail freight cost from country point to terminal and the terminal commission charges. The commodity office was instructed to make this type of sale at the best price obtainable but at not less than the local market price. Officials of the commodity office informed us that, because of difficulty in obtaining information on local market prices, the "backed-off" terminal price was generally used.

Our review of bin site sales in Minnesota and South Dakota disclosed numerous instances of corn sales at prices in excess of the "backed-off" terminal price. A review of June 1957 sales records of three Minnesota country warehouses also disclosed that local prices exceeded the "backed-off" terminal price for No. 2 corn.

Agency officials informed us that it is extremely difficult to establish local market prices and that they attempt to obtain a local price indication on every in-store sale made for a quantity of one carload lot or over. Although we recognize the difficulties encountered, we recommended to CCC that, when possible, the local market price be determined before an in-store sale and that, when it is found to be higher than the "backed-off" terminal price, CCC negotiate a price more in line with the local market price.

Recommendation to eliminate or minimize allowances for premiums possibly unearned.--In our report to the Congress on audit of the Commodity Credit Corporation, Department of Agriculture, fiscal year 1958, we commented on the fact that, in the Minneapolis Commodity Office area, country warehousemen had accumulated substantial premium credits to which they may not be fully entitled. Premium credits are generally allowed to warehousemen when they

deliver, for the account of CCC, grain of a higher quality than the grain acquired by CCC from producers. However, there were indications that some premium credits may have been accumulated, not by delivering to CCC a higher quality grain than that acquired from producers, but by warehousemen recording on warehouse receipts issued to producers test weight and protein content at the minimum for the grade rather than that actually applicable to the grain.

The accrual by country warehousemen of premiums which, in effect, are unearned could result in larger quantities of low-quality grain being delivered to CCC from country warehouses than were placed in the warehouses under the price-support loan and purchase agreement programs because the accumulation of premiums encourages the warehousemen to deliver low-quality grain in order to work off their premiums. Substantial losses could be incurred by CCC in the disposition of low-quality grain.

We recommended to CCC that it study all possible means of eliminating or minimizing the accrual of premiums and the accumulation of large premium balances not fully earned by warehousemen. As one means, we suggested that consideration be given to limiting to 1 year the time during which premiums may be applied to discounts rather than 3 years as is currently the case.

CCC has informed us that it will endeavor, when the Uniform Grain Storage Agreement again is revised, to shorten the period during which premiums and discounts are eligible for offset.

Review of factors leading to substantial refunds to cotton purchasers by Commodity Credit Corporation

Purchasers' option to have cotton reclassified eliminated.--
In our reports on the Commodity Credit Corporation, Department of Agriculture, for fiscal years 1956 and 1957, we pointed out that upland cotton export sales announcements permitted purchasers to have the cotton they purchased reclassified and required it to be reweighed for final settlement purposes. Net refunds under these provisions of the several export programs from January 1956 to February 1959 were about \$166,813,000. A substantial portion of the refunds were caused by lower grading of the cotton upon reclassification when it was sold. We recommended that CCC make a complete study of the factors contributing to lower grading with the objective of reducing the amount and number of refunds resulting from reclassification. This matter had been under consideration by the Subcommittee on Department of Agriculture and Related Agencies, House Committee on Appropriations who held hearings and made suggestions for revising the policy.

On March 27, 1959, the Department of Agriculture announced that upland cotton sold by CCC after August 1, 1959, will be sold without an option by the purchaser to have the cotton reclassified.

Stocks of cotton from 1957 and earlier crop years will be reclassified by CCC and offered for sale after being listed in a new catalog at the new classification. However, pending reclassification, this cotton will continue to be offered for sale under present sales announcements until all of it has been removed from the present catalog, or until August 1, 1959, whichever is earlier. On the basis of past experience, CCC will still sustain losses from the reclassification of this cotton, whether it is sold before or after August 1, 1959.

Cotton from 1958 and 1959 crops will be offered for sale after August 1, 1959, and the purchaser will not have an option to have it reclassified.

A large portion of the losses measured by refunds made to purchasers from January 1956 to February 1959 were attributed by CCC to deterioration of the color and quality factors of the cotton while in storage. The revised policy does not provide for alleviating the conditions contributing to this deterioration and, therefore, continuing losses due to deterioration may reasonably be expected. The amount of these losses will not be determinable, however, since it will be included in the over-all loss represented by the difference between proceeds from sales and CCC's costs.

Review of market development project agreements under
Agricultural Trade Development and Assistance Act of 1954

Procedures adopted for periodic reporting by contributors.--
The Foreign Agricultural Service encourages cooperative participation of farm and trade groups and other interested organizations in market development projects authorized under section 104(a) of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1704). The projects are designed to maintain or expand present export markets and to develop new foreign markets for United States agricultural commodities. The general policy of FAS is to require cooperators to make contributions to the market development projects sufficient to assure assumption of responsibility, active participation, and continued interest on the cooperators' part.

Although the agreements provided that the cooperators should submit progress reports and make their financial records available for audit by FAS, they did not require the cooperators to submit to FAS periodic statements of amounts expended for their share of the project cost. The essential purpose of the agreements generally is the achievement of whatever results can be obtained by the efficient expenditure of a specified amount of money. Therefore, it is important that FAS obtain periodic reports and maintain records of cooperators' contributions to determine whether cooperators have complied with the agreements.

In our report on audit of selected activities of the Foreign Agricultural Service (FAS) to June 30, 1958, we recommended to FAS that project agreements provide for periodic accounting by cooperators for amounts contributed as their share of the project cost and that FAS maintain records to keep itself currently informed of the status of these contributions.

FAS agreed with our recommendation and informed us that future agreements will provide for periodic reports of contributions.

Review of prices established by Commodity Credit Corporation for cotton sold for export

Export prices for cotton have not been competitive in the world market.--In our report on audit of the Commodity Credit Corporation for the fiscal year 1958, we stated that prices at which Commodity Credit Corporation had made cotton available for export for the 1958-59 marketing year had been maintained at levels in excess of competitive world prices. In our opinion this action did not comply with the requirements of section 203 of the Agricultural Act of 1956.

While the prices at which CCC has made cotton available for export remained fixed, publications of the Foreign Agricultural Service and the Agricultural Marketing Service of the Department of Agriculture disclose that world market prices had declined and importing countries had shifted substantially from United States cotton to lower-priced foreign growths. Based on recent publications of the Department of Agriculture, the decline in United States cotton exports in the 1958-59 marketing year will be approximately twice as great as the decline in world cotton exports.

We recommended that the Secretary of Agriculture periodically adjust prices at which CCC makes cotton available for export and that the Secretary determine at least annually the volume of cotton exports necessary to maintain the fair historical share of the world market for United States cotton.

The Department informed us that it did not agree that the requirements of section 203 of the Agricultural Act of 1956 had not been met.

Administration of foreign economic and technical assistance programs

In several reports to the Congress on selected major assistance programs and in testimony before congressional committees, we brought out the continuing need for better administration in order to achieve a more economical and efficient use of United States aid funds.

Specific areas of administration in which this need was evident, as discussed in our reports on the ICA programs for China (Taiwan), India, Laos, Pakistan, and Turkey, are summarized below. ICA has been generally aware of these shortcomings but in many cases has cited overriding foreign policy considerations and various adverse local conditions and problems as having interfered with good financial administration and delayed remedial actions. ICA has informed us of a number of corrective steps which were taken subsequent to our field examinations in the respective countries. However, the agency has stressed its dependence on the cooperation of the foreign countries to bring about necessary improvements and has advised us of its continuing educational and persuasive efforts.

Overprogramming.--We called attention to the accumulation of large amounts of unliquidated obligations for the financing of commodity imports, evidencing a lag in the implementation process which we believe was attributable in large measure to programming aid funds in excess of the recipient country's immediate capacity to absorb and process imports.

Inadequate program planning and administration of project-type aid.--The absence of adequate advance planning, in the form of firm technical and financial plans and reliable cost estimates, and the failure to reach definitive understanding with the recipient country on all essential project elements has led to premature obligations and piecemeal financing of project-type aid. This condition has frequently resulted in delays in completing projects and in increased costs. Legislation enacted by the Congress effective in fiscal year 1959, which makes the completion of plans and cost estimates a prerequisite of the valid obligation of project funds, is intended to remedy this situation.

Inadequate accounting for and observation of the use of aid funds.--ICA did not have, for several programs and activities, adequate information on the use of aid funds, through a satisfactory reporting and accounting by the recipient countries and through effective end-use investigations and field audits by the ICA overseas missions. Particularly in the case of Laos, audit activities were inadequate to cope with the serious conditions

caused by the broad use of dollar cash grants without the benefit of the agency's regular financial controls and to cope with the numerous misuses of aid funds.

For several activities, where the ICA field staff had made adequate end-use investigations, these investigations disclosed ineffective use of certain ICA-financed equipment by the responsible agencies of the recipient country. Some of this equipment apparently had been purchased prematurely or in excess of project needs. Some items lacked the necessary spare parts. Others had served their intended purpose but had not been transferred to other uses.

Weakness in administration of local currency.--The administration of local currency generated under ICA import programs, which is a joint United States-foreign country responsibility, showed weaknesses with respect to budgetary controls, financial reporting, and auditing. In some of the countries, official exchange rates were used which substantially overvalued the local currency in relation to the dollar, thus reducing the amount of counterpart funds being deposited in consideration of dollar aid. In Laos, the use of an unrealistic exchange rate unduly increased the dollar cost of the aid program and provided strong incentives for speculation and irregular practices.

Uneconomical and inefficient technical and administrative support.--In individual countries, we noted a need for greater economy and efficiency in the agency's technical and administrative support functions, evidenced by (1) excessive staffing with local nationals, (2) excessive quantities of motor vehicles and household goods for Government-furnished housing, (3) dispersal of assistance efforts over too wide an area and too large a number of individual projects, and (4) delays in recruitment of qualified personnel.

Inadequate program presentation to the Congress.--As a result of our examination of the agency's presentation to the Congress of the proposed mutual security program for fiscal year 1959, we recommended certain actions which we believe will contribute to more informative future presentations and facilitate the task of the congressional committees in reviewing the reasonableness of proposed programs. With respect to nonproject assistance, we recommended that the presentation should furnish clear and specific information as to how the proposed amounts for each country are determined, that economic and budgetary statistics should be correlated with the amounts of proposed assistance, and that expenditure data should be shown in conjunction with actual and estimated obligations. We suggested that the presentation of project assistance should show the over-all progress in terms of annual obligations and expenditures, that estimates of current implementing capability and of expenditure forecasts should be improved, and

that significant increases in anticipated United States financing should be disclosed for all major projects.

ICA has expressed doubts as to the need for and practicability of the various additional disclosures recommended by us. However, during the congressional hearings on the mutual security legislation for fiscal year 1960, ICA amended its latest program presentation by inserting material which corresponds in large part to our suggestions for nonproject assistance. The responsible congressional committees have recognized the need for improved agency presentations and have incorporated appropriate requirements in the mutual security legislation effective in fiscal year 1960.

Deficiencies in contracting practices.--Our examination of selected major ICA-financed contracts for engineering and other technical services to foreign countries brought out a number of weaknesses principally in contract negotiations. We called particular attention to the desirability of obtaining wherever practicable comparable proposals before making contract awards, and we sought to encourage contract provisions for the payment of fees and overhead which would be equitable to the Federal Government in all respects.

ICA has made progressive improvements in establishing sound contracting standards and guidelines and in performing necessary post audit functions. These developments have been accelerated by an investigation in fiscal year 1958 by a Subcommittee of the House Committee on Government Operations which had focused attention on several existing shortcomings in this area.

Review of administration of
International Educational Exchange grants

Changes made to promote better fiscal control and program administration.--Our examination of selected financial transactions and practices of the International Educational Exchange Service (IES) of the Department of State disclosed practices in authorizing and administering grants which we believe were not consistent with sound financial administration. We observed some 500 individual transactions which showed weaknesses in administrative procedures and we recited representative examples, such as deficiencies in awarding, amending, and extending grants; payments which in our opinion did not result in a direct benefit to the exchange program; delays in making refunds and adjustments; inadequate accountability for supplies and equipment purchased with grant funds; and need for better internal control. While the guidelines and regulations appeared to be generally adequate, we noted a need for stronger supervision so that these instructions would be properly followed. We recommended that, as a part of its regular internal control and audit processes, the Department review the activities of IES and ascertain that the necessary corrective measures are taken.

The Department informed us in response to our audit report that our findings were used to assure that program operations of IES are conducted in stricter compliance with established regulations and procedures and to promote closer fiscal control by the Financial Management Staff. We were informed that the improved methods resulting from our examination have proven most beneficial.

Review of administration of educational and training program

Instructions to be issued to improve compliance surveys performed by Veterans Administration.--Our reviews of compliance surveys performed by VA of educational and training establishments participating in the VA's educational and training program disclosed inadequacies in survey techniques which could impair the effectiveness of the surveys.

In our report to the Administrator, we recommended that the VA instruct its personnel of the need for approaching the surveys of educational institutions in an independent manner and in accordance with accepted survey and audit standards and techniques. These surveys are necessary to determine whether the participants are complying with the applicable laws and regulations, and provide the best means which VA has for detecting collusion between the training establishment and the veteran. VA officials concurred with our recommendation and stated that precautionary instructions concerning this matter will be issued to all field stations.

Procedures changed to prevent payments to veterans for training to which they are not entitled.--The Veterans Administration procedure requiring verification of a veteran's unused entitlement balance only when the records show that the current enrollment to be authorized will exhaust such balance does not necessarily permit the discovery of excess entitlement before overpayments are made.

In our report to the Administrator submitted during the fiscal year 1959, we recommended that a review of the original computation of entitlement be made by VA employees at the time the veteran enters training and that subsequent charges to entitlement for training received as well as other charges should be verified at the time of each subsequent enrollment. Veterans Administration officials accepted our recommendation and changed the procedures accordingly. The new review method should provide detection of errors in time to prevent payments to veterans for training to which they are not lawfully entitled.

Review of procedures for determining agricultural commodities available for sale for foreign currency

Procedures adopted for documenting determinations.--In our review of selected activities of the Foreign Agricultural Service (FAS) to June 30, 1958, we observed that adequate records or other documentary evidence were not maintained as to the factors considered by the Department of Agriculture's supply estimates committees in determining the commodities and the quantities of the commodities available for sale for foreign currency. We were informed that the committee members arrived at estimates of exports available for foreign currency by interpreting available data and applying their individual experience and judgment. These estimates were made pursuant to section 106 of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1706; Public Law 480, 83d Cong.). This section of the act authorizes the Secretary of Agriculture to determine that commodities and quantities are in surplus and available for sale for foreign currency.

We recommended to Foreign Agricultural Service that the supply estimates committees maintain records documenting their determinations of the commodities and quantities considered available for sale for foreign currency. This procedure would provide a record of the methods and sources of information used by the supply estimates committees in making their determinations and should facilitate the review and approval by higher authority of such determinations.

In a letter dated February 4, 1959, the Acting Administrator, FAS, agreed with our recommendation and advised us that instructions would be issued to require that supply estimates committees fully document the basis of their estimates of the major factors entering into determinations of each surplus commodity and the amounts recommended for possible export for foreign currency.

Review of administration of loan programs

Instructions issued for prompt inspection of acquired properties to establish responsibility for condition.--In our examination of the direct loan and loan guaranty programs administered by the Veterans Administration, we noted instances where the initial inspection of property acquired by the regional offices was delayed for an unreasonable period of time, thus making it impossible to establish the condition of the property at the time of transfer of responsibility.

The VA regulation provides that the lender who has obtained custody of a property is responsible for loss due to property damage or personal injury from the date he acquires the property until the risk of loss is assumed by the VA.

To avoid the possibility of the Government's assuming losses unnecessarily when acquiring properties, we recommended in our report submitted to the Administrator during the fiscal year 1959 that the regional office be required to take the proper action to make certain that inspection of acquired properties will be made immediately after the VA assumes custody.

This matter was brought to the attention of all regional offices by the Administrator.

Instructions issued for proper use of credit analysis procedures.--Our review of the direct loan and loan guaranty programs administered by the Veterans Administration disclosed instances in which credit analysis procedures were not properly applied, resulting in loans' being made and properties' being sold to persons who apparently are poor credit risks.

In our report to the Administrator, submitted during fiscal year 1959, we recommended that the regional office managers be required to comply with the provisions of the act which require that there must be a determination that the veteran is a satisfactory credit risk. VA, in commenting on a draft of our report, informed us that all stations have been instructed that there must not be any relaxation of sound credit analysis in the liquidation of acquired properties. Subsequent to the issuance of the report, similar instructions have been issued covering guaranteed loans.

Recommendation that funds not be advanced prior to need.--In our report to the Congress on audit of the Rural Electrification Administration, Department of Agriculture, fiscal year 1958, we commented on the fact that funds were advanced to borrowers in advance of their need. At the request of a borrower and when found necessary by REA, REA may approve loans which include funds for the payment of interest during the borrower's development period. In some instances funds for the payment of interest have been advanced to borrowers from 75 days to 1 year before scheduled

interest payment dates. Inasmuch as the interest cost to the United States Treasury is greater than the 2 percent interest rate paid by REA borrowers, we believe that these advances should not be made before the funds are needed by the borrowers. REA informed us that steps were being taken so that funds for interest will not be made available to the borrowers too far in advance of their need.

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Our audit report on the first year of operations of the Development Loan Fund (DLF), which was established by the Mutual Security Act of 1957 as a source of financial assistance for the economic development of friendly foreign countries, points to a number of administrative arrangements and practices, particularly on the evaluation and approval of loan applications, which we believe to be inconsistent with the criteria presented to and contemplated by the Congress or not in accord with sound business standards.

DLF has informed us that the following matters and our recommendations thereon are under consideration.

Need for study of loan-making responsibilities of various agencies.--The making and administering of loans under the Mutual Security Act and the Agricultural Trade Development and Assistance Act, Public Law 480 (7 U.S.C. 1704) have been dispersed to several Government agencies, including, ICA, DLF, and the Export-Import Bank. This has led to complexities and inconsistencies in making and administering the loans. We recommended in our report on the Development Loan Fund that the Department of State, ICA, DLF, and the Export-Import Bank study the existing organizational and functional arrangements with a view to simplifying such arrangements and eliminating inconsistencies.

Need for confining loans to carefully planned, specific activities.--Based on the pronounced policies of the DLF and our review of the legislative history, we believe that the DLF was intended to finance only specific activities which are expected to contribute to sound economic development of the borrowing country and are susceptible of careful planning and evaluation. In our opinion, three of the six loan agreements executed in 1958 do not adequately meet these requirements. These loans appear to have been for the principal purpose of furnishing foreign exchange for the borrowing country's import program and not for specific activities. We recommended that, in accordance with the pronounced policies of DLF and representations made by the executive branch before interested congressional committees, future loans be related to specific economic development activities which are carefully examined and evaluated as to their economic technical soundness prior to the signing of loan agreements.

Need for establishment of official lending policies and guidelines.--The policies and guidelines followed by the DLF staff in the consideration of loan applications were not officially

established by the Board of Directors. We recommended that, in the interest of orderly management and effective control over loan operations, basic lending policies and guidelines be formally approved by the Board of Directors and recorded in the official minutes of Board meetings.

Need to screen and evaluate loan applications in advance of commitments.--DLP earmarked the sum of \$12 million for development projects in a country based on prior commitments made by the Department of State and before loan applications had been received and evaluated. We believe that this action was contrary to earlier representations to the Congress that loan funds would not be used for advance allocations because of the undesirable consequences experienced in the past. We recommended that DLP commit funds only on the basis of loan applications which have been properly screened and approved.

Review of entitlements of school districts in
federally affected areas to Federal payments

Need for revision of administrative procedures and records.--
During fiscal year 1959, we issued a report to the Congress on our review of entitlements of school districts to Federal payments to meet a share of local school district current expenditures for those school districts located in federally affected areas. Such payments are authorized by Public Law 874, 81st Congress, as amended. Part of our work was done in each of 300 school districts. In this report we pointed out that there was need for the Office of Education, Department of Health, Education, and Welfare, to (1) revise and clarify instructions issued to school districts and state agencies, (2) simplify the application form, (3) prescribe a simpler method for determining the average attendance of federally connected pupils, and (4) strengthen supervisory and audit work. We pointed out also that in many cases school districts did not have adequate records to establish the eligibility of pupils for whom payments were claimed. Following our audit overpayments of about \$56,000 were recovered from the school districts.

We have been informed by the Department that our report and recommendation would be given careful consideration and that we would be informed of actions taken on the matters reported.

Review of administration of program to terminate
Government supervision over Indians

Need for improvement in administration.--In our report on the administration of withdrawal activities in the Bureau of Indian Affairs, Department of the Interior, we pointed out certain deficiencies and weaknesses in the development and administration of termination, relocation, and industrial development programs. For example, we noted that action had not been taken to remove restrictions on certain Indian property as provided by law and that termination legislation had not been proposed for withdrawal of Federal supervision over certain Indian groups and tribes. We noted also that certain Bureau practices have resulted in not placing sufficient emphasis on successful relocations of Indians away from reservations. We found that Indians were relocated to an area not offering adequate employment opportunities and desirable housing conditions, Indians were inadequately prepared for relocation, and minimum standards for selecting relocatees had not been prescribed by the Bureau. In addition, our review disclosed a lack of adequate planning in advance of negotiations for establishment of industrial development projects.

In response to these matters, the Department stated that, in view of the limited facilities for administering termination programs, legislative proposals for termination of Federal supervision over certain groups and tribes have been withheld pending

congressional action on the termination bills already before it for other tribes. The Department also informed us that appropriate action would be taken on our recommendations on the Bureau's relocation program and that steps are being taken to formalize the organization and to develop criteria which will provide minimum standards for industrial training facilities and a basis for negotiation with industry.

Review of admission practices at Public Health Service hospitals and clinics

Improvement of practices relating to the admission of patients.--Our reviews of the admission practices at Public Health Service hospitals and clinics, Department of Health, Education, and Welfare, disclosed a need for greater care in admitting patients and for more complete documentation of the reasons for admission. In our reports to the agency, during fiscal year 1959, we brought the following matters to their attention.

1. At the Washington, D.C., clinic, patients were improperly classified as special study cases. The word "courtesy" was written on the admission record as the explanation for admitting these patients.

2. At the Baltimore hospital, there was a need to identify the substantial number of special study cases with specific research and training programs.

3. At several locations, patients were admitted for emergency treatment under less than emergency conditions and there was little evidence to indicate that they were discharged promptly after receiving appropriate emergency treatment.

4. At the Baltimore hospital, there was incomplete evidence of eligibility of American seamen and, in one instance, a failure to obtain reimbursement for service rendered a foreign seaman.

5. Reimbursement was not obtained by the Savannah hospital for services rendered VA-sponsored patients subsequently disapproved by VA; there were several fisherman cases where eligibility was questionable.

6. At New Orleans and possibly other locations, information in the files did not adequately support the eligibility of PHS civilian employees for inpatient or outpatient care, dental treatment, or free medical supplies.

In response to our reports, the Public Health Service advised us that instructions had been issued to discontinue the practice of admitting patients where the only criteria for admission is the extending of courtesy, that new instructions were developed describing the conditions under which special study cases may be admitted to treatment following review by competent authority to

determine the proper justification and documentation of the requests for admission, and that the Surgeon General had requested the Bureau of Medical Services to conduct an intensive review of the practices regarding the admission of patients to hospitals. Upon completion of this review, further improvements in procedures will be made as warranted. Also, the Surgeon General directed that existing regulations be strictly observed.

Review of activities under the
slum clearance and urban renewal program

The net cost of the slum clearance and urban renewal program carried out by the Urban Renewal Administration (URA), Housing and Home Finance Agency, generally is shared two thirds by the Federal Government and one third by the local public agencies (LPA's) that administer the program in each locality. Since the Federal Government bears two thirds of the cost, URA's controls and procedures should be adequate so that project costs are limited to those that are reasonable and necessary. Excessive costs to the Government could result, for example if an LPA (1) incurred unnecessary costs in acquiring land and in other project undertakings, (2) sold project land at less than its highest value, or (3) received excess credit for noncash local grants-in-aid.

Procedures strengthened for determining allowability of credits claimed as noncash grants-in-aid.--In two New York City projects and one Puerto Rico project, we noted that certain supporting facilities and site improvements were tentatively approved by the Urban Renewal Administration as noncash local grants-in-aid although the benefits to the projects claimed by the local public agencies were not adequately supported. The credits claimed totaled \$275,694.

We recommended that URA give tentative approval of noncash local grants-in-aid only after reasonable justification is submitted by the LPA to support the percent of benefit claimed. Also, when tentative approval is conditioned upon the submission of further information, we recommended that URA periodically make a follow-up to determine whether the information was received and evaluated.

On March 6, 1959, URA informed us that it is in general agreement with our recommendations. URA further stated that a special committee has been established to develop policy governing the inclusion of allowances for noncash grants-in-aid where the information provided by the LPA is not satisfactory or is not sufficiently firm to support the benefit claimed.

Changes made to prevent excessive allowances for noncash grants-in-aid when projects are subsidized by other Federal agencies.--The Urban Renewal Administration tentatively approved, as a noncash local grant-in-aid, an amount of \$226,620 representing 10 percent of the estimated cost of expressway ramps leading to a central arterial expressway. Our review showed there was a good possibility that the Federal Government would pay 90 percent of the cost of the expressway ramps under the Federal-aid highway program. URA regional employees were not aware of this possibility but, as a result of our inquiry, they ascertained that the Federal Government would pay the 90 percent. The item is therefore ineligible as a noncash local grant-in-aid and, according to URA, it will not be allowed. This will reduce the Federal grant through URA by \$151,080.

We recommended that URA require the LPA's to certify that the noncash local grants-in-aid claimed under title I of the Housing Act of 1949, as amended, are not being subsidized in whole or in part by other Federal agencies. On March 6, 1959, URA advised us that the provision of our recommendation was incorporated in a form which the LPA's are required to submit when claiming allowances for noncash local grant-in-aid.

Steps taken to eliminate delay in disposing of project lands resulting in unnecessary interest and administrative costs.--Extended delays in disposing of land in Puerto Rico urban renewal projects have resulted in unnecessary interest and administrative costs totaling about \$278,000, two thirds of which will be borne by the Federal Government. Generally, disposition may begin as soon as a local public agency can deliver title and possession to a redeveloper and may precede completion of demolition or site improvement activities. Using the date of completion of demolition activities as a conservative availability date, it had taken 14 to 42 months to dispose of lands for three completed projects.

Although the problem of disposing of project lands was recognized by URA officials in 1955, a concentrated effort to accelerate the disposition program was not made until July 1957. At this time the URA central office started to assist Puerto Rico in the development of standardized land disposition documents.

In our report of June 19, 1959, we recommended that the URA central office maintain close control over the disposition of projects in Puerto Rico. On August 18, 1959, URA advised us that it is in general agreement with our recommendation and that there has been a concentrated effort to accelerate the land disposition program.

Steps taken to eliminate costly delays in land acquisition.--Acquisition of properties for one Puerto Rico slum clearance project will take far in excess of the scheduled time, primarily because of appraisal difficulties which might have been avoided. These difficulties arose principally because (1) the appraisers were not furnished sufficient information in making the original appraisal, thus necessitating an updating of the appraisal, (2) appraisals were not made within the required period of time for condemnation proceedings, thereby becoming obsolete and requiring new appraisals, and (3) there were delays in establishing the approved acquisition price.

Although it is not practicable to fix the dollar amount, the delays in land acquisition are costly in terms of overhead, interest, and appraisal expense. We recommended that in future acquisition programs the local public agency be given approval to begin appraisals only after URA is satisfied that ownership data is reliable and useful, and that URA establish acquisition prices within a reasonable period of time.

URA informed us that it is in general agreement with our recommendations and that certain revisions have been made in the land acquisition procedures for Puerto Rico projects which will correct most of the deficiencies noted on the one project.

Policies to be developed to eliminate inadequate rental charges on temporary lease agreements.--Our review of a temporary lease agreement on a Puerto Rico project showed that rent was not being charged for the actual period of occupancy and the rental rate was less than that generally charged in the area. As a result, we estimate that potential income exceeding \$9,000, which would reduce project costs, will be lost.

We recommended that, before approving temporary lease agreements on project lands, URA determine whether the rental rates specified in the agreements conform to the rates generally charged in the area. URA informed us that it is in general agreement with our recommendation and that it proposes to develop policies governing the temporary leasing of project land for use of all regional offices.

Procedures for collecting delinquent rents and controlling rental reductions strengthened.--The District of Columbia Redevelopment Land Agency (RLA) is a local public agency engaged in slum clearance and urban renewal in the District of Columbia. In carrying out this work, RLA receives Federal financial assistance in the form of loans and grants from the Urban Renewal Administration, Housing and Home Finance Agency.

We were informed that through May 9, 1958, the RLA obtained 175 judgments against delinquent tenants for possession of the properties but evicted only 3 tenants for nonpayment of rent and obtained no judgments to attach the tenants' assets or income. Through May 9, 1958, 8 tenants had fully satisfied the judgments and 64 tenants had partially satisfied the judgments by the payment of rent. The other 100 tenants, however, had not paid rent after the judgments were obtained.

We reviewed the RLA's files on 28 tenants whose rents had been reduced by the RLA and found that 19 files did not contain approvals of the reductions by an authorized employee and 18 files did not show the reason for the reduction.

After we brought this matter to its attention, the RLA advised us on February 26, 1959, that the procedures for collecting delinquent rentals have been strengthened. We have also been advised by the RLA that all rent reductions are now being submitted to the chief of the project management division or to his assistant for approval.

Improved procedures adopted for control over relocation operations.--In one Washington, D.C., project, control by the Redevelopment Land Agency over the records pertaining to the relocation

operations was inadequate and the statistics maintained were inaccurate. We reviewed 30 inspection reports prepared by the RLA on dwellings to which project families relocated. We found that no dwellings existed at two of the locations for which such reports had been prepared, that the descriptions of two dwellings were materially inaccurate, and that three dwellings which had been certified by the RLA as standard were actually substandard.

After we brought these matters to the RLA's attention during fiscal year 1959, the agency adopted new procedures which improved controls over relocation operations. The RLA also began a review of its files for the purpose of correcting statistical information.

Suggestion regarding scheduled demolition of sound structures in a slum clearance area.--With some exceptions, the renewal of one Washington, D.C., project area will be accomplished by a strict clearance operation, rather than by demolishing only those structures which cannot be conserved. We were informed that certain commercial structures, which would cost about \$2 million to acquire and demolish and which seemed to be sound in appearance and condition, would probably be demolished.

After bringing this matter to the attention of the District of Columbia Redevelopment Land Agency in our report dated May 29, 1959, we were advised that further consideration will be given to the feasibility of retaining additional commercial structures in areas which are to be redeveloped for commercial uses.

Recommendation that redevelopers of urban renewal areas be charged for costs of holding cleared land.--The District of Columbia Redevelopment Land Agency has agreed to hold certain acquired and cleared land for public and private redevelopers but will not be reimbursed for the costs it incurs for real estate taxes and interest on borrowings from the date the land was available for delivery until possession is taken.

The RLA informed us that its present policy is to assess private redevelopers carrying charges but that it did not believe that it could require the public redevelopers to pay such charges.

We recommended that in the future, where land is held for specific public redevelopers, the agreements provide that the RLA be reimbursed for all costs of holding the land from the dates the land is available for delivery until possession is taken. We had not received a reply to this recommendation at the time this report was prepared.

Recommendation that credit for noncash grant-in-aid be computed in accordance with the law.--Section 110(d) of the Housing Act of 1949 (63 Stat. 420) provides that the amount of noncash local grants-in-aid for a supporting facility shall be based upon the cost of the facility. On the basis of the records made

available to us for our review of two projects, we believe that the amount of noncash local grant-in-aid, tentatively approved by the Urban Renewal Administration (URA) for one supporting facility, was based upon the increment in land values rather than upon cost as required by section 110(d). The total noncash grant-in-aid tentatively approved for this supporting facility is \$1,189,668.

We recommended that URA determine the amount of the noncash local grant-in-aid on the basis of the cost of the facility as required by section 110(d). Also, we recommended that URA require the local public agency to submit complete documentation for the credit claimed.

On March 6, 1959, the URA Commissioner informed us that it was his opinion that the increment in land value was a legitimate basis for determining noncash grant-in-aid credit and therefore the credit was computed in accordance with the act.

Recommendation that authorization be withheld where sale price of project land is adversely affected by restrictive redevelopment plan.--The Urban Renewal Administration believed that a local public agency's redevelopment plan was too restrictive and that these restrictions would have an adverse effect on the sale price of the project land. Although URA suggested to the LPA that the plan be revised, no significant revision was made. URA allowed the LPA to advertise for bids on the project land, notwithstanding the restrictive nature of the redevelopment plan. Only one bid was received for the land. This bid of \$450,000 was well below the top estimated re-use value of \$1,244,000.

We recommended that, in similar cases, URA withhold authorization of the loan and grant contract until the redevelopment plan is modified. URA informed us that it concurs in the objectives of this recommendation but believes that the objectives can generally be accomplished by advising and consulting with the LPA's.

Recommendation that urban renewal land be reoffered for sale when redevelopment plan is substantially modified.--In our review of the disposition of land in one urban renewal project, we noted that, in accordance with the desires of the redeveloper, the redevelopment plan for the project was substantially revised to permit the construction of a multistoried office building as well as to permit other changes. Although local public agency appraisers estimated the re-use value of the land after these changes, no independent appraisal was made.

We believe that the Urban Renewal Administration should have required the LPA to obtain an independent appraisal based on the substantial modifications in the redevelopment plan and changes in the conditions of sale, and we recommended that, in similar cases, an independent appraisal be required. We recommended also that, when a redevelopment plan is substantially modified so as to

materially increase the potential sale price of the land, URA require the LPA to reoffer the land for sale.

URA informed us that it agreed with our first recommendation but stated that nothing is to be gained by offering the land for sale after changes have been made in the redevelopment plan.

Recommendation that facilities of community-wide benefit not be allowed as local noncash grants-in-aid.--The Urban Renewal Administration tentatively allowed one third of the estimated total cost of an expressway as a noncash grant-in-aid on two Washington, D.C., urban renewal projects.

URA policy provides that facilities which serve an entire community are not eligible as noncash local grants-in-aid. In the District of Columbia Redevelopment Land Agency's files, we noted statements by both the RLA and the District of Columbia Department of Highways which indicated that the expressway is of community-wide benefit.

In our report of May 29, 1959, we recommended that URA adhere to the policy set forth in the Local Public Agency Manual and not allow the cost of facilities of community-wide nature as noncash grants-in-aid. At the date of preparation of this report, we had not received a reply to our recommendation.

Recommendation that urban renewal land be sold by competitive bidding.--The redevelopment plan for two Washington, D.C., projects was prepared, in part, by a potential private redeveloper of the area. Because of the redeveloper's assistance, the District of Columbia Redevelopment Land Agency believes that it has a moral obligation to negotiate only with him for the disposition of land that he desires to redevelop in one project. The RLA, therefore, has neither invited nor encourage other potential private developers to submit bids or proposals for that land.

We believe that, generally, the sale or lease by competitive bidding results in the disposition of land in a fair and impartial manner and will give reasonable assurance of obtaining the highest return for the land.

In our report of May 29, 1959, we recommended that URA require the RLA to (1) discontinue the practice of negotiating with only one potential private redeveloper, (2) publicize the availability of land and invite competitive bids or proposals, and (3) refuse to accept redevelopment plans prepared by a private redeveloper if such acceptance obliges the RLA to negotiate only with such redeveloper. We have not received a reply to this recommendation.

Recommendation for use of proper and adequately supported bases to determine percent of project benefit.--The percent of benefit claimed by the District of Columbia Redevelopment Land Agency

for certain facilities was, in our opinion, determined on improper bases, and the data used to determine the percent of benefit claimed for another facility was not supported by adequate documentation.

The Urban Renewal Administration stated that additional data will have to be furnished by the RLA prior to a final determination of credit for these facilities.

In our report of May 29, 1959, we recommended that URA obtain the needed supporting information and, if revisions are found to be necessary in credits tentatively allowed, revise the project budgets accordingly. We have not received a reply to this recommendation.

Review of FHA mortgage insurance activities

Recommendation that FHA include overhead expenses in determining net amounts realized on acquired assets.--The Federal Housing Administration (FHA) does not recognize its overhead expenses in determining net amounts realized on the disposal of home properties acquired in settlement of insurance claims. Proper treatment of these expenses would result in savings to FHA through decreased payments to former mortgagees and mortgagors and a more accurate presentation of the results of FHA's acquired property transactions.

Pursuant to provisions of the National Housing Act, as amended, a mortgagee receives debentures and a certificate of claim in satisfaction of an insurance claim. Payment of the certificate of claim, which covers a portion of the lender's foreclosure costs and unpaid mortgage interest, is contingent upon the net amount realized by FHA from the disposition of the property. After liquidation of the certificate of claim, any residual profit is paid to the former mortgagor except in section 903 cases.

In our report dated May 7, 1959, we recommended that FHA allocate overhead expenses of acquisition, management, disposition, and servicing of acquired assets in determining net amounts realized on acquired home property transactions. FHA has stated that the distribution of these administrative expenses involves too many complicated factors to provide a practical method of distribution of expense to the acquired properties. However, FHA began assessing a service charge on mortgages acquired in connection with the settlement of insurance claims. If the service charge should prove to be sufficient to cover the overhead expenses, it would accomplish the primary objective of our recommendation.

Recommendation to increase inadequate charges on mortgages held by FHA.--Federal Housing Administration fees and charges on mortgages arising out of the sale of acquired properties are less than those made by mortgagees on FHA-insured mortgages. On a mortgage held by FHA, FHA does not impose (1) a charge in lieu of an insurance premium to compensate the agency for possible loss on the loan, (2) a service charge on mortgages where the loan amount is so small that the interest return does not compensate for the cost of servicing the loan, and (3) a fee to cover FHA's expense of originating and closing the loan.

In our report of May 7, 1959, we recommended that FHA assess mortgagors on FHA-held mortgages (1) a charge in lieu of an insurance premium, (2) a service charge in cases involving mortgages of \$8,000 or less, and (3) loan origination and closing fees. Mortgagors currently pay these charges on mortgages insured by FHA. FHA does not agree with our recommendation, stating that, by keeping the charges and fees to a minimum, higher prices are obtained from the sale of acquired properties.

Recommendation that credit policies on sale of FHA-held home mortgages be strengthened.--FHA credit policies on sales of acquired property do not conform to the standards established for original insured mortgage transactions. Mortgages have been granted to individuals having histories of judgments obtained against them by creditors, excessive obligations, irregular employment, alcoholism, arrests, and other evidence of unreliability. Defaults on such mortgages have been numerous. The adoption of higher credit requirements could reduce mortgage servicing costs and lessen the probability of further FHA losses upon repossession of acquired properties sold on terms.

In our report of May 7, 1959, we recommended that FHA, in selling acquired properties on terms, evaluate the credit acceptability of prospective purchasers in conformance with underwriting policies and procedures as prescribed in its regular mortgage insurance programs. FHA does not agree with the recommendation, stating that the adoption of higher standards of credit acceptability in these sales would seriously impair the effort to dispose of acquired properties.

Recommendation that FHA require periodic inspection of home properties securing FHA mortgages.--FHA does not require periodic inspections of home properties securing insured and Commissioner-held mortgages to determine whether the properties are being properly maintained. When neglected properties are acquired, FHA bears substantially all the loss resulting from such neglect. We believe that the adoption of adequate inspection requirements would reduce such losses.

In our report of May 7, 1959, we recommended that FHA (1) require or make physical inspections of properties securing insured or Commissioner-held mortgages and (2) require correction of defects disclosed by such inspections. FHA stated that the imposition of inspection requirements would tend to discourage the use of FHA mortgage insurance because the additional expense of these inspections would be borne by mortgagees without any increase in income.

Recommendation for timely action in acquiring properties after mortgage default.--In our review of defaulted Commissioner-held purchase-money mortgages, we noted that FHA unnecessarily delays its acquisition of collateral properties. As a result, FHA risks additional losses in the form of mortgage interest, advances for taxes and hazard insurance, and deterioration of properties.

We recommended that FHA acquire properties collateral to defaulted Commissioner-held mortgages on a timely basis. FHA stated that the determination as to the timing of these acquisitions is a matter of judgment based on the circumstances in each individual case.

Recommendation that FHA charge fees for preapplication analyses and reinspections.--A substantial amount of work is performed by FHA field office employees in the preapplication analyses of proposed small home subdivisions and multifamily projects. FHA does not charge fees for this work, and some sponsors do not submit mortgage insurance application to FHA after obtaining the benefits of these analyses.

Neither does FHA charge a fee for reinspecting. Many reinspections are attributable to the practice of builders' prematurely requesting FHA compliance inspections. The requirement that a \$5 fee be paid for reinspecting small homes was discontinued by FHA in 1951.

We recommended that FHA charge fees for preapplication analyses and reinspections. The FHA Commissioner stated that FHA plans its entire schedule of fees and premiums to assure adequate income for its entire administrative and operating cost, including pre-application work, as well as for losses under its insurance programs. Although FHA's entire schedule of fees and premiums may assure FHA of adequate income to meet its costs, we do not agree that the cost of gratuitous services to certain groups should be met with the fees and premiums collected from other groups.

Review of management of low-rent housing projects

The Public Housing Administration (PHA) has direct responsibility for administering the low-rent public housing program under the United States Housing Act of 1937, as amended. The act provides for a program of locally owned and operated low-rent public housing and authorizes PHA to make loans and annual contributions to local housing authorities (LHA's). To the extent that LHA management incurs unnecessary expenses or fails to realize all possible revenues, residual receipts from project operations are decreased and annual Federal contributions of appropriated funds are increased. The following items relate to recommendations which have been adopted or to recommendations which, if adopted, should help to reduce the Federal contribution to the LHA's.

Savings realized through adoption of recommendation to invest excess funds.--Many local housing authorities had excess funds which could have been invested to increase revenues to the authorities and decrease the Federal subsidy to the low-rent housing program. References to such excess funds were made in several of our reports along with recommendations to PHA for administrative action to reduce such funds to a reasonable level. PHA agreed with our conclusions and has stressed to local authorities the importance of investing all funds excess to their immediate requirements.

Legislation enacted to permit consolidation of annual contributions contracts to reduce costs.--We noted that many local housing authorities were operating low-rent public housing projects under two or more contracts with PHA. The New York City Housing Authority, for example, operated its low-rent projects under 10 different contracts.

The authorities were required to maintain separate bank accounts and accounting records, have separate fiscal agents, and prepare separate management records for each contract. The duplication of effort was time consuming and costly to the authorities and to PHA.

As a result of our inquiry, PHA advised the authorities that, except for certain projects, a consolidated annual contributions contract was available. Contracts covering Lanham Act projects conveyed for low-rent use were excepted because the law required that the net revenues from such projects be deposited into the Treasury as miscellaneous receipts.

We recommended to the Congress that the PHA Commissioner be given discretionary authority to permit the merging of net receipts from conveyed Lanham Act projects with the net receipts from other low-rent projects and to include the Lanham Act projects under consolidated annual contributions contracts. Congress adopted our recommendation in section 807 of the Housing Act of 1959, approved

September 23, 1959 (73 Stat. 687). We believe that this discretionary authority will make it possible for PHA to simplify its administrative procedures and thereby reduce administrative costs of the local housing authorities and of PHA.

Rental policies revised to eliminate PHA subsidy of local relief program.--In several local housing authorities, the average monthly rental allowed by local welfare agencies for relief tenants living in low-rent public housing was less than the average monthly operating cost of the dwelling unit occupied. Because relief tenants in private housing were allowed higher rentals, this condition represented subsidization of the local relief program. PHA revised its relief rental policy and now advises local authorities to negotiate agreements with local welfare agencies for rentals for relief tenants which will be at least equal to those allowed by the welfare agencies for relief families in private housing.

Procurement policies and practices of local housing authorities strengthened.--We observed inefficient procurement policies and practices in many of the local housing authorities which resulted in additional costs and consequently increased Federal subsidies to the low-rent housing program. PHA has informed us that the procurement practices have been strengthened and that PHA auditors and management reviewers will periodically review the authorities' procurement operations.

Steps taken to prevent further damage from inadequate drainage facilities.--Inadequate drainage facilities at a low-rent public housing project managed by the National Capital Housing Authority (NCHA) caused an estimated \$260,000 worth of damage to the buildings and grounds. We recommended that NCHA and the Public Housing Administration (PHA) take concerted action to prevent further damage and that, in the future, PHA disapprove plans for the construction of low-rent projects that do not provide adequate drainage facilities or that contain other known deficiencies. In reply NCHA informed us that it had engaged a landscape architect who determined the extent of the needed rehabilitation and that on completion of his work a contract had been awarded for the improvements.

Recommendation designed to enforce architects' responsibility for the adequacy and correctness of their work.--In the construction contract for a low-rent public housing project, 13 change orders issued by the National Capital Housing Authority added \$76,670 to the cost of the project. Four change orders were the result of omissions in the architect's drawings and specifications, three were the result of an inadequately designed heating system, and six were caused by the architect's drawings because they did not comply with District of Columbia building codes. We recommended that, where changes in construction contracts are contemplated, NCHA (1) determine the need and the responsible parties

before the change orders are issued and (2) charge architects for all increases in construction cost caused by the inadequacy or inaccuracy of their work. NCHA informed us that it had determined that there was no recovery for the architect's liability in the instant case but that architects now engaged have been notified that all changes will be carefully analyzed to determine those for which the architect appears responsible and the extent of damages for which the architect may be liable.

Recommendation designed to reduce loss of potential rental revenue.--The National Capital Housing Authority lost potential rental revenues because it (1) did not promptly rent completed dwelling units in newly constructed projects, (2) had dwelling units vacant in older projects for a prolonged period, and (3) did not collect all rent chargeable to tenants occupying acquired slum properties. We recommended that NCHA more effectively coordinate the processing of applications with the scheduled completion dates of the new units and review its present policy to determine whether the continuance of preference for those applicants who refuse dwelling units suitable to their circumstances and needs is disrupting the orderly placement of needy families into low-rent housing. We were informed by NCHA that plans are in process to institute what may be more expeditious means to reduce vacancy losses.

PHA to study inequitable, excessive, and nonuniform allowances for tenant-supplied utilities.--We noted that, in local housing authorities in Puerto Rico, the utility allowances to tenants for deduction from rental schedules lacked uniformity among the various projects, contained inequities in the allowances with respect to the size of tenant families, and were excessive thus causing a loss of potential rental revenue and a resulting increase in PHA's annual contributions.

We recommended to PHA that a review of allowances for utilities be made in conjunction with a general review of rents. PHA informed us that a study of rentals and related utility allowances has been undertaken.

Recommendation to end uneconomical insurance policies and practices.--Annual contributions and administration contracts between PHA and local authorities require that fire and extended coverage insurance be purchased from financially sound and responsible insurance companies at the lowest net cost obtainable after giving full opportunity for open and competitive bidding. Under certain conditions, PHA waives the contract requirement for competitive bidding and permits the authorities to negotiate for insurance coverage. One of the conditions is that the cost of insurance obtained through negotiation must be reasonably within range of the lowest net cost known to be available. In cases where authorities obtain formal bids, PHA does not object if the negotiating procedure is invoked and awards are made to other than the lowest bidder.

The current PHA regulations, which provide for negotiating the purchase of insurance and for awarding the insurance contract to other than the low bidder, enable local authorities to place their insurance at costs which, in effect, may be as much as 25 percent more than the lowest competitive bid received or the lowest net cost known to be available.

We have recommended to the PHA Commissioner that the Low-Rent Housing Manual be revised to provide that (1) contracts for insurance be awarded to qualified low bidders and (2) the negotiation procedure be invoked only when it will result in a lower premium cost than that proposed by the lowest responsible bidder. The PHA Commissioner defends the negotiation procedure on the bases that (1) it encourages the stock company rating bureaus to reduce their rates to amounts reasonably within range of the lowest net cost available and (2) in the absence of the negotiating procedure, stock companies would have no incentive to reduce their rates because, under competitive bidding, the award would have always gone either to a company subscribing to an independent rating bureau or to a mutual company subscribing to the stock bureau rates.

Recommendation to eliminate inequitable arrangement for rental of equipment by federally subsidized low-rent housing projects.-- Equipment purchased by certain authorities with local "pool" funds (in which PHA has no financial interest) is rented to the federally subsidized low-rent housing programs. Through these rental charges, these authorities realize a substantial profit on their investment in the equipment.

Rental charges are established by authorities on varying bases, some charges include the payment of interest, the repayment of capital funds, operating expenses (including depreciation), and the maintenance of a replacement reserve equivalent to the cost of the equipment on hand.

PHA's current policy is to allow federally subsidized projects to pay to the pools the original costs of the equipment and more (by depreciation charges) through rentals although title to the equipment remains in the authorities' local equipment funds. We recommended that PHA revise its procurement policy to provide that (1) equipment needed by federally subsidized projects be acquired in accordance with the annual contributions contract and established budgetary procedures and (2) arrangements providing for an authority's ownership of equipment and the recovery of the equipments' costs, plus profits, through charges to federally subsidized projects may not be approved.

In replying to our recommendation regarding one authority's local equipment fund account, PHA stated that it does not believe that there are any grounds for prohibiting federally aided projects from participating in local fund equipment programs as long as the charges made to these projects conform with the PHA policy

and do not result in a profit to any fund in which PHA has no interest. Also, PHA believes that the fact that the federally subsidized projects have no equity in the equipment does not endanger any of its rights under the contract.

Recommendation to reduce loss of revenue because of delays in renting newly-constructed low-rent housing.--We noted substantial losses of potential revenue because of excessive vacancies in newly constructed low-rent housing projects due to delays in renting completed dwelling units. This loss of potential rental revenue unnecessarily increases the Federal subsidy of the low-rent housing program.

We believe that losses resulting from vacant units in newly constructed projects can be reduced substantially if local authorities will more effectively coordinate the processing of applications for low-rent housing with the scheduled construction completion dates of dwelling units. We have made recommendations that PHA assist the authorities in developing procedures and practices for that purpose. While believing that its present procedures for controlling vacancy losses are adequate, PHA has agreed that in practice there must be a more effective coordination of occupancy with the completion of construction in order to minimize delays in renting.

Recommendation designed to reduce project maintenance costs because of construction defects.--Poor workmanship in the installation of hardwood floors and water pipes at a low-rent public housing project managed by the National Capital Housing Authority (NCHA) resulted in increased maintenance costs. We recommended that NCHA inspect this work closely and that, if significant construction defects from failure to follow specifications are noted in newer projects, NCHA refuse to accept further bids from this contractor. NCHA stated that the work of all contractors is inspected as closely as possible and rejected our recommendation concerning refusal of bids from this contractor.

Recommendation for action against delinquent tenants.--During an 8-month period in fiscal year 1958, NCHA, as manager of low-rent public housing projects, filed in the District of Columbia Municipal Court an average of about 428 cases a month against delinquent tenants. In some instances delinquent tenants had been sued five or more times during a 12-month period, but specific legal action to evict the tenants had not been initiated. We recommended that NCHA increase its efforts to enforce its established procedures which provide that the leases of chronically delinquent tenants be terminated. We believe that such action will tend to reduce delinquencies, court actions, and administrative costs. This recommendation was being considered by NCHA.

Review of FNMA's home mortgage purchase policy

Action taken to encourage use of private financing.--The Federal National Mortgage Association (FNMA) purchases designated types of VA-guaranteed or FHA-insured mortgages under its Special Assistance Program if mortgage sellers are unable to market such mortgages at the FNMA purchase price. FNMA provided such assistance, however, by paying 100 percent of unpaid principal even though private capital was available at reasonable market prices. We recommended that FNMA require that sellers be unable to market the mortgages at reasonable prices before FNMA would purchase the mortgages. During fiscal year 1959, FNMA reduced its prices of mortgages from 100 percent of unpaid principal to the approximate market prices. This action was consistent with the objective of our recommendation.

Review of FNMA's mortgage servicing policy

Recommendation that FNMA review its servicers' operations to reduce the excessive number of small mortgage servicers.--The Federal National Mortgage Association (FNMA) has in its portfolio about one half million small home mortgages, all of which are serviced by private mortgage servicers, approximately 1,200 in number. About one half of the servicers service over 95 percent of the mortgages; the remaining servicers handle only about 4 percent of the portfolio. We reported the belief that an inordinately large number of servicers were handling very few mortgages. Inasmuch as FNMA's administrative work is directly affected by the number of mortgage servicers, we recommended that FNMA review its servicers' operations and, where practicable, take action to eliminate those servicers who service only a small number of mortgages. This matter was being considered by FNMA.

DEPARTMENT OF DEFENSE

AND DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

Review of contract pricing

Inadequate evaluation of cost information and ineffective negotiation and administration of prime contracts for airplanes and related equipment and equipment for naval vessels.--Our examinations disclosed instances in which prime contractors for aircraft and related equipment and equipment for naval vessels proposed, and Air Force and Navy contracting officials accepted, contract prices based on cost estimates that were excessive by about \$40 million because proper recognition was not given to cost information available at the time of negotiations. The results of our examinations are summarized as follows.

1. Cost estimates, used as a basis for negotiating prices for firm fixed-price and incentive-price contracts, were unreasonably high by about \$34.7 million because contractors, in preparing these cost estimates, did not give sufficient consideration to prior cost experience and to production efficiencies nor did contracting officials obtain this information or analyze and evaluate the contractors' cost estimates in the light of available cost and production experience. Prices based on these unreasonably high cost estimates resulted in additional cost to the Government of about \$13.3 million, of which \$3.1 million has been refunded.
2. Prices under price-redeterminable contracts and final prices under incentive-price contracts were based on cost estimates which were excessive by about \$5.2 million because contracting officials, in negotiating prices, accepted cost data that were excessive in relation to actual costs which had been incurred under the contracts being priced or that included duplicate costs or costs not related to the contract. In reply to our reports, the contracting agencies stated that price reductions of \$1.6 million have been obtained.

Unreasonably high prices, in most of these instances, may be attributed to inadequate evaluation of prices proposed by contractors and ineffective negotiation and administration of contracts. One of the major deficiencies in the negotiation of contract prices has been the tendency to accept contractors' representations as to actual costs and estimates of future costs without ascertaining the correctness and completeness of the cost estimates used in establishing contract prices.

Actions by the Air Force

Air Force comments indicate that the agency has given serious consideration to our findings and has initiated action to adjust prices in certain instances and to make certain improvements in the negotiation and administration of contracts with respect to the deficiencies disclosed by our reviews. The Air Force agreed generally with our findings in regard to failure by the Air Force and its prime contractors to obtain and use the latest available cost information and with our recommendations concerning the implementation of the requirement that the latest available cost information be obtained and used. The Assistant Secretary advised us of corrective measures taken by the Air Force. These corrective measures consist chiefly of:

1. Asking 28 major contractors to review the pricing information furnished to Air Force negotiators in negotiating prices of price-redeterminable and incentive contracts, on which final settlement had not been made, to determine whether the information was current, complete, and correct. The contractors were advised that if discrepancies were disclosed by these reviews the Air Force would like to discuss price adjustments.
2. Bringing the matter to the attention of three industry associations and requesting their support.
3. Requiring, since April 1958, contractors to certify at the time of negotiation conferences that all pricing data available have been considered by the contractor in preparing its proposal and have been made known to the Air Force negotiator and, further, that all significant data being considered at the conference are current. All contractors who were not required to make this certification when target prices were negotiated are being asked to do so at the time prices are finalized. Instructions in implementation of the above-mentioned measures were issued by the Air Materiel Command (AMC) on January 23, 1959, to the various Air Force commands involved in procurement activities.
4. Impressing Air Force procurement personnel with the need for thorough review and critical analysis of contractors' cost estimates supporting price proposals. In its January 23, 1959, letter to Air Force commands, AMC pointed out to the procuring activities that the findings of the General Accounting Office show that procurement personnel must make a thorough analysis of contractors' proposals and obtain current, complete, correct, and significant cost and pricing data before decisions are made on contract prices and that information available to the entire negotiating team must be thoroughly examined and related.

Subsequently we were advised by the Air Force of the following revisions to the Air Force Procurement Instruction.

1. AFPI 3-811(b) was revised to the effect that the prescribed contractor's certificate is not to be considered a substitute for careful review and analysis of contractors' proposals by contracting officers, price analysts, and, where appropriate, Government auditors. The practical effect of this is to continue to emphasize careful review and analysis of contractors' proposals by Air Force personnel even though the contractor executes the prescribed certificate.
2. AFPI 3-808 has been revised directing that Air Force procurement personnel must (a) make a thorough analysis of contractors' proposals, (b) obtain current, complete, correct, and significant cost and pricing data, and (c) secure information on the types of subcontracts before contract prices are finalized.

In a letter dated June 22, 1959, subject: "Action to Improve AMC Pricing," the Commander, Air Materiel Command, furnished AMC procuring activities with additional instructions which emphasize the need for review and analysis of contractors' price proposals and supporting data and indicate that such review and analysis will include review of contractors' records to assure that the most current cost and pricing information available has been made known to Air Force negotiators. We feel that these instructions should make it clear to Air Force contracting personnel that as a general practice the agency contracting "team" should, in reviewing and evaluating price proposals, examine contractors' records related to the proposals to ascertain whether the amounts proposed for significant elements of cost are reasonable and whether the cost and pricing data for use in negotiating contract prices are the most current, complete, and accurate information available to the contractor.

Actions by the Navy

In general, the Navy has agreed that it is necessary for its contracting officials to obtain and use cost information in negotiating contract prices and indicated that their problems stem more from manpower failures than from their procedures, which are amended from time to time. We were advised of two recent procurement directives which compel all personnel involved in a procurement to give more consideration to (1) the planning of the procurement, (2) the study of a proposal prior to the negotiation conference, (3) reducing plans to writing and obtaining approval thereof prior to negotiation, and (4) having the individuals involved in the negotiation identify themselves with the actions proposed and taken. The Navy believes this will result not only in better application of existing instructions by staff employees but also more thorough supervisory action. The Navy advised us also that there is under study a procedure which will, to a far greater degree than in the past, make mandatory the participation of

technical inspection personnel and audit personnel in the analysis of proposals and in subsequent negotiations.

Further, we were informed that Revision No. 49 of the Armed Services Procurement Regulation (ASPR) covers, among other things, guidance relating to price and cost analysis, including the evaluation of cost data supporting contractors' proposals. Also, this revision, which will apply to all three military services, requires generally that contractors certify that all available actual or estimated costs or pricing data have been considered in the preparation of proposals and that this information and any significant changes which have occurred since the date of preparation of the proposals have been made known to the procurement personnel. This certificate and related instructions, which caution contracting officers against relying primarily on the contractor's certificate or on profit-limiting statutes as remedies for ineffective pricing, are similar to the revisions made earlier by the Air Force in its Procurement Instruction.

Inadequate evaluation of subcontract prices for major components for airplanes and airplane equipment.---Firm fixed-price subcontracts were negotiated by prime contractors at unreasonably high prices on the basis of subcontractors' estimates without either the Air Force's or the prime contractors' requiring the subcontractors to furnish evidence of the reasonableness of the proposed prices. Prices of about \$47.2 million were negotiated in these instances, as compared with actual costs of about \$36.5 million subsequently incurred by the subcontractors.

We recommended that the Air Force require its prime contractors to generally obtain from their major subcontractors (1) information on prior cost and production experience, where such data are available, and (2) detailed analyses of estimated costs in support of proposed subcontract prices. We recommended also that the Air Force exercise closer controls over the effectiveness of prime contractors' subcontracting practices by (1) verifying, on a test basis, that cost information being used by prime contractors in negotiating prices of major subcontracts is current, complete, and correct and (2) evaluating the prices of major subcontracts, in relation to known and estimated costs of performance, to determine whether prime contractors are negotiating fair and reasonable subcontract prices.

The Air Force agrees that control over the prime contractors' purchasing system should and must include close surveillance over major subcontract negotiations in order to assure that fair and reasonable prices are negotiated by the prime contractors. In this regard, our attention was directed to a recent revision of the Air Force Procurement Instruction (AFPI) which stresses that the Air Force must have substantial assurance that subcontract prices are reasonable and states that the pricing and contracting philosophies of ASPR and AFPI apply to subcontract negotiations as well as prime contract negotiations. The Air Force has advised us

that it is currently exploring the feasibility of furnishing prime contractors with Air Force audit information to improve the evaluation of subcontract proposals by prime contractors.

Further, on June 22, 1959, the Commander, Air Materiel Command, furnished AMC procuring activities with additional instructions which specify that Air Force procurement personnel will establish procedures to insure that prime contractors obtain the latest available cost and pricing information from their subcontractors and use it in evaluating proposed subcontract prices. These instructions also require audit review, by either the prime contractor or agency auditor, in the pricing of all large subcontracts to major prime contracts. The measures outlined above should provide the control over subcontract pricing which we believe is necessary.

Inadequate administration of claims for delay under shipbuilding contracts.--We completed a review of 15 claims, amounting to \$6.9 million, which had been submitted by 10 shipbuilders for damages allegedly arising from Government delays in furnishing plans and material. These shipbuilders were constructing, or had constructed, ships for the Navy under fixed-price contracts. Our examination of the 15 claims revealed that the settlements were not necessarily representative of the true cost of the delays for which the Government was responsible. Neither the contractors nor the Navy had adequate information concerning the extent of delays or their cost and for this reason the claims were settled on the basis of inconclusive data.

In order to make such information available, we recommended that the Navy's Bureau of Ships (1) issue instructions for the guidance of contractors in preparing delay claims, (2) evaluate the effects of delays as they occur, and (3) encourage contractors to submit claims within a reasonable period after termination of the delays so that settlements can be negotiated before details of the delays are forgotten. The Bureau concurred with our recommendations and indicated that it will take appropriate action to put them into effect.

Ship overhaul contract prices were unnecessarily high.--Our review of ship overhaul contracting activities administered by Industrial Managers, Bureau of Ships, Department of the Navy, disclosed that a lack of effective price evaluation procedures permitted the award of contracts at unnecessarily high prices. Our review further disclosed that laxity of controls over supplemental work increased ship overhaul costs. In this respect, we found that additional repair work authorized after the award of the contracts totaled about \$16 million annually and that generally the prices negotiated for additional work were between 115 percent and 170 percent of competitive prices for such work. We found also that (1) failure to use split-bidding techniques unnecessarily restricted competition for ship overhaul work, (2) inequitable pricing of Government-furnished materials allowed contractors

unwarranted benefits, and (3) a lack of coordination between inspection and contracting functions permitted overpayments to contractors.

We made a number of recommendations to the Navy pertaining to (1) measures for improving price evaluation procedures, (2) methods for improving control over repair work added after award of the contract, (3) alternative methods for getting work done when contractors' bids are excessive, (4) more extensive use of split-bidding techniques, (5) the charging of market prices when Government-furnished materials are substituted for materials that the contractor was to provide, and (6) more careful correlation of the work authorized and the work performed. The Navy informed us that it has accepted substantially all of our recommendations and that necessary corrective action has been taken or is under way. We believe that the corrective measures which the Navy has indicated will be taken, if properly implemented, will satisfactorily resolve the problems disclosed by our review.

Inadequate review of proposed prices under negotiated contracts of the Corps of Engineers.--Our review of contracting procedures showed that in some instances price negotiations by the U.S. Army Engineer Procurement Office, Chicago, Illinois, were based entirely on desk reviews of contractors' proposals. In one case we questioned the validity of the contractor's labor and overhead rates, and in another we found that the contractor, in the execution of the contract, made substitution of less costly material than was included in the price proposal and the contingency factors, which were not substantiated in the price proposal, did not materialize.

In recognition of our findings the procurement office strengthened its price analysis by including a verification of pricing and cost data proposed by prospective contractors. A voluntary reduction in contract price was negotiated in one case in the amount of \$188,882, of which \$111,756 was attributable to our findings, and in another case a voluntary refund was obtained in the amount of \$25,000. While such recoveries are important, we place greater significance on the recognition by the procurement office of the importance of the verification of contractors' price proposals in order to obtain better contract pricing.

Review of determinations of requirements
for purchases of materials and supplies

Recommendation designed to forestall overprocurement of spare aircraft engines and to reduce out-of-service time for engine overhaul.--Our study of the physical movement of unserviceable naval aircraft engines (1) while awaiting removal from aircraft, (2) during the overhaul process, and (3) while awaiting return to the Navy supply system for re-use, revealed a general lack of expeditious handling in almost every segment of the overhaul pipeline. Consequently, the actual overhaul pipeline period was considerably in excess of the estimate which had been used in computing requirements for procurement purposes. Notwithstanding this condition, the actual procurement of spare parts and new engines was substantially in excess of the Navy's actual needs because of other variations in requirements determinations.

Our reviews of the physical movement of naval aircraft engines and comparison with performance by the Department of the Air Force on similar engines suggested that a reasonable pipeline would be approximately 150 days as contrasted with the Navy's scheduled 210 days used for computing requirements and with the current performance record of 275 days. Using the 150-day basis, we estimated that at July 31, 1958, 793 aircraft engines, costing about \$68 million, were being procured in excess of the Navy's requirements. In addition, at that date the Navy had planned requirements for 204 more of these engines estimated to cost about \$33 million.

We recommended that (1) a pipeline factor of 150 days be used in computing requirements for spare aircraft engines, (2) engine requirements be recomputed on this basis and that quantities on order be reduced where it was economically practicable to do so, and (3) the requirement for serviceable engines include all engines in serviceable condition regardless of their physical location. We also made several recommendations designed to accelerate the flow of engines through the overhaul pipeline.

In commenting on our findings and recommendations, the Navy stated that it did not concur with our principal recommendation. It stated that (1) the pipeline criteria suggested by us would not provide sufficient engines to support the Navy's mission and (2) including all serviceable engines in the operating requirement was not feasible. We evaluated the Navy's comments and reached the conclusion that its response did not justify the retention of the current pipeline factor used in determining spare engine requirements. Our report, including our findings and recommendations, the Navy's comments, and our evaluation of those comments, was submitted to the Congress on February 4, 1959. The Navy later informed us that it will use the 150-day cycle as recommended for the management of the pipeline and it has based its 1960 procurement program on the 150-day pipeline.

Recommendation that purchase orders for unneeded aeronautical spare parts and ground communication-electronic equipment be canceled.---Review of requirements, procurement, and supply records at three Air Force Air Materiel Areas and one Air Force depot disclosed large excess procurements of aeronautical spare parts and ground communication-electronic equipment. As a result of our findings and recommendations, orders were canceled for excess procurements at the following locations in the amounts shown:

San Antonio Air Materiel Area	\$16,360,000
Oklahoma City Air Materiel Area	3,000,000
Oklahoma City Air Materiel Area (follow-up review)	24,380,000
Sacramento Air Materiel Area	1,500,000
Rome Air Force Depot	<u>1,400,000</u>
Total	<u>\$46,640,000</u>

A similar study at the San Bernardino Air Materiel Area revealed deficiencies in supply management which were corrected locally upon receipt of our report. Details of our findings and the corrective actions taken are shown below.

San Antonio Air Materiel Area (SAAMA)

Review was made at SAAMA, San Antonio, Texas, of Air Force recorded requirements in relation to stocks on hand and on order for certain aeronautical spare parts, and a later review was made of actions taken by the Air Force on our recommendations to cancel orders for excess materiel.

We found that large quantities of aircraft parts on order in excess of needs were not canceled because satisfactory controls had not been established to assure timely cancellation action when requirements were reduced. During our initial review of requirements records, SAAMA had over \$20,000,000 worth of spare parts on hand in excess of current program needs and about \$20,000,000 worth more on order. However, only a small portion of the excesses on contract had been canceled prior to our review, although program changes and other factors had caused many of these items to become excess 7 or 8 months earlier.

We recommended to the Air Force that contracts be canceled as soon as possible for the excess quantities on order that had not been delivered. Following our recommendation, the Air Force canceled orders for about \$16,360,000 worth of spare parts, with an estimated savings of between \$13,000,000 and \$14,000,000 after termination charges.

We also made recommendations to the Air Force for improving internal controls to insure prompt cancellation of excesses on order. We have been informed that our recommendations in this

respect were adopted by the Air Force and that appropriate procedures were prescribed for all Air Materiel Areas and depots.

Oklahoma City Air Materiel Area (OCAMA)

Review of certain requirements determinations and related procurement for spare parts for aircraft and aircraft accessories at OCAMA, Oklahoma City, Oklahoma, disclosed a need for additional controls to minimize overprocurement and to insure prompt contract termination or disposition of excess equipment. The need for improvement in controls was illustrated by the failure to terminate all excess parts on order, the reordering of spare parts in excess of current requirements, and the improper use of a fixed percentage for determining the requirements for a particular type of spares. We found that the lack of consolidated records for certain parts had resulted in incorrect contract orders. These deficiencies, involving significant contract orders, were called to the attention of OCAMA officials during our review. These officials reduced orders at that time, thereby avoiding expenditures amounting to approximately \$3,000,000.

We recommended certain improvements in requirements procedures, and we have been advised that procedural changes will be made at OCAMA substantially in accordance with our recommendations.

We also found evidence at other installations as well as at OCAMA that the world-wide inventory and consumption reports are of questionable reliability and in many cases are not usable for requirements purposes. This indicates that this defect is a general condition and is a serious weakness in the management of Air Force inventories and related supply functions. We believe that these inaccuracies in records and reports are due primarily to the lack of adequate controls over inventories, particularly at the time of delivery to the Air Force and extending in greater or lesser degree to all echelons of the supply system.

In a subsequent review we found that OCAMA officials had made significant progress in improving requirements procedures and that they had generally maintained close control over the requirements and related procurement for spare parts. Officials had canceled the vast majority of outstanding orders for parts excess to program requirements, had returned substantial quantities of delivered excess parts to a major contractor for use in the production of aircraft on order, and had uniformly applied more conservative criteria in establishing requirements for parts questioned by us in the prior year. With a few exceptions, we found that all Hi-Valu items originally on order in excess of the fiscal year program requirements had been canceled in the aircraft, aircraft engine, and aircraft accessory property classes. According to the Air Force, the total value of orders canceled in these classes during the fiscal year was about \$24,000,000. The total value of delivered parts returned to the contractor for credit on B-52 aircraft contracts was about \$2,500,000.

In several property class units not covered by our prior review, we found relatively minor deficiencies and some excesses remaining on order. When these were referred to OCAMA officials, additional contract orders valued at approximately \$380,000 were promptly terminated. OCAMA officials have now completed the installation of uniform requirements controls for all supply units substantially as we recommended.

Headquarters, Air Materiel Command, also has issued a general regulation that contains the main substance of recommendations we made in connection with reviews at other supply centers as well as at OCAMA. This regulation prescribes a detailed system of controls for all Air Materiel Areas and depots for the identification, reporting, and cancellation of excesses on order.

The actions taken by the Air Force provide improved procedures for the control of Hi-Valu spare parts requirements and excess procurements throughout the Air Force supply system.

Sacramento Air Materiel Area (SMAMA)

Our review of certain requirements determinations and control of related procurement of aircraft spare parts at SMAMA, McClellan Air Force Base, Sacramento, California, disclosed that SMAMA officials did not have effective procedures for controlling important phases of requirements management for spare parts, particularly with respect to identifying and canceling orders for excess equipment and obtaining reliable termination cost estimates. Because of these deficiencies, the requirements for certain Hi-Valu items were overstated by \$1,500,000 and approximately \$500,000 of other parts were needlessly delivered after reduced requirements were computed.

As a result of information developed in our review, the Air Force canceled orders for excess parts with a total contract price of nearly \$1,500,000, at an estimated net saving in Government expenditures of approximately \$1,200,000. We recommended improved procedures and controls for the management of these activities at SMAMA at the conclusion of our initial review.

Rome Air Force Depot (RAFD)

Review of requirements determinations and related procurement for ground communication-electronic (C-E) equipment one of the major equipment classifications of the Air Force, at RAFD, Rome, New York, disclosed that the Air Force did not have an effective program control of ground communication-electronic equipment or the capability of computing current and valid requirements, under the methods of computing requirements in operation at the time of our review, and the supply system did not have the capability to promptly identify and cancel excess equipment on order.

During our review at RAFD we reported to the Air Force a number of excesses on contract that had not been canceled. The Air Force subsequently terminated orders for equipment with a total contract price of approximately \$1,400,000. A much larger reduction would have been possible if the Air Force had acted when the reduced requirements were recorded.

The principal deficiencies found in the Air Force controls were ineffective methods of processing and recording program changes, incomplete review and analysis of requirements information at RAFD, lack of controls and delegated authority at RAFD for terminating excess equipment on order, and unreliable inventory records and reports throughout the Air Force.

We submitted our findings regarding these problems and deficiencies to the Air Force, together with our recommendations for improving the management of ground C-E equipment requirements. The Air Force responded very favorably to our findings and recommendations and stated that extensive improvements have been made in the management system, including the adoption of all of our recommendations.

San Bernardino Air Materiel Area (SBAMA)

Review of the determination of requirements and related procurement for aircraft spare parts at SBAMA, Norton Air Force Base, San Bernardino, California, disclosed ineffective management controls.

For many high-cost spare parts, officials had not reviewed and, where necessary, revised their estimated requirements in accordance with the fiscal year 1958 aircraft programs and changes in consumption. The latest computation of requirements for spare parts in one property class was in February 1957. In another property class there had been only partial reviews of requirements for spare parts since January 1957. In a third property class the latest recomputations were made in May 1957, but again for only a portion of the spare parts in the class. Also, because of increasing aircraft programs, SBAMA supply officials retained during the calendar year 1957 over \$1,000,000 worth of spare parts that had been declared surplus, although no recomputations were made to determine the effect of these program changes on specific parts and quantities required.

Neither the contractor nor the Air Force adequately analyzed production information prepared by the contractor for use by SBAMA officials in determining the feasibility of canceling orders for certain high-cost C-133 spare parts. Our examination of the contractor's records showed that the contractor had not received all the materials ordered, was not scheduled to begin fabrication of certain parts for at least 6 months, and had not considered utilizing materials and partial fabrications of spare parts in the current production of C-133 aircraft. This information was

reported to SBAMA officials who reopened discussions of contract cancellations with the contractor. We were later informed that on more recent contracts, for additional C-133 aircraft, more economical spare parts arrangements were made, whereby the contractor carries partially fabricated parts that can be either rapidly completed for spares on request or utilized in production of the last block of aircraft.

The requirements analysis function, an independent review of requirements programs, computations, and procedures, was not effectively managed at SBAMA because of inadequate instructions, records, and reports. No written instructions had been prepared for this function and accordingly the analysis of requirements was not well coordinated and systematized.

These deficiencies were reported to the Commander, SBAMA, and to Headquarters, Air Materiel Command. The Commander, SBAMA, acknowledged the reported deficiencies in management and stated that corrective action had been taken substantially as recommended. The reply from Headquarters, AMC, informed us of recent supply and procurement procedural changes devised for the entire Air Materiel Command, which we were informed, should eliminate the reported deficiencies.

Recommendation that purchase orders for unneeded supplies at major Air Force installations in the Far East be canceled.--Examination of supply management and stock control practices and procedures of the major Air Force installations in the Far East--Japan, Korea, Okinawa, and the Philippines--disclosed various deficiencies and weaknesses among which were (1) failure to properly discharge supply control responsibilities in regard to determination of requirements, (2) requisitioning action based on invalid customers' requirements, (3) requisitioning in excess of established control levels, (4) erroneous stock records, and (5) deficiencies in maintenance supply operations.

As a result of our recommendations, cancellations were issued in the approximate amount of \$10,475,000 for items not required at the time of requisitioning. The installations and approximate amounts involved in the cancellations were:

Andersen AFB, Guam, Mariana Islands	\$ 2,700,000
Clark Air Base, Philippine Islands	585,000
Itazuke Air Base, Japan	3,100,000
Johnson Air Base, Japan	990,000
Naha Air Base, Okinawa	220,000
Tachikawa Air Base, Japan	1,100,000
Yokota Air Base, Japan	845,000
6314th Air Base Group, Osan, Korea	<u>935,000</u>
Total	<u>\$10,475,000</u>

At Kadena and Naha Air Bases, Okinawa, inaccurate subsistence forecasts were revised to reflect actual requirements, resulting in a savings of approximately \$60,000 a month.

Recommendations designed to correct deficiencies in computing requirements for peacetime operating stocks of the U.S. Army, Europe.--Improper requirements computations for peacetime operating stocks of the United States Army, Europe, have resulted in substantial quantities of material being requisitioned, shipped, and stored in excess of actual requirements. In other cases, computed stock requirements were lower than warranted. Reviews of stockage requirements computations by supply control agencies and the Army Communications Zone Command were inadequate to detect or prevent inaccuracies and to assure adjustments.

We recommended (1) that applicable experience factors be developed and incorporated in data used to compute requirements, (2) that a closer and more systematic command review of requirements computation practices be instituted, and (3) that more realistic criteria be applied in determining retention needs. Although corrective action had been promised as a result of this review and earlier findings in this area, our follow-up review indicated that deficiencies in computing and reviewing requirements still exist.

Material and equipment requirements for military assistance program have been established without sufficient information as to needs.--Our examinations disclosed that military assistance program requirements have frequently been developed without knowledge of the recipient country forces, without valid tables of organization and equipment, without reliable information as to country consumption rates, and without adequate knowledge of material already possessed by recipient country forces. Considerable excess material existed, and, in the absence of a sound basis for programing, additional excess material could be delivered.

We recommended that the programing process be reviewed and that more adequate controls be established. We were advised that corrective action has been taken and that substantial quantities of material and equipment were either recovered or canceled from approved programs.

Review of supply management and stock control practices

Recommendations made to correct deficiencies in supplying spare parts for Navy aircraft.--Our review of the aviation segment of the Navy Supply System disclosed that, because of serious deficiencies in several critical areas, the system does not adequately meet aircraft spare parts requirements of the fleet. Although it has not been possible to identify all the direct causes, some of the causes contributing to its ineffectiveness are (1) unreliability of requirement computations, (2) inaccurate field reporting of quantities and condition of assets on hand, (3) unrealistic usage information, (4) inadequate control of short shelf-life items, (5) questionable provisioning practices, (6) untimely allocation, distribution, and redistribution of material, (7) frequent changes in programs, and (8) frequent technical changes.

These conditions have resulted in shortages of certain material, causing aircraft to be grounded and work stoppages in maintenance activities. During the first few months of 1958, an average of 7.9 percent of the Navy's operational aircraft were reported grounded for lack of parts, but for certain first-line aircraft the rate was much higher. These conditions resulted also in substantial quantities of other materials being accumulated which must be disposed of at a substantial loss. During the fiscal years 1955-58, material valued at approximately \$823 million was declared excess. The Navy estimated that additional aeronautical material valued at \$350 million would be declared excess in the fiscal year 1959.

We made specific recommendations to improve each of the deficient areas noted in our review. Practically all of our recommendations have been accepted by the Navy, and Navy officials have advised us that necessary corrective action has been initiated. The prompt action should result in substantial improvement in aviation material support.

Recommendations designed to provide more effective and economical supply support at Navy shipyards.--We found that Navy shipyards have consistently overestimated their needs for material for ship overhaul and conversion work. As a result, enormous quantities of surplus materials have been accumulated which, experience shows, will be ultimately disposed of at a fraction of their cost. During the last three fiscal years, a sizable amount of Navy inventories have been classified as excess to its needs. This included nearly \$850 million worth of electronic and shipboard equipment and ship repair parts which are used almost exclusively for overhaul and conversion of ships.

We found also that (1) retention of inactive items increased shipyard storage, accounting, and administrative costs and delayed making this stock available to other potential users, (2) about 40 percent of material carried in shop stores for day-to-day use

was in excess of established supply levels, (3) a substantial amount of the stock held as insurance items did not meet criteria established for stocking such items, and (4) little or no accounting control exists over ~~the~~ more than \$40 million worth of surplus materials at the four shipyards we reviewed.

We made a number of recommendations which, if properly implemented, should result in more effective and more economical supply support at naval shipyards. The Navy concurred with all our recommendations and informed us that a number of them have been put into effect. Other recommendations, because of their far-reaching impact, will require considerably more time for proper implementation, but the Navy is actively working to put them into effect.

Recommendation designed to eliminate unnecessary work in provisioning ship repair parts in Navy supply system.--We found that the policies and procedures followed by the Navy in reviewing provisioning forms for ship repair parts involve a substantial amount of unnecessary work in making a detailed review of items already carried in the supply system. Based on the results of our review, we estimated that the cost of this unnecessary work amounted to more than \$300,000 annually. We recommended that initial reviews of provisioning forms be made to identify the new items and the stock list items. We recommended also that complete reviews be made for new items and that reviews of stock list items be restricted to establishing the correctness of stock numbers and revising quantity requirements. The Navy concurred in our findings and stated that our recommendations are being implemented.

Need for improvement of supply data at Engineer Supply Control Office.--Our review of supply activities at the Engineer Supply Control Office (ESCO), St. Louis, Missouri, disclosed that there was in use certain supply data which we deemed unreliable. As of June 30, 1957, the differences in which the dollar value of the stock balance cards exceeded the financial inventory accounting (FIA) ledgers totaled \$44.4 million; differences in which the ledgers exceeded the cards totaled \$32.2 million. The dollar value of the maintenance and operation (M&O) stock balance cards was \$13.2 million in excess of the FIA ledgers. All these differences totaled nearly \$90 million, or about 30 percent of the FIA balance of \$303 million for stock fund and M&O inventories.

ESCO also was making significant adjustments in its studies of principal items in order to reconcile the asset data reported on world-wide asset reports with the assets that ESCO analysts had determined to be in the supply system. Adjustments totaling \$25 million, representing \$18.6 million in increases of reported assets and \$6.4 million in decreases, were made on the April 1957 supply control studies for 33 of the 49 principal items for which ESCO had responsibility for computation.

Accuracy of the asset data is, of course, important because it is a major factor in the determination of the quantities to be procured, and a system which requires the continual compilation of

information by ESCO for the purpose of correcting data in field reports is of questionable value. Although ESCO questioned the field commanders on a number of the apparent discrepancies, we believe that, in order to prevent their recurrence, it will be necessary to ascertain and correct the underlying causes. At other installations we also found that inventory and consumption reports were of questionable reliability.

The Assistant Secretary of the Army (Logistics) disagreed with the implications of our finding and stated that the stock reporting differences did not consist completely of errors in the records but that initiation of various technical and procedural improvements in themselves had caused some backlog and temporary differences. He said also that the consolidated stock status report has been traditionally used and accepted as a management tool as representative of the stocks in inventory available for requisition, not necessarily the total inventory on hand. The comprehensive program of integrated dollar and item accounting which was installed by ESCO on May 1, 1958, and the use of automatic data-processing equipment promise increased reporting improvement, and such reporting will be based on the same source data that will be used in the development of financial management reports. The Assistant Secretary agreed that the world-wide asset reporting needed improvement and said that there were 17,000 reporting sources, that improved procedures had been under test for 2-1/2 years and would require at least 1 year more, that improvements were being initiated, and that a high-level committee had been established to assure continued and sustained improvement.

Need for improvement in supply operations of Signal Corps, U.S. Army, Europe.--Review of the Army Signal Corps supply operations, United States Army, Europe, Communications Zone (COMZ), headquartered at Orleans, France, disclosed that practices, procedures, and controls were inadequate to assure proper supply determinations and this resulted in uneconomical operations. One of the adverse effects was the generation of a significant amount of excess stock. Out of an inventory of \$108 million worth of stock at December 31, 1957, there was \$42 million worth in excess of normal operating requirements and approved reserves.

Our review disclosed that (1) orders were placed for significant quantities of unneeded supplies because close supervision was not being exercised, proper analysis of outstanding orders was not being made, and records were inaccurate, (2) a significant portion of stocks was reserved for various purposes without a valid requirement or proper authorization (\$5 million of \$11.6 million worth of stock reviewed was improper), (3) screening of unfilled customers' requisitions was inadequate because of insufficient coordination and ineffective internal controls at the agency, (4) a substantial percentage of the stock levels on the line items examined were excessive because of lack of (a) internal control to insure recording of adjustments of stock levels and (b) proper

emphasis on reviews of stock levels for high-dollar-value line items, (5) excess stocks were not being utilized to fill significant deficiencies in mobilization reserve materiel requirements, (6) timely action was not taken by the agency to fill customers' current requirements for high-dollar-value stocks ordered and received from the United States, (7) no adequate formal storage plans existed at any of the three depots to assure efficient and economical operations, and (8) excess property was not always being properly reviewed and controlled by the agency in accordance with established procedures.

Many of these same deficiencies were noted by us in previous examinations of Signal Corps supply operations in 1955 and 1956. These matters were then brought to the attention of the United States Army, Europe (USAREUR), and the Assistant Secretary of the Army (Logistics), but our recent review disclosed that effective corrective action had not been taken. We have been informed by the Deputy Assistant Secretary of the Army (Logistics) that, subsequent to our recent review, many corrective actions were initiated which should materially aid in achieving a higher quality of management of Signal Corps supply operations in Europe. Since we were unable to determine all the specific actions taken, we re-stated the following recommendations:

1. That Signal Corps officials give more consideration to determining the causes for the errors in the records and that action be taken to prevent their recurrence.
2. That timely reviews of known changes in requirements be made by competent and closely supervised personnel in order to insure that only supplies currently needed are on order.
3. That the Signal Officer, USAREUR; Signal Officer, COMZ; and the agency institute additional controls to assure that all reservations of stock are properly authorized and supported and that reviews are made timely to determine the continued need for the reservations.
4. That there be more effective coordination between the agency and its customers in regard to the current status of unfilled requisitions.
5. That the agency establish a procedure to assure that appropriate disposal action is taken on all excess property.

Need for improvement in supply management practices in the Far East.--In our review of supply management practices and procedures of the U.S. Army Signal Supply Center (SSC), Yokohama, Japan, we found that SSC was failing to properly discharge its supply control responsibilities in determining requirements due to overstatement of needs because of numerous erroneous determinations; action was not being taken to cancel active requisitions for items in an

excess position; outdated equipment authorization lists were being used to determine requirements; contrary to regulations, SSC authorized the stockage of a 60-day level of major components in addition to the 100 percent authorized stockage of the end item; stock records were in such poor condition that many overstated requisitions could not be canceled during our examination; issues made to closed installations were considered in computing requirements; excesses totaling \$1.5 million in dry batteries were on hand or order, due to errors in computation in establishing stock levels, to inadequate recordkeeping, and in part to the Army phase-down in Japan; excessive stocks were reserved for special projects, without giving consideration to the use of the excesses to fill general issue requirements; and stock was being reserved for special projects which had been canceled, completed, or otherwise rendered inactive.

As a result of our findings, recommended corrective action was taken promptly. Overstated requisitions amounting to over \$8 million, which represented more than one half of the amount on order at the time of our examination, were canceled, and we were advised that action was taken to improve procedures and controls which should provide for more effective supply management and avoid similar deficiencies in the future.

Inefficient procurement policies and procedures for the solid fuel program of the U.S. Army, Europe.--In our review of policies and procedures for this program and their implementation in terms of procurement, storage, distribution, and accountability, we found that (1) seasonal price advantages were lost as a result of poor delivery scheduling and consistently late contract awards, (2) deliveries to several locations exceeded unloading capacities, with the result that demurrage charges were incurred in some cases, and (3) personnel costs were excessive at some distribution yards because of full-time assignments of enlisted personnel instead of utilizing local wage-rate employees and because of multiple distribution operations serving a single area.

We recommended that USAREUR award contracts on a timely basis and that efforts be made to schedule fuel shipments so as to obtain the most advantageous price, that contracts be amended to show unloading capacities for each destination, that personnel assignment practices be reviewed, and that consolidation of fuel distribution functions be considered.

USAREUR has promised satisfactory corrective action on each of our recommendations and stated that its policy will be revised to have enlisted men replaced with local wage-rate employees and that a study of a consolidation of functions was under way.

Savings can be realized by deleting many ship repair parts now in inventory which can be purchased readily from commercial sources.--The Navy has a large number of ship repair-part items in its inventory which are of low unit value and low inventory value

and have been in low demand for the past several years. Our test disclosed that many of these items are readily available from commercial sources. We concluded that about 50,000 of these items could be eliminated from the Navy supply system at an approximate system-wide savings of \$1.6 million annually. We also found that the programs established for removing nonessential items from the supply system were not effective. We recommended that items presently in the supply system having low unit costs and little demand be continually reviewed and analyzed to assure that such items are deleted from the system to effect all possible savings in system costs. The Navy concurred in our findings and recommendations and stated that studies are currently being made to eliminate nonessential items and to decentralize control of shelf-type commercial items.

Many ship repair parts are included in mobilization reserve stocks although they are not essential for wartime operations.-- Many ship repair-part items for such equipment as movie projectors, heaters, and laundry equipment were included as mobilization reserve stocks although such items are not considered by the Department of the Navy as essential for wartime operations. We recommended that more emphasis be placed on the degree of essentiality for wartime operations and that all items presently included in mobilization reserve stocks be reappraised on this basis. The Navy concurred in our findings and recommendations and stated that mobilization reserve stock items will be reviewed and items not meeting the criteria will be eliminated.

Ability to meet supply needs of United States Army in Europe impaired by inaccurate stock records.--Our review of supply activities of the United States Army in Europe disclosed that the capability of supply control agencies and depots to meet the needs of our forces has been seriously impaired by inaccurate supply records. The unreliable records largely invalidated the usefulness of financial inventory reports as a management tool.

We recommended the establishment of a strong program to assure that needed materials are provided in a timely and efficient manner based upon the initiation of controls, reviews, reports, and examinations directed towards eliminating noted deficiencies.

Our follow-up review disclosed that some corrective action had been initiated but that stock records continued to be inaccurate.

Little improvement in supply operation by use of the Modern Army Supply System, Europe.--The Modern Army Supply System (MASS) is not achieving its originally established objective of improving the 7th Army's supply system in Europe by providing parts for modern vehicles, weapons, and equipment in quantities consonant with the needed mobility of the combat elements. The MASS concept included the rapid delivery of needed stocks directly from United States depots and a reduction in line items and quantities stocked by the 7th Army to increase its mobility.

Our examination disclosed that there are continuing and substantial shortages of spare parts, that combat units are unable to obtain adequate and timely replenishment supplies of parts, and that, with one exception, the establishment of mobile depots within the 7th Army has not been achieved.

We recommended that needed items be adequately stocked and that action be initiated to preclude overordering and unauthorized ordering of MASS items.

Our follow-up review showed that efforts are under way to reduce order and shipping time for replenishment requisitions and to improve requisitioning procedures. However, there has been only a slight improvement in the 7th Army's supply system since MASS was permanently installed in July 1958.

Deficiencies in the supply system for the Southern European Task Forces in Italy due to inadequate instructions and supervision.--We found a general misunderstanding and misinterpretation of the combat reserve program objectives and instructions at all levels of the Southern European Task Forces (SETAF) in Italy, defective instructions and guidance issued by its headquarters and its support command staff, improper computation of stock levels by the technical supply services, insufficient or excessive requisitioning by the two supply services which had issued requisitions, and an inadequate stock inspection and rotation program. In our opinion, substantially all these deficiencies resulted from or were aggravated by the failure of the Department of the Army to furnish SETAF with detailed instructions and program guidance for almost 2 years after authorizing the reserve and by the lack of adequate supervision and review of the program by the headquarters staff and support command personnel.

The Assistant Secretary of the Army (Logistics) concurred in our findings and recommendations that the procedures be improved and that clarifying instructions be issued at departmental and local levels to correct the deficiencies. He informed us of several actions which were taken both prior to and after receipt of our informal report to correct the deficiencies. It is noted that SETAF also had taken some corrective action at the time of our review.

Deficiencies in the supply management activities of the U.S. 8th Army, Korea.--Our review of selected supply management activities of the United States 8th Army, Korea, disclosed that substantial amounts of materiel in excess of requirements were being requisitioned because quantities of serviceable, repairable, and turned-in assets were not considered; that issues to Armed Forces Aid to Korea, although inapplicable, were included in 8th Army demand data and inventory adjustments which decreased stocks recorded to be on hand were included in the computations for developing demand data; that requisitions were not canceled when theater activity was reduced; that quantities on customer orders were not

considered; and that customers' orders were placed in excess of authorized quantities. Also, the accounting records for stocks, upon which supply actions are based, were inaccurate and unreliable; the records did not include large quantities of materiel on hand; materiel was shown as due-in subsequent to receipt and, in the case of Ordnance, the materiel was not reconcilable with listings from the Ordnance Stock Management Agency, Japan; invalid or canceled customers' orders were recorded as due-out; and numerous posting errors were noted. The Engineer Depot cement-block plant was in production while there was no known forecast of need.

In response to our findings and recommendations, orders placed were reduced by about \$4.1 million. The Engineer Depot canceled orders for 253 18-ton pontoons valued at \$373,428; 16-inch fans valued at \$71,425; bridge components, generators and paint valued at about \$75,000; 2 D-8 tractors valued at \$58,964; and 2,000 cylinders valued at \$73,000. The Engineer Depot also reviewed and restated its lumber forecast, reducing it by about 25 million board feet, valued at \$2.3 million, a reduction of about 55 percent. The cement-block plant was put on stand-by basis from December 1, 1957, to March 15, 1958, at an estimated savings of \$46,000. The Ordnance Depot reduced its requisitions for M37 trucks valued at \$179,452, 14 commercial-type trucks valued at \$138,465, 365 trailers valued at \$332,880, and 31 buses valued at \$124,775. The buses were rerequisitioned to satisfy a requirement placed by the Department of the Army. The Signal Depot was able to cancel various requisitions having a value of about \$42,000. Also, the correction of errors in the stock accounting records led to cancellation of orders amounting to about \$250,000.

Headquarters, 8th Army, concurred in our recommendations that, prior to submission of any sizable requisitions, complete verification be made of stocks on hand at the depots; that customer "due-outs" be verified as to their continued requirement; and that the cases of overstated requirements be corrected.

Deficiencies in the supply management activities of the Army Engineer Supply Center, Japan.--Controls in the supply and stock control activities at the Engineer Supply Center, Tokyo, Japan, were found to be inadequate to assure the proper determination of requirements and proper supply actions. There was a failure to consider all assets already on hand; erroneous information was furnished to continental United States supply control points and depots; insufficient consideration was given to use of substitute materiel on hand; overstated demand data was used in computing theater requirements; numerous errors appeared in the computations which resulted in overstatements of requisitioning objectives; and cancellations of orders for materiel which was no longer needed were processed in a routine and excessively time-consuming manner also, combat reserve stocks were excessive in quantity and included items of doubtful combat necessity, such as electric fans and asphalt tile, and excess quantities of materiel were placed in reserve for set-assembly.

It was found also that items of equipment which were dismantled while undergoing rebuild at the Center were being reassembled although destined for disposal as scrap, and some were again dismantled by the Property Disposal Division prior to sale; that serviceable wooden pallets were being sold as scrap lumber while new ones were being manufactured; that usable scrap lumber costing 2 cents a board foot to reclaim was not being returned to the box factory, which used lumber costing about 12 cents a board foot; and that a substantial number of vehicles were in disposal channels but could be used by cannibalization of parts by the Logistical Depot at Kokorozawa for its military assistance program.

The Center concurred generally in our recommendations and took corrective action. Among other actions as a result of our review, the Center canceled outstanding requisitions amounting to about \$1 million.

Need for improvement in the operations of the Army Transportation Supply Control Agency, Europe.--The Transportation Supply Control Agency, United States Army, Europe, failed to effectively perform its supply mission for the 18-month period ended December 31, 1957. During that time there were serious delays in filling requisitions, the backlog of requisitions increased enormously, and no recognizable management procedures existed to govern performance of basic supply and stock control functions.

We recommended that command staffs be required to critically review supply reports, investigate areas of indicated weakness, and take timely action to correct deficient supply operations.

The Agency has now been reorganized and restaffed in all key positions, and new control procedures have been developed to implement our recommendations.

Savings to be made by changing storage location.--During our review of the activities at a naval supply activity at Oakland, California, we noted that savings in operating costs could be realized by moving packaged petroleum products from a storage location approximately 15 miles from the supply activity to a storage location at the supply activity. We estimated that initial savings would be approximately \$184,000, the amount required to improve the present storage location, and that approximately \$4,000 could be saved annually on transportation, utilities, and maintenance costs. As a result of our inquiry and recommendation, these products are being moved to a location at the supply activity.

Review of utilization of materials, supplies, and equipment

Additional procurement avoided by redistribution of excess aeronautical equipment of one military service to another.---Prior to fiscal year 1958, the Department of Defense had no system for redistributing the excess aeronautical equipment of one military service to another service, if a need existed. At that time the military services usually notified one another of the availability of excess aeronautical equipment only if it were being disposed of as surplus property, i.e., stocks exceeding maximum long-range program requirement. During fiscal years 1957 and 1958, we found that millions of dollars worth of excess aircraft and engine parts stocked at two Air Force supply points could be used by the Navy but that the Navy had no knowledge of these spare parts and was procuring identical items. As a result of the information we developed, the Navy obtained over \$1,600,000 worth of excess Air Force aeronautical equipment, consisting primarily of J-48 and J-57 aircraft engine spare parts.

After our examination of the above cases, the Department of Defense established Commodity Coordination Groups for aeronautical equipment, in order to facilitate the redistribution of stocks exceeding the current or mid-range program needs of any one of the services. The operating procedures of these Groups, however, did not contain adequate provision for disseminating information on excess stocks. We found at the Middletown Air Materiel Area, for example, that during fiscal year 1958 the Air Force had about \$8,400,000 worth of helicopter spare parts in stock that exceeded its then current programmed requirements. Over \$2,000,000 worth of these parts had been declared surplus to any foreseeable needs by the Air Force and were placed on excess property listings distributed to the other services in February and March 1958. At that time the Air Force was not required to notify other services of its remaining excesses, which in this case amounted to about \$6,000,000 worth of parts, unless direct inquiries were made.

We found that during this period the Army, which utilized the same helicopter, was placing substantial orders for identical spare parts. Not only were Army supply officials unaware of the over-all Air Force excesses, but they had failed to take notice that those particular parts had been placed on excess property listings. As a result of the information we presented to the services, arrangements were made to transfer about \$3,400,000 worth of excess Air Force helicopter parts to the Army. The transfer of these parts enabled the Army to cancel orders that had been placed for about \$1,000,000 worth of parts; and the Air Force was able to withdraw over \$1,500,000 worth of parts from the disposal yards that would have otherwise been sold for a fraction of their original cost.

Several additional measures were taken by the Department of Defense to improve the management of interservice supply

activities, after our examinations of these cases. In June 1958, there was established, in the Office of the Secretary of Defense, an Armed Forces Supply Support Center which replaced the former committee arrangement as the central directing point for interservice supply activities in the Department of Defense. In January 1959, the Department issued a more comprehensive policy statement on redistributing supply inventories which we understand: (1) requires the military services to circulate lists of all common stocks exceeding their respective current or mid-range program needs and (2) provides for more effective redistribution of such stocks when needed in another service.

In view of the significance of the interservice supply problem, we are continuing our review of supply cooperation and of the extent that common items are utilized effectively in the Department of Defense.

Savings realized by cancellation of disposal actions on binoculars and bearings in the Navy supply system.--Because of inadequate data furnished to the Bureau of Ships, Department of the Navy, excess quantities of binoculars valued at \$2.4 million that were in ready-for-issue condition were recommended and scheduled for disposal while quantities of similar binoculars in need of repair were being retained in the supply system to maintain adequate supply levels. After this was called to the attention of the Navy, the binoculars in ready-for-issue condition were removed from disposal lists and replaced by binoculars in need of repairs. This action saved approximately \$225,000 in estimated repair costs. We recommended that procedures be established to require the submission of all available data on excess quantities available for disposal, including the physical condition of inventories. The Navy advised that procedures will be developed to preclude recurrence of any situation of this type.

Usable bearings in supply at one Navy depot were erroneously being scrapped because of a misinterpretation of instructions issued by the inventory manager. As a result, requisitions for such material were not being filled by the depot and instead were being forwarded to other supply points for action. We found that quantities of bearings which cost (1) \$6,288 had already been scrapped, (2) \$87,292 had been surveyed and were to be scrapped, and (3) \$691,765 were in inventory and presumably would have been scrapped if the same survey criteria were followed. These bearings had previously been inspected and preserved by commercial contractors and the depot at a cost of \$187,835. At our suggestion, the depot suspended further action on the bearings and requested clarification of the instructions from the inventory manager who advised that the instructions were misinterpreted and disposal of the bearings was in error. We were subsequently informed that the inventory manager was revising the instructions to preclude misinterpretation by field activities.

Recommendation that the Army Transportation and Maintenance Command use helicopter transmission assemblies on hand rather than purchase new assemblies.--The Army Transportation and Maintenance

Command (TSMC) failed to consider in its supply studies large quantities of old model H-13 helicopter transmissions which were currently being rebuilt by a contractor. Although old model transmissions were specified in a requirement, 27 new model transmissions were furnished and 13 additional were ordered. Also, an error in the computation of requirements for helicopter transmission assemblies was made with the result that 29 were ordered.

TSMC accepted our recommendation that independent verification be made of supply studies on which procurement actions in excess of \$5,000 are based. TSMC was able to cancel the order for 13 transmissions, valued at \$62,079, and utilize the old model transmissions. The order for the 29 assemblies valued at \$109,488 also was canceled.

Need to review disposal actions relating to spare parts for the Army M-51, heavy recovery vehicle.--In November 1957, the Ordnance Tank-Automotive Command initiated disposal action on 19 spare parts peculiar to the M-51, heavy recovery vehicle. The disposal action was taken as a routine matter because there were no recent issues or demands for the parts. Although these vehicles had been in storage for several years, they represented an important segment of the Ordnance tactical fleet and their continued use was contemplated.

The Ordnance Tank-Automotive Command accepted our recommendation and promptly canceled the disposal actions and parts valued at \$9,235 were returned to the supply system. It also issued instructions for screening all past disposal actions for parts peculiar to the current vehicle fleet. In addition, procedures were adopted to direct supply analysts to consider potential requirements of all fleet vehicles in processing future disposal actions.

Expensive delays in servicing aircraft engines.--Our review of activities at two naval air stations disclosed deficiencies in the controls over aircraft engines and other aeronautical material. We found that unserviceable engines, classified as being in critically short supply, were not promptly removed from aircraft awaiting overhaul. Once removed from the aircraft, the shipment of these engines to the designated overhaul points was further delayed. These delays presumably increased the out-of-service time of the engines and the possibility of grounding aircraft in fleet use because of lack of engines. At one air station we found also that engines had to be reshipped because of the failure of the Bureau of Aeronautics to promptly revise shipping instructions when the overhaul point was changed. As a result, engines were delayed in reaching the overhaul point and unnecessary transportation costs were incurred. We made specific recommendations to improve these areas. The Navy advised that procedures have been revised to correct these deficiencies.

Insufficient coordination in use of material and equipment made available under both the military assistance and economic aid programs.--In certain countries, the military assistance

programs and economic aid programs have not been sufficiently coordinated to insure efficient use of material and equipment made available under both programs. Equipment, including construction material, has been programed, and in some cases delivered, under one program, while equipment delivered under the other program was available to meet the requirement. We also noted in one country that the United States military and economic programs were being used to sponsor communication and highway projects without adequate coordination to prevent duplications in plans and materiel.

We recommended closer coordination between the economic and military programs and that equipment furnished under either program be made available to fill both defense and economic development needs.

We were advised that a closer working relationship between the two programs has been established. In one country, however, no progress has been made due to an absence of cooperation of the recipient country's officials.

Equipment furnished under the military assistance program in excess of that which the recipient countries could effectively use.--In certain of the countries examined, the United States has programed and delivered military equipment in excess of that which the recipients could effectively maintain and utilize. Significant quantities of material and equipment were deteriorating in storage or inoperative, mainly because of a shortage of trained operating and maintenance personnel and an inadequate supply distribution system.

We recommended that programing of material be more closely related to the recipients' capabilities and that more adequate controls be established to determine whether MAP equipment is being properly accounted for and effectively used in furtherance of approved purposes.

We were advised that corrective action was being taken in most instances. However, military and political factors were cited as justifying the level of aid provided in some of the countries.

Review of management and utilization of vehicles

Uneconomical vehicle replacement policy of the Air Force not fully disclosed to the Congress.--Our review disclosed that since fiscal year 1957, the Air Force has spent over \$5,000,000 more in repairs and depreciation on thousands of old commercial design vehicles than it would have cost to replace them. Due to retention of worn-out vehicles and other factors, Air Force repair costs are among the highest, if not the highest, in the entire Government for comparable types of vehicles. Postponing the purchase of replacements needed in prior years has also cost the Air Force higher vehicle prices paid or to be paid for purchase of replacement vehicles in fiscal years 1959 and 1960 because of the general rise in market prices. These conditions have resulted from the policy of Air Force management to accept increased maintenance costs in order to postpone procurement expenditures for replacements.

Although the initial cash outlay for new vehicles is greater in most cases than the annual costs of repairing old vehicles, our study shows that over the long run the annual costs of depreciation and repairs would be substantially less than the present costs incurred by the Air Force to retain and operate worn-out vehicles. We found in examining maintenance records for 327 vehicles that the Air Force had spent about \$91,000 over a 2-year period for repairs of 37 vehicles that originally cost only \$68,000. For 11 of these vehicles, the repair costs recorded for a single year actually exceeded their original acquisition prices.

Despite their general recognition of excessive repair costs for worn-out vehicles, Air Force management officials have not informed the Congress of their total replacement needs and the long-run costs of their replacement policy. Air Force budget justifications have presented as total needs only those vehicles which officials have determined can be financed within their self-imposed procurement fund limitations. No attempt has been made to relate the effect of vehicle procurement decisions on maintenance and operations, military pay, and other appropriations. As a result, the Congress is unable to analyze and evaluate the real costs of the Air Forces' vehicle replacement policy.

According to our understanding, the Air Force did not notify the Congress that there was a major accumulation of worn-out vehicles with rising repair costs until presenting the fiscal year 1959 budget. At that time the Air Force requested funds to procure replacements for about 10,000 vehicles when its forecast requirements were nearly 20,000. In the succeeding year the Air Force requested 10,000 vehicles while its forecast requirements were closer to 30,000. As far as we can determine, the Congress was not informed of the total number of uneconomical vehicles or the high cost of utilizing those not replaced.

Inadequate internal reporting of total vehicle maintenance costs and replacement needs.--The methods of recording maintenance costs and the requirements for replacement of worn-out vehicles within the Air Force do not disclose adequate information for sound management decisions. Neither the total costs of vehicle repairs nor reliable estimates of complete replacement requirements are available in the Air Force. Air Force management officials are unable, therefore, to evaluate and control the general efficiency of their vehicle repair operations or to systematically plan ahead for replacing all needed vehicles that are estimated to become uneconomical.

We recommended to the Assistant Secretary of the Air Force (Materiel) that a thorough study of replacement requirements and repair costs be made and a replacement policy be developed that would be the most economical in both replacement and repair costs. Although the Air Force subsequently made some improvements in the reporting of requirements and repair costs, there has been no change in its replacement policy. We were informed that Air Force management is relying on an "orderly" 4-year replacement program begun in fiscal year 1959 to modernize the fleet by the end of fiscal year 1962. We were also informed that the Air Force does not consider it worth while to undertake an extensive survey of vehicle repair costs, primarily on the premise that these costs could not be significantly reduced even if the fleet were composed of all new vehicles.

The Air Force has not presented any information to demonstrate the economy of its present replacement policy or the inability to significantly reduce its over-all repair costs. We believe that the current and planned rate of replacing worn-out vehicles, without any reduction in the level of repair costs previously experienced, will add at least \$2,000,000 a year to the total cost of providing serviceable vehicles to Air Force units. The Air Force also risks, of course, the payment of higher purchase prices by postponing the procurement of these needed replacements to later years.

We therefore recommended again to the Secretary of the Air Force that the Air Force (1) direct the previously recommended study and analysis of vehicle maintenance costs, in order to identify and measure all costs involved, improve the efficiency and economy of the repair operations, and obtain essential information for evaluating the relative costs of repair and replacement, (2) reconsider its replacement plans in order to develop and plan the necessary financing of the most economical program for both replacement and repair of vehicles, and (3) fully disclose to the Congress the total costs of repairs, depreciation, and operation for vehicles in the Air Force fleet.

We also made recommendations to the Secretary of the Air Force regarding the recording and reporting of all costs involved in vehicle repairs.

Since similar conditions of excessive repair costs may exist in the other military departments, we recommended that the Office of the Secretary of Defense carefully examine the vehicle repair and operating costs and the requirements for replacement of uneconomical vehicles in the Departments of the Army and of the Navy.

Inefficient storage, maintenance and issuance of vehicles and heavy equipment by the U.S. Army, Europe.--Our review of policies, procedures, and practices relating to the storage and maintenance of vehicles and heavy equipment of the United States Army, Europe, located in the vicinity of Kaiserslautern, Germany, disclosed that certain types of maintenance float vehicles have not been issued on a "first-in, first-out" basis, with the result that units were not properly rotated; requirements for maintenance floats were based on inaccurate records as to types and quantities of equipment supported by maintenance units; both excesses and shortages have existed in the quantities of equipment on hand and on order for floats of the field maintenance units, as a result of incorrect determinations and deficient procedures for control and follow-up of requisitions; equipment servicing has been seriously delayed by shortages of spare parts, attributed by USAREUR primarily to periodic restrictions on consumer credit expenditures under the current austerity program, and to procedural and personnel problems in the supply control agencies; and vehicle repair costs have not been properly recorded, with a resulting impairment of controls to prevent uneconomical repair of vehicles.

USAREUR has advised that recommended corrective action has been taken on each of the deficiencies and that they have been called to the attention of subordinate commands with instructions to take corrective action where required.

Review of production planning and cost control

Inadequate cost control over material and labor.--Our examination of production planning and cost controls at the Longhorn Army Ordnance Works, a Government-owned, contractor-operated plant at Marshall, Texas, disclosed that direct material issues to production were not adequately controlled. The quantities of materials to be issued were determined by production personnel based on their personal knowledge of the requirements without reference to the bill of material requirements or the production schedule. The contractor did not utilize or ascertain the validity of his predetermined scrap or waste allowance standards, neither did he develop general material usage factors or report materials lost in process. No production labor standards had been established and the plant was not staffed with industrial engineers until after some time had elapsed. Labor requirements forecasting also was predicated on the past experience and personal knowledge of production personnel. Further, no segregation of idle-time costs was made. The Army Ordnance Ammunition Command did not require analysis of the

variances between planned and actual labor expenditures on which to base corrective action.

We were informed by the Office of the Chief of Ordnance that the contractor has developed an adequate system for control over production material issues and consumption and was developing a system of labor standards based on plant capabilities, and which would segregate idle-time costs.

Inadequate planning for efficient use of manpower and facilities.--Naval ordnance industrial installations do not plan or schedule work sufficiently in advance to assure efficient use of manpower and facilities. Without adequate advance planning of jobs, there can be no assurance that manpower of appropriate skills and facilities of appropriate types are effectively used. We made a number of recommendations designed to strengthen the procedures for planning and scheduling work. The Bureau of Ordnance stated that its program for devising and implementing production planning and control procedures, which had been introduced in selected depots and later extended to all industrial-type installations, is correcting the deficiencies in work scheduling in accordance with the objectives of our recommendations.

Inadequate inspection of contractors' work.--Our review of job orders issued by the Granite City Army Engineer Depot, Illinois, disclosed that final inspections at contractors' plants by personnel of the depot were inefficient, resulting in unnecessary duplication of inspection and additional work and repairs when equipment was delivered to the depot. In connection with 75 job orders for contract work, 15 cases required supplementary work to correct deficiencies, for which the contractors were not liable following final inspection at their plants.

Depot officials stated that as a result of our review both contractors and inspectors had been reinstructed on inspection procedures and other action had been taken to correct the situation.

Cumbersome fund control system resulting in insufficient attention to control of costs.--Work authorization procedures used by the Bureau of Ordnance in assigning work to naval ordnance industrial-type activities result in a cumbersome funding program which requires management to devote a disproportionate amount of time and attention to administration of funds. As a consequence, insufficient attention is being given to the objective of effectively controlling costs and work programs.

We made a number of recommendations designed to achieve simplification of fund control and to encourage shifting of emphasis from fund control to cost control. The Navy agrees that a further simplification of funding and the shifting of management emphasis from fund control to operational control would be desirable. The

Navy believes, however, that further major steps in this direction are not practicable under the provisions of existing laws and regulations and the requirements of the Congress, the Bureau of the Budget, and the Office of the Secretary of Defense in connection with the Federal budget and apportionment system. We do not agree that further simplification of funding is inconsistent with existing laws and regulations. We believe that greater emphasis on operational control, together with improvement in the system of operational reports for management, should provide adequate fund control in conformity with the provisions of existing laws and regulations and provide adequate budgetary information to meet the requirements of the Congress, the Bureau of the Budget, and the Office of the Secretary of Defense.

Unreliable cost estimates and inadequate comparison of estimated and actual costs.--Job cost estimates prepared by most naval ordnance industrial-type installations are not sufficiently reliable to serve as a basis for comparison with actual costs, upon completion of jobs, and for evaluation of efficiency of performance on the jobs. Furthermore, most naval ordnance industrial-type installations do not review, or review inadequately, significant variances between the estimated and actual costs. We recommended (1) that procedures for cost estimating be reviewed and appropriate action be taken to assure that cost estimates are properly documented and are based on the best information available and (2) that the installations be directed to review cost variances to identify the factor or factors which caused them and to determine costs attributable to the factors.

The Bureau of Ordnance stated that its program for devising and implementing production planning and control procedures, including the development and application of engineered time standards, when completed will provide the results contemplated in our recommendations. We believe that significant benefits from the Bureau's long-range program may not be evident for several years and that the adoption of our recommendations should not await the completion of the program.

Deficiencies in cost finding and estimating.--We found that production in some cases at the Pine Bluff Army Arsenal, Arkansas, was scheduled and performed before receipt of authorization. The costs of production were accumulated initially against established work orders and later transferred to the production orders by which the work was subsequently authorized. Also, labor costs were charged in amounts to match estimates, resulting in inequitable charges to customers and in voiding the basis on which improvement of the cost-estimating processes could be effected. The depot officials promised to take corrective action on these matters.

Review of contracting policies and procedures

Need for improvement in contracting practices and administration of advertised contracts for military clothing.--The objective of our review of the award and administration of advertised contracts by the Military Clothing and Textile Supply Agency (MC&TSA), Philadelphia, Pennsylvania, was to determine the timeliness of contracting, the existence of effective and fair competition, adherence to contract terms, the proper maintenance of contract files, and the progress made by the Department of Defense (DOD) and MC&TSA in improving procurement practices as recommended by the House Committee on Government Operations through its Military Operations Subcommittee.

While we identified several areas requiring improvement, the deficiencies existing at the time of our review did not, in our opinion, significantly impair the over-all effectiveness of the agency's performance in the award and administration of advertised contracts. We found that progress had been made in improving controls, much of which resulted from actions taken to implement the recommendations of the subcommittee.

Major deficiencies noted during our review were as follows:

1. MC&TSA officials had not initiated the necessary action to debar contractors for repeated delinquencies in deliveries, resulting in these contractors receiving additional awards although they continue to perform in a delinquent manner.

2. Guidance in the Armed Services Procurement Regulation (ASPR) and MC&TSA's procedures were inadequate to aid contracting officers in detecting objectionable multiple bids, and the attorneys at MC&TSA had no written policy on which to base their recommendations to contracting officers for actions to be taken on such bids.

3. The Agency did not have a method that would assure adequate consideration for the Government and consistent treatment of contractors in determining price considerations to be received from contractors for extending delivery schedules when the delays were not excusable. At our suggestion, the Agency established such a formula.

4. A proportionately greater number of delinquencies in deliveries and extensions of delivery schedules were encountered under the contracts awarded during the last quarter of fiscal year 1958, apparently because of acceleration in preaward work in order to complete the annual procurement program. We were informed that the acceleration was necessitated by a Government-wide expenditure limitation program during the first half of the fiscal year. This condition should not recur at the end of the fiscal year 1959 since adequate funds were made available for the first quarter to cover the procurements planned for the first 3 quarters of the year.

5. In many instances, small business firms took an unfair advantage of other small business firms under contracts set aside in part for small business by submitting bids (token bids) at extremely low prices for very small quantities of the portion of the contracts not set aside for small business. Under existing regulations, they thus received priority for consideration for award at much higher prices of part or all of the portion of the contracts set aside for small business.

6. DOD had not yet implemented the recommendation of the Military Operations Subcommittee that "Government contracts should not be awarded to the members of the immediate family of a Government official occupying a major administrative or policymaking position." We were informed by officials of DOD that a draft of a directive on the point had been prepared but that major problems in addition to those referred to by the subcommittee had been encountered and were awaiting resolution.

We recommended that the Agency take necessary action to make suppliers with a history of unsatisfactory performance ineligible for awards for an appropriate period of time; that ASPR be expanded to include adequate guidance to all procurement personnel in DOD to assist them in detecting objectionable multiple bidding in their respective areas; that MC&TSA continually study the application of its formula for determining price consideration for extending delivery schedules, and adjust it when necessary; and that the Administrator, Small Business Administration, review the application of certain of the current revisions of Government regulations designed to assure that competition among small business firms is fair.

In lieu of action to debar contractors for repeated delinquencies in deliveries, MC&TSA is currently establishing Qualified Manufacturers Lists consisting of firms which have met established criteria, one of which is that the firm does not have a past history of repetitive unsatisfactory performance on Government contracts. Firms failing to qualify for placement on the lists prior to bid opening will not be considered for award. We have recommended that the Agency, through proper implementation of the lists and the debarment procedures prescribed in ASPR, take the necessary action to make suppliers with a history of unsatisfactory performance ineligible for awards for an appropriate period of time.

The Agency has taken recommended corrective action to aid contracting officers to detect objectionable multiple bids. However, we believe that ASPR should be expanded in this area to include adequate guidance to all procurement personnel in DOD, and we have so recommended to the Secretary of Defense.

Corrective action also was taken by the Agency on our recommendation with respect to token bids, through establishment of a procedure whereby the right is reserved to disregard such bids in

determining the priority of bidders for award on the set-aside portion. Also, the ASPR Committee of DOD is considering revisions to ASPR for the purpose of negating token bids. We were advised also that the Small Business Administration (SBA) assisted the General Services Administration (GSA) in issuing new regulations in February 1959 for the purpose of eliminating the use of token bids.

We recommended that the Administrator, SBA, review the application of the revised GSA regulation and the ASPR revision when issued to assure that small business firms do not receive any undue advantage over other small business firms through token bidding and other unfair practices.

Excessive profit allowance in contracts for aircraft spare parts for military assistance program.--The prices of F-86 aircraft spare parts being procured for the military assistance program under an offshore procurement contract with FIAT were based on North American Aviation, Inc., export sales prices which contained a profit factor of approximately 25 percent rather than upon prices normally paid by the Air Force which contain a profit factor of about 10 percent.

During our review of the contract, we inquired into the propriety of the basis used in pricing the spare parts. Based upon this inquiry, the Air Force negotiated price adjustments which resulted in obtaining additional spare parts valued at \$669,000.

Improper assumption of license charge and unreasonable technical assistance costs to reproduce aircraft in Italy.--In a military assistance program offshore contract with FIAT, the United States Air Force improperly assumed charges for a license to reproduce the F-86K aircraft in Italy and for fees for transfer of know-how to the Italian contractor which were in excess of a reasonable charge for the technical assistance rendered or for the services required to transfer such know-how.

We recommended that the Air Force determine a reasonable charge for the technical assistance rendered, or for the services required to transfer know-how, by North American Aviation, Inc., to FIAT for the purpose of recovering the excess costs improperly included in the license and technical assistance charges assumed by the Air Force. Our formal report containing this recommendation was issued in August 1959, and to date we have not been advised of any action taken in the matter.

Unauthorized changes in scope of repair and rehabilitation services in Korea.--There was a lack of control by the 8th Army Korea, over repairs and rehabilitation performed by the Seoul Electric Construction Company in the Seoul, Inchon, and Ascom City areas. The area post engineers, as the contracting officers' representatives, authorized changes in the scope of work, after work

was started, for which Government-furnished material was committed. Also, in at least one instance, the requirement that the contractor furnish specified material was not met and was apparently waived.

The 8th Army concurred in our recommendations that procedures be established to facilitate obtaining the necessary approval by the contracting officer prior to action by the site representatives to amend the scope of work to be performed and that, in the instant case, a postaudit of work-in-place be performed by U.S. Army Procurement Agency, Korea, and made a part of the contract records to establish the basis of settlement of any claims which may arise as a result of the changes in the scope of work as set forth in the contract.

Inadequate consideration of comparative costs of Government manufacturing v. purchasing.--Materials were selected for manufacturing at the Army Clothing Factory, Philadelphia, without consideration as to which items could be manufactured at the least cost disadvantage to the Government as compared with costs from commercial sources.

The Military Clothing and Textile Supply Agency took cognizance of our recommendations by revising its procedures to provide (1) that the items selected for factory production to sustain the mobilization base strength will be those which will result in the least cost disadvantage as determined by comparison of factory and contractor unit costs and (2) that in all instances the files will show the justification for the selection.

Need for revision of regulation to preclude interest-free use of Government funds.--Refunds of about \$1.4 million due the Government as a result of subcontract price reductions were not made until March 1958 after the repricing negotiations with the Navy were concluded although the extent of the reductions were known to the prime contractor in February 1955 when the subcontractors submitted their price proposals. During this 3-year period, the prime contractor and the subcontractors had interest-free use of these Government funds.

We recommended that the Secretary of Defense amend Department of Defense Directive 4105.7, which limits the aggregate total payments to prime contractors on price-revision-type contracts, so that the directive also will apply to their subcontractors under similar types of subcontracts. The Office of the Assistant Secretary advised us that the recommendation appears to have considerable merit and that the problem has been referred to the Armed Services Procurement Regulation Committee for complete study.

Action taken to assure receipt of and right to use contractor-furnished drawings acquired at Government expense for future procurement of military items for the Air Force.--Initial procurement

contracts often require the contractor to furnish design drawings to the Air Force at Government expense. These drawings are essential if the benefits of competition are to be realized in letting additional contracts for the same items. We made a review of the use of contractor-furnished drawings at the Air Materiel Command prompted by the disclosure in our examination of contract award procedures at selected Air Materiel Areas that a number of contracts were awarded to the initial supplier on a sole-source basis because contractor-furnished drawings were not available for use of other prospective suppliers.

We found in many cases that the Air Materiel Command executed contracts without definite provisions giving the Government the right to use the drawings furnished by the contractor. Contracts not containing the standard clause set forth in the Armed Services Procurement Regulation, which would give the Government unlimited right to use such drawings, were construed by the Air Materiel Command as forbidding the use of such drawings by the Government. This construction was contrary to the policy of the Air Force and of the Department of Defense that, when the terms of contracts under which drawings are furnished do not specifically restrict their use, the Government has an implied right to use them for procurement purposes.

We found also that (1) there was no assurance that the Air Force received all drawings required to be furnished under the contracts and (2) no effective controls existed to assure adequate follow-up action on missing drawings or proper identification of drawings received. The Air Materiel Command's drawing records and records showing whether the Government had the right to use contractor-furnished drawings were unsatisfactory and incomplete, resulting either in additional work and delay in furnishing drawings to procurement activities or a denial of the right to use the drawings in the absence of records of reproduction and use rights.

We recommended that (1) a definite provision be included in all future contracts regarding the Government's right to use drawings furnished under the contracts, (2) with respect to the records already on hand showing that the Government did not have the right to use contractor-furnished drawings, the applicable contracts be reviewed on an as-required basis to determine the correct extent and status of the Government's rights, and (3) a control system be adopted to assure that AMC receives all drawings to which it is entitled. Our recommendations were accepted by the Air Force and corrective action was initiated.

Need for care in selecting type of contract to avoid excessive pricing.--The use of inappropriate types of contracts by the Air Force and the Navy resulted in the negotiation of excessive prices. In these instances, prices of about \$10.6 million were negotiated, as compared with actual costs of about \$7.8 million subsequently incurred under the contracts. These prices were later reduced to \$9.8 million through price adjustments. The

results of our examinations are summarized as follows:

1. Firm fixed-price contracts were negotiated by the Air Force at unreasonably high prices for items which had not been previously produced or for which there was insufficient cost experience. The Air Force did not require the contractors to furnish detailed cost estimates from which to determine the reasonableness of the prices, or provide for price redetermination after cost experience had been gained, which would have been appropriate under the circumstances.
2. The use of firm fixed-price and incentive-price contracts by the Navy, before adequate cost and production experience was available to estimate future production costs with reasonable accuracy and where there was no competition, resulted in the negotiation of excessive prices.

Actions by the Air Force

In reply to our reports, the Assistant Secretary of the Air Force concluded that fixed-price contracting has generally saved the Government considerable sums of money but indicated that our findings would be used in Air Force training programs to illustrate the need for adequate cost analysis in the negotiation of fixed-price contracts. Subsequently, we recommended that our findings be brought to the attention of Air Force procurement personnel as examples of the need for care in selecting contract forms and that consideration be given to revising Air Force instructions for selection of the form of contracting to be used.

Actions by the Navy

The Deputy Comptroller of the Navy agreed that the selection of the type of contract most appropriate for each procurement is a factor of importance in all procurement. He stated that, occasionally, contracts awarded in the past have not been the most appropriate type for the procurement but that proper selection of contracts is now better understood and that, since the likelihood of incorrect selection has been substantially reduced, there is no need for additional written guidance at this time.

We were subsequently advised by the Navy that the revised procedures relating to the review and analysis of contractors' proposals, and those requiring more consideration of a procurement and study of a proposal prior to the negotiation conference, should help to assure the selection of appropriate contract pricing clauses.

Insurance required contrary to general policy.--Under the terms of its lease agreement with the Navy, a subcontractor was required to carry fire and extended-coverage insurance in the amount

of \$4,255,000 on the buildings and equipment owned by the Navy. During the period of the lease, the subcontractor was engaged primarily in producing tank hulls and turrets for the Army Ordnance Corps. The Government plant was rehabilitated and expanded by Ordnance at a cost of about \$35,000,000, which was five times the cost of the Navy facilities, but Ordnance did not require the contractor to provide this type of insurance coverage on the Ordnance portion of the facilities.

The insurance cost of about \$28,700 was included in the costs submitted for price-redetermination negotiations under the subcontracts and served to increase the cost bases upon which the profits of both the subcontractor and the prime contractor were computed.

We recommended to the Navy that, in accordance with paragraphs 13-104 and 13-411 of the Armed Services Procurement Regulation, contractors generally not be required to carry fire and extended-coverage insurance on Government-owned facilities. We recommended also that, if it was considered necessary to equalize the competitive position of a contractor who is furnished insurance-free use of Government facilities with that of other producers, the estimated cost of insurance be taken into account when establishing a rental for the contractor's use of Government-owned facilities.

The Assistant Secretary of the Navy stated that, under present Navy policy, insurance is not required by a facilities contract when it is known beforehand that the facilities will be used substantially for Government work for a reasonable period, even though the facilities may be used in part for non-Government work. He stated further that insurance would not now be required under the present policy.

Review of agreements with private contractors for payment of rent for use of Government-owned facilities

Recommendation that prices paid by the Government not include profit on rent paid for use of Government-owned facilities.--We found instances in which the prices of items supplied to the Government under negotiated contracts were increased because contractors were allowed profit on rental charges by the military departments for Government-owned facilities used almost exclusively on Government contracts.

For example, a subcontractor was charged rental by the Navy for a Government-owned plant used in production under Army Ordnance Corps subcontracts. The subcontractor and the prime contractor were allowed profit on the rental charges paid to the Navy by the subcontractor for the use of the Government-owned plant, which increased by about \$184,600 the price to the Government under the Army prime contracts. In our report submitted to the Congress on July 23, 1958, we recommended to the Secretary of Defense that consideration be given to issuing specific policy guidance to the military departments to the effect that prices to the Government under negotiated contracts or subcontracts generally will not include profit on rent paid for the use of Government-owned facilities.

In a reply of September 2, 1959, the Acting Assistant Secretary of Defense (Supply and Logistics) stated that the Department of Defense does not agree that it is generally equitable to exclude rental expenses for the use of Government-owned facilities in the cost base upon which the contractor computes its profit. He stated further that, since reasonable expenditures a contractor makes in the rental of facilities from a private source are considered to be a proper contract cost, the Department of Defense sees no reason for a different view merely because the rental of the facility happens to be from the Government rather than from a private source.

In replying to the comments of the Acting Assistant Secretary of Defense, we stated that it is unreasonable for the Government to incur additional cost in the form of profit to contractors merely because rental is charged for facilities which could have been furnished to the contractor rent free. We stated also that the key point involved in setting a profit or fee under any leasing agreement is whether the contractor has taken any action or assumed any obligation which would entitle him to a fee or profit, and we presented several differences between the leasing of facilities from a private source and from the Government which should be considered in establishing a profit factor to be allowed on any rental charge.

In addition, we pointed out that the exclusion of rental payments from the cost base in establishing the contractor's fee or profit is the most practical means of carrying out the intent of

ASPR 3-808.4(c) which provides that, where extraordinary assistance must be furnished to a contractor by the Government, such extraordinary assistance should have a modifying effect in determining what constitutes a fair and reasonable profit.

Accordingly, we again recommended to the Secretary of Defense that specific policy guidance be issued to the military departments to the effect that prices to the Government under negotiated contracts or subcontracts will generally not include profit on rent paid for the use of extensive Government-owned facilities.

Rent not paid on all facilities in use or not based on the full cost.--A contractor had paid no rental for the use of Government-owned facilities in its commercial production even though the facilities had been used for about 4 years and the contract with the Navy provided for rental charges, if the commercial use of the facilities was substantial.

After we brought this matter to the attention of Navy contracting officials, we were advised that a rental charge for the commercial use of Government-owned facilities, through December 31, 1956, had been negotiated. Later, we were informed that the Navy had executed a rental charge with the contractor for 1957.

Subsequently, we found that the contractor's proposal for rental charges for 1957 did not include all the facilities to be used or, in some cases, the full cost of the facilities. We found no evidence to indicate that Navy contracting officials made any evaluation of the data supporting the contractor's 1957 rental proposal and that the costs and facilities omitted from the rental negotiated for 1957 were also omitted from the contractor's 1958 proposal.

We submitted our findings to the Navy and recommended that Navy contracting officials include in the rental fee negotiated for 1958 a fair rental for the contractor's commercial use of Government-owned office equipment and that consideration be given to negotiating a rental rate for all Government-owned facilities so used without cost by the contractor in prior years. Further, we recommended that the Department of the Navy generally withhold approval of proposed rental fees until it has been determined that the full costs of all Government-owned facilities used by contractors in their commercial operations have been considered in establishing the rental charges.

As a result, the Navy has obtained rentals of \$230,475 for the commercial use of Government-owned facilities through December 31, 1958, and further negotiations are in progress with respect to additional rental for the year 1957. We have been informed by the Navy that, in addition to negotiating appropriate rental charges in this instance, it has adopted procedures recommended by us with respect to approval of proposed rental fees.

No rent collected since 1950.--Although a facilities contract provided for payment of rent for use of Government-owned machinery and equipment in the performance of work other than that authorized by the contract, the prime contractor and its subcontractors had been using these facilities for commercial work since 1950 and the amount due for rent or other use charges had not been determined.

Beginning in 1952, the contracting officer attempted to obtain data from the contractor on which to base an agreement as to rent to be paid. Finally, on December 12, 1955, after we suggested that the contracting officer take immediate action to collect estimated rentals based on available information, the contracting officer made a unilateral determination of rental due, which the contractor appealed to the Armed Services Board of Contract Appeals. Air Force representatives estimated that rentals due from the contractor through June 30, 1957, amounted to about \$4,500,000 and that an additional \$933,000 might be due the Government for subcontractors' use of such facilities through June 30, 1955.

We recommended that the Department of the Air Force process the contractor's appeal in an expeditious manner and that an administrative report be submitted to the General Accounting Office to include the decision of the Armed Services Board of Contract Appeals and any further action taken or planned by the Air Force to insure that the Government has been properly compensated for the use of its facilities by the contractor and its subcontractors.

On September 23, 1959, the Armed Services Board of Contract Appeals reached a decision that the Government is entitled to rent in the amount of \$652,298 for the period through 1956 for commercial use of the facilities by the prime contractor. The Air Force has not yet furnished advice of action taken or contemplated with respect to recovery of this amount from the prime contractor and any additional amount due the Government for subcontractors' use of facilities under this contract. At such time as this information is furnished, we contemplate a review of all actions taken by the Air Force in this case, as well as an evaluation of the decision by the Armed Services Board of Contract Appeals.

Review of military construction

Need for full disclosure to the Congress of total cost of construction programs to be financed from several appropriations.-- During fiscal year 1959, we completed an examination of the program for constructing and equipping the Air Force Academy, Colorado Springs, Colorado, and issued our report to the Congress on April 29, 1959. The report is of particular interest because it demonstrates the necessity for more effective control of construction programs involving large expenditures which are financed from several appropriations. We found that the amounts expended and obligated by the Air Force for constructing and equipping the Academy did not exceed the amounts authorized by law. The Air Force, however, has not made a full disclosure to the Congress with respect to the needs and total cost for constructing and equipping the Air Force Academy.

The total expenditures and obligations through August 31, 1958, excluding expenditures of approximately \$13 million for operating expenses, together with additional anticipated costs, amounted to \$256 million whereas, at the time the Academy Act was enacted, the Congress evidenced an intention that the authorization for appropriations in the amount of \$126 million--subsequently increased to \$139,797,000--constituted a total ceiling on the ultimate cost of the Academy. However, the Air Force used funds contained in the maintenance and procurement appropriations to finance the cost of many items for use in completing the Academy. Items specifically for use in completing the Academy were included in departmental justifications for the maintenance and procurement appropriations.

We found nothing in the legislative histories of these appropriation acts which indicated one way or another that amounts appropriated thereunder were specifically considered to be in addition to the statutory construction limitation or that the Congress considered these appropriation requests in the light of the statutory limitation. However, the policy of the Air Force at the time of the original construction authorization, and continuing with respect to other similar construction authorizations, of charging uninstalled items of equipment and furnishings to other than construction appropriations appears to have been known to the Congress. While we found no specific approval on the part of the Congress neither did we find that Congress as a whole or the appropriations committees expressed any specific disapproval of the stated practice of budgeting and funding these additional items.

Accordingly, it is our opinion that the amounts of expended or obligated appropriations for establishing, constructing, and equipping the Academy as of August 31, 1958, did not exceed the amounts authorized by law. However, we believe that the Air Force should have made a complete disclosure to the Congress with respect to the needs and total cost involved in constructing and equipping the Academy.

We recommended to the Secretary of the Air Force that the total foreseeable costs planned for future major construction programs be included in the program and budget justifications to the Congress. The full disclosure of all costs to be incurred will enable the Congress to more effectively evaluate and control such programs through authorization and appropriation legislation. The Air Force stated that, because of the far-reaching implications of this recommendation, it would need time for adequate consideration before replying to us.

Need for complete disclosure to Congress on planned Academy airfield, including cost and capability.--The Air Force had spent approximately \$3.5 million at August 31, 1958, to acquire land and prepare a suitable airfield site within the Academy boundaries and was planning to spend a minimum of \$19 million for a runway and other operating facilities. Official reports and records indicate that the airfield planned for the Academy may have limited capability and may create an air traffic problem. The Air Force had not disclosed these facts to the Congress, although the necessity for an airfield at the Academy had been questioned repeatedly in congressional hearings. In reply to our recommendation, the Air Force stated that it would apprise the Congress of all factors relative to the Academy airfield.

Wide variances between construction program justified to Congress and program actually followed.--Construction costs of individual facilities for the Academy have far exceeded the amounts justified to the Congress for these facilities. Our report contains a list illustrating instances of significant increases in scope and construction costs of specific facilities over the original estimates justified to the Congress. The originally estimated cost of \$30,691,000 had increased to \$44,089,000 with respect to the specific items listed. Costs of approximately \$2.2 million were incurred in connection with the construction of certain facilities in advance of congressional approval which, when subsequently requested, were not approved. Also, over \$6 million specifically justified to the Congress for family housing was used for other purposes. We recommended that, in cases where there are wide variances between the cost of the over-all construction programs justified to the Congress and the costs actually involved, the Secretary of the Air Force take prompt steps to inform the Congress of such increases. The Air Force advised us that the Congress would be promptly informed of wide variances between amounts justified for a construction program and the actual costs to be incurred as a result of changing conditions.

Deficiencies in determining prices for Wherry housing acquired by the Air Force.--Our review of the Air Force's program for the acquisition of Wherry housing disclosed that, for the first 23 projects on which purchase prices were agreed to, the vendors were offered the "formula price," the maximum price permitted by law, without any attempt to negotiate, as required by law, a

price within the formula price. The procedure was in accordance with Department of Defense policy which remained in effect until November 1957. Since that date, price negotiations are conducted if the value of the property is determined, by appraisal or otherwise, to be less than the formula price. Generally, the vendors are advised of the formula price prior to offer or negotiation of a purchase price. We recommended to the Office of the Secretary of Defense that (1) the formula price be determined by the military departments as required by law, without consultation or negotiation with the vendors on any elements of price to be included therein and without disclosure to the vendors, (2) the military departments give consideration to all factors influencing a fair price for the property, and (3) price negotiations be conducted with a view to arriving at a fair price for the property and, for this purpose, the formula price should be regarded solely as the legal maximum price that can be offered.

Formula price for Wherry housing overstated by reason of inadequate deductions for repairs and replacements.--In arriving at the "formula price" the amounts deducted from the FHA-estimated replacement cost for the estimated cost of repairs necessary to restore the projects to sound physical condition were often significantly inadequate. The total of \$1.7 million deducted for this purpose for the 33 projects we reviewed may be at least \$1.6 million, but not more than \$4 million, less than the amounts since spent or to be spent by the military departments for repairs and replacements. We recommended that the Office of the Secretary of Defense or the Office of the Secretary of the Air Force, as appropriate, take steps to see that the estimated cost of repairs and replacements to be deducted in arriving at the formula price approximates the estimated costs to be incurred subsequently by the military departments for all past-due repairs and replacements.

Failure to recover windfall profits when acquiring Wherry housing.--Pursuant to instructions from the Office of the Secretary of Defense (OSD), the Air Force was required to deduct windfall profits, if any (excess of mortgage proceeds over actual cost of the project), from the "formula price" to arrive at what then was to become an administratively effective formula price. However, the guidelines established by OSD involved unjustified deviations from congressional policy embodied in the law with regard to the recovery of windfall profits. In accordance with the guidelines, the Air Force determined that there were no windfall profits. We believe that at least three vendors may have earned windfall profits, totaling perhaps \$740,000. We recommended that the Office of the Secretary of Defense, in determining formula prices for the purchase of Wherry projects, deduct the amounts of the excess mortgage proceeds as certified by the Federal Housing Administration, based on the definition of actual cost contained in the law.

Large profits may have been realized by vendors of Wherry housing.--Some project vendors may have earned large profits on

the sale of their projects to the Air Force. Although we are not qualified to say whether or not the prices paid by the Air Force were fair and reasonable for the projects acquired, we believe that the Congress should be informed if large profits were apparently earned by vendors. In view of the special arrangement under which Wherry housing was financed and operated, we feel that these vendors should have been entitled to no more than reasonable profits.

Lack of emphasis on economy in administration of Capehart housing program.--When the Fort Belvoir Capehart housing project was originally contemplated, the average cost limitation for each housing unit was \$13,500 and the project was designed as 4-, 6-, and 8-unit row houses. After the limitation was raised to \$16,500, the project was redesigned for the same number of duplex units. The resulting increase in estimated cost was about \$2,000,000, a substantial part of which was assignable to the conversion from row houses to duplex houses. The policy of the Department of the Army is to obtain housing of the maximum size and quality possible, provided that the size and cost limitations imposed by law are not exceeded. Under this policy the cost limitations become, in effect, objectives to be met rather than ceilings under which acceptable standard housing is to be provided at minimum cost. Further, invitations to bid on the projects provide for a series of "additive items" which may be added to the bid prices for basic housing and on-site utilities when deciding on the low bidder, that is, the bidder who will supply the most "additive items" within the ceiling of \$16,500. Moreover, the unused cost limitation can be further reduced through the issuance of change orders subsequent to the award of the contract. We recommended that the Army issue instructions which would provide appropriate and adequate standards of construction for Capehart housing at minimum cost and thus provide for the discontinuance of the practices which result in emphasis on full use of available funds within legal limitations rather than on economy.

Unnecessary requirement for title insurance on Capehart housing.--We noted, also, that the Government was required by regulations of the Federal Housing Administration and the Federal National Mortgage Association (FNMA) to obtain and to assume the cost of obtaining title insurance on or other evidence of title to its own land on which a Capehart project is to be located, in spite of the fact that title insurance or certificate of title was obtained when the land was originally purchased by the Government. On the Fort Belvoir project alone the Army will pay \$15,000, plus related interest charges, over a period of 25 years. We recommended in turn to the Department of Defense and the Bureau of the Budget that steps be taken to eliminate the expense of title insurance either by administrative action or by legislative consideration in connection with the current housing bill.

A Department of Defense committee had explored the possibility of eliminating the requirement for title insurance. The matter

was dropped, however, primarily as a result of objections by FNMA. In response to our stated position, the Assistant Secretary advised that the Department is "of the view that it is not feasible to eliminate the requirement for title insurance, both because private mortgagees have in the past evinced their unwillingness to eliminate it, and also because the substitute procedure to which FNMA might agree to accept presents serious difficulties." When this matter was brought to the attention of the Congress, we assisted in the drafting of legislation to correct this situation. As a result, Section 415 of Public Law 149 was enacted on August 10, 1959, and provided that none of the proceeds of any mortgage loan insured under title VIII shall be used for title search and title insurance costs. Title insurance may be provided out of the revolving fund if it is impossible to obtain financing for a project without this insurance.

Review of organization

Separate offices to be consolidated.--The Navy has two separate offices to control and manage the inventories of repair parts and equipment needed to keep its vessels in operating condition-- (1) the Submarine Supply Office, Philadelphia, Pennsylvania, which controls and manages submarine repair parts and nuclear parts applicable to nuclear power units on surface vessels and submarines and (2) the Ships Parts Control Center (SPCC), Mechanicsburg, Pennsylvania, which controls and manages ship repair parts. Approximately one third of the ship repair parts controlled by SPCC are applicable to components used on submarines as well as surface vessels.

Based on our comparison of the organizations, missions, responsibilities, and operations of the two activities, we concluded that the supply of repair parts for naval vessels could be managed more efficiently and economically by combining under one inventory manager the function of furnishing spare-parts support for all naval vessels. We estimated that consolidation of these activities would result in annual savings of more than \$1 million.

We recommended that the Navy consolidate these activities. The Navy concurred and advised that the Submarine Supply Office will be moved and consolidated with the Ships Parts Control Center at Mechanicsburg, Pennsylvania, in November 1959, when the lease on the quarters now occupied by the Submarine Supply Office expires.

Army to make recommended study of hospital staffing.--Our review at Letterman Army Hospital disclosed that the composite patient workload had decreased 11 percent between January 1, 1955, and March 31, 1958, while personnel increased over 6 percent. One thousand and forty persons were engaged in patient care on the latter date. Our workload indexes were computed by use of the formula established by the Surgeon General. The hospital command management system has not revealed areas of overstaffing because of the failure on the part of the hospital staff to determine the causes and effects of changes in workload. The staff has relied on the periodic determinations made by the manpower survey team from the Office of the Surgeon General. However, the Surgeon General has indicated that the staffing criteria appeared to be set too high.

We recommended, in connection with the command management system, that analyses be made of the cause and effect of variations between the programmed and actual workload, between actual workloads of different periods, and between forecasts and actual unit costs.

The Commanding Officer advised that the hospital management is currently comparing personnel requirements with workload, and personnel adjustments are being made accordingly, and also that the command management system was rapidly approaching the point where the data gathered were relatively factual as to workload and costs.

Review of financial practices

Costly procedure for estimating funds required for spare parts for naval aircraft and related equipment.--We noted that considerable cost and effort were being expended by the Aviation Supply Office, Department of the Navy, in preparing budget requirements for spare parts for newly constructed aircraft and related equipment on a line-item basis. In our opinion, initial budgets prepared on this basis are comparatively useless since (1) funds provided differ significantly from funds requested and (2) individual parts requirements frequently change from estimates prepared 18 months or more in advance of purchases.

During our review we recommended that approval be obtained from the Bureau of Aeronautics to prepare the budget for spare parts on the basis of a factoring procedure. This procedure for determining needed funds consists of determining the ratio of the flying-hour program during the budget year to the program for the previous year and applying this ratio (factor) to the procurement requirements of the previous year. Aviation Supply Office management estimated that the adoption of this method would result in annual savings of about \$85,000 in administrative expenses.

The Navy authorized this method of budgeting for fiscal year 1960 provided that (1) the Aviation Supply Office could demonstrate that an estimate projected on this basis would reflect actual requirements with reasonable accuracy and (2) sufficient detail was retained at the Aviation Supply Office on significant items to permit a comprehensive review of the estimate by all budget review levels.

Financing procurement of aeronautical spare parts from two appropriations.--Funds used for the purchase of aeronautical spare parts are provided from two appropriations: Aircraft and Related Procurement, Navy and Aircraft and Facilities, Navy. Under this arrangement, it is not feasible or practical to conform with the intent of the appropriations on a consistent basis. We recommended that the Department of the Navy take action to secure approval for financing all aeronautical spare parts through one appropriation. Recently the Comptroller of the Navy recommended to the Assistant Secretary of Defense (Comptroller) that funding of the procurement of certain replenishment aircraft support be transferred from the annual appropriation to the continuing appropriation. This should alleviate some of the problems encountered in the administration of the two appropriations. However, we believe that the action taken is only a partial solution to the problem.

Inadequate control over use of foreign currency for military support.--Satisfactory controls have not been established over the use of local currency provided from the United States economic assistance program.

Local currencies generated from the sale of commodity imports are turned over to the countries for use in supporting their military budgets. The United States presently does not examine country records with respect to use of these funds and there is no assurance that they are being used for the purposes intended. In some countries, we were informed of grave waste and mismanagement of these funds. We recommended that adequate United States supervision and audit be established to afford a reasonable degree of control over the use of budget support funds.

Both the Office of the Assistant Secretary of Defense (International Security Affairs) (ISA) and the International Cooperation Administration agreed that some examination should be made. ISA has since agreed to accept the responsibility for review and observation of country utilization of local currencies for budget support purposes. We were advised that policies and procedures are being drafted and would be issued in September 1959.

Interest earned through transfer of sterling funds from non-interest-bearing to interest-bearing bank accounts.--Our review of the administrative activities of the American Embassy in London in February 1959 disclosed that the Embassy had on deposit with the Bank of England a balance of about \$16.5 million in sterling, not needed for current operations, in non-interest-bearing accounts. The sterling funds, which originally totaled about \$138 million, were derived from the sale of surplus agricultural products to the British, under the Mutual Security Acts of 1953 and 1954, and were used in lieu of dollars for various mutual aid programs in the United Kingdom. At the time of our review the aid program for the balance of \$16.5 million in sterling had not been determined.

The Embassy had inquired about transferring the funds to interest-bearing accounts in October 1954 since the government-to-government agreements pertaining to the use of the funds did not preclude the United States Government from earning interest on them; however, the British Treasury objected because of the then existing balance of payments' position of the sterling area, and further efforts were not made to transfer the funds to interest-bearing accounts when the balance of payments' position later improved.

In our discussion with Embassy officials, we suggested that, in view of the improved British economic position, they obtain the current British views on the matter.

As a result of our inquiry, and after obtaining approval from the British Treasury and the Bank of England, the Embassy on March 11, 1959, transferred the \$16.5 million in sterling funds to interest-bearing accounts with American banks in London. As of September 30, 1959, \$166,889 in interest had been earned on the funds.

Reduction of excess balance in limited dollar depository account.--Our examination of the records of the Accounting and Finance Office, Aviano Air Base, Italy, relating to the conversion of military payment certificates to United States currency disclosed that a limited dollar depository account with Credito Italiano, the Aviano banking facility, had a balance of approximately \$2.85 million although there had been very little activity in the account since its conversion to United States dollars in May 1958.

We recommended to Headquarters, U.S. Air Force, Europe (USAFE), that the requirements for United States dollar deposits at Aviano be reviewed and that the balance be reduced if appropriate. USAFE informed us that, in line with our recommendation, the amount on deposit in the account had been reduced by \$2 million at the end of February 1959 and that on July 2, 1959, the Treasurer of the United States was requested to further reduce the balance to \$400,000 effective July 20, 1959.

Review of accounting and financial reporting

Consolidation of Air Force accounting and financial organizations.--Our report covering the review and evaluation of organization and selected activities of the Air Force Comptroller procedures and operations contained recommendations for the consolidation of the various accounting and financial functions.

In the report conclusions and recommendations, the following comments were made: The foundations of an Air Force system which can become an effective instrument for financial coordination and management control have been laid; attainment of the ultimate objective, however, will require development of and adherence to a systematic, continuous program of completion and refinement. The need for a long-range master plan for development of improved Air Force Comptrollership in general was discussed in part I of the report which dealt with the Comptroller organization. The importance of the application of such a plan to the task of completing the accounting system development cannot be overstressed.

In accordance with our recommendations, the Air Force has developed a system for the consolidation of accounting and financial functions and under date of August 26, 1959, issued appropriate revisions to the Air Force Manual (AFM 170-6E, Part Five, Chapter Three, ACCOUNTING AND FINANCE). The change consolidates technical responsibility for the financial accounting, disbursing, and financial reporting of (a) all appropriations, funds, and financial resources of the Air Force and (b) all financial resources under the custody of the Air Force. In explanation of the change, the Manual states that:

"The separation of accounting functions from finance functions has been proven uneconomical, particularly in the preparation of documentation and processing steps,

often involving duplicate files and records. The use of separate reporting channels for financial data was conducive to duplication and nonreconcilable reports. Proper internal control and fixing of responsibility was difficult. Functional integration was directed to overcome these and other deficiencies. ***"

Improvement in accounting and reporting for central procurement contracts.--In our report on the review and evaluation of the organization and selected activities of the Air Force Comptroller, we pointed out also that there was a great potential for improvement in the efficiency of accounting and the effective use of the accounting products by management in the area of central procurement and related supply activities. We found that accounting problems in the central procurement area were the result of a complex situation in which there are at least four basic factors, briefly as follows:

1. The division of responsibilities for supply requirements and procurement between Air Materiel Areas and depots on the basis of prime and zonal responsibilities, the retention of certain responsibilities by Headquarters, Air Materiel Command, and the administration of contracts through Air Procurement Districts and Air Force Plant Representatives.

2. Air Force methods of programing and funding and of exercising program and fund controls.

3. The effect of fragmentation of records, lack of adequate document control procedures, and other deficiencies of the general accounting system.

4. Practices followed in the negotiation, administration, and payment of central procurement contracts.

We recommended (1) development, through coordination of Comptroller, Supply, and Procurement organizations, of a long-range plan for a simplified system of budgeting, accounting, and reporting which conforms to the organizational structure and operating practices of the Air Materiel Command and (2) a realignment of Comptroller functions and responsibilities with the several central procurement organizational levels, specifically to reassign accounting responsibilities for central procurement contracts to the point of contract administration, generally the Air Procurement District or the Air Force Representative, to improve reliability of financial reports, reduce the flow of documents, and eliminate the duplication in records and procedures.

We recommended also that there should be developed the form and content of reports to be prepared from detailed accounting records maintained at Air Procurement Districts (APD) and Air Force Plant Representatives for use by Supply, Procurement, and Comptroller organizations in carrying out their management functions.

In consonance with our recommendations, the Air Force conducted a test operation at the Newark APD and developed a simplified system for accounting and reporting of the financial and non-financial data associated with contract management at Air Procurement Districts and Air Force Plant Representative Offices (AFPRO). In July 1959 the Air Force formally established a procedure for operating an integrated management data and control system to satisfy all requirements of the Air Force and the ADP/AFPRO concerning financial accounting, disbursing, and financial reporting and nonfinancial reporting with respect to contract management responsibilities at APD's and AFPRO's.

Inadequate financial and operating reporting system used by Naval Ordnance industrial-type installations.--The financial and operating reporting system used by Naval Ordnance industrial-type activities does not provide management with a ready means for review and evaluation of results of operations and for disclosure of those areas of operations which require management inquiry, investigation, and corrective action. Although available reports furnish valuable information on various aspects of operations, the reports do not present a comprehensive view of the operations as a whole or of their relative efficiency.

We recommended that the Bureau of Ordnance design and adopt a reporting system which will show, among other things, (1) a concise summation of the results of depot operations in relation to predetermined standards or estimates, (2) an analysis of the variances between results of operations and predetermined norms, and (3) comments of the depots as to the action taken or proposed to be taken by the depots to correct unfavorable operating results disclosed by the reports. We recommended further that the Bureau use the reports as a basis for evaluation of relative efficiency of its various depots as well as evaluation of efficiency of an individual depot. The Bureau accepted the concepts and objectives of our recommendations. It believes that, as management improvement programs progress, improvements in the reporting system will manifest themselves. However, in view of the long-range and comprehensive nature of the management improvement programs from which significant benefits may not be evident for several years, we believe that current adoption of our recommendation is necessary.

Review of the administration of military pay and allowances

Need for improvement in administration to control extensive overpayments.--Combined selective audits by the General Accounting Office and the Departments of the Army and Air Force continue to reveal that extensive overpayments to military personnel are being made year after year. The areas concerned are generally the same, such as erroneous reenlistment bonus payments, duplicate payments of travel allowances, overpayments on accrued leave settlements, erroneous mustering-out payments, improper payments for travel of dependents, etc. During the fiscal year, we reported that overpayments of more than \$46 million had been disclosed in audits made in fiscal years 1956 and 1957. The overpayments disclosed in fiscal year 1958 amounted to more than \$19 million and in fiscal year 1959, over \$25 million. The overpayments in the fiscal year 1958 occurred prior to the issuance of our report for the fiscal years 1956 and 1957 and therefore there had not been time for the reflection of any corrective action subsequently initiated. Reported recoveries of the overpayments made during the 4 fiscal years amounted to \$39 million at the end of fiscal year 1959.

The continuance of this high error rate is attributable primarily to basic weaknesses in the administration of pay and allowances at the installation level. We have recommended to the departments that steps be taken to provide adequate training of personnel responsible for finance operations and that personnel of other organizational units be made more aware of their responsibility for furnishing or certifying correct information affecting military pay and allowances. We have recommended also that the Air Force expand its internal audit program so that greater coverage on a more timely basis will be given to the review of procedures and controls at field installations. The departments have advised that corrective actions are being taken in line with our recommendations.

Review of payroll practices

Savings of \$2 million annually could be realized by paying Navy employees on a biweekly basis.--In our reviews of Navy activities, we noted that approximately 200,000 Navy civilian employees occupying ungraded positions were being paid weekly in accordance with policy established by the Secretary of the Navy. We believe that processing weekly payrolls for these employees almost doubles the cost of payroll preparation and creates an unnecessary burden on payroll departments. We estimate that about \$2 million could be saved annually if the Navy paid such employees on a biweekly basis.

We recommended that the Navy adopt the policy of paying such employees on a biweekly basis consistent with the practice followed by the Departments of the Army and Air Force and other Government activities. We pointed out that many of the field installations of the Departments of the Army and Air Force which employ personnel for ungraded positions are located within the same geographical areas as Navy field activities which employ personnel for similar type positions.

The Navy officials informed us that they had reviewed the basis of their policy in the light of our recommendation and considered that it would not be in the best interest of the Navy or the public to adopt a biweekly pay period. The Navy officials later advised that they would reexamine the assumption underlying their conclusions in the matter to ascertain if their position should be altered in any respect. The Navy now has underway a study of the actual dollar savings which would result by converting to a biweekly pay period.

Review of operations at military installations, bases, and stations

Variety of weaknesses in administrative procedures and controls.--Our reviews at over 25 installations, bases, and stations during the fiscal year disclosed many administrative deficiencies which were resulting in uneconomical operations. These deficiencies were brought to the attention of appropriate officials and in all cases recommended corrective action was taken or promised. Some of the deficiencies generally noted are as follows:

Unreliable supply and accounting reports.

Excessive use of priority requisitions.

Errors in inventory accounting.

Inadequate control over casual payments.

Lack of necessary entries on military pay records.

Improper costing of work orders.

Inadequate verification of billings received for public utilities.

Failure to maintain accurate real property records.

Failure to adequately review requisitions.

Discrepancies in obligation records.

Failure to charge or to adequately charge for services provided to nonappropriated fund activities.

Inadequate control of material.

Inadequate control of repairable supply items.

Failure to take timely physical inventory.

Delay in processing critical materials for repair.

Failure to report material for disposition.

Failure to inspect and preserve material.

Inaccurate stock records.

Failure to dispose of excess stocks.

Failure to screen surplus property.

Unauthorized use of military personnel to support non-appropriated fund activities.

Unnecessary accounting for low-value items.

Weaknesses in property administration.

In our follow-up reviews at the installations, bases, and stations, we intend to determine the sufficiency of the corrective action taken.

Review of dependents' medical care program

Improvements in administration made as a result of our review.--The Dependents' Medical Care Act, approved June 7, 1956, provides that eligible dependents of members of the uniformed services may receive medical and hospital care from civilian facilities at Government expense. To provide for such benefits, the Office of the Surgeon General, Department of the Army, under authority delegated by the Secretary of Defense, is authorized to negotiate contracts with medical societies, associations, and insurance companies. Allowable fees for the various types of medical services are incorporated in each contract.

Our review during the fiscal year of the physician and hospital phases of the program in selected geographical areas disclosed weaknesses in the procedures for determining eligibility of dependents for medical care benefits and certain instances where allowable fees to physicians appeared to be in excess of amounts allowable for substantially identical services under another group plan applicable to families with comparable incomes.

In our review of the administration of the program in the State of Illinois, we found (1) that a large number of claims for medical services were submitted for amounts considerably less than the allowable fees shown in the medical service contract, indicating that the fees allowable under the contract were higher than the customary rates charged by physicians to the general public, (2) that under existing procedures, the physicians and administrator of the program do not, in all cases, receive sufficient information to determine whether a dependent is eligible for medical care, and (3) that the contractor had not supplied dentists with any informational material relating to dental services covered by the program, as required by the contract.

We recommended to the Surgeon General that the contracting officer review the existing schedule of allowable fees and, on the basis of experience gained during a contracting period, negotiate any adjustments necessary to obtain a realistic schedule which would serve as a sound basis for the payment of claims. In accordance with our recommendation, new fee schedules were negotiated for the State of Illinois, and the maximum allowable fees for certain surgical procedures have been reduced to more realistic levels. We have been informed that steps have been taken, both in the negotiation of contracts and otherwise, to keep fees at the customary rates. Corrective measures have either been taken or are under consideration with respect to other findings relating to our review.