REPORT TO THE COMMITTEE
ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

Selected Significant Audit Findings In The Civil Departments And Agencies Of The Government B-106191

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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

B-106190

Dear Mr. Chairman:

This report contains selected significant audit findings developed during our audits and other examinations in the civil departments and agencies of the Government. These findings pertain for the most part to matters on which we believe administrative action, and in some cases legislative action, is required to achieve greater economy or efficiency in Government operations. Some findings and recommendations on which the departments and agencies have reported that corrective action was being taken also have been included because we have not yet observed the effectiveness of the reported action.

This compilation is made in response to the request that information of this type be made available to your Committee before the commencement of appropriation hearings at each session of the Congress. Concurrently with the release of this report, we are sending to the departments and agencies copies of the sections specifically applicable to them so that they may be in a position to answer any inquiries which may be made on these matters during the appropriation hearings.

A report on significant audit findings involving the Department of Defense and the three military departments is being submitted separately.

Sincerely yours,

Comptroller General
of the United States

The Honorable George H. Mahon
Chairman, Committee on Appropriations
House of Representatives

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DEPARTMENT OF AGRICULTURE

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DEPARTMENT OF AGRICULTURE

AGRICULTURAL RESEARCH SERVICE

Need to resolve questions of safety involving certain registered uses of lindane pesticide pellets

Our review led us to believe that there was a need for the Agricultural Research Service (ARS) to resolve questions of safety involving certain uses by the public of pesticide pellets containing the chemical lindane.

The Federal Insecticide, Fungicide, and Rodenticide Act requires the registration of all pesticide products with the Department of Agriculture before these products can be shipped across State lines. Before registration is granted, a pesticide must meet tests demonstrating its safety when used as directed.

We found that ARS registered lindane pellets for use in vaporizing devices on a continuous basis in certain commercial and industrial establishments--such as restaurants and other food-handling establishments--even though there had been long-term opposition to this practice by the Public Health Service and Food and Drug Administration, Department of Health, Education, and Welfare, as well as by other Federal, State, and private organizations. We pointed out that the controversy associated with the use of the pellets stemmed from varying conclusions as to the adequacy of the scientific data that was available to prove that the continuous vaporization of lindane pellets in certain commercial and industrial establishments was safe.

We noted that ARS had not resolved questions of safety raised by the other Federal agencies and by State and private organizations, nor had it taken action to restrict or disapprove the use of lindane pellets in vaporizers in certain commercial and industrial establishments since the products were first registered with the agency in the early 1950's. We expressed the opinion that the very existence of differences of opinion by various interested organizations emphasized the need for ARS to take action to resolve the question of safety to human health.

We recommended that the Secretary of Agriculture review the ARS policy of registering the pellets, with a view toward resolving this question. The Department of Agriculture's Director of Science and Education advised us in November 1968 that ARS planned to meet with representatives of other Federal agencies to determine steps necessary to resolve lindane problems and with medical experts who serve as collaborators to ARS for advice and counsel on the use of pesticides.

In April 1969, ARS canceled the registration of lindane products for use in vaporizing devices, subject to appeal procedures available to registrants. In its letter to registrants, ARS cited our report to the Congress and stated that, on the basis of its reevaluation of the toxicology of lindane, the results of its recent laboratory studies, and the opinion of its medical advisors, the continued registration of the products was contrary to provisions of the Federal Insecticide, Fungicide, and Rodenticide Act. (B-133192, Feb. 20, 1969.)

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

Opportunity to increase income of domestic sugar industry and reduce dollar outflow by amending the Sugar Act

Our review of the administration of the sugar marketing quotas established by the Sugar Act of 1948, as amended, showed that, during the 6-year period from 1963 through 1968, annual marketings of sugar by domestic producers ranged from 225,000 tons to 913,000 tons--about 4 to 13 percent--below the quotas authorized by the act.

We found that the substantial deficits in domestic marketings developed because continuing, long-term deficits have occurred in two domestic sugar-producing areas--Puerto Rico and the Virgin Islands. We were informed that other domestic areas would have been able to supply the unfilled quotas. The Sugar Act, however, requires that unfilled domestic quotas be allocated to foreign countries. Moreover, we found that substantial benefits could be achieved by allocating the unfilled Puerto Rican and Virgin Island quotas to other domestic sugar-producing areas rather than to foreign countries. These benefits include a substantial increase in the income of domestic sugar producers and a reduction in dollar outflow for sugar imports.

We estimated that, had the 1968 Puerto Rican and Virgin Islands deficits been allocated to the domestic sugar cane and sugar beet areas in proportion to their 1968 marketing quotas, domestic producers could have realized additional gross income of about $62 million and that the 1968 outflow of dollars for sugar imports could have been reduced by about $89 million. No estimate was made of the net effect on the U.S. balance-of-payments position which would result from revising the allocation of the deficits.

We did not make an assessment of the implications for sugar prices or the effect on distribution patterns between beet and cane sugar which a shift of unused quotas to domestic production would have within the United States. Obviously, careful consideration should be given to these factors before revising the present legislative formulas for any purpose of increasing domestic quotas; nevertheless, we believe that the continuing severity of the U.S. balance-of-payments situation should be a major consideration in allocating continuing long-term deficits.

The Secretary of Agriculture agreed with our findings and stated that it was the view of the Department that, when sugar legislation is next considered by the Congress, consideration should be given to enabling the domestic areas to market a substantially larger proportion of the national requirement than is possible at present. He stated further that, in the course of developing an administration position on sugar legislation, the Department would consult on this matter with other agencies within the executive branch.

AGRICULTURAL STABILIZATION
AND CONSERVATION SERVICE (continued)

In view of the significant benefits which could be achieved, we recommended that the Congress, in considering extension of the legislation--which expires on December 31, 1971--consider modification of the deficit allocation provisions of the Sugar Act of 1948, as amended, to enable the Secretary of Agriculture to allocate continuing, long-term deficits of a domestic area to other domestic areas rather than to foreign countries. (B-118622, Sept. 23, 1969.)

DEPARTMENT OF AGRICULTURE

CONSUMER AND MARKETING SERVICE

Need to improve enforcement of sanitary, facility, and moisture requirements at federally inspected poultry plants

In September 1969 we reported to the Congress that the Consumer and Marketing Service (C&MS) needed to strengthen enforcement procedures to ensure that minimum standards for sanitation, facilities, and moisture absorption were met by federally inspected poultry plants.

We found that C&MS had not taken timely action to suspend or terminate inspection services at 40 federally inspected poultry plants that were reported by C&MS supervisory personnel for repeated violations of minimum sanitation and facility requirements for periods ranging from 6 months to over 5 years. Most of the violations involved sanitation requirements which were intended to ensure the wholesomeness of the product. The 40 plants accounted for about 6 percent of the 11.2 billion pounds of poultry slaughtered under Federal inspection during calendar year 1967.

We stated our belief that, because of the lack of timely action to suspend or terminate inspection at plants in repeated violation of minimum standards, the consuming public was not adequately protected from poultry that could have become adulterated or otherwise unfit for human consumption. During a period of suspension, plants cannot process poultry or poultry products for sale in interstate or foreign commerce.

We stated also that, in our opinion, the failure of C&MS to suspend or terminate inspection services at such plants could imply to the management of other federally inspected plants that violations would be treated with minimum consequence.

In commenting on our findings and proposals, C&MS informed us by letter dated July 24, 1969, that a rigorous national effort had recently been activated to ensure adequate sanitation in inspected plants which had resulted in (1) the suspension of inspection services at several plants, (2) numerous plants' being required to make immediate improvements, and (3) major long-term improvements being called for with rigid deadlines established therefor. C&MS stated also that suspension action was being and would continue to be taken on plants unwilling to provide acceptable sanitary conditions and that instructions to field personnel were being amended to ensure proper plant sanitation.

Although we agreed with the actions taken by C&MS, we stated that, in our opinion, the intensified C&MS efforts to ensure adequate sanitation in federally inspected plants should be continued as a permanent part of the enforcement program so as to provide adequate protection to the consuming public.

CONSUMER AND MARKETING SERVICE (continued)

C&MS stated also that the regional directors having responsibility for the plants identified in our review had been advised of the need for immediate in-depth reviews of such plants and for taking appropriate action, including suspension of inspection, should the nature of the findings warrant such action.

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We found also that C&MS permitted 44 federally inspected poultry plants to ship poultry in interstate commerce for sale to the consuming public, which poultry, on the basis of daily tests, contained water in excess of that permitted by regulations. At the 44 plants, which accounted for over 13 percent of the poultry slaughtered under Federal inspection during calendar year 1967, poultry exceeded moisture requirements at least 20 percent of the time during 4 to 11 months of that year. We stated our belief that, because C&MS inspection personnel were not authorized to retain poultry containing excessive water for additional processing, the consuming public was not adequately protected against increased costs resulting from excessive water in poultry.

With regard to our recommendations on moisture control, C&MS informed us that a statistical control system of daily tests to be performed by C&MS inspectors assigned to the plants was in the final stages of design. C&MS stated that, on the basis of results of daily tests, full authority for retaining birds out of compliance would be placed in the hands of the plant inspector in charge and that the retained birds would not be distributed to the consumer until excessive moisture had been removed. C&MS stated also that it planned to put this system into use nationally in the near future. (B-163450, Sept. 10, 1969.)

DEPARTMENT OF AGRICULTURE

FARMERS HOME ADMINISTRATION

Need for Farmers Home Administration to review policies and procedures for recommending emergency area designations

In March 1969 we reported to the Congress that our review of emergency area designations for 14 counties in four States showed a need for the Farmers Home Administration (FHA) to strengthen its procedures for recommending emergency area designations in order to prevent the use of 3-percent emergency loan funds in areas where there is not a general need for credit as a result of a natural disaster.

We stated our belief that the emergency area designations for three of the 14 counties were not warranted because they were based either on inadequate representations concerning the extent of crop damage and the general need for credit or on the possible future effects of a disaster on crop damage and credit.

We found also that the designations in three other counties should not have been made on a county basis since the area affected by the occurrence of a natural disaster was confined to much smaller, well-defined parts of each county or since actual damages were limited to relatively minor crops of a few farmers. Because of these emergency designations in the three counties, loans were made to individuals who had not suffered production losses as a result of a natural disaster.

We proposed that FHA revise its procedures to encourage the use of emergency loans to individuals who suffer demonstrated losses from natural disasters so that the designation of emergency areas can be postponed until such time as the general need for agricultural credit caused by a natural disaster can be accurately determined.

On August 5, 1968 and March 3, 1969, FHA strengthened its procedures for recommending emergency area designations and revised its loan-making policy so that emergency loans will be provided only to those borrowers who have demonstrated substantial production losses as a result of a natural disaster. (B-114873, Mar. 24, 1969.)

Need to clarify legislation concerning use of emergency loan funds

Our review showed also that 3-percent emergency loans had been made when substantial amounts of 5-percent FHA operating loan funds were available. Section 321(a) of the Consolidated Farmers Home Administration Act of 1961 requires, in part, that a determination be made that a general need exists for agricultural credit which cannot be met from other responsible sources, including FHA programs, prior to designation of a county for emergency loan assistance. No documentation was available to show that this determination had been made prior to designation of the 14 counties.

FARMERS HOME ADMINISTRATION (continued)

FHA contends that emergency area designations may be made before applicable FHA funds are exhausted and that the Congress never contemplated that a disaster designation be withheld so long as such funds are available.

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

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

We believe that, since the law or pertinent legislative history is not sufficiently clear regarding the use of funds from other programs before emergency loan funds are used, clarification of existing legislation is needed. (B-114873, Mar. 24, 1969.)

Need to improve lending activities and to strengthen management system for the economic opportunity loan program

Our review of the economic opportunity (EO) loan program, administered by the Farmers Home Administration (FHA) and designed to assist low-income rural families in raising and maintaining their income and living standards, showed that, although the program had helped a number of individuals to raise their income significantly, the majority of borrowers had made less, or only slightly more, income from their loan-financed enterprises during a 1-year period than was needed to meet payments on loan principal.

When viewed from the standpoint of permanently bettering the income of loan recipients, the program's contribution, with respect to the majority of loan recipients, was, in our opinion, very limited. Our conclusion, however, was based on an evaluation of the borrowers' operations for a 1-year period, while the loans had repayment periods averaging 10 years. Therefore our evaluation did not permit a positive assessment of whether, in succeeding years, the loans would achieve their ultimate objectives.

We believe (1) that the borrowers' indicated limited progress was attributable, in part, to the absence of adequate counseling and supervision by FHA, (2) that, because of the lack of precise loan eligibility criteria, loans were made to individuals whose reported financial conditions and backgrounds indicated that they were not in the poverty category, and (3) that FHA needs to strengthen its planning and management information

system in order to adequately assess the results of the program and to plan its future direction.

In addition, FHA was unable to reliably determine the administrative costs of carrying out the EO loan program, substantial amounts of which have come from funds made available for FHA's regular program. As a result, costs have not been fully disclosed to the Congress.

In view of the foregoing, we recommended that:

--FHA (1) establish minimum standards with respect to the amount of supervisory assistance that should be given EO borrowers to ensure that they receive adequate guidance, (2) determine, consistent with the foregoing, the amount of supervisory effort needed and maintain the level of loan activity within the supervisory capabilities available, and (3) establish procedures and controls to ensure that supervision is furnished to borrowers at the desired level.

--FHA revise its instruction so that an applicant's net assets are appropriately considered and, in those cases in which an applicant's net income or net assets exceed those specified, that proper justification be shown in the records for making an EO loan under such circumstances.

--FHA strengthen its management system for the EO loan program by providing data which can be used by its managers to (1) define more precisely the number of rural families whose incomes are deficient and who represent potential borrowers, (2) identify the problems that exist in reaching and aiding certain groups, such as the aged and nonfarm families, (3) determine more effectively the amount of loan funds that will be needed in the future, and (4) formulate the framework by which loan performance can be readily and effectively evaluated.

Although not agreeing with many of our findings and recommendations, FHA advised us in March 1969 that it recognized the need for improving borrower counseling and supervision, documenting the basis for making loans to individuals who appear to be ineligible, and improving its system of program evaluation. FHA contended that it would be ill-advised to balance EO lending with available supervision because far fewer loans would be made, thus low-income families would be denied needed help.

We continue to believe that, because low-income families are being obligated to repay additional financial burdens, the measures recommended, particularly with regard to supervision of borrowers, are needed to increase the probability that the loan enterprises will yield enough additional income to repay the loans and improve the families' status. (B-130515, Aug. 21, 1969.)

SOIL CONSERVATION SERVICE

Opportunities for increasing the effectiveness of the Conservation Operations Program

On the basis of our review, we concluded that opportunities existed for increasing the productivity and effectiveness of the Conservation Operations Program by requiring all the 3,500 State, area, and work unit offices of the Soil Conservation Service (SCS) to implement certain management guides prescribed by SCS. The guides set forth basic policies and procedural concepts for organizing, operating, and managing the servicing activities of SCS work units.

Our detailed review in four States showed that SCS work units in the two States where the guides were generally followed assisted more than twice the percentage of landowners/operators in applying planned conservation practices as the other two States where the guides were not followed. Work accomplishments in one of the four States showed an increase of 91 percent in the number of landowners/operators applying planned conservation practices after implementation of the guides by the work units.

Our review also indicated that the SCS work units in the two States where the guides generally were followed were more effective in getting planned conservation practices applied to the land than were the work units in 40 of the 46 States not covered in our detailed review. Further, internal audit reports covering 26 of the same 40 States showed that productivity was adversely affected because the SCS operating units were not adequately following the guides or their equivalent.

We stated that, in our opinion, the principal reasons SCS operating units were not following the guides were that they had not been specifically directed to do so and had not been apprised sufficiently of the usefulness of the guides.

We proposed that the Administrator, SCS, require all SCS operating units to organize, plan, schedule, and manage their work in accordance with the provisions of the guides. We proposed also that the guides be clarified, where necessary, to more effectively communicate to all SCS State, area, and work unit personnel the value and necessity of following the guides. SCS advised us in May 1969 that it agreed with our findings and that corrective actions had been taken to accomplish the objectives stated in our proposals.

These actions, if properly implemented, should increase the productivity and effectiveness of the program. (B-114833, Oct. 22, 1969.)

DEPARTMENT OF THE ARMY

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CORPS OF ENGINEERS (CIVIL FUNCTIONS)

Need to identify additional costs of acquiring fee title to land not needed for water control purposes

In February 1969 we reported to the Congress that the Corps of Engineers was acquiring, in fee title, thousands of acres of reservoir project land when less costly flowage easements would have sufficed or when no interest was required for water control purposes. Our examination of 388 selected tracts at seven reservoir projects showed that additional costs of about $2.7 million had been incurred for land that was not essential for successful operation of the projects for water control purposes.

We recognize that fee acquisition might be desirable to satisfy purposes other than water control. We believe, however, that, when greater interests in land than are needed for water control purposes are acquired, the costs of these interests should be identified separately by recognized project purposes, mainly recreation and fish and wildlife.

Also, the justification for the additional cost incurred in acquiring reservoir project land for purposes other than water control should be presented to the Congress for its consideration in authorizing the projects, because:

--The Fish and Wildlife Coordination Act, as amended, indicated that the Congress desires information that would enable it to control the cost incurred for fish and wildlife enhancement.

--Identification of the additional cost, and its classification as a separable cost, should enable additional financing of reservoir land designated for recreation and fish and wildlife purposes through cost-sharing arrangements with non-Federal sources under the provisions of the Federal Water Project Recreation Act.

We proposed that the Secretary of the Army consider revising Corps' policies and procedures to provide for identifying the additional costs incurred in acquiring, in fee, reservoir project land designated for recreational uses and for obtaining from other agencies definitive planning as to the use of the land.

We proposed also that such costs, related acreages, and plans be included in project documents for evaluation by top agency officials, the Bureau of the Budget, and the Congress.

The Department of the Army stated that information on acreages and approximate costs to be incurred for such purposes as recreation and fish and wildlife could be furnished to the Congress, if it was desired.

We expressed the belief that the Congress, in prescribing the nature and extent of reservoir project purposes, might wish to require that all Federal agencies that construct water resource projects identify, for

congressional consideration, the costs incurred in acquiring greater interests in land than are needed for water control purposes, the purposes for which such interests are acquired, the related acreages, and the benefits to be derived from such interests.

We stated also that the Congress might wish to express its intent as to whether the additional costs incurred in acquiring land in fee for recreation and fish and wildlife purposes should be treated as separable costs and subject to cost sharing under the Federal Water Project Recreation Act. (B-118634, Feb. 3, 1969.)

DEPARTMENT OF COMMERCE

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ECONOMIC DEVELOPMENT ADMINISTRATION

Need for improvement in determining amounts of supplemental grants

Our review of the records pertaining to supplementary grants of $3.1 million awarded by the Economic Development Administration (EDA), Department of Commerce, to assist in financing 18 public works and development facility projects under the Public Works and Economic Development Act of 1965 showed that, in our opinion, 17 of the grants, totaling over $2.6 million, should not have been made and that one grant of about $400,000 should have been reduced by about $57,000.

The law authorizes direct grants of up to 50 percent of the cost of a project, the objectives of which are to provide new employment opportunities in designated areas where family income is low and where substantial and persistent unemployment and underemployment exist.

Supplementary grants that do not increase the Federal contribution beyond 80 percent of project costs also are authorized, but in determining the amount of a supplementary grant, EDA must consider the relative needs of the designated area, the nature of the project, and the revenues that the project can be expected to generate.

We noted that, in determining the amounts of the supplementary grants for the projects we reviewed, EDA had computed the expected revenues incorrectly, based the computations on questionable data, or reduced the expected revenues by excessive project expenses. The records indicated to us that the projects could reasonably have been expected to generate sufficient net revenues to support loans for the supplementary amounts; hence, grants should not have been made.

We proposed that more specific guidelines be developed for determining the revenue-producing capabilities of projects; that provision be made for supervisory reviews of such determinations; and that supplementary grant amounts be based on the revenues which may be generated during the useful life of the projects, during a 40-year period, or during a period equal to the maximum loan repayment period permitted by the applicable statutes, whichever is less.

The significance of this matter is indicated by the fact that, as of December 31, 1967, EDA had approved 902 projects for which Federal assistance totaled $448 million; of this amount, $54.8 million was in the form of supplementary grants.

EDA agreed that more adequate supervisory reviews should be made and informed us that it had taken requisite steps to ensure that they were carried out. EDA did not, however, agree with our other proposals. We continued to believe that EDA's policies and procedures for determining the amount of supplementary grants were not adequate and therefore recommended that all of our proposals be adopted.

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Also, we noted that, although EDA's authorizing legislation requires that revenues be considered in determining the amount of any supplementary grant, EDA did not require consideration of net project revenues in instances where the basic grant from one Federal agency and the supplementary grant from EDA did not exceed 50 percent of the project costs.

We suggested that, because of the impact of the EDA policy on amounts of grant assistance provided to applicants and in the interest of providing financial assistance to as many needy projects as possible, the Congress might wish to express its views as to whether EDA should consider project revenues when an EDA grant supplementary to a basic grant by another Federal agency does not result in the total Federal grant contribution exceeding 50 percent of project costs. (B-153449, Feb. 4, 1969)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

OFFICE OF THE SECRETARY

Need for HEW to provide State agencies with more explicit guidelines for use in evaluating requests for high-cost surplus property

The Department of Health, Education, and Welfare (HEW), pursuant to special conditions established by the General Services Administration (GSA), made surplus mercury available to State agencies for donation to eligible institutions, such as colleges and universities, for educational and public health purposes. Because most of the mercury used in the United States is imported and its purchase tends to adversely affect the U.S. balance-of-payments position, the mercury was made available with the special requirement that State agencies limit donations to the 12-month supply that donees otherwise would have purchased on the commercial market. Also, mercury was not to be acquired for use in the furtherance of institutional programs being financed by Government contracts or grants.

We found that many donees had received mercury in significantly larger quantities than we believed should have been provided under the special conditions applicable to the mercury donations or could have been justified by apparent needs. Large quantities of the mercury were stored and remained unused for an extended period of time. It appeared to us that some of the mercury had been used for uneconomical purposes or, contrary to the special donation conditions, for donee programs financed under Government contracts or grants. Because of the way in which the mercury donation program was carried out, one of the major program objectives intended to be accomplished by the special conditions imposed by GSA--the achievement of maximum favorable effect on the U.S. balance-of-payments position--was not accomplished.

In a report to the Congress in March 1969, we expressed the belief that the adverse conditions surrounding the mercury donation program were caused, in part, by (1) misunderstandings of the special conditions applicable to the program, (2) inadequate warehousing procedures by State agencies and inadequate controls over mercury inventories by donees, (3) allocations and donations based on unrealistic or inadequate determinations of needs, and (4) inadequate and untimely surveillance over implementation of the program by HEW and State agencies.

HEW agreed in general with our recommendations for strengthening the administration of the surplus property program but did not agree with our proposal that State agencies be provided with more explicit guidelines for use in evaluating the reasonableness of institutions' requests for surplus property. HEW stated that, instead, it preferred to continue to stress to State agencies the need for exercising good judgment and reasonable surveillance to prevent stockpiling.

Subsequent to the issuance of our report, HEW officials informed us that certain actions were planned which the Department believed would accomplish the purpose intended by the guidelines recommended by us. In this

connection the officials said that the Department would issue guidelines to State agencies, but only as particular types of high-cost property, such as mercury, were made available for donation. (B-164031, Mar. 21, 1969.)

Need for safeguarding the independence of the internal audit function and for ensuring adequate internal reviews of the external audit function

HEW made significant improvements in the organizational structure and operation of its audit function. These improvements included (1) vesting responsibility for the entire audit function in a single organization, (2) establishing an aggressive recruitment and staff development and training program, (3) broadening the scope of its audits, and (4) adopting plans for improving audit service to top management.

Because the head of the Audit Agency was under the general supervision of the Assistant Secretary, Comptroller, who was responsible for many of the activities subject to internal audit, we recommended, in a report submitted to the Congress in May 1969, that, to safeguard the existence of an adequate degree of independence, the Secretary should (1) satisfy himself that the official to whom the internal auditors report not only permits but encourages the exercise of latitude in setting the scope of work and in reporting on results of internal audits, (2) concern himself with the scope, effectiveness, and staffing of the internal audit function and with the adequacy of attention paid to audit findings and recommendations, and (3) provide the internal auditor with direct access to the Secretary when the internal auditor deems this necessary to fulfillment of his responsibilities.

Also, we had some reservations as to whether, under the Audit Agency's existing arrangement of organization and staffing, adequate independent internal review coverage could be given to the external audits of grantees and contractors. We recommended that the Secretary, from time to time, satisfy himself as to the adequacy of this coverage.

In a letter sent to the Chairman, House Committee on Government Operations, on July 23, 1969, a copy of which was furnished to the Comptroller General, the Secretary of Health, Education, and Welfare stated that the Department was taking action in accord with our recommendations. He said that, in order to clarify the Audit Agency's independence, the Department was revising its organizational manual to provide that the Director of the Audit Agency have direct access to the Secretary when the Director deems this necessary to the fulfillment of his responsibilities.

The Secretary also informed the Chairman that the Department recognized the need for an independent review of the manner in which the audits of grantees and contractors were being carried out and that a formalized quality-control program directed to an evaluation of all aspects of the Audit Agency's external audit effort was being developed.

OFFICE OF THE SECRETARY (continued)

He said that the Department was establishing a top-level committee to review the Audit Agency's performance on an annual basis in order to provide better control over the scope and effectiveness of the internal audit function. This committee will report to the Under Secretary, and it will be comprised of three Assistant Secretaries and the General Counsel, with the Deputy Under Secretary acting as chief of staff. (B-160759, May 9, 1969.)

Need for improvements in the Department's automated central payroll system

Our review of HEW's automated central payroll system revealed numerous errors in employees' earnings, leave, and payroll deductions; errors in the issuance of savings bonds; delays in forwarding payroll deductions; errors in the issuance of savings bonds; delays in forwarding payroll deduction checks; and the retention of cash and checks in an unlocked file drawer. Our review revealed also that, although HEW internal auditors or special study groups had previously commented on the inadequacies of the central payroll system, effective corrective action had not been taken.

In a report submitted to the Congress in January 1969, we expressed the opinion that HEW's payroll system needed substantial improvements to fulfill the requirements for an effective payroll system. Among the improvements that we believed to be needed were (1) the establishment of effective controls over checks, cash, documents, and magnetic tapes, (2) the development and use of predetermined control totals, programmed controls, and system documentation, (3) the issuance of revised instructions for applying pertinent payroll laws and regulations, and (4) the provision of more effective supervision of payroll activities.

In response to our suggestions, HEW initiated a number of improvement actions, including a complete redesign of the system. Also, HEW took steps to strengthen its staff responsible for administering the payroll system and to correct errors in the data in the system. In our report we recommended, among other things, that the Secretary of HEW assign a high priority to the redesign of the payroll system and that he keep these efforts under close surveillance until the redesign is successfully completed.

Although this matter was discussed during hearings on the Department's appropriations for 1970, we are bringing it to attention again because at that time the Department's actions toward improving its payroll system had not been completed. (B-164031, Jan. 17, 1969.)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

NATIONAL INSTITUTES OF HEALTH

Need for further action to determine allowable costs and recover overpayments under general clinical research center grants

Since 1959 the National Institutes of Health (NIH) has supported a general clinical research center grant program to improve and intensify the clinical study of human disease and fundamental biological problems. Through fiscal year 1968 about 90 centers had been established in university medical schools and other health-related institutions and had received about $192 million in NIH grant funds.

Our review of grants awarded to six selected grantee institutions showed that five grantees had received grant funds in excess of allowable costs. We identified overpayments, estimated at $678,000 out of total payments of $2.3 million to the six grantees, for costs of hospitalization of center patients and for indirect costs of center operations.

The overpayments for hospitalization costs occurred because NIH (1) in the initial years of the program had reimbursed the institutions on the basis of a cost formula, referred to as the "85-15" formula, which resulted in the allowance of costs in excess of those based on actual patient days, (2) had not adequately reviewed the patient per diem rates proposed by the institutions, and (3) had not examined into the propriety of the institutions' reimbursement claims.

The overpayments for indirect costs occurred because NIH (1) accepted claims for indirect costs based on certain direct costs for which related indirect costs were also being claimed through reimbursement of hospitalization costs and (2) allowed the legal maximum rate rather than apply lower overhead rates that had already been negotiated or negotiate appropriate rates with the institutions.

We found that NIH had taken certain actions toward recovering overpayments and precluding future overpayments. In particular, NIH had discontinued the use of the cost formula as a basis for reimbursement of hospitalization costs and had recognized the need for reviewing hospitalization charges by 59 general clinical research centers and for making adjustments in those cases where overpayments had been made because of the use of the formula.

However, since extended delays had occurred in the determination and settlement of these cases, we recommended, in our report to the Congress in December 1968, that the Secretary of HEW direct that (1) the HEW Audit Agency make audits of grantees' records wherever they had not been made and (2) NIH, on the basis of such audits, make timely settlements of all grants which involved overpayments resulting from excessive allowances for hospitalization and indirect costs.

NATIONAL INSTITUTES OF HEALTH (continued)

In March 1969 the Assistant Secretary, Comptroller, of HEW advised us that NIH had requested priority audits by the HEW Audit Agency of 16 general research center grants for which determinations of allowable costs had not been made. NIH subsequently informed us that, as of June 1969, settlements related to overpayments of hospitalization costs had been made on grants to 48 of the 59 general clinical research centers where the "85-15" formula had been used. These settlements covered excess payments totaling about $1,181,000, of which about $671,000 had been refunded to NIH and the balance of $510,000 had been classified as accounts receivable. Overpayment determinations were still in process for the remaining 11 centers.

Regarding possible excessive payments of indirect costs, NIH informed us that it was engaged in a review of indirect costs paid to 84 centers, including the five centers mentioned in our report. NIH had notified the grantees of potential indirect cost overpayments under grants to 41 centers and had determined that there were no overpayments for grants to 16 centers. NIH had not yet completed its review of the remaining 27 centers.

Although the matter of overpayments was discussed in hearings on the Department's appropriations for 1970, we are bringing it to attention again because at that time the Department had not completed its actions to recover the overpayments we identified nor its review of payments of indirect costs to ascertain whether they included overpayments that should be recovered. (B-164031(2), Dec. 26, 1968.)

Use of operating funds for building renovation

In February 1969 we reported to the Secretary of Health, Education, and Welfare that about $535,000 of National Cancer Institute (NCI) funds had been used without statutory authority for the renovation of an existing Atomic Energy Commission (AEC) production building to provide facilities for a research laboratory at the Oak Ridge National Laboratory, Oak Ridge, Tennessee. The new laboratory was financed jointly by AEC and NCI.

NCI funds were used for stripping and decontaminating the building and for relocating its equipment. In our opinion the conversion of this building constituted a public improvement within the meaning of that term as used in 41 U.S.C. 12, which provides that no contract may be entered into for any public improvement which shall bind the Government to pay a larger sum of money than the amount appropriated for the specific purpose.

It was our view that, since the appropriation involved was not specifically made available for the repairs and improvements, the expenditures made for such purposes were improper. Inasmuch as the statute of limitations had expired, we were precluded from taking any action against the accountable officer. We suggested, however, that copies of our report be furnished to cognizant officials so that they would be made aware of this

matter and could take steps to preclude improper expenditures of this nature in the future. (B-164031(2), Feb. 18, 1969.)

OFFICE OF EDUCATION

Need to strengthen controls over the use of academic facilities constructed with Federal financial assistance

In a report submitted to the Congress in December 1968, we pointed out the need for the Office of Education (OE) to strengthen its controls for determining compliance with statutory restrictions on the use of academic facilities constructed with Federal financial assistance.

The Higher Education Facilities Act of 1963 authorizes Federal assistance for constructing, among other things, facilities to be used as classrooms, laboratories, libraries, and "related facilities necessary or appropriate for the instruction of students."

We found that the regulations issued by HEW were not clear as to the type of facilities considered not to be "related facilities necessary or appropriate for instruction of students" and that, because of the absence of adequate guidelines, some OE representatives had not determined whether the facilities were being used in compliance with applicable restrictions.

Although we found indications of only a few violations of the use restrictions applicable to academic facilities constructed with Federal assistance, we believed that there was a need for OE to issue more definitive guidelines setting forth the criteria and methods for ascertaining whether institutions were complying with the applicable restrictions and to make reviews to ascertain whether there was compliance with such restrictions.

HEW informed us that OE was devoting more attention to the refinement of applicable guidelines and was developing plans for making systematic compliance reviews to begin in fiscal year 1969. We have not yet ascertained, however, whether the actions taken by OE resulted in the institution of adequate controls over the use of academic facilities constructed with Federal financial assistance. (B-164031(1), Dec. 23, 1968.)

Need for strengthening practices followed in adjusting Federal grants awarded for construction of academic facilities

In a report submitted to the Congress in March 1969, we expressed the belief that opportunities existed for more effective and equitable use of funds granted by OE to institutions of higher education under title I of the Higher Education Facilities Act of 1963 to assist in financing the construction of academic facilities intended primarily for undergraduate use.

Our review showed that OE had not established adequate procedures for making timely reductions in grant amounts for such reasons as decreases in estimated construction costs or ineligibility of certain costs for Federal financial participation. We found that OE, rather than reduce the amounts of Federal grants as a result of reductions in the costs of facilities as

originally approved, allowed many grantee institutions to retain and use such grant funds for procurement of additional items not included in project budgets approved at the time the grants were awarded.

It appeared that, for 24 projects, reductions of about $500,000 in grants could have been made; however, OE authorized the institutions to retain and use the funds, generally for procurement of additional equipment although the grantee institutions had provided assurance to adequately equip the projects.

We expressed the belief that Federal grant funds could have been made available for other eligible projects if appropriate grant reductions had been made on a timely basis after a need for such reductions became apparent. We pointed out that, at July 1967, OE had made about $755,000 of title I funds available for return to the U.S. Treasury rather than use them for the title I program because required reductions of grants awarded in fiscal year 1965 had not been made by OE until the time within which the funds could have been legally obligated for other construction projects had expired.

We recommended that HEW require that (1) grant adjustment practices be strengthened with a view toward reducing grants when there are decreases in estimated project costs and that such reductions be made on a timely basis and (2) project files applicable to existing grants be reviewed for the purpose of reducing grants in those cases where available information indicates that eligible development costs will be less than the estimated costs on which the grants were based.

HEW concurred with our recommendations and stated that actions had been taken or would be taken to strengthen grant adjustment practices followed by OE. As a part of our continuing review of HEW's activities, we plan to evaluate, at an appropriate time, the actions taken by HEW to correct the deficient practices noted during our review. (B-164031(1), Mar. 4, 1969.)

SOCIAL AND REHABILITATION SERVICE

Need for specific procedures for determining Federal financial participation in costs of serving handicapped individuals

Our review of the practices and procedures followed by the Arkansas Rehabilitation Service in claiming Federal financial participation in costs of providing services to handicapped individuals under the Federal-State vocational rehabilitation program showed that, in its claims, the Arkansas Rehabilitation Service had overstated, by about $396,000, the costs shown as being incurred by the State in support of vocational rehabilitation programs. The overstatement resulted primarily from errors and misunderstandings by the Arkansas State Hospital--a third party--in computing expenses relating to food services.

In a February 1969 report to the Administrator, Social and Rehabilitation Service, Department of Health, Education, and Welfare, we stated our belief that the administration of third-party participation in the Federal-State vocational rehabilitation program could be improved by requiring State vocational rehabilitation agencies to include in third-party agreements a description of the specific procedures to be used in arriving at the costs to be claimed for Federal financial participation. Also, in our opinion inclusion of such specifics in agreements between State vocational rehabilitation agencies and third parties would aid the Department in reviewing the propriety of claims made by the States for Federal financial participation.

State officials agreed that, because vocational rehabilitation expenditures had been overstated, the State's claim for Federal financial participation would require an adjustment. They stated, however, that the Arkansas State Hospital had provided certain other services in support of the vocational rehabilitation program--such as fire protection and security services--which had not been claimed as costs related to the program and that any adjustment should recognize these factors. Although consideration of these factors in making an equitable adjustment may be appropriate, we believe that the State's position further exemplifies the desirability of having an explicit written agreement on the matter of allowable costs.

Officials of the Rehabilitation Services Administration, Washington, D.C., advised us that new instructions to the States concerning third-party expenditures were being developed and that these instructions would require the State vocational rehabilitation agencies to establish procedures designed to ensure that claims for Federal financial participation based upon expenditures made by third parties are proper.

SOCIAL AND REHABILITATION SERVICE (continued)

Need for improvement in controls over State administration of federally aided public assistance programs

Our review of HEW's financial participation in certain administrative expenses for public assistance programs in the State of Missouri revealed a need for certain improvements in HEW's controls over State administration of the public assistance programs to help ensure that the claims made for Federal financial participation are in accordance with existing Federal and State regulations and requirements.

We found that (1) certain expenses applicable to nonfederally aided programs had been claimed for Federal financial participation and (2) Federal financial participation at a 75-percent rate had been claimed for certain expenses that appeared to have been qualified for only a 50-percent rate. On the basis of our review, we estimated that Federal payments for such claims in the State of Missouri may have amounted to as much as $1.1 million in fiscal years 1964 through 1966.

Prior to September 1, 1962, the Social Security Act authorized Federal payments to States of 50 percent of the total amount expended by the States in the administration of their federally aided public assistance programs. Effective September 1, 1962, the Public Welfare Amendments of 1962 authorized for such programs, among other things, 75-percent Federal financial participation in State administrative expenditures incurred for providing those services designed to help individual recipients attain self-care and self-support or to strengthen family life (generally referred to as defined social services).

Federal requirements established by HEW specify that, for the purpose of claiming Federal funds, a State plan of public assistance programs must include a cost allocation plan that provides for (1) distinguishing the costs of administering federally aided public assistance from all other administrative costs of the agency in such a manner that no part of the costs of administering other programs is charged to the federally aided programs, (2) allocating the costs of administering the federally aided public assistance programs among the various Federal programs on a reasonable basis, and (3) determining, within each federally aided public assistance program, the amount that is subject to 75-percent Federal financial participation and the amount that is subject to 50-percent Federal financial participation.

Although the methods and procedures followed by the State in arriving at the amounts claimed for Federal financial participation were, in some cases, in accordance with the existing State plan which was approved by HEW, our review indicated that such claims had resulted in the payment of Federal funds to the State in greater amounts than should have been attributed to the costs allocable to the federally aided programs.

SOCIAL AND REHABILITATION SERVICE (continued)

These matters were reported to the Secretary, HEW, in June 1969 with our recommendation that the Missouri State cost allocation plan be thoroughly reviewed and that the State be required to submit such formal revisions to the plan as deemed appropriate. With respect to past payments made to the State of Missouri for administrative expenses, we recommended that the Administrator, Social and Rehabilitation Service, be required to review the basis for such claims--giving recognition to the matters noted during our review--and to seek equitable adjustments for any excessive payments made to the State. In July 1969 HEW agreed to take action in line with our recommendations. (B-164031(3), June 12, 1969.)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION

Questionable payments under Medicare program for services of supervisory and teaching physicians at Cook County Hospital

Pursuant to a request from the Chairman of the Senate Committee on Finance, we examined selected payments for physicians' services under the Medicare program made by the Illinois Medical Service (Blue Shield) to the Associated Physicians of the Cook County Hospital (APCCH), Chicago, Ill.

In accordance with regulations issued by the Social Security Administration (SSA), payments under the supplementary medical insurance portion (part B) of the Medicare program could be made for professional services rendered to Medicare patients by supervisory or teaching physicians in a hospital in cases where the physicians were the patients' attending physicians and provided personal and identifiable direction to interns and residents who participated in the care of their patients.

From April 1968 to April 1969, when, at the direction of SSA, Blue Shield suspended payments of APCCH claims, APCCH had received about $1.6 million in payments under part B of the Medicare program for the services of attending physicians.

Our review of selected patient medical records of Cook County Hospital indicated that the professional services billed by APCCH and paid by Blue Shield had been furnished, in almost all cases, by residents and interns at the hospital and showed only limited involvement of the attending physicians in whose names the services had been billed. The salaries of the residents and interns at the hospital were allowable costs under the hospital insurance portion (part A) of the Medicare program.

Although SSA issued in April 1969 new and more comprehensive guidelines, which were intended to clarify and supplement the criteria for making payments for the services of supervisory or teaching physicians, we suggested that SSA inquire further into the propriety of the charges being allowed when such circumstances as those disclosed by our review existed at hospitals.

SSA stated that it would inquire further into the circumstances described in our report. Further, SSA initiated action to recover from APCCH payments made for medical services to Medicare beneficiaries which had been provided by residents and interns and had not involved the services of attending physicians. (B-164031(4), Sept. 3, 1969.)

Problems in determining the reasonableness of physicians' charges under the Medicare program

In June 1969, we reported to the Secretary of HEW that revised fee ceilings established, effective June 1968, by the Massachusetts Medical Service (Blue Shield) operating under a contract with SSA to make payments of Medicare claims for physicians' services in Massachusetts had been developed

by methods which, in our opinion, resulted in the establishment of fee limitations for certain surgical procedures that were 6 to 10 percent higher than such limitations would have been had Blue Shield used methods recommended by SSA.

Blue Shield advised us that it had requested SSA approval of a revised method for developing reasonable charges for physicians' services, which, we believe, should result in the development of more appropriate fee limitations. However, we recommended that SSA review the actual data to be used by Blue Shield in developing new fee limitations to determine whether the method proposed by Blue Shield conformed with the intent of the applicable SSA regulations.

SSA informed us that it had issued new instructions limiting future increases in physicians' fees payable under the program and that our findings would be considered in connection with the implementation of the new limitations.

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We reported also that, for services furnished during 1967, Blue Shield had made numerous payments in excess of the then existing fee limitations without the required supervisory review to determine whether the higher payments were justified; possible overpayments which we specifically identified amounted to about $25,000.

Blue Shield agreed to review the possible overpayments we identified and to seek recovery where warranted. Blue Shield agreed also to determine the economical feasibility of identifying and seeking recovery of other possible overpayments. Also, Blue Shield stated that it had installed a quality-control system designed to minimize the incidence of payments in excess of reasonable charges.

We recommended that SSA follow up on the adequacy of Blue Shield's actions to recover overpayments and on the adequacy of its quality-control system.

SSA informed us that it would follow up in accordance with our recommendations. (B-164031(4), June 30, 1969.)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Contents

FEDERAL HOUSING ADMINISTRATION

Need to increase home mortgage insurance application fees

Our review of fees assessed applicants by the Federal Housing Administration (FHA) for processing home insurance applications showed that the fees were insufficient to recover the full processing costs. We estimated that, in fiscal years 1966 and 1967, costs unrecovered by fees amounted to about $33 million, or about 37 percent of the costs of processing applications for insurance in those years.

All costs of the FHA home mortgage insurance programs, including the unrecovered costs of processing applications for mortgage insurance, are borne by mortgagors through payment of fees and premiums and through investment earnings thereon. Our review showed that about 50 percent of the applications processed by FHA did not result in mortgage insurance and that the unrecovered costs of processing these applications was therefore borne by mortgagors participating in the mortgage insurance programs.

We pointed out that FHA fees of $45 for an application pertaining to new housing and $35 for an application pertaining to existing housing would have had to be increased to $70 and $56, respectively, to result in full recovery of the processing costs.

In our report to the Congress in July 1968, we expressed the belief that FHA should follow the Government's general policy regarding charges for services performed by Federal agencies and should establish fees, and adjust them annually as necessary, to recover from all applicants, to the extent practicable, the full costs of processing applications for mortgage insurance on home loans. The additional net income which would result from increasing fees to recover application processing costs would serve to increase the reserves for future losses on FHA home mortgage insurance programs. We noted that such reserves were below the requirements which FHA deemed necessary to cover estimated future losses in the event of the development of adverse business conditions.

The former Assistant Secretary-Commissioner, Department of Housing and Urban Development (HUD), FHA, in commenting on this matter, stated that an increase in application fees would discourage individuals from applying for federally insured home mortgages. However, application fees are a one-time expense of home ownership, and we stated that we did not believe that fee increases of $25 and $21 would be any more likely to discourage those who desire to purchase a home than would the fees established in the past.

Accordingly, we recommended that the Secretary of HUD require FHA to establish application fees at levels which would recover the costs of processing applications for mortgage insurance. We also recommended that FHA be required to ascertain, annually, application processing costs and to adjust its fees, to the extent practicable, for increases or decreases in such costs. (B-114860, July 8, 1968.)

FEDERAL HOUSING ADMINISTRATION (continued)

This subject was covered in our previous report of selected significant findings; however, we are repeating it here because HUD has not taken action to implement our recommendations and we continue to believe that corrective action is warranted.

Additional interest income available through collection of mortgage insurance premiums monthly rather than annually

Our review disclosed that the remittance of premiums by mortgagees on a monthly basis, rather than on an annual basis, would, on the average, permit the Federal Housing Administration to invest these funds about 6 months earlier. We estimated that additional interest income resulting from earlier investment would amount to approximately $650,000 annually for new insured mortgages during the first full year of operation and that the additional interest income would increase, as new mortgages are insured in subsequent years, to more than $4 million annually.

We proposed that a study be made to determine the most feasible and economical manner to implement the administrative changes required to collect the premiums on a monthly basis and that the FHA regulations be revised to require monthly collection of premiums.

HUD advised us that it would not be appropriate to change premium payment procedures at the time because of mortgage market conditions but that the desirability of a change would be considered at a more favorable time.

In our report to the Congress in September 1968, we expressed the belief that it would be advisable, and we recommended, that FHA plan immediately for the time when a change in procedures would be appropriate so that, when marketing conditions permitted, the change could be made on a timely basis. (B-114860, Sept. 26, 1968.)

Opportunity to reduce reacquisitions by changing method of selecting purchasers of properties sold by FHA

Our review of the sales of acquired single-family residential properties by the Federal Housing Administration, Department of Housing and Urban Development, showed that FHA's selection of purchasers by a drawing, when more than one offer was received for a property, often resulted in the selection of purchase offers which were not the most favorable to the Government. Generally, the mortgage loans for these sales were insured by FHA. Many of the loans were financed by the Government National Mortgage Association (GNMA).

We found that the rate of reacquisition of residential properties acquired and subsequently sold was several times the rate of acquisition of properties acquired for the first time.

FEDERAL HOUSING ADMINISTRATION (continued)

In our report to the Congress in March 1969, we stated that FHA could reduce the number of its reacquisitions of residential properties and the amount of borrowings by the Government needed to finance FHA's sales of these properties if it would select purchasers on the basis of those offers that are the most advantageous to the Government. We pointed out that the Veterans Administration (VA) was using an evaluation procedure to select the purchaser when more than one offer was received for a VA-acquired property.

HUD stated that selection of a purchaser by a drawing provided a fair and impartial means of offering properties to all potential home buyers. Also, HUD said that this procedure was in line with the policy objective embodied by the Congress, in the Housing and Urban Development Act of 1968, of providing a greater opportunity for lower income families to own their own homes.

Although selection of purchasers by a drawing presumably gives all persons who bid on an FHA-acquired property an equal chance to be selected, it does not ensure, but leaves to chance, the selection of a lower income family. In our opinion, selection of purchasers through an evaluation of offers, with consideration being given to lower income families to the extent that FHA believes appropriate, would give FHA more assurance that it is contributing to the goal of helping lower income families become homeowners.

Moreover, we believe that the selection of purchasers on the basis of an evaluation of the purchase offer terms and such other consideration as FHA believes appropriate would tend to minimize FHA reacquisitions of properties and the amount of GNMA financing required to complete the sales.

Therefore, we recommended that, when more than one offer is received for an FHA-acquired residential property, the Secretary of HUD require FHA to select the purchaser on the basis of an evaluation of the purchase offers received and such other considerations as may be appropriate.

In commenting on our report during hearings on HUD's appropriations for 1970 before the Subcommittee on Independent Offices and Department of Housing and Urban Development, House Committee on Appropriations, in May 1969, a HUD official indicated that the great bulk of the differences in purchase offers discussed in our report were such that one offer was only marginally preferable over another, and he referred to shorter maturity periods and differences of $100 in down payments as examples of the differences in offers received for FHA-acquired properties.

We believe that the differences in the purchase offers discussed in our report were significant. For example, differences in down payments provided for in purchase offers averaged about $1,000 and ranged up to $7,400 a property. Some offers provided for an all cash purchase or for private financing not involving FHA mortgage loan insurance.

FEDERAL HOUSING ADMINISTRATION (continued)

Moreover, we pointed out in our report that selection of purchasers on the basis of an evaluation of the purchase offers received, and such other considerations as may be appropriate, could have a beneficial effect with regard to FHA's subsequent reacquisition of properties and the goal of helping lower income families become homeowners. Also, we pointed out that VA uses an evaluation method for selecting purchase offers on its acquired properties. (B-114860, Mar. 19, 1969.)

HOUSING ASSISTANCE ADMINISTRATION

Need to clarify statutory provisions regarding the financing of community and neighborhood facilities

Our report to the Congress in January 1969 dealt with questions relating to the authority of the Department of Housing and Urban Development (HUD) for allowing local housing authorities (LHAs) to provide community facilities as part of the low-rent public housing program and to contribute to the cost of developing neighborhood facilities under the section 703 grant program.

Our review showed that HUD based its interpretation of authority for allowing LHAs to provide community facilities as part of low-rent public housing projects on section 2(1) of the United States Housing Act of 1937, which defines the term "low-rent housing" as embracing "all necessary appurtenances thereto." HUD believed that community facilities were needed for the successful development and management of public housing projects and that reasonable expenditures for these facilities were eligible for inclusion in project development costs.

We estimated that HUD had financed indoor community facilities at more than 3,100 public housing projects and that the cost of these facilities would total about $268 million.

We found in our review that the legislative history of section 2(1) of the act shed no light on congressional intent as to what were considered to be "necessary appurtenances." We did not contend that HUD's interpretation of its authority was contrary to law, nor did we question the benefits that could result from community facilities; however, it was our opinion that HUD's interpretation was not free from doubt and that, in a program involving many millions of dollars of Federal funds, any such doubt should be removed.

We found also that HUD was permitting LHAs to contribute funds toward the cost of neighborhood facilities to be developed under a Federal grant program authorized by section 703 of the Housing and Urban Development Act of 1965. The combination of housing assistance contributions and neighborhood facilities grants will result in the total ultimate cost to the Federal Government for such facilities being greater than the amount of the maximum Federal assistance authorized under section 703. We expressed the opinion that the statutory provisions for the neighborhood facilities grant program needed clarification regarding contributions by LHAs.

HUD disagreed with our views regarding the need for clarification of statutory intent on these points. It was our opinion, however, that these matters warranted the attention of the Congress. Accordingly, we suggested in our report that the Congress might wish to consider clarifying the statutory authority of HUD with regard to authorizing and financing the development of project community facilities as part of the low-rent public housing

HOUSING ASSISTANCE ADMINISTRATION (continued)

program and the provisions of section 703 of the Housing and Urban Development Act of 1965 with regard to contributions by LHAs toward the cost of developing neighborhood facilities under the Federal grant program established by the act. (B-118718, Jan. 17, 1969.)

RENEWAL ASSISTANCE ADMINISTRATION

Savings available in Federal share of cost of demolishing buildings

In a November 1968 report to the Congress, we pointed out that the Department of Housing and Urban Development (HUD) had been making grants to cities to cover two thirds of the cost of demolishing unsafe or uninhabitable structures without taking into consideration the fact that the cities subsequently collected some portion of the cost from the owners of the properties. On the basis of the recovery experiences of the cities included in our review, which received 41 percent of the demolition grants made by HUD, we expressed the opinion that such grants could have been reduced by about $400,000 if they had been limited to two thirds of the net demolition costs, i.e., the gross costs of demolition less the amounts recovered from property owners. We proposed that demolition grants be limited to two thirds of the net demolition costs.

The Assistant Secretary for Renewal and Housing Assistance agreed that there was a need for corrective action and established a policy which provides that the Federal Government be reimbursed for up to two thirds of the net amount recovered by cities prior to project completion. However, since it appeared that many recoveries of demolition costs were being made after a 2-year time period, which is the period of time under HUD regulations in which a demolition project is generally expected to be completed, we recommended that the Secretary extend the period of Federal participation in recoveries of costs so as to include recoveries made after the completion of demolition activities.

During hearings before the Subcommittee on Independent Offices and Department of Housing and Urban Development, House Committee on Appropriations, a member of the Subcommittee recommended that HUD review its policy on sharing recoveries on demolition projects and consider extending the policy to provide for sharing in recoveries made after the completion of demolition activities, as recommended in our report. We were informed by a HUD official subsequent to these hearings that HUD was not making the recommended change in policy concerning this matter since it did not believe that the recovery potential from such a change was great enough to offset the significant administrative difficulties which would be involved.

We continue to believe that a change in HUD policy to provide for Federal participation in recoveries of demolition costs made after the completion of demolition activities is warranted. As pointed out in our report, we believe that the recommended change in HUD policy would not present any significant administrative problems to HUD since either a locality could be relied upon to make remittances to HUD of its share of any recoveries after the completion of its demolition activities or, if HUD believed it necessary, its auditors could verify on a test-check basis the locality's demolition cost recoveries obtained after project completion, when they are in or near the locality for the purpose of auditing other HUD activities, such as urban renewal projects. (B-118754, Nov. 12, 1968.)

RENEWAL ASSISTANCE ADMINISTRATION (continued)

Improvements needed in the management of the urban renewal rehabilitation program

In an April 1969 report to the Congress, we pointed out that improved management and increased emphasis on the rehabilitation program by the Department of Housing and Urban Development was essential if HUD was to meet its goal of rehabilitating about 130,000 dwelling units, or an average of about 43,000 units annually, during the fiscal years 1969 through 1971. Our review showed that the completed rehabilitations for the 4.5 year period ended December 31, 1967, averaged about 13,000 units a year, or about 30,000 fewer units than the average annual goal for fiscal years 1969 through 1971.

We also found that a large percentage of the rehabilitation accomplishments reported were questionable, as they did not meet applicable standards. An inspection of 150 selected properties in three selected projects showed that 78 percent of the properties did not meet established property rehabilitation standards for the areas and that 69 percent did not meet local housing code standards, even though the properties were reported as being rehabilitated by the local public agencies (LPAs).

We found that HUD administrative reviews at the local level were not adequately disclosing (1) the actual progress of rehabilitation work, (2) the weaknesses in LPA procedures and practices for determining when a property is rehabilitated, and (3) the failure of LPAs to carry out a required program for follow-up code inspections.

We recommended that the Secretary of HUD reassess the rehabilitation program on the basis of in-depth reviews at the project level to identify and resolve weaknesses, problems, or difficulties such as those noted in our review and any others that impede project completion. We recommended also that the Secretary require HUD representatives to strengthen their review and administration of rehabilitation projects at the local level.

The Assistant Secretary for Renewal and Housing Assistance advised us that HUD had increased its emphasis on rehabilitation and that instructions would be issued strengthening HUD's administration of the program. He advised further that, within the limits of available personnel, HUD's regional offices would conduct surveys of rehabilitation projects.

Our report was discussed during hearings held by the Subcommittee on Independent Offices and Department of Housing and Urban Development, House Committee on Appropriations. However, in our opinion, several statements concerning the report made by HUD officials at that time need to be clarified.

RENEWAL ASSISTANCE ADMINISTRATION (continued)

These HUD statements indicated that (1) the projects included in our report were approved around 1954, (2) the deficiencies noted in some of the project properties inspected during our review resulted from the age factor because these properties had at one time been brought up to standards but had deteriorated with the passage of time to the point found by our review, and (3) the properties inspected during our review did not include properties which had been assisted through rehabilitation loans authorized under section 312 of the Housing Act of 1964.

As pointed out in our report, all the projects included in our review were approved for execution well after 1954 and were still in an uncompleted stage at the time of our review. Moreover, the properties we inspected had reportedly been brought up to standards at a date relatively current to the time of our review. Also, at the time of our review, Federal assistance to help project residents to rehabilitate their properties was available in these projects through rehabilitation loans and grants. Some of the properties we inspected had been rehabilitated with Federal assistance through rehabilitation loans and grants.

As noted in our report, the deficiencies found with regard to the properties inspected during our review included significant numbers of needed long-term, permanent improvements, such as the installation, repair, or replacement of electric, plumbing, masonry, carpentry, and heating items. These deficiencies apparently had never been corrected although so reported by the local authorities. There were also deficiencies of the short-term improvement type which were susceptible to recurrence in a relatively short time.

HUD officials correctly pointed out that HUD had issued instructions aimed at strengthening the administration of the program. We have not yet had an opportunity to review the effectiveness of these instructions, which were issued subsequent to and as a direct result of our review.
(B-118754, April 25, 1969.)

DEPARTMENT OF THE INTERIOR

Contents

BUREAU OF COMMERCIAL FISHERIES AND BUREAU OF SPORT FISHERIES AND WILDLIFE

Inconsistent treatment in financing costs incurred to preserve the Columbia River Basin as a source of salmon and steelhead trout

In a July 1969 report to the Congress, we stated that the Government's method of financing the costs to mitigate damage to anadromous fish runs caused primarily by Federal water resource development projects in the Columbia River Basin has not been consistent. Certain costs incurred by the Corps of Engineers and the Bureau of Reclamation to preserve the Columbia River Basin as a source of salmon and steelhead trout are treated as part of the cost of water resource projects and are being recovered, in part, through charges for power and water from the projects. However, similar costs incurred by the Bureau of Commercial Fisheries (BCF) and the Bureau of Sport Fisheries and Wildlife (BSFW) for this purpose are not treated as costs of water resource development projects and are not being recovered from project revenues.

The major conservation effort to mitigate damage to anadromous fish runs in the Columbia River Basin has been the Columbia River Fisheries Development Program which is administered and financed by BCF. As of June 30, 1968, the total cost of constructing fishery and stream improvement facilities under this program amounted to approximately $27 million and the cost of operating and maintaining the facilities amounted to about $26.5 million. None of these costs have been included as part of the costs of the water resource development projects for recovery from revenue-producing project operations. We estimated that about $24.7 million of these costs would be assignable to recoverable project purposes and subject to recovery.

By comparison, we estimated that about $87.8 million of the total costs of about $141.6 incurred for fishery facilities by the Corps of Engineers as of June 30, 1968, will ultimately be recovered through charges to users of power and water and that about $1.6 million of the average annual cost of $2.4 million for operating and maintaining these facilities will be recovered. Also, costs incurred by the Bureau of Reclamation for the construction of hatcheries and for their operation and maintenance during construction, amounting to about $3.1 million, are being recovered. However, operation and maintenance costs incurred subsequent to completion of the hatcheries, which totaled $4.3 million between 1945 and 1968 and amounted to $287,000 in 1968 and which are financed by BSFW, are not being recovered.

In commenting on the differences in the practices regarding recovery of costs, the Department of the Interior stated that there were a number of causes for the decline of the Columbia River fishery that would have required substantial fish programs in the Columbia River Basin even if there were a complete absence of Federal revenue-producing water resource projects in the Basin. Consequently, the Department concluded that recovery of funds appropriated for the BCF or BSFW programs would be contrary to existing statutes.

BUREAU OF COMMERCIAL FISHERIES AND
BUREAU OF SPORT FISHERIES AND WILDLIFE (continued)

We agree that there is no specific legislative requirement that the costs incurred by BCF or BSFW be recovered from revenue-producing water resource projects. We believe, however, that there is a common causative relationship between the programs of the Corps of Engineers and the Bureau of Reclamation and the programs of BCF and BSFW to mitigate damages to the fishery resources. Consequently, and because certain costs of the programs of the Corps and the Bureau of Reclamation are being recovered, there appears to be justification for advocating that similar costs incurred by BCF and BSFW be recovered in the same manner.

We brought this matter to the attention of the Congress for its consideration as to whether the costs incurred, and to be incurred, by BCF and BSFW to mitigate damage to the fishery resources caused primarily by Federal dams in the Columbia River Basin should be recovered from revenue-producing operations in a manner consistent with the recovery of costs by the Corps of Engineers and the Bureau of Reclamation. In the event it is determined that such costs should be recovered, authority to recover the costs would require legislative action by the Congress.

We suggested also that the Congress might wish to have the Secretary of the Interior undertake a study to determine the extent to which costs incurred by BCF and BSFW are attributable to Federal water resource projects. (B-157612, July 29, 1969.)

DEPARTMENT OF THE INTERIOR

BUREAU OF INDIAN AFFAIRS

Need to improve the system for managing the repair and maintenance of buildings and utilities

Our review of the policies and practices of the Bureau of Indian Affairs (BIA) for controlling expenditures for the repair, maintenance, and rehabilitation of buildings and facilities showed that large sums had been programmed and expended to repair, improve, and rehabilitate old buildings. Some of these buildings were demolished shortly after they had been extensively repaired or rehabilitated, and others were scheduled for demolition in the near future. We found that this situation had occurred because BIA had no procedures for systematically evaluating existing facilities to determine their remaining useful life, establishing replacement standards, and determining dates beyond which it would be uneconomical to make further repairs or improvements.

In addition, we noted that the Major Alteration and Improvement (MA&I) funds and Repair and Maintenance (R&M) funds were used interchangeably to finance the same type of projects and, in some instances, the costs of supporting services were not charged to the proper fund. Use of R&M and MA&I funds in this manner does not ensure control of funds by BIA in the manner that the Congress intended when it made separate appropriations for these specific purposes.

We recommended that BIA make certain revisions in its system for the management of buildings and facilities and that it take whatever action was necessary to ensure that R&M and MA&I funds are used only for the purposes for which appropriated.

We were advised that the Department of the Interior agreed with our recommendations and that BIA was developing a management information reporting and control system along the lines we had recommended. We were subsequently advised by a BIA official that, as of September 15, 1969, some of our recommendations had been implemented and that work was continuing on the implementation of others. We were informed that, among other actions, revised instructions had been issued to the field offices concerning the purposes for which R&M and MA&I funds could be used and that criteria as to the frequency and extent of repair and maintenance work were being developed.

As a part of our continuing review of BIA activities, we plan to examine into and evaluate, at an appropriate time, the adequacy of the actions taken by BIA to correct the deficiencies noted during our review. (B-114868, Sept. 25, 1968.)

BUREAU OF RECLAMATION

Need for improved procedures for negotiating contracts with water users

In October 1968 we reported to the Congress that, although water had been delivered to users north of the city of Sacramento, California, through releases from Shasta Dam and Reservoir--a major unit of the Central Valley project--from its completion in 1944, the Federal Government had not been able, until 1964, to reach agreement with the users as to the amount of Federal water made available by the project for which the users were to pay $2 an acre-foot.

Calculations made by the Bureau of Reclamation showed that, during the 20-year period of negotiations, the water users used, without charge, about 6 million acre-feet of project water valued at $12 million.

We reported that by December 1967 the Bureau had concluded, or had pending, 141 contracts with water users covering about 2,300,000 acre-feet of water. These contracts will, in our opinion, permit the water users to use annually, without charge, 950,000 more acre-feet of water, having a contract value of $2 an acre-foot, than was available for use in an average year prior to the operation of Shasta Dam and Reservoir.

We recommended that the Secretary of the Interior, in future negotiations of this nature, establish, prior to construction of a project, definite limits as to the quantity of water that would have been available without the project and the maximum period of time for negotiating acceptable agreements with the users. We recommended also that, if acceptable agreements cannot be reached within the established time period, the Congress be advised of the situation, including the possibility that litigation might be required after the project is constructed to arrive at a reasonable settlement. In this way the Congress could then reconsider the authorization of the project.

In December 1968, the Department advised the Bureau of the Budget that it agreed with the substance of our recommendations. The Department stated that the procedures which were currently being followed in preparing feasibility reports prior to authorization, in preparing definite plan reports to firm up developments after authorization, and in processing appropriation requests through the executive and legislative branches were all aimed at avoiding situations similar to the situation presented in our report to the Congress. (B-125045, Oct. 18, 1968.)

GEOLOGICAL SURVEY

Opportunity for increased revenues through changes in map-pricing practices

In September 1969 we reported to the Congress that an opportunity existed for the Federal Government to realize additional revenues if the Geological Survey would sell its maps at prices based on their fair market value. In the determination of its map-pricing structure, Survey has followed the practice of pricing its maps on the basis of costs essentially in accordance with that provision of Bureau of the Budget (BOB) Circular No. A-25 which deals with Government services rather than on the basis of the fair market value as is required by the circular when the Government sells property or resources.

Survey sells its maps at prices based on cost because it believes that map sales are a service and not a resource or property. We believe that maps are tangible commodities and that they would more properly be considered as resources or property and should not be sold at prices which are based solely on cost--essentially the cost of printing and distribution. We believe that it is reasonable to price the maps at prices up to fair market value so as to maximize the recovery of all costs incurred in the map-making process, including the more basic survey and original map-preparation costs incurred by the Government.

Although the fair market value of Survey's maps is not known, we believe that it could be determined by a marketing research study. Such a study could also show the expected amount of sales at various price levels. Survey could then set its prices at an appropriate level while still charging the purchasers no more than the fair market value of the maps being purchased. Information obtained in our review indicated that the fair market value of Survey's maps is greater than the prices being charged.

The additional revenues which could be realized if Survey sold its maps at prices based on their fair market value would depend upon variations in printing and distribution costs and on the number of maps that could be sold, but we believe that it could be significant because of the large volume of maps sold by Survey. We estimate that, if the selling price of Survey's topographic series maps were determined to be 75 cents, rather than the present 50 cents and if sales remained at the present level, additional net revenues to the Government would be about $760,000.

On the basis of our review, we proposed that the Director of Geological Survey consider the feasibility of selling Survey's maps at a price based upon their fair market value. The Department of the Interior disagreed with our finding and remained of the opinion that Survey's maps are a service and should be priced to recover essentially the cost of printing and distributing the maps.

GEOLOGICAL SURVEY (continued)

BOB advised us, however, that it planned to undertake a review of the broader issue implied in the question raised in our report, that is, whether maps produced by Federal agencies, and probably other services or products supplied by the Government, are services or property. BOB's objective in this review will be to develop policy guidance for the pricing of services and products that may not fall clearly into either the service or product group discussed in BOB Circular No. A-25.

We consider BOB's planned review to be responsive to the matters discussed in our report. Because of the potential additional cost recoveries that may be obtainable, however, we recommended that BOB undertake its review as soon as possible. (B-118678, Sept. 3, 1969.)

DEPARTMENT OF JUSTICE

Contents

Need to improve the effectiveness of debt collection practices and procedures

At the request of a subcommittee of the Congress, we ascertained and evaluated actions taken by the Department of Justice to implement previously made congressional recommendations for improving the Department's practices and procedures relating to the collection of money due the United States as the result of court actions and to have the Department determine and report the actual amount of judgments written off for uncollectibility. Our review showed that the Department had taken some action on each of the recommendations, but, in our opinion, additional actions need to be taken by the Department to improve the effectiveness of its collection practices and procedures.

The Attorney General's annual reports for fiscal years 1965 through 1968 showed that the amounts of fines, judgments, penalties, and forfeitures imposed by the courts as a result of the Department's actions totaled about $383 million. During the same period, the Department collected $163 million.

The House Committee on Government Operations had recommended that the Department assign to a single division or branch the overall responsibility for judgment collection activities, including the correlating of the collection activities of the divisions and of the U.S. Attorneys (USAs). We found that this recommendation had not been carried out. Consequently, management had no central source on which to rely for assurance that USAs were following prescribed collection policies and procedures or that the most effective collection actions were being taken by the USAs and the headquarters litigating divisions. In addition, we found that the Department had no written guidelines for use by the litigating divisions in monitoring and supervising the collection activities of the USAs and that the divisions exercised little control over the collection activities of the USAs.

In a letter dated June 17, 1969, the Assistant Attorney General for Administration informed us that the recommendation had received, and was receiving, active consideration but that the Department was by no means certain or assured that such recommendation, if adopted, would improve collection activities. He informed us also that the collection of judgments in the Civil, Criminal, and Tax Divisions presented problems peculiar to each division and that it was not clear that a further centralization would necessarily improve efficiency.

We recognize that special problems may exist in collecting the various types of judgments or fines generated in these three divisions. We believe, however, that, after a judgment or a fine has been imposed, required collection actions could be effectively taken by personnel with collection expertise, as is the practice of commercial collection agencies, and that this would result in the release of attorneys to perform functions requiring legal training.

Accordingly we continue to believe, as stated in our report to the Congress on the Review of Policies and Procedures for Collecting Judgments,

Fines, Penalties, and Forfeitures, Department of Justice (B-153761, June 16, 1967), that, to improve the effectiveness of the Department's collection activities,

--a centralized collection unit should be established to perform the collection activities now performed by each litigating division,

--the centralized collection unit should also be given the responsibility of reviewing and evaluating the effectiveness of collection efforts performed by USA offices, and

--centralization should result in a more economical utilization of personnel and should increase the effectiveness of the collection effort.

The House Committee on Government Operations recommended also that consideration be given to extending the IBM/mark-sense reporting system to reflect postjudgment collection activities in individual cases. In the fall of 1964, the Department took action to revise the system. Our review showed that the action taken was not effective, because the reports issued were not timely, did not provide an accurate record of collection activities, and were not being used by six of the Department's seven litigating divisions.

Also, in inquiring into actions taken on other recommendations of the House Committee on Government Operations, we found that (1) the Department had decided to augment collection activities in the USAs' offices rather than to employ private collection agencies, (2) memoranda prepared by the USAs stating reasons for closing cases under $5,000 for uncollectibility were not being evaluated by Department personnel, and (3) actual amounts of judgments written off for uncollectibility were not being reported to the Treasury Department and to the Bureau of the Budget. In accordance with another recommendation of the Committee, the Department has included in its statement of accounting principles and standards, which was approved by the Comptroller General on May 29, 1969, provisions for general ledger controls for all claims and judgments outstanding. (B-153761, Aug. 18, 1969.)

DEPARTMENT OF LABOR

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DEPARTMENT OF LABOR

BUREAU OF EMPLOYEES' COMPENSATION

Opportunities for reducing costs of hospitalization, medical services, and drugs provided to Federal employees for job-related disablements

Our review at four of the 10 district offices of the Bureau of Employees' Compensation (BEC) showed that BEC had not made substantial efforts to use less costly, available Federal medical facilities for the treatment of disabled Federal employees. We estimated that annual savings of about $120,000 would have been possible at just one of the Bureau's 10 districts if Federal, rather than private, facilities had been used for treating one common type of disablement requiring hospitalization.

Also, BEC had not adopted an official medical fee schedule for use by the district offices' voucher examiners in evaluating the reasonableness of bills submitted by private physicians for their services. Significant differences were noted in physicians' fees paid by BEC for certain services, although the ailments or conditions shown on the physicians' bills were the same and the bills did not show that any additional services had been performed which would have justified the higher fees charged.

In addition, we found that BEC's voucher examiners were approving disabled Federal employees' claims for reimbursement of drug costs without requiring sufficient descriptive information to evaluate the reasonableness of the claims.

In January 1969, BEC issued instructions reminding its personnel of their responsibilities to make every effort to use Veterans Administration and Department of Defense medical facilities in appropriate cases and to determine whether medical fees are reasonable before authorizing payment. The Department of Labor advised us that local fee schedules, generally based on Blue Cross and Blue Shield rates, would be established and used for determining the reasonableness of medical fees and, where significantly higher fees are warranted by special circumstances, written justifications would be required.

The Department of Labor disagreed with our proposal regarding the need to obtain descriptive information necessary to determine the reasonableness of prescription drug costs. The cost, such as salaries of BEC personnel, of obtaining such information was considered by BEC to far outweigh the advantages to be derived from the proposed information. We recommended that the Secretary of Labor direct BEC to consider using statistical-sampling techniques to strengthen control over amounts paid for prescription drugs. Such sampling, in our opinion, would not require additional staff. (B-157593, May 29, 1969.)

MANPOWER ADMINISTRATION

Improvements need in contracting for on-the-job training under the Manpower Development and Training Act of 1962

In a report submitted to the Congress in November 1968, we pointed out that certain contracts awarded by the Department of Labor to private firms, principally in the Los Angeles County area of California, to conduct on-the-job (OJT) training for disadvantaged and hard-core unemployed had served primarily to reimburse the employers for OJT which they apparently would have conducted even without the Government's financial assistance. These contracts were awarded even though the intent of the contracts was to induce new or additional training efforts beyond those usually carried out.

We found that the Department of Labor had not developed adequate guidelines and procedures for its field personnel in implementing the "maintenance-of-effort" clause which is included in every OJT contract to ensure that the contractor's previous training efforts are maintained at no cost to the Government. Prior to awarding the contracts, the Department of Labor did not ascertain either the number of employees normally trained by the employers or their training costs.

In addition, we found that (1) the Department had not established standards and guidelines for governing the length of training to be given in the various occupations that the Government would support under the OJT contracts, (2) there was a need for better coordination of the OJT program in the Los Angeles County area because contracts were being promoted, developed, and administered independently by different organizations on behalf of the Department of Labor, and (3) the programs could be operated more efficiently and economically through greater use of fixed-price contracts instead of cost-reimbursement contracts.

We recommended that the Secretary of Labor prescribe appropriate procedures for use by the contracting officials in determining levels of prior training effort and in establishing the costs to be reimbursed under OJT contracts. In addition, we suggested that the Department take steps to establish reasonably uniform standards and guidelines governing the length of training the Government should support for particular occupations under OJT contracts, establish appropriate procedures to properly coordinate the development and administration of OJT contracts, and develop a policy to require the use of fixed-price contracts where appropriate.

The Secretary of Labor agreed with most of our findings and pointed out corrective actions that had been planned or taken. The Secretary questioned, however, whether the Department should engage in a costly administrative process to determine compliance with the maintenance-of-effort clauses of the contracts in the absence of a statutory requirement therefor.

In our opinion, the Department's policy of including maintenance-of-effort clauses in all OJT contracts was formulated as an interpretation of legislative intent, and we questioned whether any substantive change of

policy regarding the maintenance-of-effort concept was proper without first obtaining congressional approval. We therefore urged that the Secretary of Labor take corrective action in accordance with our recommendation on this issue. (B-146879, Nov. 26, 1968.)

DEPARTMENT OF STATE

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Need for a more systematic method of objectively evaluating the activities of the East-West Center

In a May 1969 report to the Congress, we stated that there was a need for a more systematic method of making objectively based evaluations of the effectiveness of the various activities of the Center for Cultural and Technical Interchange between East and West, which is located on the campus of the University of Hawaii. Center officials were aware of this need and were taking steps to establish evaluation procedures. The purpose of the Center, which was established by a grant-in-aid agreement between the Department of State and the University of Hawaii pursuant to the Mutual Security Act of 1960, is to promote better relations and understanding between the United States and the nations of Asia and the Pacific through cooperative study, training, and research.

We found that there was not a master plan which would indicate the location of proposed future facilities and prospective sites of additional land that would be made available to the Center. Because of an increasing scarcity of land resulting from the expansion of the university, a need exists to identify the long-range land requirements of the Center.

Under the grant agreement, the university is primarily responsible for the operation of the Center. It does not, in practice, play a role in the formulation of Center policy or in the decisionmaking process at the Center commensurate with that responsibility. This situation did not appear to affect the ability of the Center to achieve its objective in a satisfactory manner.

We recommended that the Secretary of State should:

--Take the necessary steps to ensure that goals are defined and that evaluations are made of the effectiveness of Center activities in order that the Department and the Congress may have a sound basis for assessing the extent to which the statutory purposes are being attained.

--Work with the various organizations concerned to develop a tentative long-range land-use plan for the Center, acceptable to both the Department and the university, with emphasis on establishing the location of prospective facilities on land provided under the existing agreement and on identifying the possible future needs for additional land.

--Consider revising the grant-in-aid agreement with the university to reflect the actual responsibility and consequent authority of the university over Center operations.

The university concurred that there was a need for the development of a long-range plan for the future expansion of the Center and that additional land should be made available as needed. The Department of State pointed to the provision for land in the grant agreement and the commitment of the university to make additional land available as needed.

The State Department felt that it was unnecessary to revise the grant agreement in view of the close working relationship that existed between the Center and the university. This position was supported by the university which believed that the agreement should not be revised until the nature of the relationship, which is still changing, became more clear. (B-154135, May 20, 1969.)

Need for information for assessing programs of the Organization of American States

In April 1969 we reported to the Congress on our review of the Department of State's administration of U.S. financial participation in the Organization of American States (OAS).

The United States, like each of the 22 OAS members, has one vote in the OAS governing body which reviews and approves the annual OAS programs and budgets formulated and proposed by the OAS secretariat--the Pan American Union (PAU).

We found that U.S. representatives to the OAS governing body had not obtained from PAU the information which was necessary for assessing whether OAS programs were consistent with U.S. objectives to the extent deemed warranted by the level of U.S. contributions, which had been established at 66 percent of all members' contributions. Because of the chronic arrearages of other members, in reality U.S. contributions during the last 4 years were $10 million more than they would have been if the established 66:34 ratio had been maintained.

U.S. contributions were also somewhat greater than they should have been because the method used by PAU to reimburse its American citizen employees for Federal income taxes resulted in some employees' being reimbursed more than they actually paid in taxes. The United States financed the entire reimbursement.

We found also that the Department of State, other member States, or PAU management authorities did not actively seek resolution of the recognized long-standing problems in PAU's financial and personnel administration.

In commenting on a draft of our report, the Department of State pointed out a number of recent actions aimed at obtaining better information on OAS activities and improving PAU's administration and the Department's efforts to accelerate quota payments by other members. Also, it pointed out action it had recently initiated to preclude excessive Federal income tax reimbursements by PAU.

These actions cited by the Department should pave the way for better information on OAS activities and for improved PAU administration. We believe, however, that the Department should work more effectively with other member states and PAU management authorities to promote correction of the indicated problems. (B-165850, Apr. 9, 1969.)

DEPARTMENT OF STATE

Information furnished was inadequate for ready and firm assessments of UNICEF projects

In a report to the Congress in July 1969, we pointed out that procedures employed by U.S. officials for analyzing proposed projects of the United Nations Children's Fund (UNICEF) had to be abandoned in 1968 because UNICEF, over the objections of the Department of State, discontinued previous arrangements for providing the United States with the information on which the analyses were made. Proposed alternative arrangements which would allow U.S. officials to make future analyses are uncertain.

Although a body of knowledge regarding the general content and direction of UNICEF programs could have been acquired from an analysis of documentation made available by UNICEF, it was not sufficient to permit ready and firm assessments relative to actual implementation of projects.

The United States and the United Nations recognized the need for, and have recently initiated, some independent evaluations of UNICEF projects. We felt, however, that the current evaluations were insufficient in scope and coverage for officials to make independent judgments relative to the efficiency and effectiveness of UNICEF operations and to provide a basis for encouraging action by UNICEF to resolve indicated problems.

We recommended that the Department of State, by whatever means it considered appropriate,

--obtain necessary information on and make analyses of proposed UNICEF projects so that it could make more informed judgments relative to continued support of UNICEF activities,

--elicit from UNICEF more complete and meaningful operational data, and

--work out an arrangement whereby U.S. overseas posts would make selective periodic evaluations of UNICEF projects until means for internationally constituted evaluations were developed.

The Department of State advised us that it was arranging with the UNICEF Secretariat to provide more complete operational data. These arrangements seem to be obscure and leave the decision up to UNICEF as to the nature, scope, and form of information to be furnished. We felt that the Department should be assured that the information to be furnished is adequate for it to make assessments on the implementation of UNICEF projects.

The Department advised us also that it performed evaluations in connection with its annual reviews of proposed projects. Since UNICEF, in 1968, discontinued the previous arrangements for furnishing the information from which these reviews were being made, the opportunity for adequate evaluation is dependent on the United States' making future arrangements with UNICEF. Moreover, we found little, if any, evidence in connection with the earlier reviews of actual observation of continuing UNICEF projects by U.S. personnel--an essential element of evaluation.

DEPARTMENT OF STATE

We stated that the Congress might wish to review with the Department of State the problems and issues dealt with in the report since they were essentially the same as those noted in our reviews of U.S. financial participation in the World Health Organization (B-164031(2), Jan. 9, 1969) and in the Organization of American States (B-165850, Apr. 9, 1969). (B-166780, July 8, 1969.)

Need to improve management and control over nonexpendable property at foreign posts

In a report to the Congress in March 1969 on our review of the management of nonexpendable personal property by the Department of State at selected overseas locations, we stated that there was a need for the Department to improve its management and control over nonexpendable personal property located at foreign posts. The specific areas in which it was noted that improvements were needed were:

--financial control over nonexpendable personal property,

--physical inventory taking,

--property recordkeeping,

--physical security arrangements,

--identification and disposition of excess property, and

--procurement.

In addition, we noted a need for greater internal audit surveillance over this activity by the Department. We recommended:

--That the Department develop and implement a satisfactory property accounting system that would meet the principles and standards of the Comptroller General for property accounting as set forth in 2 GAO 12.5(c), including the basis for control over property.

--That the Department bring our report to the attention of the appropriate foreign post officials and instruct them to review their controls and procedures applicable to property management and report to the Department whether such controls and procedures comply with Department regulations.

--That the Department establish appropriate follow-up procedures to determine whether corrective action promised by the foreign posts is actually implemented.

--That detailed and timely site audits be made of all aspects of property management at overseas foreign posts.

--That either the funds advanced to foreign post employee associations for procurement of personal property be reimbursed or that the property purchased be identified as Government-owned property and be included in the foreign posts' property inventory.

Department of State officials agreed, in general, with our findings and recommendations and stated that corrective actions had been taken or were planned.

Subsequent to the issuance of our report, the Department informed all diplomatic and consular posts by airgram dated March 25, 1969, of the findings and recommendations contained in our report and instructed all posts to review existing controls and procedures for nonexpendable personal property and take necessary action to ensure that prescribed Department regulations were being followed. The Department also stated that its internal auditors and Foreign Service Inspectors would give special attention to control and management of nonexpendable personal property. (B-165867, Mar. 12, 1969.)

Improvements needed in the management of Government owned and leased real property overseas

In September 1969 we reported to the Congress on our review of the Department of State's foreign buildings program. This review was undertaken to examine into the efficiency and effectiveness with which real property--i.e. sites and buildings--has been acquired and managed by the Department of State at its overseas diplomatic and consular establishments and for certain other Government agencies.

The Secretary of State has had the authority to acquire real property abroad since the passage of the Foreign Service Building Act in 1926. When title cannot be acquired by purchase, authority is granted to permit acquisition of leaseholds of not less than 10 years. Leases for less than 10 years were authorized under separate legislation.

The Secretary is authorized also to alter, repair, and furnish such buildings. The Office of Foreign Buildings Operations (FBO) carries out these responsibilities for the Secretary.

As of December 31, 1968, the Department reported that approximately $272.6 million was invested in 1,588 Government-owned and long-term leased real properties and that 4,752 properties were short-term leased at an annual rate of about $22.8 million.

We believe that a number of areas in the foreign buildings program need improvement. These include:

--management controls over the program,

--accumulation of Government-owned property not currently required but retained for a remote future need,

--coordination of the acquiring of building designs with the construction program.

--management practices over Government-owned property,

--alterations and improvements on short-term leased property,

--definitive criteria for capitalizing alterations and improvements to Government-owned property,

--accurate and informative real property records and reports, and

--internal audit surveillance.

We made 14 recommendations to the Department, which, we believe, may strengthen the administration and management of the foreign buildings program.

Although actions have been initiated or are planned by the Department to meet the objectives of our recommendations, we plan to review the effectiveness of the actions taken at a later date.

Opportunities exist at several locations for substantial savings in leasing and building operation costs by disposing of uneconomical properties and constructing new buildings. We reported this matter to the Congress so that it could consider the potential savings and the related requirements for expending public funds in the light of competing needs for other programs.

Real properties were acquired during fiscal years 1963 through 1966 by FBO which either were not presented to the congressional authorization committees for consideration in authorizing legislation or for which costs were substantially in excess of the estimated costs originally considered by the committees.

We reported this matter so that the Congress would be aware of this practice and could consider it in deciding what degree of congressional control is desirable over the Department's building program.

In commenting on a draft of our report, the Department stated that our review had made a constructive and useful contribution toward long-term improvement of the program and that actions on our recommendations were already in process or were planned. (B-146782, Sept. 30, 1969.)

Need for a more effective internal audit function

In 1969, we reported to the Congress on our review undertaken to evaluate the effectiveness of the internal audit function at the Department of State. The report highlighted the need for the internal audit function to report directly to the Department's top management in order to be of maximum value. The other major findings resulting from our review were as follows:

--Organizational placement of the internal audit function had the director of internal audits reporting to officials who were responsible for the operations that the auditors reviewed rather than to the Department's top management.

--Operating funds for internal auditing were obtained from appropriations for various Department programs, and audit services were provided to organizations responsible for carrying our those programs in proportion to the amount of funds provided.

Both of these methods of administration could adversely affect the independence and objectivity of the auditors.

--Internal audits were directed primarily toward housekeeping-type financial functions and not toward significant programs and related documents.

--Audit reports were not reaching top management officials.

--Audit recommendations were not being followed up to ensure that deficiencies were corrected.

We believe that the conditions we found existed because Department policy statements had the effect of restricting audit coverage to financial matters and because audit resources had been insufficient. The Department had not aggressively recruited and trained qualified people for internal audit, and constraints on the scope of the internal audit had been magnified by the application of a large part of the limited staff resources to external audits of contracts, grants, and institutions.

We further believe that our findings reflected a limited concept by the Department of the value of a comprehensive, independent internal audit to top officials as a means of achieving effective program management.

We recommended that the Secretary of State:

--Establish an entity made up of internal audit, contract and grant audit, and inspection elements with a directing official at a level at least equal to the highest officials operationally responsible for activities subject to audit. Preferably, that official should report directly to the Secretary or Under Secretary; however, if this is impractical, the official should report to the Deputy Under Secretary for Administration and should have access to the Secretary as needed. The Secretary should satisfy himself regarding independence, coverage, staffing, and utilization of results of internal audit.

--Broaden and refine the internal audit objectives so the programming approach, performance, and reporting can be more selective and balanced in terms of covering the entire range of management responsibilities.

--Take necessary action to enable greater reliance to be placed on contract and grant audits by public accountants and to arrange for maximum utilization of cross-servicing audit facilities of other Government agencies.

--Increase efforts to recruit qualified auditors, provide for adequate and direct funding of the internal audit activity, and establish practices to ensure that audit recommendations are carried out.

We recommended also that the Director of the audit function take necessary steps to establish adequate work plans and written programs.

The Department, in its reply to our draft report, stated that it would take action to enable it to place greater reliance on public accountants' audits and to have more contract and grant audits performed by other agencies. The Department also agreed to establish adequate work plans and written review programs.

The Department has not indicated that it will act on our other recommendations. It asserted that it was already accomplishing what was being recommended; however, we believe that the Department's reply did not present adequate evidence that it was accomplishing what we recommended. (B-160759, December 16, 1969.)

Need to improve controls over utilization of computer and security and integrity of ADP programs and related documentation

Our review of the automatic data processing (ADP) function at the State Department's Regional Finance and Data Processing Center, Paris, France, showed that there were internal management control system weaknesses which enhanced the risk of unwarranted or unauthorized use of ADP equipment and endangered the security and integrity of the ADP programs and related documentation. The details of our findings and specific recommendations for strengthening general management control and communication processes and for correcting other deficiencies were presented to the Deputy Under Secretary for Administration in a report issued in January 1968.

By letter dated October 9, 1968, the Deputy Assistant Secretary for Budget furnished us with specific comments on our report and indicated that certain recommendations with regard to controls over utilization of computers and security and integrity of ADP programs and related program documentation would be implemented. In a June 30, 1969, letter to us, the Department revealed that it had not, and probably would not, implement two of the six recommendations we made concerning these matters.

Regarding our finding that unsupervised console operators had access to ADP equipment and all documentation and materials needed to operate the computer for unauthorized purposes, the Department stated that, in view of a tight personnel ceiling and because of its efforts to reduce expenditures overseas, it would not institute, for all shifts, a procedure we recommended that would require the issuance of programs, documentation, and tapes only for the period of time required for the execution of a routine.

DEPARTMENT OF STATE

The Department stated also that it had deferred the implementation of our recommendation to fireproof the tape library and the adjacent computer room because of limitations placed on expenditures. Our report expressed concern that the lack of fireproofing of those facilities enhanced the danger of loss or destruction of materials and equipment applicable to the ADP operations. (B-146703, Jan. 31, 1968.)

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

Contents

Questionable recoverability of economic assistance loans

In September 1969, we reported to the Congress the status of the loan program financial activities of the Agency for International Development (AID) as of June 30, 1968. The report is primarily an analysis of AID's recorded economic assistance lending activities during the 4 years subsequent to fiscal year 1964--the last year covered by our prior report on the loan program.

We called the Congress' attention to the trends of AID's lending activities, which, in our opinion, made it clear that the furnishing of economic assistance in the form of loans repayable in dollars did not ensure that the funds would be recovered. The Congress placed increased emphasis on ultimately recovering assistance funds with the passage of the Foreign Assistance Act of 1961. This act not only emphasizes the furnishing of economic assistance in the form of loans which are required to be based on a finding of reasonable prospects of repayment but also requires that the loans be repaid in dollars.

We found that AID's lending had been shifted to loans repayable in dollars but that the dollar loans were concentrated in countries where AID also had incurred significant exchange-rate losses on foreign currency loans. At June 30, 1968, 70 percent of all the outstanding loan balances were owed by borrowers in 14 countries whose reduced currency values had resulted in 97 percent of the exchange-rate losses on loans during the preceding 4 years.

We stated our opinion that this concentration of loans was sufficient reason for reaffirming our previously reported conclusion that the realizable value of the loans was undeterminable.

We also concluded that the ultimate recoverability of the loans would depend primarily on the future debt repayment capacities of the borrowers.

We did not obtain written comments from AID on this report; however, verbal comments made by AID officials during discussions with our representatives were considered and incorporated in the report as appropriate. In general, they agreed with our conclusions but held that, with respect to the realizable value of loans and loan recoverability prospects, the relationship between AID and borrowers was not unique and that the same situations existed in all lending programs--Government, institutional, or private. (B-133220, Sept. 11, 1969.)

U.S. economic assistance funds improperly used to finance vehicles for defense requirements

In September 1969, we reported to the Congress on our examination into the administration by the Agency for International Development (AID) of

selected aspects of commodity import financing for India. Since separate appropriations are provided for economic development and military assistance under the Foreign Assistance Act of 1961, our review sought to determine whether appropriations for economic development were being used by AID to finance items directly for, or on behalf of, India's military.

We reported that about $8.6 million of AID's economic development appropriations provided to the Government of India (GOI) had been used to fill an order from the GOI Ministry of Defense for components and parts--i.e., knockdown kits--for 1-ton four-wheel-drive trucks, known as power wagons, and for other types of trucks.

The financing by AID of such items--imported primarily in 1963 and 1964--was approved by the AID Mission in India in July 1968 with AID/Washington concurrence, after AID Mission auditors had reported that the items were imported under AID loans.

A Mission audit report issued in March 1968 maintained that the commodities imported were ineligible for AID financing and suggested that a claim for refund be filed against GOI. The Acting Mission Director stated in July 1968 that no direct delivery had been made to the military and that the commodities at issue were not inherently "military type" and were suitable for nonmilitary use. He determined that the commodities should not be considered ineligible and that therefore it was not necessary or appropriate to file a refund claim against GOI.

We believe that these items are, in essence, military assistance and therefore are not legally available for financing from economic assistance appropriations. Consequently, AID should reconsider its decision not to seek refund.

AID's general policy is that economic assistance funds are not intended to finance materials directly for the account of, or on behalf of, the defense establishment. AID has stated that identification in import documents of users of commodities is pertinent to this intent, and AID has sought refund in cases having similar characteristics.

Therefore we believe that for AID to construe the exclusion of military-type vehicles, components, and parts as pertaining only to those items which are inherently military indicates a need to reconsider its existing policy intent.

We recommended that the Administrator, AID, direct a reexamination of AID's guidelines for the purpose of reiterating or amplifying its intent in loan agreements and supporting documents, so that the country, supplier, and responsible AID officials will be in a better position to implement this intent.

We recommended also that the Administrator, AID, require a reconsideration of the decision not to seek refund in this particular case.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

In commenting on a draft of our report, AID did not concur with our conclusions and recommendations. (B-167196, Sept. 18, 1969.)

Opportunity for improving the administration of the economic assistance program in Colombia

At the request of the Chairman of the Foreign Relations Committee, U.S. Senate, we reviewed the administration and management by the Agency for International Development (AID) of its economic assistance program for nonproject purposes in Colombia and submitted our report to the Committee in July 1968. Nonproject assistance financed imports in support of Colombia's development program without tying these imports to specific projects. Project assistance has been directed to individual capital projects or technical assistance. Economic assistance to Colombia from all sources from 1946 through December 1967 totaled $1.6 billion. Of this amount, $430 million was provided by AID, 91 percent of which was made available during the Alliance for Progress. AID's program in Colombia is its third largest in Latin America.

Our review showed that Colombia's aggregate economic and social progress during the first 5 years of the Alliance for Progress (1962-66) was less than AID and Alliance goals. During the Alliance, AID has not made systematic or substantive evaluations of Colombia's progress and performance in many areas. There has been a serious lack of basic data in Colombia, and no substantial progress has been made during the Alliance toward developing a system for timely gathering and assessing basic data. In Colombia, AID:

--Did not develop a system for accumulating prior experience for application in developing its future strategy.

--Was not explicit or definite, in many instances, in its goals and targets.

--Did not tailor its level of assistance to specific levels of country performance.

AID made no independent overall review of the adequacy and effectiveness of AID strategy for achieving U.S. and Alliance developmental objectives in Colombia. Accordingly, we proposed that the Administrator, AID, take the actions necessary to:

1. Ensure that substantive evaluations are made on a systematic basis of Colombia's performance and progress in each key area affecting its economic and social development.

2. Develop alternative annual levels of assistance for Colombia tailored to specific levels of Colombian performance.

3. Develop a method of incremental funding whereby the release of AID assistance is conditioned on, and proportionate to, specific improvements in Colombian performance.

4. Require that the overall effectiveness of AID assistance strategy in Colombia be reviewed at appropriate intervals by knowledgeable internal or external officials who have no responsibility for management of the program.

AID did not agree with our proposals that substantive evaluations were needed in many areas and that AID should develop alternative annual levels of assistance for Colombia tailored to specific levels of Colombian performance. AID took the position that substantive evaluations already had been carried out. We did not agree that they had been carried out, and we pointed out a great number of areas where they had not been.

Furthermore, we believe that AID has not developed an annual level of assistance for Colombia tailored to specific levels of Colombian performance, as previously discussed. AID's failure to do so, in our opinion, is contrary not only to its own stated policy and public pronouncements but also to prudent management and thus deserves reappraisal.

Because of the fundamental importance of these two matters to the effectiveness of the AID program in Colombia, we highlighted these matters for the Committee's further consideration. (B-161798, July 8, 1968.)

Need for improved management and administration of the cost reduction program

We reviewed the Cost Reduction and Management Improvement Program of the Agency for International Development (AID), to determine the status of implementation of the program and to identify areas where the program might be improved.

We found that (1) AID had adopted a low-keyed approach to the program, devoting a minimum of manpower and other resources to it, (2) the programs in fiscal years 1967 and 1968 were geared primarily to compiling material suitable for inclusion in the required semiannual reports to the President and only incidentally to fostering a sense of cost consciousness throughout the organization, (3) support for the program by top management was lacking; some officials expressed a negative attitude toward it, and (4) the program was not being promoted actively and therefore resulted in limited participation by AID personnel. It was our view that programs such as the cost reduction program must have the full support of top management and the broad participation of AID personnel in order to be successful.

Accordingly, in our April 1969 report to the Administrator, AID, we recommended that (1) the program be redirected so that it serves not only as a reporting medium for cost reduction actions but, more importantly, also as a means to stimulate and encourage a sense of cost consciousness

within AID, (2) top management demonstrate full support for the program and be more actively involved in it, possibly through the establishment of a cost reduction committee at the assistant administrator level, (3) the program be actively promoted and publicized throughout the year, and (4) certain internal guidelines governing the program be revised and others be more closely adhered to. These guidelines concern the criteria for reportable cost reductions, reporting requirements, review and validation of savings, and dissemination of cost reduction information.

In July 1969, we were advised by AID that it disagreed with our overall evaluation of its program on the basis that, in its view, due consideration had not been given to the situation AID was in at the time of our review. Factors mentioned by AID included a reduction in force in Washington, cuts in overseas staff under the President's balance-of-payments exercise, and a record low in appropriations. AID stated that in its view it was understandable that, in such a period, the formal requirements of, and the orderly long-range planning involved in, the cost reduction program received less emphasis and enthusiasm than in times past.

AID advised us also, that it was its understanding that the Bureau of the Budget was planning to revise the directive governing the program and that AID did not plan to review the presently constituted program or to revise its regulations until guidance was received from the Bureau of the Budget.

Notwithstanding any unsettling effect of the cutbacks in AID's staffing and funding, we do not agree that these factors should have had a detrimental effect on the cost reduction program. It appears to us that, in a period of budgetary stringencies such as AID and other Federal agencies had experienced in the past 2 years, the searching for techniques to carry out programs and projects at lower costs would be intensified. We therefore believe that our evaluation of AID's program was a fair one and that AID should initiate measures to upgrade and improve its program along the lines outlined in our recommendations. (B-163762, Apr. 21, 1969.)

DEPARTMENT OF TRANSPORTATION

Contents

FEDERAL AVIATION ADMINISTRATION

Need to increase reimbursement rates to recover costs of flight inspection services furnished to foreign countries

In a report dated September 18, 1968, we pointed out that reimbursement rates established by the Federal Aviation Administration (FAA) for flight inspection services provided to foreign countries in the European Region were not sufficient to fully recover the costs of providing such services. We estimated that operating costs of about $375,000 had not been recovered during the 3-year period ended June 30, 1967, primarily because certain costs had been excluded from the cost base used in establishing the rates. In addition, other costs were omitted, but it was not practicable to compute their amount.

Charging insufficient rates is contrary to the provisions of title V of the Independent Offices Appropriation Act, 1952 (31 U.S.C. 483a), and the Bureau of the Budget's policy for implementing the statute as expressed in its Circular No. A-25, dated September 23, 1959.

FAA's practices pertinent to its implementation of Circular No. A-25 were also the subject of a report (B-133127, March 26, 1964), issued by this Office to the Congress, in which we recommended that FAA establish procedures that would result in full recovery of costs in providing services, as required by law and by Bureau of the Budget (BOB) policy.

Although FAA did not concur in our recommendation, it was suggested during hearings before the Subcommittee on Independent Offices of the House Committee on Appropriations in February 1964 that FAA adhere to our recommendation. FAA then notified BOB in June 1964 that appropriate instructions would be issued promptly to clarify this policy for all elements of FAA.

As a result of this decision, FAA issued a policy directive in March 1965, providing for full recovery of costs as required by Circular No. A-25. However, although the rates were revised upward, the increases were still not sufficient to fully recover the costs of providing the services.

In discussing this matter with FAA headquarters officials, we were advised that FAA did not consider those costs that were excluded as being properly chargeable to reimbursable flight inspection services. Among the excluded costs were the group chief's salary and group overhead. Also excluded were indirect costs, such as depreciation of buildings and equipment, interest on the Government's investment, and a proportionate share of management and supervision costs. Because reimbursable flight inspections constitute only about 10 percent of all flight inspection work in the European Region, the excluded costs, in FAA's view, will be incurred regardless of whether any reimbursable flight inspection work is performed.

In response to our inquiries, FAA officials acknowledged that the existing practices were not in conformity with either FAA's stated policy or

the notice of June 8, 1964, to the Bureau of the Budget and that FAA's basis for assessing reimbursement charges was not substantially different from what it had been previously.

Therefore we proposed that the FAA Administrator direct that reimbursement rates for flight inspection services furnished to foreign countries be increased so that full costs thereof would be recovered, as required by law, Circular No. A-25, and FAA's stated policy.

In a letter dated March 25, 1968, the FAA Administrator expressed agreement with our proposal, stating that the agency had initiated a review to establish reimbursement rates for flight inspection services furnished to foreign countries in accordance with statutes, BOB circulars, and agency policies.

In January 1969, FAA revised its flight inspection rates to include the Federal salary increases which became effective in July 1968. Further, the order which transmitted the revised rates stated that the matter of overhead costs, depreciation of aircraft, and interest on the Government's investment was being studied and that these additional costs were expected to be incorporated into the rate structure at a later date.

Our follow-up of this matter in August 1969 showed that a report on the study had not yet been completed and that, consequently, a decision regarding the inclusion of indirect costs in the flight inspection rate structure had not yet been reached. (B-164497(1) Sept. 18, 1968.)

Proposed schedule of fees for certifying aircraft, aircraft components, airmen, and others should be based on current and adequate data

Our review of the supporting data for a schedule of proposed fees to be charged by FAA for the partial recovery of costs incurred in issuing certificates which attest to the airworthiness of aircraft and aircraft components and the competency of airmen, air agencies, and air carrier and commercial operators showed that the cost data used in establishing the fees was obsolete and that the man-hour data, to a great extent, lacked a basis from which an independent determination of reasonableness could be made.

FAA's effort to establish fees for certification services was made in accordance with the President's message to the Congress on the budget for fiscal year 1966, which recommended implementation of user charges in Government programs. We had previously reported to the Congress (B-133127, March 26, 1964) that FAA did not assess charges for certification services, and we recommended that fees be established in accordance with BOB Circular No. A-25, which sets forth general guidance for the establishment of user charges.

FEDERAL AVIATION ADMINISTRATION (continued)

In establishing the proposed fees, FAA based its computations on the premise that only 50 percent of the costs incurred in performing certification services should be recovered. The decision to recover only 50 percent of costs was based on the fact that FAA considered 50 percent of the costs as being attributable to providing special benefits to the recipients; the remaining costs were considered as being incurred in the public interest (i.e., air safety).

FAA estimated that the proposed fees would result in revenues totaling about $4.7 million a year. On the basis of total costs initially allocated by FAA to the certification services, which were based on fiscal year 1966 budget data, we estimated that the proposed fees would result in the recovery of about 33 percent of the total costs involved.

The schedule of proposed fees was approved by the Director, BOB, in April 1966. A notice of proposed rulemaking, incorporating this fee schedule, was published in the Federal Register in April 1967. With one exception, relative to import products, the schedule would have provided a fixed fee for each certificate or permit issued. However, up to December 1968, fees had not been assessed.

In view of the fact that the cost data used in establishing the fees was obsolete and that the man-hour data, to a great extent, lacked a basis from which an independent determination of reasonableness could be made, we proposed to the Department of Transportation in December 1968 that the implementation of the proposed fees for FAA certification services be deferred until FAA had made an adequate in-depth study to determine the costs of performing the certification services. We stated that this study should give consideration to the total costs (direct and indirect) incurred in furnishing certification services and should provide full disclosure of the basis for, and the amount of, costs which FAA considers as being incurred in the public interest. We stated also that the in-depth study should be given priority and should not serve as a basis for further delaying the assessment of fees which has been pending since April 1966.

We proposed also that consideration be given to charging fees, especially for certificates issued to aircraft manufacturers, based on a fixed rate for each man-hour spent in performing the certification service. Fees established on this basis would be reasonably consistent with the amount of work required to issue the certificates.

By letter dated April 14, 1969, the Assistant Secretary of Administration, Department of Transportation, stated that a study, as proposed by us, would be made and that, prior to establishing new fees, the determination of, and the rationale for, that portion of the certification costs which are subject to recovery would be fully documented. In addition, the Assistant Secretary informed us that the Department would consider the desirability of establishing variable fees based upon man-hours spent in performing the certification services. (B-133127, June 26, 1969.)

FEDERAL HIGHWAY ADMINISTRATION

Problems arising from the manner and extent to which Federal funds are granted for State highway safety programs

The policy established by the Federal Highway Administration (FHWA) for Federal participation in the cost of State highway safety activities permits the States to use the cost of their on-going safety activities to match Federal funds made available for additional safety efforts undertaken pursuant to the Highway Safety Act of 1966. We believe that this policy may not be consistent with the intent of the Congress because the legislative history of the enabling legislation indicates to us that the Federal funds are to be used to assist the States by sharing proportionately with them in the cost of additional safety efforts.

Further, we believe that FHWA is administering the program inequitably among the various States. We noted that, as result of FHWA's policy, some States were obtaining full reimbursement for the cost of federally approved additional highway safety activities undertaken and that other States were sharing in the cost of such activities.

We recommended to the Secretary of Transportation that FHWA revise its policy to ensure that the matching of Federal and State funds be applied to the cost of additional safety efforts and that the practice of using expenditures for existing State activities to match Federal funds be discontinued.

The Department of Transportation disagreed with our interpretation of the enabling legislation and declined to accept our recommendation. Basically, the Department believes that the intent of the Congress was to permit the States to match the available Federal funds with expenditures for on-going safety activities of the States. We do not believe that either the enabling legislation or the legislative history supports the Department's position.

We suggested to the Congress that it may wish to consider providing whatever additional guidance it deems necessary to clarify its intent with respect to the manner and extent to which Federal funds are to be used for funding State highway safety programs. (B-165355, June 19, 1969.)

UNITED STATES COAST GUARD

Potential savings available through use of civilians in lieu of military personnel in billets essentially civilian in nature

In a report to the Congress, dated May 1969, we concluded that, although the Coast Guard had converted many of the military billets cited in a previous GAO report to civilian positions, this action was not a part of a continuing program directed toward making full use of civilian personnel.

We therefore proposed that the Commandant of the Coast Guard implement a program that would convert military billets essentially civilian in character to positions that would be filled by civilian personnel. We suggested also that formal guidelines, goals, reports, and follow-up procedures be established so that management could maintain vigilance over the program and measure its achievements.

The Commandant informed us that the Coast Guard was in general agreement with the recommendation that full responsibility for the implementation of the conversion program be centered in headquarters and that formal guidelines, goals, reports, and follow-up procedures be established.

The Commandant stated, however, that Public Law 90-364, which limits the number of civilian employees in executive agencies, would have an impact on the program and that, as long as these restrictions remained in effect, little or no progress on the conversion program could be expected. He stated also that, when the limitation on the number of civilian employees was lifted, the Coast Guard planned to convert most of the 361 military billets cited in our report to positions that would be filled by civilian personnel. (B-114851, May 8, 1969.)

TREASURY DEPARTMENT

Contents

OFFICE OF THE SECRETARY

Need to strengthen internal auditing

We believe that the Treasury Department's internal auditing needs to be strengthened to be made a more effective and integral part of the Department's management control system. We found the following major weaknesses in the internal audit activities of the Department, which has an Internal Audit Division at the departmental level and separate internal audit organizations in each of its 10 operating bureaus:

--The independence and objectivity of the internal auditors could be adversely affected by (1) the placement of the internal audit function in the organization structure of various bureaus under officials directly responsible for the operations the auditors review and (2) the assignment of the internal auditors to operating activities which they subsequently may be called upon to evaluate.

--The audit coverage of some bureaus was not broad enough to provide systematic evaluations of all significant activities, primarily because repetitive audits were made of areas on which prior audits produced few, if any, significant findings, while other areas were neglected; auditors were assigned to nonauditing functions; and problems existed in recruiting and retaining audit personnel.

--The Department's Internal Audit Division, which is responsible for formulating Department-wide audit policies and standards and for appraising the audit activities of the various bureaus, did not adequately review, on a continuing basis, the scope and effectiveness of internal auditing in the individual bureaus and participate in the establishment of Department-wide and bureau-wide audit priorities.

We believe that consolidation of the separate internal audit staffs, with the exception of the Internal Revenue Service (IRS), would (1) strengthen departmental control of the internal audit function, (2) foster increased independence and objectivity of the audit staffs, (3) facilitate recruitment and retention of professional staff, and (4) provide opportunities for more productive and flexible use of staff resources.

We are of the view that the IRS internal audit function should not be included in a consolidated audit organization because of the highly specialized and confidential nature of IRS programs. The other internal audit staffs do not appear to us to be large enough to warrant separate internal audit organizations.

In October 1968 we suggested that the internal audit staffs, with the exception of IRS, be consolidated into a single internal audit organization responsible to the highest authority practicable.

In a letter dated October 24, 1968, the Assistant Secretary for Administration advised us that the Department believed that the four objectives

OFFICE OF THE SECRETARY (continued)

mentioned above could best be accomplished through its present internal audit system and, in May 1969, the Under Secretary of the Treasury advised us that, although we had some persuasive arguments, he did not think that it was the proper time to consolidate the audit staffs or to change their reporting levels.

We continue to believe that a consolidated audit organization would provide a better means for more effectively controlling audit planning, staffing, and utilization of manpower and would serve as a more effective element of management control. However, we recognize that the organization of the Department's internal audit system is management's prerogative.

We recommended therefore that, in order to strengthen its internal audit system within the present organization structure:

--The Department's general administration of the internal audit activities of the operating bureaus be strengthened.

--Concerted recruitment, training, and professional advancement programs be established for the professional personnel of the various audit staffs of the Department.

--In the interest of greater independence and objectivity, the heads of the bureaus be encouraged to relocate their internal audit functions to a higher level, preferably under the bureau head or his deputy.

--The practice of diverting internal audit personnel to operating functions be discontinued.

--The Commissioner, Bureau of the Public Debt, be required to strengthen the Bureau's internal audit system by assigning to the Washington Internal Audit Section the responsibility for all internal audit activities within the Bureau, including the planning and scheduling of audits and the assignment and utilization of audit personnel. (B-160759, Oct. 13, 1969.)

EXPORT-IMPORT BANK OF THE UNITED STATES

Contents

Need for reexamining certain financing and accounting policies

In our report to the Congress in May 1969, we estimated that the additional cost to the Government of obtaining funds in fiscal year 1968 through issuance of participation certificates by the Export-Import Bank of the United States rather than direct Treasury borrowing may total $11.9 million over the next 4 years. In commenting on this aspect in our prior report on the Bank, the Fiscal Assistant Secretary of the Treasury stated that the benefits derived through the sale of participation certificates outweighed the difference in interest costs.

We also noted that the Bank had not found a technique to monitor the effectiveness of the discount loan program and that the Bank did not consider several legal restrictions to be applicable either to the supporting loans used by commercial banks to obtain discount loans or to the use of proceeds.

Regarding the discount loan program, we recommended that the Bank's management seek methods to refine and improve upon the monitoring of this program, to enable determination of the program's impact on financing exports. However, the Bank does not believe that the impact of the discount loan program is completely measurable.

We recommended that the Bank document the nonavailability of commercial bank credit as part of the approval process for direct loans, including loans to support export sales of aircraft. The Bank does not believe that documentation of commercial bank credit would further ensure noncompetition with commercial banks.

An export expansion program was established in July 1968 under which $500 million of the Bank's loan guarantee and insurance authority was set aside to extend credit in support of export transactions on the basis of a more liberal policy of determining the likelihood of repayment in the loan approval process. At the time of our review, loans under this program were being approved on a case-by-case basis without definitive approval criteria having been established. We recognize that this is a relatively new program; however, we believe that development of definitive criteria for loan approval is necessary to maximize export expansion while minimizing risks of losses under this program. The Bank believes that, as experience is gained in the export expansion program, overall program guidance will be developed.

We proposed that the Congress may wish to consider whether legal restrictions applicable to other Bank programs should be made to apply to the discount loan program. (B-114823, May 29, 1969.)

GENERAL SERVICES ADMINISTRATION

Contents

GENERAL SERVICES ADMINISTRATION

PROPERTY MANAGEMENT AND DISPOSAL SERVICE

Opportunity for savings by increasing transfers of excess property among Federal agencies

The General Services Administration (GSA) is responsible for promoting the maximum use of property that is declared excess by Federal agencies by transferring that property to other Federal agencies where needed. Federal agencies are required to report promptly to GSA regional offices excess property generally used by other Government agencies. The regional offices then undertake extensive efforts to determine whether other agencies need the property.

In March 1969 we reported to the Congress that the Federal Aviation Administration (FAA) was permitted to report its excess property to GSA's Area Utilization Officer, who is responsible for undertaking only limited efforts to determine whether other agencies need the property. Our review showed that, if GSA had followed the required procedures, it could have transferred some of the FAA property to the Department of Defense (DOD) and have thereby reduced the number of DOD's commercial purchases. We found that DOD had requirements for about $200,000 of FAA excess property. After we brought this matter to GSA's attention, property costing about $68,000, which was still available, was transferred to DOD activities.

We suggested that GSA (1) take action to ensure that Federal agencies are reporting their excess property to GSA regional offices in accordance with Federal Property Management Regulations and (2) adequately circularize lists of excess property to Federal agencies for their review. GSA agreed with our suggestions and stated that it had taken action to bring about the desired improvements in its utilization program practices. (B-146929, Mar. 21, 1969.)

TRANSPORTATION AND COMMUNICATIONS SERVICE

Opportunity to reduce costs substantially in acquiring teletypewriters for use in the Advanced Record System communications network

In September 1968, we reported to the Congress on our review of the comparative costs of procuring teletypewriter equipment by lease or by purchase for the circuit switching network portion of the Advanced Record System communications network.

We estimated that, after the current contract expires, the acquisition of the teletypewriters by a method other than leasing or by the negotiation of a new leasing arrangement more in line with the cost of an alternative method could result in cost reductions ranging from $2.4 million to $5 million over the remaining useful life of the teletypewriters.

We reported also that GSA's ability to pursue the most economical alternative at the expiration of the current contract would be limited because the tariff filed by the contractor for the Advanced Record System service contains a provision which restricts GSA to using a leasing arrangement in acquiring teletypewriters for use by civil agencies.

We proposed that, prior to the expiration of the current contract, the Administrator of General Services initiate action to have eliminated the tariff provision that prohibits the use of Government-furnished teletypewriters by GSA and other civil agencies. We proposed further that the Administrator, in future communications procurements, give consideration to alternative means of obtaining the services and to the relative costs thereof so that the means most favorable to the Government may be determined.

The Administrator agreed with our proposals but stated that purchase of the teletypewriters was not a practical available option because, in GSA's opinion, a single contractor was, from a service standpoint, essential to placing responsibility for system maintenance and operation.

Our further evaluation of the matter reinforced our view that GSA should give serious consideration to all available methods to ensure that the teletypewriters and related maintenance are acquired by the most economical method, all factors considered. (B-162104, Sept. 12, 1968.)

OFFICE OF ECONOMIC OPPORTUNITY

Contents

COMMUNITY ACTION PROGRAM

Need for improvement in administration and operation of the Head Start program

In February 1969, we reported to the Congress that our review of the Head Start services provided by delegate agencies of the Economic and Youth Opportunities Agency of Greater Los Angeles (EYOA) showed that:

--Services were not being made available on a basis that would permit all disadvantaged children throughout the country to have an equal opportunity to participate in the program.

--Children were not enrolled in classes in sites nearest to their homes, which resulted in not keeping to a minimum the bussing of children and the traveling by agency personnel to children's homes and by children's parents to classes.

--Some class sites of delegate agencies were widely dispersed. As a result, supervision could not be provided on the most efficient and economical basis.

We reported also that the delegate agencies:

--Had employed certain persons who did not meet qualifications prescribed by the Office of Economic Opportunity (OEO) for the positions without documenting the agencies' justification for deviating from the requirements.

--Had leased certain classroom space at rates that exceeded those specified in OEO guidelines and approved budgets and had accepted certain classroom space as a non-Federal share of program costs although such action was specifically prohibited by OEO guidelines.

--Were not fully documenting expenditures of Federal funds.

--Were not determining the eligibility of children from military families for enrollment in the program in accordance with OEO's criteria.

In our opinion, the foregoing matters evidenced a lack of adequate direction and supervision of the program by OEO and by EYOA.

To reduce instances of noncompliance with OEO-prescribed criteria, instructions, and procedures, we proposed that the Director, OEO, reevaluate the allocation of OEO's program resources so as to ensure that sufficient emphasis was being given by OEO regional office personnel to maintaining a close working relationship at the local level. We proposed also that the Director, OEO, reemphasize to the Western Regional Director the need for timely and effective guidance, supervision, and review of the planning and operation of EYOA's Head Start program.

COMMUNITY ACTION PROGRAM (continued)

The Acting Director of OEO informed us that OEO had been acutely aware of the need to develop effective monitoring systems, to provide useful guidelines to Head Start programs, and to ensure that needed program information flowed smoothly from OEO through the grantee to the delegate agencies. He informed us also that OEO had been working to build up the staff of the regional offices to a level sufficient to provide the needed guidance, supervision, and review.

Although overall responsibility for the Head Start program remains with OEO, responsibility for program operations was delegated to the Department of Health, Education, and Welfare, effective July 1, 1969. (B-157356, Feb. 14, 1969.)

Need to transfer Head Start enrollee records

We reported to the Congress in February 1969 that the OEO policy which requires that records of children enrolled in the Head Start program be transferred to the elementary schools subsequently attended by the children was not being fully followed in the program administered by EYOA. Transfer of these records, which contain important data on the children's Head Start performance and the extent of health services provided, is necessary to ensure that the children are not deprived of certain benefits of the program.

During our visits to certain delegate agencies, we noted that the records of children enrolled in the Head Start program had not been transferred because their parents had not submitted to the elementary schools the postcard form which was furnished to the parents by the delegate agencies for use by the schools in requesting the records. After we discussed this matter with EYOA officials, EYOA adopted a revised procedure which provided for the delegate agencies to hand-carry the Head Start enrollees' records to the appropriate schools.

Since similar problems in the transfer of records of Head Start children may have existed in other Head Start projects, we proposed to the Director, OEO, that guidelines be established for the transfer of such records so as to ensure that all necessary records are transferred to the elementary schools to be attended by former Head Start enrollees.

OEO officials stated that, apparently because of an oversight, the OEO Head Start guidelines issued in September 1967 did not contain a requirement that the records be transferred to the elementary schools to be attended by former Head Start enrollees. Accordingly, we recommended that the Director of OEO revise the Head Start guidelines to include such a requirement.

By letter dated May 8, 1969, the Acting Director, OEO, informed us that all Head Start grantees were to be notified of the OEO policy

COMMUNITY ACTION PROGRAM (continued)

requiring that the records be transferred and that OEO guidelines would be reviewed to determine if they could be improved.

Although overall responsibility for the Head Start program remains with OEO, responsibility for program operations was delegated to the Department of Health, Education, and Welfare, effective July 1, 1969. (B-157356, Feb. 14, 1969.)

Opportunity to increase enrollment in the Head Start program without a significant increase in cost

We reported to the Congress in February 1969 that we believed that the enrollment of children in the Head Start classes in Los Angeles County could be increased if OEO class enrollment criteria were revised to give recognition to the average daily attendance of enrollees. The Head Start class size recommended by OEO was 15 children with a maximum and minimum enrollment of 20 and 12 children, respectively. We found that EYOA had limited enrollments in Head Start classes to 15 children and that additional children could have been enrolled since the average daily attendance for the classes of selected delegate agencies was about 12 children.

After we brought this matter to EYOA's attention, EYOA advised its delegate agencies in March 1967 to increase the enrollment in their classes. As a result of the increased enrollment, a total of 523 additional children were being served by April 30, 1967. We estimated that these children had been accommodated during the remaining 4 months of the program year at an additional cost of about $39,000, or about $355,000 less than we estimated would have been required to establish new classes to serve a like number of children.

Inasmuch as the probability existed that Head Start programs throughout the nation had experienced attendance patterns similar to those experienced by EYOA, we proposed that, to increase the number of children participating in the Head Start programs and to obtain the maximum benefits from the resources provided by OEO, the Director, OEO, revise the instructions pertaining to class enrollment to provide that grantees, in setting class levels, give recognition to the average daily attendance.

By letter dated July 12, 1968, the Acting Director, OEO, informed us that OEO believed that grantees should be encouraged only as a last resort to enroll additional children where absenteeism becomes an acute problem. He informed us also that OEO stressed that Head Start teachers and social workers should not consider absent children expendable or replaceable but rather should give them the intensive attention needed to overcome the dropout problem.

The intent of our proposal was, in part, to permit a greater number of children to attain the benefits of the Head Start program. Although we agree with the concept advanced by OEO, we believe that, as a practical

COMMUNITY ACTION PROGRAM (continued)

matter, actions cannot be taken that would reduce absenteeism to a point where OEO's recommended student-to-teacher ratio would be met.

Therefore we recommended that the Director of OEO revise OEO guidelines to require Head Start grantees to enroll a sufficient number of children to ensure that the average class attendance is in line with OEO's desired staffing patterns, giving due consideration to prior enrollment and attendance statistics and to the need to identify, and take appropriate action to correct, the causes of absenteeism. In May 1969, OEO informed us that it planned to issue a policy statement emphasizing the need for more intensive follow-up with the parents of absent children.

Although overall responsibility for the Head Start program remains with OEO, responsibility for program operations was delegated to the Department of Health, Education, and Welfare, effective July 1, 1969. (B-157356, Feb. 14, 1969.)

JOB CORPS

Need for improvement in controls over payments to Job Corps members

Under an interagency agreement, the Army Finance Center (OEOO-FCUSA) in Indianapolis, Indiana, makes payments for the Job Corps to all corps members for various types of allowances. In calendar year 1967 such payments amounted to about $105 million, and OEOO-FCUSA was reimbursed by the Office of Economic Opportunity (OEO) in the amount of $1.6 million for the cost of this operation.

From a statistical sample, we estimated that, in 1967, Job Corps centers made cash advances of about $125,000 that were not reported to OEOO-FCUSA because of inadequate accounting controls. We estimated also that, if the advances had been properly reported, OEOO-FCUSA could have deducted about $115,000 from separation payments.

We also found that unexcused absences for which corps members were not entitled to allowances had not been properly reported to OEOO-FCUSA. Also, the Job Corps centers were not implementing OEO's policy requiring recovery of the unused portion of Government-furnished transportation or meal tickets, nor were they notifying OEOO-FCUSA of the unreturned tickets so that their value could be deducted from amounts due terminated corps members.

Although about 5,600 terminated corps members reenroll annually and our tests showed that many reenrollees had debts outstanding from prior enrollments, policies and procedures did not call for collection of such debts upon reenrollment.

We proposed that OEO study all areas affecting corps members' allowances to establish a set of uniform policies and to develop adequate instructions and guidelines for use by center directors in establishing better control over advances and other amounts due from, or to be collected from, corps members.

OEO and the Department of the Army, in commenting on the draft of our report, expressed general agreement with our findings and proposals and advised us of a number of corrective actions taken or to be taken. We believe that, if the actions taken or being taken by OEO and OEOO-FCUSA are satisfactorily implemented, overall control over corps members' pay and allowances should be materially strengthened.

We understood, however, that OEOO-FCUSA did not plan to reconcile amounts claimed by centers to reimburse their imprest funds with amounts advanced to corpsmen for certain purposes. Therefore we recommended that the Director, OEO, make the necessary arrangements with the Department of the Army to have OEOO-FCUSA reconcile all types of advances, at least on a test basis.

Although overall responsibility for the Job Corps program remains with OEO, responsibility for program operations was delegated to the Department of Labor, effective July 1, 1969. (B-130515, June 30, 1969.)

OFFICE OF EMERGENCY PREPAREDNESS

Contents

OFFICE OF EMERGENCY PREPAREDNESS

Federal disaster assistance to State and local governments for repairs to and replacement of damaged or destroyed public facilities may exceed the intent of law

Our review of the Federal Disaster Assistance Program administered by the Office of Emergency Preparedness (OEP) showed that Federal assistance for repairs to and replacement of damaged or destroyed facilities of State and local governments may have exceeded the intent of Public Law 875 (42 U.S.C. 1855).

Among other things, Public Law 875 authorizes Federal assistance to State and local governments for making emergency repairs to and temporary replacement of essential public facilities damaged or destroyed in major natural disasters. OEP regulations provide that emergency repairs and temporary replacements shall be limited to work necessary for the resumption of essential public services until such time as permanent repairs or replacements can be made.

However, we observed that, law and regulations notwithstanding, OEP assistance in connection with those public facilities damaged or destroyed in the three disasters which were covered by our detailed review included (1) making what we considered to be permanent repairs to and permanent replacement of damaged or destroyed public facilities and (2) making Federal contributions, termed "grants-in-lieu," toward the cost of expanded replacement facilities, based on the estimated cost of permanent repairs or permanent replacement of damaged or destroyed public facilities.

Also, we observed that OEP financed the repair or replacement of some public facilities whose eligibility for any Federal assistance was doubtful. According to OEP regulations, a public facility to be eligible for assistance must be essential to the health, safety, or welfare of the people. To be consistent with the intent of Public Law 875, as we view it, the term welfare should relate to the immediate needs of the citizens of a community during the emergency period following a major disaster and not merely to the general long-range welfare of the community. While the facilities that we observed were of benefit to the long-range interests of the communities, they were not, in our opinion, so essential to immediate health, safety, or welfare as to place them within the purview of Public Law 875.

In its comments on our draft report, OEP took strong objection to our conclusion that Federal assistance for repair and replacement of damaged or destroyed public facilities appeared to exceed the intent of the law. OEP believed that our report substantiated the soundness of the program and its responsiveness to the needs of local and State governments in coping with major disasters and saw no requirement for major changes of any kind to the Federal disaster relief program.

Because of the inherent latitude for the exercise of administrative judgment in applying the governing criteria and because of our considerable doubt that Federal funds for repair and replacement of damaged or destroyed

public facilities are being expended within the limits intended by the Congress, we reported these matters to the Congress in June 1969, stating that it may wish to review the program and, if necessary, clarify the underlying legislation. (B-156457, June 6, 1969.)

SELECTIVE SERVICE SYSTEM

Contents

SELECTIVE SERVICE SYSTEM

Economies available through consolidation of local draft boards

The Military Selective Service Act of 1967--formerly the Universal Military Training and Service Act-permits the Selective Service System (SSS), under certain conditions, to consolidate local county draft boards. We found, however, that the SSS had not established criteria and guidelines to implement this provision of the act. As a result, local boards in only 10 States, Puerto Rico, and the Virgin Islands had been consolidated in accordance with the act.

We estimated that, if certain boards in eight of the States included in our review were consolidated, $466,000 in personnel, office space, and telephone costs could be saved annually. We expressed the belief that greater savings are possible if local boards are consolidated nationwide.

Moreover, we determined that, if consolidations of local boards are not made, an alternative could be the centralization of only the clerical portion of certain boards' operations, which we estimated would result in annual savings of $426,000 in the eight States included in our review.

We brought these matters to the attention of the SSS and proposed that certain local boards be consolidated. The Director of Selective Service disagreed with our proposal, primarily because (1) registrants would be required to travel greater distances and (2) the personal relationship and confidence which exist between the registrant and his local board members and local board clerk would be diminished.

In considering SSS's comments, we pointed out that under our proposals registrants would not have to travel greater distances than they are currently required to travel in larger counties and in existing intercounty local board areas and that, in intercounty boards, each county is represented by a local board member.

Accordingly, in a report submitted to the Director of Selective Service in October 1967, we recommended that he (1) establish appropriate guidelines for use by the State Directors in identifying those areas wherever savings can be realized either by consolidating local draft boards or by consolidating the clerical operations of local boards and (2) encourage State officials to consolidate wherever they determine that such action will result in greater efficiency and economy in operations.

When following up on this matter, we were informed by the SSS in May 1969 that it disagreed with the recommendations contained in our report and therefore it had taken no action regarding them. (B-162111, Oct. 30, 1967.)

SMALL BUSINESS ADMINISTRATION

Contents

SMALL BUSINESS ADMINISTRATION

Need for improved administration and increased effectiveness of economic opportunity loan program

Our survey showed that the efficiency of the administration of the economic opportunity loan (EOL) program could be substantially improved and that, in some cases, the effectiveness with which the program was achieving the objectives of the Economic Opportunity Act could be increased by:

--Improving analyses of program information for evaluating the effectiveness of the program.

--Making further efforts to clarify the eligibility criteria for the program.

--Improving the evaluation of applicants' ability to repay EOL loans.

--Improving management assistance to small business concerns.

The Small Business Administration (SBA) had made only limited analyses of program information for evaluating the effectiveness of the program. Also, the lack of specific guidelines for applying the various loan eligibility criteria appeared to have resulted in questionable interpretations by SBA officials. In some cases, however, inadequate consideration of existing guidelines by SBA officials was the basic cause of questionable interpretations. In addition, the stated objective of the Economic Opportunity Act with respect to improving managerial skills employed in small business concerns had not been fulfilled. We noted further that SBA needed to improve its evaluation of the applicants' ability to repay loans.

With respect to the need for improving analyses of program information, the Administrator advised us that annual financial information obtained from borrowers would be used for evaluating the progress of the businesses assisted. Since the Economic Opportunity Act, as amended, states that a major focus of the economic opportunity loan program should be on business concerns located in urban or rural areas of high concentration of unemployment or low-income individuals, we recommended that SBA also obtain data on the number of persons employed by the borrower throughout the term of the loan.

We recommended also that SBA (1) make further efforts to provide more specific instructions and guidance to its employees for use in their review and approval of EOLs and (2) intensify its efforts to obtain adequate financial data from loan applicants, and that loan specialists intensify their analyses of the data.

The Administrator expressed general agreement with our findings but did not favor our proposals for specific corrective action. He stated that, in the opinion of SBA, actions already taken would eliminate the weaknesses outlined in our report. (B-130515, Apr. 23, 1969.)

Questionable waiver of disaster loan policy

Our review of the policies and procedures followed by the Small Business Administration (SBA) in processing Alaska earthquake disaster loans showed that SBA waived its long-established policy which generally precluded assistance to borrowers having the capabilities to finance the repair or replacement of their damaged property. As a result, SBA approved loans to borrowers who, in our opinion, could have furnished the financing needed to replace or repair their destroyed or damaged property.

In our review of 196 loans, we found 25 loans totaling about $7 million, of which $6.8 million was SBA's share, where, in our opinion, the applicants could have furnished the financing needed to repair or replace the damaged property. We estimated that on the basis of the difference between the 3-percent interest rate charged borrowers on disaster loans and the higher rate of interest SBA was paying to the Treasury in the year in which the loans were approved, the additional interest cost to SBA over the terms of these 25 loans, assuming all of the loans are fully disbursed, will be about $757,000.

In commenting on our report, the Administrator advised us that the only exception to SBA's policy of providing financial assistance solely to applicants who cannot reasonably provide such assistance from their own resources or from other sources was in connection with the earthquake in Alaska where the Administrator believed that a waiver of the policy was necessary and appropriate for Alaska's recovery from the earthquake. He stated also that a review of the legislative history indicated nothing that would prevent the Administrator from changing SBA's stated policy if the occasion demanded a change.

Although we did not question the legal authority of the Administrator to make the loans, we did question the discretionary authority of the Administrator to make a blanket waiver of the long-standing policy regarding the availability of funds which was established in accordance with congressional intent.

Also, it did not appear to us that the blanket waiver of the SBA policy, which eliminated from the loan review and approval procedure any consideration of the need of applicants for disaster loans, was necessary or appropriate for Alaska's recovery from the earthquake. (B-163451, May 28, 1969.)

VETERANS ADMINISTRATION

Contents

Savings available by acquiring hospital sites before developing working drawings and specifications for construction of hospitals

In June 1969, we reported to the Congress that the Veterans Administration (VA) could improve its hospital construction program and avoid unnecessary costs through more effective administration of that program.

Our review showed that, for seven VA hospital projects under design or construction during fiscal years 1961 through 1968, VA had authorized architect-engineers to start the development of working drawings and specifications before it had acquired the selected hospital sites even though such documents are fully useful only for the construction of the building on the site for which the design is prepared. The working drawings and specifications for two of these projects, developed at a cost of about $1.6 million, will have limited, or possibly no, use in the construction of these projects principally because VA was unable to acquire the selected hospital sites.

We expressed the belief that VA should first acquire the land and then develop the working drawings and specifications. VA advised us that it did not agree that hospital sites must always be acquired before starting the design of hospital buildings. We continued to believe, however, that such a policy was needed.

Accordingly, we recommended that VA establish a firm policy requiring that hospital sites be acquired before starting the development of working drawings and specifications. We recommended also that, in implementing this policy, VA emphasize to responsible agency officials that every reasonable effort be made to acquire the selected hospital sites by the time scheduled for starting the development of working drawings and specifications. (B-133044, June 6, 1969.)

Legislation needed to ensure that the Government bears all mortality costs traceable to war under the servicemen's group life insurance program

On the basis of our review of the legislative history of Public Law 89-214 authorizing the servicemen's group life insurance program, we expressed the belief that the Congress intended that the Government bear all mortality costs traceable to the extra hazards of war. We found, however, that application of the formula contained in the law to compute the Government's costs resulted in servicemen's contributing about $15 million during fiscal year 1968 for the costs of death claims traceable to the Vietnam conflict.

The law provides that, during peacetime conditions, the servicemen's premiums be based on the actual mortality experience of the uniformed services and that, during wartime conditions, the premiums be based on the mortality experience of the U.S. male population. We noted that this

method of computation causes servicemen's premiums to be higher during wartime conditions because the mortality experience of the U.S. male population is higher than the mortality experience of the uniformed services during peacetime conditions.

Therefore, in a report to the Congress in May 1969, we recommended that, to implement the intent of the legislation--that the Government bear all mortality costs traceable to war--the Congress consider amendatory legislation changing the formula contained in the law.

Va advised us that it agreed, in general, with the data presented in the report and that to change the formula would require a change in the law. House Bill 12157, introduced on June 16, 1969, would ensure that the Government would bear all the costs of servicemen's group life insurance traceable to the extra hazards of war. (B-114859, May 29, 1969.)

Savings available by assessing late charges on delinquent loan repayments

Our review of certain aspects of VA policies and practices relating to the repayment of home loans made under the loan guaranty and direct loan programs showed that a distinction is made in VA's policy on assessment of late charges for delinquent loan repayments, depending on whether the Government makes the loan or guarantees it. VA does not assess late charges on loans that it makes to veterans but permits the assessment of late charges on VA-guaranteed loans that private lenders make to veterans.

We expressed the belief that, if late charges were assessed on VA direct loans, borrowers would be encouraged to make repayments on time. As a result, loan-servicing costs associated with delinquent accounts would be reduced, and the revenues could be used to offset the cost of servicing delinquent accounts. In addition, veterans would receive equal treatment regardless of whether they had obtained their loans from the VA or from private lenders under the loan guaranty program.

On the basis of the incidence of delinquent loan repayments noted in five regional offices, we estimated that, if a 4-percent late charge had been assessed and collected during calendar year 1966 on these payments, total revenues of about $414,000 would have been received by VA. We stated the belief that, because these five regional offices collected about 22 percent of the total collections on all VA loans, the revenues which could have been derived from late charges on a nationwide basis would have been substantial.

In commenting on our findings, the VA Associate Deputy Administrator stated that the Congress had enacted Public Law 89-358 (38 U.S.C. 1818) extending the VA loan guaranty and direct loan programs with complete awareness of the fact that late charges were not levied on loans in the VA portfolio. He stated further that there should be no change in the present policy.

We found no evidence, however, that the Congress had specifically considered the effect of VA's policy on this matter. Therefore, in a report submitted to the Congress in April 1968, we recommended that VA revise its loan policy to require assessment of late charges on loan repayments which are received more than 15 days after they are due.

In following up on this matter, we were informed in September 1969 that VA had taken no action regarding our proposal and that it did not plan to assess late charges to veterans to whom it makes loans. (B-118660, Apr. 3, 1968.)

Savings available by auditing guardian accountings at 3-year intervals rather than annually

In a report submitted to the Congress in January 1968, we expressed the belief that VA could, without adversely affecting the management of its guardianship program, realize savings in audit costs of up to $450,000 annually by auditing accountings received from guardians of minor beneficiaries at 3-year intervals rather than annually.

VA has the responsibility of exercising controls over fiduciaries of veterans' benefits to ensure the proper use and conservation of the beneficiaries' funds. At the time of our review, VA exercised these controls by making personal contact with beneficiaries in field investigations every 3 years and by auditing written accountings received from guardians, generally every year.

We noted that VA was auditing guardian accountings as frequently as the accountings were required to be filed with State courts by applicable State laws. Most States require guardians to file such accountings annually. In States in which these accountings are not required more frequently than once in 3 years, VA audits the accountings at 3-year intervals.

To evaluate the need for VA's annual audits of guardian accountings, we examined into the results of some of these audits. We noted that the conditions identified by VA as being unsatisfactory were, for the most part, insignificant and had little or no monetary effect on the estates of the beneficiaries.

VA disagreed with our proposal that the frequency of audits of guardian accountings be reduced. VA stated that it had been instrumental in the enactment of legislation in virtually all States constituting VA as a party in interest with State courts in cases involving VA benefits for the legally disabled; that the courts had granted VA attorneys special prerogatives which had the effect of minimizing the cost of administering estates; and that, if VA did not audit the accountings at intervals prescribed by State laws, the courts might react by requiring VA to meticulously adhere to all requirements of State statutes, court rules, and local practices.

Because VA is not legally required to audit accountings annually and because substantial economies could be achieved by reducing the frequency of audits without adversely affecting its management of the guardianship program, we recommended that VA examine into the feasibility of arranging with appropriate court officials for workable plans for reducing the frequency of VA audits of guardian accountings.

In following up on this matter, we were informed, in September 1969, that VA had taken no action regarding our proposal and that it had continued to audit guardian accountings annually, except in those cases where State laws did not require guardians to file accountings annually. (B-114859, Jan. 11, 1968.)

Need for improvements in the administration of the Veterans Administration nursing home care program

In a report submitted to the Congress in September 1969, we stated that VA should take action to improve certain aspects of its nursing home care program. We noted that VA had not established a clear policy for use by VA field stations in determining the eligibility of veterans for placement in community nursing homes, with the result that such determinations had not been made uniformly and had varied from station to station.

We noted also that VA had not established specific criteria for use by stations in determining the financial eligibility of veterans for care in community nursing homes, although the indicated VA policy stated that, for a veteran to obtain such care at VA expense, economic need must exist. We found that in certain cases veterans who received nursing home care at VA expense may have had the financial ability to pay for such care.

We expressed the belief that clarification of the admission policy and establishment of criteria for determining financial eligibility were necessary to provide assurance that VA policies are uniformly applied in an equitable manner, consistent with the best interest of the patient and the Government.

VA concurred in our recommendation to clarify its policy on admission of patients to community nursing homes and acknowledged that a more consistent evaluation of veterans' resources seemed indicated and advised us that guidelines for achieving this would be developed.

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We found also that a lack of coordination between the VA nursing home care program and the Medicare program concerning the inspection of community nursing homes had resulted in unnecessary duplication of inspections. In addition, it was our opinion that monthly progress reports from community nursing homes to VA clinics of jurisdiction did not usually serve a useful purpose. Further, we found that reports on the operation of VA nursing care units did not disclose the full cost of operating these units and did not properly compare the cost of VA nursing home care units with the cost of providing care in VA hospitals.

In response to our recommendations, VA (1) advised us that it would make efforts to communicate with Medicare officials for the purpose of eliminating differences in inspection standards and agreed that inspections by both Medicare and VA within a brief period of time were unnecessary duplication and should be avoided, (2) agreed to evaluate the need for monthly community nursing home progress reports, and (3) advised us that it considered that a comparative analysis of the costs of the various types of bed patients with nursing home care units would furnish useful data and that this data would be provided by VA's present cost accounting system. (B-167656, Sept. 29, 1969.)

Savings available through consolidation of insurance field offices

In a report to the House Committee on Veterans' Affairs dated August 1962, we reported that significant savings could be achieved by consolidating the then-existing three VA insurance field offices into either two offices or a single office. In June 1963, VA consolidated two of its three offices.

During 1969, we conducted a review of the feasibility of consolidating the remaining two VA insurance offices, located at Philadelphia, Pennsylvania, and St. Paul, Minnesota. We determined that a single insurance field office would require fewer employees and less space and equipment than the two existing offices. We estimated that the reduced resource requirements of a single office would save the Government about $872,500 annually during the initial years after consolidation and as much as $1,118,700 each year beginning January 1, 1974.

We computed that nonrecurring costs of about $2.5 million would have to be incurred to effect a consolidation. The accumulated savings, however, would exceed the nonrecurring costs within 3 years after consolidation.

We believe that consolidation at Philadelphia could be achieved at a lower cost than at St. Paul and without a reduction in service to policyholders. In addition, we believe that consolidation at Philadelphia, rather than at St. Paul, would affect fewer employees and would result in less disruption of operations during the period of consolidation.

Information obtained from the Department of Labor showed that there were employment opportunities in the Minneapolis-St. Paul area for most of the St. Paul employees who would be affected by a consolidation.

Accordingly, we recommended that the Administrator of Veterans Affairs take appropriate action to consolidate the St. Paul insurance operations with the existing operations at Philadelphia.

Prior to issuing our report, we requested VA to comment on a draft of our report. In a letter dated August 28, 1969, the Deputy Administrator of Veterans Affairs advised us that VA would not be ready to comment on our draft by the requested date of August 29, 1969. He stated that the recommendation affected a large segment of VA's work load and a large

number of VA's employees; that it involved a sizable initial outlay of cash for future amortization; and that it required careful analyses and validation, as well as exploration of alternative courses. The Administrator stated that we would be advised of his position as soon as the decision process was completed. (B-114859, Sept. 29, 1969.)

Need to improve and relocate internal audit activities

Two organizational elements within VA have agencywide audit responsibilities. The Audit Staff in the Office of the Controller is responsible for performing audits of all fiscal activities. The Internal Audit Service (IAS) in the Office of Management Engineering and Evaluation is responsible for reviewing all VA activities, including fiscal activities.

Our review showed that IAS expended its audit resources primarily on field station audits rather than on program audits. Station audits cover all operational phases of a VA station. Program audits are analyses of a specific function, program, or program element conducted simultaneously at several VA stations. We believe that increased emphasis on program audits will maximize the value of internal audit to all levels of management, because this type of audit will more readily disclose whether audit findings are isolated or nationwide problems and therefore can promote more timely remedial action on an agencywide basis.

Also VA's records showed that, of the 220 VA field stations located in the United States, 16 had never been audited and 36 had not been audited in the preceding 10 years, under either a station audit basis or a program audit basis.

We found also that both audit groups were reporting to officials who were directly responsible for certain operations the auditors reviewed and that, in certain cases, one audit group had reviewed a station's fiscal operations shortly after the other audit group had completed its audit of fiscal operations.

We expressed the belief that VA should consolidate these two internal audit groups into one group that would be responsible to the highest practicable organizational level, preferably to the Administrator or Deputy Administrator. Consolidation and relocation of the audit groups (1) would eliminate duplicate reviews of financial activities, (2) would provide more productive use of available staff resources, (3) would provide greater independence to the auditors and would better serve the needs of management, and (4) would provide greater flexibility in reviewing VA activities.

In commenting on our findings, VA stated that it would conduct more of the broad program-type audits, within its staffing limitations. VA stated, however, that consolidating the two audit groups at a higher organizational level would not make any additional audit resources available for program audits because the two audit groups required specific and entirely different capabilities and because the audit groups were independent and reported to principal officials at the highest practicable level.

As noted previously, however, the Audit Staff and IAS report to officials who, in turn, are responsible for activities subject to audit by both audit groups. This situation, in our opinion, does not comply with the principle that audit staffs should be independent of operations reviewed. Therefore we believe that the internal audit groups should be placed organizationally so as to report preferably to the Administrator or Deputy Administrator.

Accordingly, in a report submitted to the Congress in October 1969, we recommended that the Administrator consolidate the Audit Staff and IAS into one internal audit group and place the audit function at the highest practicable level in the organization where it will report preferably to the Administrator or the Deputy Administrator. In addition, we recommended that, if the audit functions do not report directly to the Administrator or Deputy Administrator, the Administrator take certain steps to ensure that internal auditing activities will be sufficiently independent to provide him with impartial appraisals of agency programs and activities. (B-160759, Oct. 3, 1969.)

VARIOUS DEPARTMENTS AND AGENCIES

Contents

VARIOUS DEPARTMENTS AND AGENCIES

(Office of Economic Opportunity; Department of Agriculture; Department of Health, Education, and Welfare; Department of Labor; and Small Business Administration)

SPECIAL REVIEW OF ECONOMIC OPPORTUNITY PROGRAMS

Title II of amendments enacted on December 23, 1967, to the Economic Opportunity Act of 1964 (42 U.S.C. 2701) authorized and directed the Comptroller General of the United States to make an investigation of programs and activities financed in whole or in part by funds authorized under the act to determine:

> "(1) The efficiency of the administration of such programs and activities by the Office of Economic Opportunity and by local public and private agencies carrying out such programs and activities; and
>
> "(2) The extent to which such programs and activities achieve the objectives set forth in the relevant part or title of the Economic Opportunity Act of 1964 authorizing such programs or activities."

A report on our overall findings and recommendations was submitted to the Congress on March 18, 1969 (B-130515).

Fifty-nine supplementary reports on our examination were submitted to the Congress as they were completed on (1) our field examinations where such work was performed, (2) our review of management functions of the administering Federal agencies, (3) our program evaluation work on a national basis, and (4) the special studies performed for us under contract.

SUMMARY OF PRINCIPAL FINDINGS AND RECOMMENDATIONS

Our overall findings and recommendations as summarized in chapter 2 of our March 18, 1969, report are listed below. Our findings were grouped under the following broad categories:

1. The financial dimensions of the total Federal antipoverty effort and the part played by the Office of Economic Opportunity (OEO).

2. The extent to which the objectives set forth in the act have been achieved.

3. The efficiency with which the programs authorized by the act have been administered.

4. The actions which should be taken to realize more effective and economical use of the resources available for reducing poverty.

TOTAL FEDERAL ANTIPOVERTY EFFORT

In terms of the Federal budget, the Economic Opportunity Act of 1964 represented a relatively small increment to the already existing programs for aiding the poor.

The aggregate of all Federal programs for assistance to the poor amounted to $22.1 billion in fiscal year 1968 and an estimated $24.4 billion in fiscal year 1969. The projection for fiscal year 1970 is $27.2 billion. Increases in Federal programs in recent years have been accompanied by a reduction in the number of the poor, based upon the definition used by the Social Security Administration, from about 34 million in 1964 to 22 million in 1968. Although Federal programs for assistance to the poor undoubtedly contributed importantly to this reduction, much of the reduction can be attributed to the expansion of the national economy in recent years.

In monetary terms, the funds appropriated for programs authorized by the Economic Opportunity Act ($1.8 billion in 1968 and $1.9 billion in 1969) are small in relation to the total Federal effort. In other terms the role of OEO is significant--it is the only Federal agency exclusively devoted to antipoverty; its programs are, for the most part, innovative in one or more aspects; and it shares with the Economic Opportunity Council the responsibility for coordinating antipoverty activities of other Federal agencies, at least nine of which in addition to OEO administer significant programs directed to assisting the poor.

OVERALL PERSPECTIVE

The accomplishments achieved under the Economic Opportunity Act should be appraised in the light of the difficulties encountered by the agency (OEO) created to carry out the purposes of the act. These difficulties include:

--The urgency of getting programs under way as quickly as possible.

--Problems in the development of a new organization and in obtaining experienced personnel.

--Problems involved in establishing new or modified organizational arrangements at the local level.

--The delays and uncertainties in obtaining congressional authorizations and appropriations.

--The problems of working out relationships with other agencies and with State and local governments.

--Lack of consensus as to the meaning of poverty, i.e., who are the poor for purposes of receiving assistance.

Our review properly and inevitably focuses on problems, shortcomings, and recommended improvements. OEO and other participating agencies

expressed agreement with many of our conclusions and recommendations and had initiated actions to deal with certain of these problems.

Achievements of the programs authorized by the act can be assessed only in judgmental terms. This is so for several reasons: the programs are new; they deal with such intangible concepts as the economic and social levels of disadvantaged people; they impose requirements and are subject to conditions which are not amenable to reliable, and, in some cases, any quantitative, measurement. More specifically:

--Criteria is lacking by which to determine at what level of accomplishment a program is considered acceptably sucessful.

--The methods for determining program accomplishments have not yet been developed to the point of assured reliability.

--The large volume and variety of pertinent data necessary to ascertain program results have been and still are either not available or not reliable.

--Program results may not be fully perceptible within a relatively short time frame.

--Other programs--Federal, State, local, and private--aimed at helping the poor, as well as changes in local conditions--employment, wage scales, local attitudes--have their effect upon the same people who receive assistance under the programs authorized by the act.

--Amendments to the act and revisions in agency guidelines, at various times, have necessitated redirection of programs and other changes, which have affected the progress of programs in the short run.

ACHIEVEMENT OF OBJECTIVES

The basic objective of the Economic Opportunity Act is to strengthen, supplement, and coordinate efforts to provide to everyone the opportunity for education and training, the opportunity to work, and the opportunity to live in decency and dignity.

Toward the achievement of this objective, the act authorized a series of programs and activities designed to bring new approaches to the task of eliminating poverty and to supplement efforts authorized by other legislation. The programs authorized by the act can be grouped in five broad categories--community action, manpower, health, education, and other.

An important and basic objective is coordination of the programs authorized by the act with one another and with related programs administered by other agencies. This coordinating task was assigned to the Economic Opportunity Council created by the act and to OEO, the former having the dominant role.

The Council has never functioned effectively and, as recast by the 1967 amendments, has not been established.

OEO, preoccupied with setting up the machinery to get a new agency started and then with its responsibility for initiating and administering programs authorized by the act, was not able to devote as much effort to its coordinating function as that function demanded. This coordinative task was made difficult by the necessity of OEO's influencing the actions and policies of older established agencies; OEO, a new agency of lesser status in the Federal hierarchy, was unable to bring together all programs related to attacking poverty. As a consequence, effective coordination has not been achieved; we do not believe that it can be so achieved under the existing organizational machinery.

An important part of the overall program management process is the evaluation of performance and accomplishments. Evaluations during the first years of OEO operations were too small in scope and too unrelated to one another to provide satisfactory information on the achievement of objectives nationally. OEO has more recently responded to the provisions of the 1967 amendments to the act which directed an expansion of evaluation efforts.

Community Action Program

The Community Action Program (CAP) was intended by the act to be the means of bringing a unified effort to bear on the problems of the poor in urban and rural communities through projects designed to organize community residents; to engage the poor in the planning and implementation of projects; and to be an organized advocate for the poor to effectuate changes which would expand the availability of services to the poor.

The program has achieved varying success in involving local residents and poor people in approximately 1,000 communities; it has been an effective advocate for the poor in many communities and appears to have gained acceptance in most communities as a mechanism for focusing attention and action on the problems of the poor; and it has introduced new or expanded existing services to the poor. However, CAP has achieved these ends in lesser measure than was reasonable to expect in relation to the magnitude of the funds expended. This shortfall is attributable principally to deficiencies in administration which should be evaluated in light of the nature of the program and the fact that the program has been in operation for a relatively short time.

Manpower programs

Unemployment and the lack of those capabilities that enable individuals to obtain employment are major causes of poverty. To attack these causes, OEO currently invests approximately one half of its resources in manpower development, training, and employment programs; a significant portion of this effort is focused on youth. The programs have provided training, work

experience, and supportive services to the participants. Apparent results--in terms of enhanced capabilities, subsequent employment, and greater earnings--are limited.

The Concentrated Employment Program (CEP) has shown some promise, during the short period it has been in existence, of contributing meaningfully to the coordination of existing manpower programs in specific target areas. There is evidence, however, that there is an especial need for better coordination with the federally funded State employment security agencies and with the Job Opportunities in the Business Sector (JOBS) program sponsored by the National Alliance of Businessmen.

Through the institutionalized training of the Job Corps program, corps members have had opportunity to receive certain benefits, many of which are not subject to precise measurement; however, post-Job Corps employment experience, which is measurable, has been disappointing. In light of the costly training provided by the Job Corps program, we doubt that the resources now being applied to this program can be fully justified. Our doubt is especially applicable to the conservation center component of the program.

The in-school and summer components of the Neighborhood Youth Corps (NYC) program have provided youths enrolled with some work experience, some additional income, improved attitudes toward the community, and greater self-esteem. If it is intended, however, that these components continue to have as a principal objective the reduction of the school dropout problem, greater flexibility should be provided in the use of funds for such things as the enlargement of existing school curriculums, more intensive and professional counseling, and tutoring for potential dropouts.

We question the need for retaining the NYC out-of-school component as a separate entity. The objective of this component seems to be encompassed in other existing programs, particularly the Manpower Development and Training Act program, with which it could be merged. As presently operated the out-of-school component has not succeeded in providing work training in conformity with clearly expressed legislative intent.

The work experience and training program, soon to be replaced by the work incentive program, has enabled persons on the welfare rolls to obtain employment and assume more economically gainful roles in society. On the other hand, the program experienced deficiencies in certain functions of administration which detracted from the accomplishment of the program's mission.

Our limited review of locally initiated employment and job creation programs under CAP revealed varying degrees of success.

The available data showed that most of the manpower programs experienced high, early dropout rates which strongly indicated that many enrollees received little or no actual help.

Health programs

The Comprehensive Health Services Program is a rather recent innovation and, partly because of delays in becoming operational, has reached only a portion of its intended population. Many of those that it has been able to reach have been provided for the first time with readily accessible medical care on a comprehensive basis. Uniform plans and procedures are needed to evaluate OEO and the Department of Health, Education, and Welfare health projects during the development phase and on a long-range basis. More appropriate and equitable standards need to be established for determining eligibility for free and reimbursable services.

The family-planning programs are also of recent origin, and only limited data as to results was available.

Education programs

Head Start (for preschool-aged children) has been one of the most popular programs in the economic opportunity portfolio. Potential long-range effects cannot yet be measured.

Available evidence suggests, however, that Head Start children at the locations visited made modest gains in social, motivational, and educational characteristics and were generally better prepared for entry into regular school than their non-Head Start counterparts. The children also benefited from medical and dental services, although some did not receive them because of delays in providing these services; from well-balanced meals; and from group instruction activities. The program, however, has not succeeded in getting sufficient involvement by parents of Head Start children, which is a primary objective of the program.

The Upward Bound program has provided participants with opportunities to overcome handicaps in academic achievement and in motivation, to complete high school, and to enter college. National statistics show that Upward Bound students have lower high school dropout rates than is considered normal for the low-income population, have higher college admission rates in comparison with the national average for high school graduates, and have college retention rates above the national average for all college students. The extent to which ineligible youths are accepted detracts from the effectiveness of the program.

Other education programs have experienced some success by raising the enrollees' proficiency in basic educational skills and by culturally enriching their lives; however, the management of such programs was in need of improvement.

Other programs

The Legal Services program has improved the plight of the poor by affording them legal representation and by educating them as to their legal rights and responsibilities. The success of this program in assisting the poor to form self-help groups, such as cooperative and business ventures,

has been limited and few Legal Services projects have engaged in efforts to bring about law reform.

An overall evaluation of the performance of the Volunteers in Service to America (VISTA) program is a complex task, because VISTA volunteers are involved in a variety of functions alongside other program personnel.

The Migrants and Seasonal Farmworkers program in Arizona has been beneficial in helping migrant adults to obtain or qualify for employment and in preparing preschool migrant children to enter elementary school. Program effectiveness could be increased by more closely relating education and training courses to the specific needs of program participants and by limiting participation to the target population.

The Economic Opportunity Loan program (transferred to the Small Business Administration in 1966) would better achieve the objective for which it was established if it offered greater assistance to borrowers to aid them in improving their managerial skills and if it were carried on with greater administrative efficiency. The Economic Opportunity Loan program for low-income rural families administered by the Department of Agriculture made only a limited contribution to bettering the income of a majority of loan recipients included in our review. Our evaluation, which was based on borrowers' operations for a 1-year period, did not permit an assessment of whether program objectives would be achieved in succeeding years. Inadequate counseling and supervision and lack of definitive eligibility criteria tended to limit program effectiveness.

EFFICIENCY OF ADMINISTRATION

The effectiveness of the total antipoverty effort is dependent, in considerable measure, on the manner in which individual programs and activities are administered. It was to be expected that establishment of a new Office of Economic Opportunity (in 1964) with responsibility for launching innovative (i.e., unprecedented) programs and for difficult or impossible coordination would create many administrative problems in the early years of operations. Also, the emphasis placed, in 1964, on getting programs under way and obtaining results quickly did not leave sufficient time to plan and establish well-designed and tested administrative machinery. Although progress has been made in the past 4 years, the administrative machinery is still in need of substantial improvement.

Program and project managers, in most programs, have not been provided with adequate guidance and monitoring by OEO and other responsible Federal agencies. There is need for improved policies and procedures to strengthen (1) the process by which program participants are selected, (2) the counseling of program participants, (3) the supervision of staff, (4) job development and placement, (5) the ways in which former program participants are followed up on and provided with further assistance, and (6) the record-keeping and reporting necessary to permit more effective evaluations of accomplishments and more adequate accountability for expenditures. Some of

these shortcomings can be attributed to insufficient and inexperienced staff, particularly at the local level.

The Community Action Program, for which a substantial portion of OEO funds are expended, requires greater effort to aid the local Community Action Agencies build effective administrative machinery, more adequate program planning and evaluation, and better operational procedures and trained personnel at the neighborhood centers. Also, more support should be given to innovative efforts of the type currently under way at OEO to evaluate CAPs.

The administrative support to the antipoverty programs will have to be substantially augmented and improved to achieve satisfactory effectiveness of antipoverty efforts with the limited resources available.

For substantially all programs, payroll procedures, particularly in the manpower programs, need to be strengthened to afford adequate control against irregularities; procurement practices should be modified to limit purchases to what is demonstrably needed and at the lowest cost; and more effective procedures are needed to ensure the utilization and safe-guarding of equipment and supplies and their timely disposition when they become excess to needs. Closer attention should be given to claims for non-Federal contributions so that only valid items supported by adequate documentation are allowed.

Many of the administrative deficiencies identified in our examination could have been avoided or corrected sooner if requisite auditing and monitoring by responsible local and Federal agencies had been more timely and comprehensive.

PRINCIPAL RECOMMENDATIONS

We believe that, to provide more effective means for achieving the objectives of the Economic Opportunity Act, revisions are needed in the programs and organization through which the effort to eliminate poverty has been outlined in the act. Accordingly, we offered the following recommendations.

Community Action Program

1. Community Action Agencies and OEO should institute efforts to:

   a. Improve the planning of local projects.

   b. Generate greater cooperation among local public and private agencies.

   c. Stimulate more active participation by the poor.

d. Develop means by which the effectiveness of programs can be evaluated and require periodic evaluations to be made.

e. Strengthen the capability of the neighborhood centers to carry out their functions of identifying residents in need of assistance in the target areas and of following up on referrals made to other units or agencies for rendering needed services.

2. OEO should consider including income among the eligibility requirements for those component programs, such as education and manpower, which are directed to individuals or families and involve a significant unit cost and for which income is not now an eligibility requirement.

3. OEO should give greater emphasis to research and pilot projects that offer promise of alleviation of poverty in rural areas and should encourage Community Action Agencies in rural areas to broaden the range of activities that will contribute to economic development.

4. The Congress should consider whether additional means are necessary and desirable to assist residents of rural areas who cannot build the economic base necessary for self-sufficiency, to meet their basic needs.

Manpower programs

5. The Secretary of Labor should take further steps to ensure that:

a. Full use is made of the existing facilities and capabilities of the State employment security agencies in connection with CEP operations.

b. CEP operations are coordinated fully with the JOBS program.

6. The Congress should consider whether the Job Corps program, particularly at the conservation centers, is sufficiently achieving the purposes for which it was created to justify its retention at present levels.

7. The Congress should consider:

a. Redefining and clarifying the purposes and intended objectives of the NYC in-school and summer work and training programs authorized for students in section 123(a)(1) of the Economic Opportunity Act of 1964, as amended.

b. Establishing specific and realistic goals for programs authorized and relative priorities for the attainment of such established goals.

8. The Congress should consider merging the NYC out-of-school program, currently authorized in section 123(a)(2) for persons aged 16 and over, with the MDTA program.

9. The Secretary of Labor, to make the WIN program effective, should give close and continuing attention to the problem of enrollee absenteeism and should ascertain the causes of early terminations and absenteeism and how these causes may be alleviated or eliminated through additional services, modification of program content, or other means.

Health programs

10. The Director, OEO, through his cognizant program office, should define the circumstances under which health centers may finance costs of hospitalization, should establish more appropriate and equitable criteria to be used in determining the eligibility of applicants for medical care, and, in accordance with grant conditions, should require centers to claim reimbursement from third parties.

11. Increased attention should be given by both the Director of OEO and the Secretary of Health, Education, and Welfare to the coordination of the agencies' health efforts and the development of uniform standards for evaluating health projects and programs, including family-planning programs, both during the development phase and on a long-range basis.

Education programs

12. The Director, OEO, should direct and assist local Head Start officials to make further efforts to involve more parents of Head Start children in the program in order to enhance the opportunity for developing the close relationship between parents and their children that is so vital to the child's social and educational growth.

13. The Director, OEO, should improve procedures for the recruitment and selection of participants in the Upward Bound program.

14. The Director, OEO, should require, as prerequisites to funding locally initiated education programs:

    a. Determinations as to whether the program will conflict with existing programs directed to the poor and whether it could be financed with other than OEO funds.

    b. The identification of available resources and facilities which could be used in the program to reduce the expenditure of limited OEO funds.

c. The identification of complementary education programs through which further educational assistance could be afforded to OEO program graduates.

Other programs

15. The Director, OEO, should:

    a. More clearly define program objectives and major goals to the Legal Services project directors and should instruct them on the methodology of engaging in activities directed toward economic development and law reform.

    b. Make efforts to develop and implement measures of the extent to which Legal Services projects are achieving national program priorities and objectives.

16. To improve procedures leading to the assignment of selected applicants to the VISTA regional training centers, the Director, OEO, should give consideration to the feasibility of requiring that applicants be interviewed and given aptitude tests before they are considered eligible for VISTA training.

17. The Director, OEO, should require, with respect to the Migrant and Seasonal Farmworkers program, that:

    a. Systematic employability plans be prepared whereby participants' handicaps can be identified at the time of enrollment so that an appropriate curriculum may be developed to meet such needs.

    b. Participants' progress in the program be periodically reviewed.

    c. Data on participants' postprogram experience be maintained.

18. The Administrator, Farmers Home Administration, Department of Agriculture, should:

    a. Conduct a study primarily aimed at:

        (1) Establishing minimum standards with respect to the amount of supervisory assistance that should be given borrowers under the Economic Opportunity Loan Program in order to ensure that they receive adequate guidance.

        (2) Determining, consistent with the foregoing standards, the quantity and types of supervision needed and the loan activity level which can be sustained within the supervisory capabilities available.

b. Revise its instructions as to loan eligibility to require appropriate consideration of net assets and the recording of the circumstances considered to justify the making of loans to applicants whose income and/or assets exceed specified amounts.

Coordination and organization

19. A new office should be established in the Executive Office of the President to take over the planning, coordination, and evaluation functions now vested by the act in the Economic Opportunity Council and OEO.

20. OEO should be continued as an independent operating agency outside the Executive Office of the President and should have responsibility for administering the Community Action Program and certain other closely related programs.

21. Funding and administration of certain programs now funded by OEO should be transferred to agencies which administer programs that have closely related objectives.

22. The proposed new office in the Executive Office of the President should have responsibility for ensuring coordination of activities of local Cities Demonstration Agencies and the Community Action Agencies. If this new office is not established, consideration should be given to placing this responsibility under the Secretary of Housing and Urban Development.

23. The Congress should direct that a report be submitted on longer term actions required to coordinate and to maximize the use of community action and citizen participation efforts in federally assisted antipoverty programs.

The evaluation function

24. The recommended new office in the Executive Office of the President should further develop the evaluation function with respect to antipoverty programs.

General

25. The responsible Federal agencies should give particular attention to providing for more frequent and comprehensive audits of all antipoverty programs.

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Health, Education, and Welfare; Department of Defense; Atomic Energy Commission; National Aeronautics and Space Administration; and National Science Foundation)

Matters that should be considered in determining and sharing in the indirect cost of federally sponsored research.

In accordance with a request by the Chairman, House Committee on Appropriations, and a similar requirement in the House Conference Report on the Department of Defense Appropriation Act of 1969, we made a study of the indirect cost of federally sponsored research, performed primarily by educational institutions. The purpose was to assist the legislative and appropriation committees in achieving a realistic and uniform formula for ascertaining indirect costs on research grants.

In fiscal year 1968, about $1.4 billion in Federal funds were obligated to colleges and universities for basic and applied research. The principal sources of the funds were the Department of Health, Education, and Welfare, $655 million; the Department of Defense, $226 million; the National Science Foundation, $211 million; the Atomic Energy Commission, $90 million; and the National Aeronautics and Space Administration, $89 million.

In June 1969, we reported to the Congress on the results of the study. The report contained the following conclusions.

--A uniform formula, in the sense of a uniform percentage rate to be applied to direct cost or some element thereof, will not result in a realistic or equitable determination of indirect cost based on sound accounting principles.

--It is not feasible to determine indirect cost by a fixed method or procedure applied uniformly under all conditions. There is not enough standardization among research institutions and projects to permit use of a uniform formula or a fixed method of determining indirect cost.

--Uniform principles and guidelines can be used, however, for determining indirect cost, provided that they have sufficient flexibility to be applicable to differing circumstances in an equitable manner. Such principles and guidelines are provided in Bureau of the Budget (BOB) Circular No. A-21. Revisions to A-21 have been made from time to time with the assistance of the Government agencies administering research programs and after discussions with representatives of the educational institutions. A need exists, however, for further changes in the provisions and administration of A-21.

--To the extent that cost sharing--a sharing in the cost by the research institution--is to be required, relating cost sharing to the total cost of the research is more appropriate than imposing a limit on the rate of indirect cost. Such a limit does not adequately provide for variations in the levels of indirect costs.

--It appears highly desirable that some flexibility in requiring cost sharing should be provided because of the diverse circumstances and considerations involved. Cost sharing could be handled by negotiation between the responsible Government agency and the awardee within such restrictions as the Congress may impose.

--Participants would have to consider those policy or program aspects as may be pertinent to the research involved, such as (1) the degree of interest in the research, (2) the nature of costs to be incurred, (3) the effect of the work on the academic programs and the financial condition of the institution, and (4) the desirability of using a particular institution for a specific project.

The report contained the recommendation that BOB and the administrative agencies concerned consider providing more specific guidance in A-21 in certain areas and more uniformity in implementing its provisions.

It also contained the observations that:

--Even with the most specific guidance practicable, variations are to be expected in the levels and rates of indirect cost. These variations occur because of the different kinds of research, the methods of operation, the nature of facilities, and the organization of research activities.

--If cost sharing is to continue as a requirement for grants, a need will exist, on a Government-wide basis, for well-defined, uniform standards governing the use of contracts or grants for research. Such guidance will be necessary for consistent application of cost sharing. GAO considers such criteria and guidance to be both feasible and desirable.

BOB informed us that, in connection with the next revision of A-21, it would strive toward the objective of providing more specific guidance in the areas identified as needing improvement. BOB also stated that an interagency study had been initiated to give consideration to reducing inconsistencies among agencies in terms and conditions of contracts and grants.

As part of this study, BOB is also exploring the possibility of establishing guidelines as to when a grant or a contract should be used, as well as whether a new type of instrument, such as a research agreement, should be developed to replace some of the current grants and contracts.

For the consideration of the Congress, the report contained the observation that there are divergent views on the question as to whether the institutions engaged in research should or should not share in the cost. These differing views cause recurring problems. If a consistent policy is

to be followed by the various agencies concerned, there will be a need for guidance from the Congress or the executive branch.

We suggested that the Congress might wish to consider accomplishing this guidance through one of the interested congressional committees. The committee so charged could obtain the views, recommendations, and supporting argumentation from the major executive agencies concerned and from representatives of institutions engaged in research work. The committee could recommend legislation to establish a uniform Government-wide policy as to whether the recipients of research grants would be required to share in the cost of research and, if so, the circumstances in which cost sharing shall be required, the degree of sharing, and the flexibility to be allowed in its implementation.

This approach seems to provide an effective means of presenting pertinent information and views of representatives of the Congress. A uniform policy could be formulated and proposed and a final decision made by the Congress for resolution of this recurring problem.

We also expressed the belief that, if mandatory cost sharing is to be required, as an alternative, the necessary control over cost-sharing policies of the individual agencies could be obtained through the normal congressional legislative and appropriation hearings. On the basis of such congressional review, the agencies could be required to make any necessary revisions in their policies. (B-117219, June 12, 1969.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of State and Department of Health, Education, and Welfare)

Need to obtain necessary information and adequately evaluate World Health Organization projects and programs

In a January 1969 report to the Congress on our review of the U.S. Government's financial participation in the World Health Organization (WHO), we stated that executive agencies had not obtained the specific analytical information relative to proposed and continuing WHO projects and programs needed to identify programs for which justification might be questionable or for which greater economy and efficiency could be accomplished. Budget and operational data furnished to members of WHO by its secretariat has been too sketchy and incomplete to make firm assessments regarding implementation of WHO projects and programs.

The United States has no systematic procedure for evaluating WHO projects and programs. Those attempts which have been made by the United States and by United Nations agencies have fallen far short of what is required by U.S. officials to make independent judgments relative to the efficiency and effectiveness of WHO operations. In three of the last 4 years, the United States voted against adoption of the budgets proposed by the WHO secretariat on the basis that they were higher than the United States considered appropriate. The proposed budgets were adopted, however, on the votes of other members, and the United States thus contributed to budgets greater than it wished to support.

Although U.S. interests appear to have been reflected in certain WHO programs--notably malaria and smallpox eradication--it was difficult to determine to what extent U.S. objectives have been met over the years because the executive branch has not decided on the relative order of magnitude which it believes appropriate for the various WHO programs.

We recommended that the Department of State and the Department of Health, Education, and Welfare take actions directed toward obtaining the pertinent factual data necessary to make sufficient analyses of WHO programs and budgets in order to exert meaningful influence on the programs and budgets.

The Department of State and the Department of Health, Education, and Welfare agreed in principle with most of the recommendations. The Department of State pointed to actions being taken on a United Nations-wide basis to seek improvements in fiscal and administrative practices of international organizations. The agencies, however, did not indicate any intention to actually implement the recommendations.

Although the agencies indicated a willingness to work for improvements in the fiscal and administrative practices of international organizations, we believed that more aggressive action was needed by the executive agencies in order to solve the specific and basic problems discussed in the report. (B-164031(2) Jan. 9, 1969.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of State and Post Office Department)

Need for improvements in efforts to collect international postal debts and to pay postal amounts owed in excess foreign currencies

In a report submitted to the Congress in August 1969, we expressed the opinion that improvements were needed in the efforts being made to collect international postal debts owed to the United States by other countries.

By international agreement the U.S. Post Office performs services on a reimbursable basis for other governments, including moving mail from overseas within and through the United States.

As of January 1969, 12 Latin American and one Asian country that were in arrears in payment of their postal obligations, owed the Post Office and U.S. air carriers (through the U.S. Post Office Department) approximately $9.8 million for international mail services. In the case of three of these countries, portions of the debt dated back to the early 1950's.

We made the review to determine why large amounts of money owed the United States by other governments for international mail service were not being collected by the Post Office. Our work was not intended to provide an overall evaluation of the Post Office's international mail operations.

We found that no formal interdepartmental understanding had been reached between the Post Office and the State Department to pursue collection of outstanding amounts.

State Department actions essentially have included only the referral of Post Office-furnished claims to the applicable American Embassy abroad. Communications from the embassies to the State Department are also transmitted to the Post Office. Thus, the State Department in Washington has acted only as a means of communication between the Post Office and the U.S. Embassies in foreign countries.

We believe that the State Department should, under mutually agreed upon conditions, make every reasonable effort to collect past due Post Office amounts since it is in a better position to take positive collection action against other governments.

The U.S. Post Office has been paying its international postal obligations in certain countries with dollars rather than with excess foreign currency of which the United States owns substantial amounts. It is the stated policy of the U.S. Government to use its excess foreign currency instead of dollars whenever possible. Such use favorably affects the balance of payments and reduces government budgetary costs. However, in light of the international agreement regulating postal affairs among member countries, the creditor country would have to approve payment in local currency.

VARIOUS DEPARTMENTS AND AGENCIES

(Department of State and Post Office Department)

We recommended that the State Department and the Post Office should further coordinate their efforts to collect amounts owed by other governments. Also, as a matter of formal agreement the State Department should make every reasonable effort to collect past due international postal debts.

We believe that assessing interest on past due accounts and collecting amounts due in foreign currency should be considered in collecting outstanding accounts.

We recommended also that the State Department take appropriate action to arrange with the creditor countries for the payment of international postal transactions in United States-owned excess foreign currency wherever possible.

The Post Office and State Departments have been attempting to collect the past due postal debts for some time. Subsequent to the initiation of our review, representatives of the two Departments, along with Treasury Department officials, met to review collection procedures for international postal accounts. They took action to attempt collection in foreign currency under certain circumstances.

The Post Office Department stated that it thought that the assessment of interest on unpaid accounts was not desirable.

The State and Post Office Departments stated that appropriate action would be taken where such action appeared to be warranted and advisable in respect to paying U.S. postal obligations in excess currencies.

We brought this matter to the attention of Congress because we believed that the Congress might wish to express an opinion as to the action which should be taken to strengthen U.S. efforts to collect the delinquent accounts. (B-165828 Aug. 11, 1969.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of State and Department of Defense)

Need to obtain agreements on air support services to avoid unnecessary costs

In November 1968, we reported to the Congress that the Government of Vietnam (GVN) denied certain U.S. contractors working on military programs in Vietnam permission to operate, or obtain through subcontract with a U.S. carrier, airlift services required to fulfill their assignments.

The GVN cited the Agreement of the 1944 Convention of International Civil Aviation to support its refusal. The United States and Vietnam Governments are signers of the agreement which provides that each contracting state (country) has the right to refuse permission for the aircraft of another contracting state to take on, in its territory, passengers, mail, and cargo carried for remuneration or hire and destined for another point within its territory. The agreement further provides that it is applicable only to civil aircraft and not applicable to state aircraft and that aircraft used in military, customs, and police services are considered to be state aircraft.

As a result one contractor obtained airlift services from a joint venture of a U.S. air carrier and a Vietnamese air carrier. A 15 percent premium, based on gross revenues and amounting to $1.2 million, was paid to the Vietnamese carrier primarily for clearances for the U.S. carrier to operate in this capacity in Vietnam.

Another U.S. contractor, after using the services of the Vietnamese air carrier, tried to establish its own airlift capability by purchasing two aircraft. Only after a delay of 1 year and at an estimated additional cost of $282,000 was the contractor able to operate in Vietnam.

Because of the cost reimbursable features of the contracts, these additional costs are ultimately borne by the U.S. Government. We concluded that the additional expense and the unnecessary complication of the contractors' operational problems resulted from a lack of an overall working agreement between the two governments. We concluded also that it was inappropriate to have to pay premiums for permission to fly contract aircraft into, within, or out of Vietnam when operating in support of U.S. military programs.

We recommended that the U.S. Government continue its efforts to obtain an agreement or a working arrangement with GVN to permit the operation of contract commercial aircraft on an exclusive-use basis for logistic air support of U.S. Government programs in Vietnam. We proposed that, should these efforts fail to produce satisfactory results, the Secretary of Defense determine whether the contractors' air support requirements could be satisfactorily filled by alternative means.

The Departments of Defense and State generally agreed with our findings and proposals. The Department of Defense officials advised us that the

review we had proposed had been made and they had concluded that airlift support should continue to be provided by commercial support and that military airlift would be utilized whenever feasible. We were advised that, in line with our recommendation, the U.S. Embassy in Saigon and the U.S. Military Assistance Command, Vietnam, were continuing their efforts to negotiate a satisfactory working agreement. We were informed that the 15 percent payments had been eliminated in July 1968 and that an interim arrangement had been in effect since that time pending formulation of a final agreement. (B-159451, Nov. 14, 1968.)

GOVERNMENT-WIDE

Contents

Savings available by acquiring computer components from alternate sources of supply

In June 1969 we reported to the Congress on the results of our study of the acquisition by Federal agencies of peripheral equipment for use with automatic data processing (ADP) systems. The report pointed out that it is common practice for Government ADP managers to obtain all required ADP equipment from computer systems manufacturers even though certain items of equipment can be procured more economically from the original manufacturers or from alternate sources of supply.

We identified selected computer components that are directly interchangeable (plug-to-plug compatible) with certain other systems manufacturers' components and are available at substantial savings. We found that a number of private organizations had installed available equipment of this type and had achieved substantial savings. Yet we found only a few instances where Federal agencies had availed themselves of this economical means of acquiring computer components. We expressed the belief that central agency leadership could provide impetus for achieving similar savings in the Federal Government.

We estimated that, if certain plug-to-plug compatible components were rented from independent manufacturers rather than from systems manufacturers, annual savings would be at least $5 million. We estimated also that, if such components were to be purchased, they could be purchased for $23 million less from the component manufacturers than from the systems manufacturers.

We also expressed the belief that, in addition to the estimated savings in acquiring plug-to-plug compatible components, savings are available in the acquisition of non-plug-to-plug components from sources other than the systems manufacturers. We estimated that the purchase cost of such components--now being leased for about $50 million a year--from the systems manufacturers would be about $250 million; whereas the acquisition price for similar components from an alternative source of supply probably would be about $150 million--a difference of about $100 million. However, the potential savings must be evaluated in light of costs associated with combining the components into a total computer system.

The report contained the recommendations that:

--The head of each Federal agency take action to implement steps requiring replacement of leased components that can be replaced with more economical plug-to-plug compatible units.

--The Bureau of the Budget and the General Services Administration provide more specific guidelines for the evaluation and selection of plug-to-plug compatible equipment and of other components.

--Pending the issuance of specific policies, the factors described in the report be used by Federal agencies to evaluate alternate sources of ADP equipment, and

--Inasmuch as third-party leasing arrangements generally result in savings when compared with rental arrangements available from equipment manufacturers, the head of each Federal agency consider this method of procurement when purchase of the equipment is determined not to be advantageous.

The use of plug-to-plug compatible components for Federal ADP equipment is currently being studied by the General Services Administration (GSA). Present plans call for GSA to study also the acquisition of other components and peripheral equipment from alternate sources at a later date. We expressed the belief that the GSA study is important and that it should be accelerated to provide a basis for promulgating more specific policies for the guidance of Federal agencies in obtaining ADP components from the most economical source of supply.

In September 1969 our report was given specific consideration by top Federal ADP managers at a conference on the selection and procurement of computer systems by the Federal Government. The conference, conducted at the Federal Executive Institute by the Bureau of the Budget, was attended by officials of agencies which are major users of ADP systems in the Federal Government. The report of the conference, which summarized the consensus of the participants, contained the following statement:

> "Leased peripheral equipment components in systems now installed should be replaced by components available from independent peripheral manufacturers or other sources, if it is determined that such components are comparable, compatible, reliable, less expensive, and can be adequately maintained. Similar consideration should be given when adding to or modifying existing systems. These determinations should be made on a case-by-case basis in consideration of the particular circumstances that exist." (B-115369, June 24, 1969.)

Progress and problems relating to improvement of Federal agency accounting systems

In September 1969, we reported to the Congress on the progress being made by Federal agencies in developing and improving their accounting systems in accordance with the overall mandates of the Congress and the related principles, standards, and requirements prescribed by the Comptroller General. The report was prepared in response to a recommendation of the House Committee on Government Operations.

The General Accounting Office is responsible under the Budget and Accounting Procedures Act of 1950 for cooperating in the development of executive agency accounting systems, for reviewing the systems from time to time, and for approving them when they are considered to be adequate and in conformity with prescribed accounting principles, standards, and related requirements.

The report contained the following observations:

--Federal agencies are showing increased interest and activity in improving their financial management systems, in obtaining approval of their accounting systems, and in developing adequate accounting systems.

--The concept of accrual accounting--a requirement stated in law and in related principles and standards prescribed by the Comptroller General--has been generally accepted in principle throughout the Government. Current problems relate primarily to effectively applying the concept in practice.

--Although Federal agencies have, with some exceptions, adopted the concept of monetary property accounting--proper accountability of Government-owned property in dollar terms--serious deficiencies exist in implementing and operating such systems.

--There is a need for better coordination between planning-programming-budgeting staffs and the accounting and reporting staffs in most Federal agencies.

--There are too few good cost accounting systems in the Federal Government.

--There is a continuing shortage of qualified accountants in the Federal Government.

The report contained no specific recommendations. However, GAO has made numerous recommendations and suggestions to individual agencies concerning financial management and accounting matters in reports to the Congress and to agency officials and in informal dealings with agencies. (B-115398, Sept. 18, 1969.)

Progress in implementing the planning-programming-budgeting system in the executive agencies

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

The PPB system requires that agencies:

--Establish long-range planning for national goals and objectives.

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

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

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

In July 1969 we reported to the Congress on the results of our survey of the implementation of the PPB system by 21 Federal agencies. Our objective in making the survey was to obtain information on the executive agencies' progress in implementing the system and on major problems being encountered and to summarize the results of this study for the use of interested congressional committees and all executive agencies.

We found that 20 of the agencies included in the survey and directed by the Bureau of the Budget to adopt a PPB system had succeeded in developing PPB program classification structures. There were differences among these classification structures and it is evident that there are obstacles to the creation of a Government-wide program classification structure.

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

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

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

The report contained no recommendations. However, it did express our belief that all agencies should give specific consideration to the potential advantages of having written instructions describing the documentary support that should be prepared for special analyses and other PPB reports.

We also expressed the belief that significant advantages would be realized by agencies if planning and evaluation efforts pertaining to problems common to one or more agencies were coordinated by a central agency.

Subsequent to the issuance of our report, we discussed with Bureau of the Budget officials their current research efforts (1) to identify ways to integrate PPB methods with the appropriation budgeting processes and (2) to strengthen agency and Bureau of the Budget ability to perform program and budget reviews and analysis in goal-oriented terms, both within and across agency lines. One of the objectives of the Bureau's research efforts is to test the feasibility of developing a classification structure that will satisfy various needs. (B-115398, July 29, 1969.)