090668 3.52.21

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations, a record of which is kept by the Distribution Section, Publications Branch, OAS

REPORT TO THE COMMITTEE
ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

RELEASED

RELEASED

Significant Audit Findings In The Civil Departments And Agencies Of The Government B-106190

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

4/2/79 904344 090668

DEC. 12. 1972

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

B-106190

NO OC

Dear Mr. Chairman:

This report contains 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,

Elmer B. Staats

Comptroller General
of the United States

CHR

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

H300

Contents

DEPARTMENT OF AGRICULTURE

Contents

BEST DOCUMENT AVAILABLE

BLANK PAGE

DEPARTMENT OF AGRICULTURE

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

Greater conservation benefits could be attained under the agricultural soil and water conservation program

Under the Rural Environmental Assistance Program, the Agricultural Stabilization and Conservation Service (ASCS) shares with farmers the cost of carrying out practices to build soil and conserve soil and water. The Federal cost share is usually 50 percent.

In February 1972, the General Accounting Office (GAO) reported to the Congress that the program could be more effective if (1) the authorizing legislation were amended to eliminate a provision for increases in small payments to farmers, (2) certain ineffective conservation practices were eliminated from the program, and (3) the administration of the program were improved.

A 1938 amendment to the Soil Conservation and Domestic Allotment Act states that, if a farmer receives Federal cost shares totaling less than $200 a year for carrying out conservation practices on a farm, he will be paid an additional nominal amount. The amendment was intended to provide greater financial assistance to operators of small farms. However, the nominal payments--which may range from 40 cents to $14 each--do not further the objectives of the program and are an administrative burden. GAO recommended that the Congress amend the act to eliminate the nominal payments, which totaled about $7 million annually, and thereby enable thousands of additional farmers to participate in the program. This view was concurred in by ASCS officials at the county, State, and national levels.

Although significant soil and water conservation benefits had been realized under the program, GAO reported that (1) substantial amounts of funds had been spent on practices that did not produce any appreciable conservation benefits, that stimulated agricultural production rather than providing lasting conservation benefits, or that were otherwise questionable and (2) the method of allocating funds to the States did not include realistic adjustments, as provided for in the authorizing legislation, to meet each State's proportionate conservation needs. GAO recommended that ASCS take a number of actions to make the program more effective.

In commenting on these matters in September 1971, the Department stated that it agreed in general with the recommendations. The Department said that a number of practices which GAO had questioned were eliminated from the national program and advised that additional actions were proposed to improve the program. GAO believed that certain additional questioned practices should be eliminated.

In May 1972 the Department indicated differences of opinion with GAO on the following matters.

BEST DOCUMENT AVAILABLE

AGRICULTURAL STABILIZATION
AND CONSERVATION SERVICE (continued)

Temporary practices.--The Department said that, although GAO had suggested that all temporary cost sharing practices be eliminated from the national program on the basis that they were production oriented, some of the temporary practices were still needed. The Department also said that, in accordance with recent legislative history, each county agricultural committee has the option of retaining any practice which it had in its county program for 1970 even though such practice may have been eliminated from the national program. GAO was aware of this option but believes that counties which had not used the temporary practices previously could elect to include them in future years only if the practices remain in the national program.

Fencing grassland.--The Department said that cost sharing for fencing would be continued as a part of other practices to protect grass cover in connection with grazing operations. GAO believes that the fencing practice is production oriented in that its primary purpose often is to assist in the management of livestock by restricting grazing to fenced areas.

Use of high-cost Coastal Bermuda grass.--GAO had pointed out that Coastal Bermuda grass was drought resistant and excellent for feeding cattle, thus stimulating production of meat and dairy products. Therefore, GAO expressed the opinion that the cost-share assistance should be reduced. The Department said that it believed that, in the long run, conservation benefits from this costly grass would be more economical than from a cheaper grass. GAO believes that cost sharing for grass cover should be limited to the minimum necessary for satisfactory conservation.

Conservation practices on land already in an approved conservation use.--The Department said that placing acreage in a conserving use under other agricultural programs, such as an acreage-diversion program, did not assure that all needed conservation practices would be carried out and that many times a conservation problem could be corrected when the land was not being used for crop production. GAO believes that, if cost sharing is allowed on diverted acreage, the amount should be reduced because the producer is already obligated under the acreage-diversion program to conserve the land. (B-114833, Feb. 16, 1972.)

Payment limitation under 1971
cotton, wheat, and feed grain programs
had limited effect

Title I of the Agricultural Act of 1970 limited the annual amount of direct Federal payments a person could receive under the 1971-73 upland cotton, wheat, and feed grain programs to $55,000. In April 1972 report to the Congress, GAO said that the limitation had caused no significant reduction in the total amount of 1971 program expenditures because the authorizing legislation and subsequent regulations issued by ASCS did not prohibit

producers from changing their farming operations and organizations to reduce the financial impact of the limitation. Also the regulations allowed each individual in a partnership to be considered as a single person for payment purposes, whereas prior payments sometimes were made to the partnership as an entity.

GAO's review of the operations of 98 producers in six States showed that, largely because of the organizational or operational changes made by the producers, only about $356,000 of a potential $17.1 million in savings were realized for these producers. A Department study showed nationwide savings of only $2.2 million.

The actions most frequently taken by producers to reduce the financial impact of the limitation included (1) leasing acreage allotments to spread the payments to more persons, (2) having payments made to individual partners in an existing partnership instead of to the partnership as an entity, and (3) forming new partnerships to qualify more persons for payments. Some of the actions permitted persons to hold interests concurrently in several entities receiving program payments. By these means the persons, in effect, received more than $55,000. Other changes allowed some producers to receive additional payments indirectly.

To improve administration of the limitation and to ensure that payments subject to the limitation would be valid, accurate, and in compliance with applicable laws and regulations, GAO recommended that ASCS (1) establish procedures to obtain information on all farming interests of each farm program participant so that the payment limitation regulations could be applied fully and fairly, (2) provide for periodic reviews at a higher organizational level of the propriety and consistency of the determinations made by county and State committees, and (3) clarify and expand instructions for controlling payments to persons with more than one producer-identification number.

In March 1972 the Department described actions that had been taken or were being initiated to improve the administration of the payment limitation, and in June 1972 the Department reported that action had been completed on each of the recommendations. These actions--if effectively implemented--should significantly strengthen the administration of the payment limitation. (B-142011, Apr. 12, 1972.)

BLANK PAGE

DEPARTMENT OF AGRICULTURE

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Enforcement of Federal sanitation standards at poultry plants continues to be weak

In November 1971 GAO reported to the Congress that the Department of Agriculture's Consumer and Marketing Service (C&MS), which was responsible for meat and poultry inspection activities until April 1972, had taken some action, following prior GAO reviews, to improve the enforcement of sanitation standards at federally inspected poultry plants but that the action had not been adequate. In the followup review, GAO accompanied C&MS supervisory inspectors to 68 federally inspected plants, including 17 which were covered in a prior review and 51 selected at random.

GAO reported that one or more deficiencies in sanitary conditions existed in each of the plants reviewed and that the type and extent of the deficiencies, classified as either minor variations or unacceptable conditions, varied from plant to plant. Because many of the sanitation deficiencies appeared to have existed for prolonged periods, they indicated a lack of strong day-to-day enforcement by C&MS plant inspectors, a lack of effective supervisory review, and weaknesses in C&MS's enforcement of sanitation standards, some of which might be widespread.

GAO recommended that, to convince C&MS inspection employees that consumer protection was the main objective of sanitation standards enforcement and that strict enforcement of those standards was essential, the Secretary of Agriculture reevaluate an earlier recommendation, made by departmental consultants but not adopted, that a separate agency be established within the Department for consumer protection programs. Because GAO realized that implementation of the recommendation would take some time and that many of the employees then responsible for enforcing sanitation standards would still be responsible if a separate agency were established, GAO recommended also that the Secretary explore other avenues to improve and emphasize the enforcement of sanitation standards. GAO suggested (1) an intensification of efforts then underway to strengthen supervision and to improve the training of inspectors, and (2) increased disciplinary actions when inspectors do not meet their responsibilities.

Effective April 2, 1972, C&MS was renamed the Agricultural Marketing Service, and its meat and poultry inspection activities were transferred to a new departmental agency, the Animal and Plant Health Inspection Service.

In response to the second recommendation, the Department stated that C&MS was attempting to respond in specific ways to deficiencies in its supervisory structure, which had been totally inadequate, and that it was taking or planning other action to improve the enforcement of sanitation standards.

GAO believes that the actions taken or planned to strengthen the supervisory structure and to correct other organizational weaknesses should help to improve the inspection program. However, unless these actions result in better enforcement of sanitation standards by individual inspectors, they

will not correct the basic weakness in the inspection program--inadequate enforcement of sanitation standards at the plants. (B-163450, Nov. 16, 1971.)

Better inspection and improved methods of administration needed for foreign meat imports

In February 1972, GAO reported to the Congress that C&MS, whose meat and poultry inspection activities were transferred to the Animal and Plant Health Inspection Service in April 1972, needed to provide greater assurance that foreign meat and meat products were imported only from plants which complied with U.S. wholesomeness requirements for products processed under sanitary conditions and received thorough and uniform inspections at U.S. ports before being accepted for entry.

To determine the adequacy of the import meat inspection program, GAO accompanied C&MS foreign programs officers on their reviews of 80 plants in four major meat exporting countries--Australia, Argentina, Canada, and Denmark. GAO also reviewed import inspection activities at eight ports of entry and one border inspection station.

Among other things, GAO found that C&MS had not reviewed foreign meat plants as often as it considered desirable and that formal training of import inspectors needed to be improved. C&MS said that foreign plant reviews were infrequent because it did not have enough foreign programs officers and, since those officers were stationed in the United States, they spent only about 30 weeks a year in foreign countries. In May 1971 C&MS began stationing some of its officers in foreign countries. C&MS officials at two regional offices said that formal meat inspection training had not been emphasized in the past.

GAO recommended that additional officers be stationed in those foreign countries where necessary to meet plant-review frequency objectives. GAO recommended also that C&MS establish a program to identify the training needs of import meat inspectors and develop a training program to meet such needs.

The Department responded that it had added more foreign programs officers to improve surveillance over foreign systems and plants and that others would be added as needed and as permitted by budgetary and other constraints. The Department stated also that a training program had been established and that it should resolve the variances in inspections of imported products and upgrade the entire import inspection force.

In May 1972, the Department stated that eight foreign programs officers were stationed in foreign countries and that program capacity for review and followup inspections in problem plants had been greatly increased. The Department stated also that a week-long import inspection training course, begun in October 1971, would be actively maintained and that additional training sessions would be held as needed.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (continued)

GAO believes that the actions taken on these matters should help assure that import meat products will be more thoroughly and uniformly inspected for wholesomeness prior to being permitted entry for domestic consumption. (B-163450, Feb. 18, 1972.)

BLANK PAGE

DEPARTMENT OF AGRICULTURE

EXPORT MARKETING SERVICE

Economic benefits possible through increased use of butter in lieu of offshore procurements

GAO inquired into the cost and balance-of-payments benefits that could be realized by increasing the use of U.S. agricultural commodities in lieu of offshore procurements to satisfy military requirements in Europe.

GAO learned that the European Exchange System (EES), which is part of the Army and the Air Force Exchange Service and a non-appropriated-fund activity in Europe, used annually approximately 820,000 pounds of coconut oil, rather than butter, to make ice cream. The purchase of coconut oil, a net import item, adversely affects our Nation's balance-of-payments position by about $200,000 annually.

An inventory of surplus butter, the desired commodity in the manufacture of ice cream, in excess of 100 million pounds was available from the Department of Agriculture, but EES told GAO that coconut oil was substituted because of price considerations. To be competitive with coconut oil, the butter would have to be offered at 16 cents a pound, f.o.b. New Jersey.

Although GAO recognized that the price EES would be willing to pay for butter was considerably less than the support costs incurred by the Department of Agriculture, it seemed that selling the surplus butter would be more advantageous to the U.S. Government than incurring the costs of storing and handling a substantial supply. GAO estimated that Agriculture would realize budgetary benefits of about $200,000 annually if EES used surplus butter.

In view of the potential economic benefits, GAO suggested that the Department of Agriculture explore the possibilities of making surplus butter available to EES for use in making ice cream. With the understanding that coconut oil was being used in making ice cream by military and exchange activities in other parts of the world, GAO suggested that Agriculture query the Department of Defense and the military exchange service to determine the additional potential for using surplus butter in place of coconut oil.

Agriculture agreed with GAO's analysis of the potential savings in budget and foreign exchange. However, other considerations make Agriculture reluctant to sell butter to EES at 16 cents a pound, about 55 cents below the domestic market price. Agriculture considers EES to be in the same category as a foreign buyer, since EES buys in the open market with non-appropriated funds. To sell butter for export for less than the support costs incurred by the Department, Agriculture had to consult with the principal competitors to protect the United States from accusations of "dumping" and violation of the General Agreement on Tariffs and Trade.

Agriculture has sold butter to the military at reduced prices of 52 1/2 cents a pound for our troops overseas. Also, Agriculture has a supplementary arrangement with the Defense Supply Agency (DSA) to enable DSA to buy surplus butter for such uses as making ice cream. Agriculture is willing to

EXPORT MARKETING SERVICE (continued)

make a similar arrangement with EES but feels it cannot discriminate in favor of EES.

GAO continues to believe that as long as the Government has large inventories of surplus butter, all possible cost and balance-of-payments benefits should be considered. Agriculture's response did not address this basic point. As of September 1, 1972, the inventories of surplus butter amounted to 126 million pounds. (B-172539, July 22, 1971.)

DEPARTMENT OF AGRICULTURE

FARMERS HOME ADMINISTRATION

Need for more adequate disclosure of costs related to two insured loan funds

The Farmers Home Administration (FHA) is authorized to make loans from the Agricultural Credit Insurance Fund and the Rural Housing Insurance Fund to individuals and to public and nonprofit associations for various purposes. As required by law, FHA sells the borrowers' loan notes to investors on a guaranteed basis and uses the proceeds to finance additional loans.

In a July 1971 report to the Congress, GAO stated that FHA had incurred substantial losses ($104 million) in recent years in operating the two funds, primarily because, under money-market conditions, FHA interest rates on loans to borrowers had been substantially less than the rates at which FHA sold the borrowers' loan notes to investors.

FHA's financial statements furnished to the Treasury Department and the budget justifications presented to the Congress relating to the two funds did not show the full costs of administering the loan programs and did not show the interest cost on the Government's investment in the two funds.

Further, FHA budget justifications did not show the substantial interest costs on sales of borrowers' loan notes that FHA had committed the Government to pay in future years. For the loan notes of $3.8 billion held by investors at March 31, 1970, FHA estimated that, if the investors held the loans for the full nonredemption periods, the interest paid to investors would be about $443 million in excess of the interest collected from the borrowers.

GAO recommended that FHA provide for

--including in its financial statements all costs related to the loan programs and

--disclosing in its annual budget justifications, the commitments of Government resources which the loan sales program has created and the current yields which FHA is required to guarantee investors who purchase such loans.

In October 1971, the Department stated that FHA had taken action to modify the design of its financial management system to provide better cost information and that FHA would provide the additional information suggested by GAO in the explanatory notes to its budget justifications. (B-114873, July 20, 1971.)

FARMERS HOME ADMINISTRATION (continued)

Recreation projects provided benefits to a limited number of rural residents

FHA had made loans to public and nonprofit organizations for the development of rural recreational projects under three loan programs--association recreation, resource conservation and development, and rural renewal.

In August 1971, GAO reported to the Congress that its review of loans made to 24 organizations in five States showed that, in many instances, the loans did not contribute effectively to the program objective of providing rural residents with outdoor-oriented recreational projects because the projects (1) served only a small percentage of the residents of rural areas, (2) served primarily urban rather than rural residents, (3) imposed restrictions which limited the use of recreational facilities to organization members only, and/or (4) charged fees that were beyond the means of many rural residents.

Also GAO reported that FHA had made loans:

--For some projects which, contrary to its instructions, competed with existing or planned facilities; included land excess to project needs; included clubhouses not modest in design, size, or cost; or had memberships inadequate to support the projects.

--To some organizations without adequately verifying whether the organizations' projected revenues would be sufficient to meet operating expenses and loan repayments.

The scope of the recreational loan programs has changed substantially in recent years. For example, loan volume under the principal program--the association recreation loan program--decreased from about $23.9 million in fiscal year 1968 to an estimated $2 million in fiscal year 1971. For fiscal year 1972, FHA did not request any funds for this program; for fiscal year 1973, FHA requested and received $500,000.

In view of the limited extent to which the recreational loan programs had served rural residents, GAO recommended that the Congress consider the matters discussed in the report with a view to determining whether the programs should be continued and, if so, what form the programs should take.

The Administrator, FHA, stated that FHA had started action early in fiscal year 1970 to discontinue making further loans for golfing facilities, to provide more funds for higher priority programs, such as the rural water and sewer program, and for other reasons. The Administrator stated also that the association recreation loan program had been placed in a standby position for fiscal year 1972 and that FHA would consider the program's future in connection with its plans for redevelopment of rural areas. (B-114873, Aug. 23, 1971.)

DEPARTMENT OF AGRICULTURE

FOOD AND NUTRITION SERVICE

Two ways to reduce costs of donating commodities

In a February 1972 report to the Congress, GAO stated that, to reduce the cost of donating certain commodities, the Food and Nutrition Service (FNS) needed to (1) enforce its requirement that commodities be requisitioned in more economically sized packages and (2) require State distributing agencies to submit requisitions promptly to avoid special purchases which are more costly.

In the seven States where GAO reviewed program operations, the State distributing agencies, rather than requisition flour, vegetable shortening, and nonfat dry milk in large-size packages when practicable for schools and institutions, requisitioned small-size packages meant for small users, such as families. FNS did not question, or require the agencies to justify, such requests.

Some schools and institutions used only small amounts of these commodities, and the use of small packages may have been warranted in those cases. Many other schools and institutions, however, used large quantities. For fiscal year 1970, GAO estimated that, nationwide, the additional cost of providing these commodities to schools and institutions in small, rather than large, containers was about $1.6 million.

Also, controls over special purchases of processed grain commodities--such as flour, cornmeal, and rolled wheat--needed to be strengthened. State distributing agencies frequently were late in requisitioning their monthly needs for such commodities. As a result, special purchases, which cost from 3 to 8 percent more than regular monthly purchases, had to be made. In many instances, justifications for such purchases were not provided. About $1 million worth of special purchases for 17 million pounds of processed grain commodities were made nationwide during fiscal year 1970.

In October 1971 the Department outlined certain long-range actions it would take to provide foods in more economically sized packages. After GAO pointed out the need for more timely action, FNS instructed its regional offices to reemphasize to the States the need to provide foods in larger containers, when possible. These actions were intended to implement GAO's proposals but, to ensure that full implementation was effective and timely, GAO recommended that FNS vigorously enforce the requirement that State agencies requisition commodities in the most economically sized packages and have State agencies justify, when necessary, requisitioning commodities in smaller packages for schools and institutions. In March 1972 the Department reported that FNS had directed its regional offices to implement the recommendations.

With respect to special purchases, the Department took or proposed certain actions which, if properly implemented, should result in the elimination of unjustified special purchases. (B-133059, Feb. 4, 1972.)

BLANK PAGE

DEPARTMENT OF AGRICULTURE

FOREST SERVICE

Need to ensure that best possible use is made of research program findings

The Forest Service carries out a forestry research program to help Federal agencies, States, and private landowners solve problems in managing forest lands and resources.

In January 1972 GAO reported to the Congress that information on over 1,000 forestry research findings had been published annually but that the Forest Service had not identified which findings were ready for use by field managers. Instead, hundreds of field managers individually determined whether the findings could be applied to improve their operations. These managers were not required to advise top management of their decisions or of problems encountered in attempting to use research findings. Also, Forest Service procedures did not provide adequate means for (1) ensuring that the best possible use was made of research results and (2) furnishing research officials with feedback of information which could be useful in planning and directing future work.

To identify and exploit fully the opportunities for improved resource management through the use of results of forestry research, GAO recommended that procedures be established to require that (1) evaluations be made of the extent of potential use, (2) field managers' decisions be documented, and (3) research officials be advised of the results of evaluations of the implementation of research results. GAO said that these procedures should be applied through an official or officials who would be responsible for coordinating the use of findings.

The Forest Service agreed in principle with GAO's findings and conclusions and in general with the recommendations. In May 1972, the Forest Service reported that the Chief had directed the various regional foresters to designate a principal staff officer as regional research coordinator on or before October 1972. The research coordinators, in consultation with appropriate staff specialists, are to

--identify those research results that apply or may have application to the region's activities,

--develop standards and guidelines covering the use of research results,

--provide advice and guidance to the regional forester, and

--provide feedback to the research organization on the actual operational use of research results. (B-125053, Jan. 6, 1972.)

BLANK PAGE

DEPARTMENT OF COMMERCE

Contents

ECONOMIC DEVELOPMENT ADMINISTRATION (continued)

Need for adequate evaluations of proposed public works projects

GAO reviewed 150 public works and development facilities projects for which EDA had made grants and loans totaling $77.7 million and found that, for about 14 percent of the projects reviewed, grants of $10.7 million and loans of $1.9 million appeared questionable because (1) the potential economic impact of some of these projects on the unemployed and underemployed residents seemed nonexistent or very low, (2) there was inadequate assurance that the projects would be completed within a reasonable time, and (3) there was inadequate assurance that construction would start within a reasonable time.

It was GAO's opinion that EDA had awarded financial assistance without making adequate evaluations as to whether the indicated benefits of the proposed projects were realizable and that improvements were needed in the evaluation and approval processes. EDA stated that it had approved each of the projects in question in accordance with EDA criteria after a thorough review of all factors deserving consideration.

In view of the number of projects which appeared questionable, GAO believed that EDA's procedures did not provide adequate criteria for evaluating projects within each region to insure that only those projects which had significant and timely economic impact and which were reasonably certain of beginning construction on a timely basis would be funded.

Consequently, GAO recommended to the Secretary of Commerce that EDA be required to establish improved procedures for evaluating proposed projects to provide for a more realistic evaluation of (1) the projected economic benefits to the unemployed and underemployed residents of the redevelopment areas, (2) the economic benefit in relation to project costs, and (3) the timeliness of the economic impact. (B-153449, Mar. 21, 1972.)

DEPARTMENT OF COMMERCE

ECONOMIC DEVELOPMENT ADMINISTRATION

Coordination with other available Federal assistance programs

The Economic Development Administration (EDA), Department of Commerce, makes grants and loans to nonprofit entities for public works projects, such as water, sewer, and waste treatment facilities, and for development facilities projects, such as industrial parks and tourism projects, in areas of substantial and persistent unemployment and underemployment.

EDA provided financial assistance to many projects without first determining whether they could have been funded under other programs. Also some of EDA's grants replaced grants and loans previously awarded or tentatively committed for the same projects under other Federal programs.

In GAO's opinion, EDA's manner of awarding assistance did not provide adequate assurance that it was not supplanting assistance from other Federal agencies and raised a question as to whether the EDA program was being administered in accordance with the intent of the legislation, which provides that all assistance authorized under the legislation be in addition to, and not substituted for, Federal assistance available under other existing programs.

Under an interdepartmental agreement for coordinating financial assistance to public works projects among the Departments of Agriculture, Commerce, and Housing and Urban Development and the Environmental Protection Agency, EDA was assigned the primary responsibility for funding projects in EDA-designated areas when EDA determined that the projects would have significant economic impact.

GAO recommended that EDA effectively coordinate its public works financial assistance programs with those of other Federal agencies and urged the adoption of changes in the interdepartmental agreement, to provide greater assurance that such agencies provide available funds for projects under their programs before EDA provides any financial assistance.

EDA does not agree that the legislative intent of the act authorizing EDA's financial assistance program requires EDA to determine whether assistance is available under public works programs of other Federal agencies before EDA assistance can be provided. EDA stated that, although it attempted to determine whether funds were available from other Federal programs, it is difficult at the time an application is filed with EDA to determine whether the other agencies will fund the project. (B-153449, Mar. 21, 1972.)

ECONOMIC DEVELOPMENT ADMINISTRATION (continued)

Need for adequate evaluations of proposed public works projects

GAO reviewed 150 public works and development facilities projects for which EDA had made grants and loans totaling $77.7 million and found that, for about 14 percent of the projects reviewed, grants of $10.7 million and loans of $1.9 million appeared questionable because (1) the potential economic impact of some of these projects on the unemployed and underemployed residents seemed nonexistent or very low, (2) there was inadequate assurance that the projects would be completed within a reasonable time, and (3) there was inadequate assurance that construction would start within a reasonable time.

It was GAO's opinion that EDA had awarded financial assistance without making adequate evaluations as to whether the indicated benefits of the proposed projects were realizable and that improvements were needed in the evaluation and approval processes. EDA stated that it had approved each of the projects in question in accordance with EDA criteria after a thorough review of all factors deserving consideration.

In view of the number of projects which appeared questionable, GAO believed that EDA's procedures did not provide adequate criteria for evaluating projects within each region to insure that only those projects which had significant and timely economic impact and which were reasonably certain of beginning construction on a timely basis would be funded.

Consequently, GAO recommended to the Secretary of Commerce that EDA be required to establish improved procedures for evaluating proposed projects to provide for a more realistic evaluation of (1) the projected economic benefits to the unemployed and underemployed residents of the redevelopment areas, (2) the economic benefit in relation to project costs, and (3) the timeliness of the economic impact. (B-153449, Mar. 21, 1972.)

ECONOMIC DEVELOPMENT ADMINISTRATION (continued)

Limited effect of Federal expenditures on economic development

The Federal Government has established a number of programs aimed at alleviating chronic poverty, unemployment, and underemployment. GAO evaluated the assistance provided under these programs to Johnson County, Kentucky, to determine their effect on the economy of a specific area. Johnson County, in the heart of Appalachia, was selected as the area for the study because it had the typical characteristics of economically distressed areas: high unemployment, low family income, and high out-migration. Although the study covered only one county, GAO believed that other rural counties in Kentucky and elsewhere in the Appalachian region had experienced similar difficulties.

Development handicapped by lack of industry

Johnson County received $28.2 million in Federal assistance from fiscal years 1965 through 1969, primarily for economic development, agriculture, education, and public assistance. A large part of the assistance was for economic development, but its impact on broadening the economic base and creating new jobs was very limited at the time of GAO's review.

There are many obstacles to attracting industry to Johnson County. In GAO's opinion, the county's heavy dependence on Federal assistance will continue unless new industry can be encouraged to locate in the area.

Among GAO's recommendations was a recommendation that EDA make a comprehensive study to identify additional incentives that might encourage industry to expand in rural areas. According to EDA some steps along these lines had been taken and some were underway.

Need for improved planning and coordination

The effect of Federal assistance on the economic development of Johnson County was also limited by inadequate coordination between the Federal and State agencies concerned with implementation of the Federal programs. Improved planning and coordination was needed to assign priorities and design plans aimed at achieving economic independence. No Federal organization had this overall responsibility.

The agencies most closely concerned with economic development of Johnson County are the Appalachian Regional Commission--a joint Federal-State group established by the Congress in 1965 to conduct a special development effort--and EDA--which partially funds projects aimed at alleviating high unemployment. GAO recommended that the Appalachian Regional Commission, in cooperation with EDA, take a more active role in coordinating Federal activities at the local level. (B-130515, Feb. 7, 1972.)

BLANK PAGE

DEPARTMENT OF COMMERCE

MARITIME ADMINISTRATION

Savings available by consolidating certain reserve fleet activities

In November 1971, GAO reported that, after the first year, annual savings of about $664,000 could be realized by having the Maritime Administration, Department of Commerce, assume the function of preserving certain Army and Navy inactive vessels in the Beaumont, Tex., and San Francisco, Calif., areas and by closing a Navy berthing site and an Army wet storage area. Savings during the first year would amount to about $392,000 because of certain nonrecurring impact costs, such as towing, corrective preservation steps, and site preparation, that would be incurred in effecting the consolidation.

Maritime would be able to assume the maintenance and preservation function more economically than the Navy because Maritime uses experienced civilian employees, whereas the Navy primarily uses relatively inexperienced military personnel. Additionally, fewer administrative employees would be needed by Maritime because some of the Navy administrative tasks would be absorbed by the employees located at Maritime reserve fleet sites.

Maritime and the Army agreed with GAO's recommendation that these activities be consolidated. The Navy concurred in the intent of GAO's recommendation but was strongly opposed to having Maritime assume the maintenance, preservation, and related administrative functions at one of its San Francisco sites. The Navy was concerned about the ability of Maritime to preserve combat ships and the ability of the Navy site to carry out its military responsibilities should Maritime assume the maintenance and preservation responsibility for the inactive vessels.

GAO also recommended that the Secretary of Commerce and the Secretary of Defense study the feasibility, including the effect on costs, of consolidating functions for other Army, Navy, and Maritime Administration inactive fleet sites. GAO was informed that such a study would be made. (B-168700, Nov. 18, 1971.)

BLANK PAGE

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Contents

BLANK PAGE

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

FOOD AND DRUG ADMINISTRATION

Insanitary conditions found in food manufacturing industry

The Food and Drug Administration (FDA), Department of Health, Education, and Welfare (HEW), has the responsibility to provide assurance that food products shipped across State borders are processed under sanitary conditions and are safe, pure, and wholesome to eat. To determine whether FDA was able to provide this assurance, GAO requested FDA to inspect 97 food manufacturing and processing plants selected at random from about 4,550 such plants in six FDA districts including 21 States.

The inspectors found that, of the 97 plants, 39--or about 40 percent--were operating under insanitary conditions. On the basis of this sample, GAO projected that 1,800 plants in the 21 States were operating under insanitary conditions. Further, FDA officials stated that conditions at plants in the 21 States would be representative of conditions nationwide.

Although responsibility for sanitation rests with the food manufacturers, factors contributing to the poor sanitation conditions in the industry were FDA's limited resources for making inspections and the lack of timely and aggressive enforcement actions by FDA when poor sanitation conditions were found. Also, FDA's inventory of food manufacturers, used for planning inspections and measuring the scope of its plant inspection responsibility, was not complete or accurate.

Among the recommendations GAO made to HEW were that FDA be required to:

--Periodically select and inspect a representative number of food plants to assess industrywide conditions and report its assessments to the Congress.

--Periodically evaluate the accuracy of the inventory of food plants so that FDA would know the scope of its responsibilities and resources required for sanitation inspections.

--Take a stronger enforcement posture against those plants that show continuing flagrant disregard of the Federal Food, Drug, and Cosmetic Act.

--Issue written notices in all cases of plants not complying with the act and request written responses on actions taken or planned to correct the violations and to insure continued compliance.

HEW concurred in all of GAO's recommendations and stated that a number of corrective actions had been or would be taken.

In the light of the insanitary conditions shown to exist in the food manufacturing industry, GAO recommended that the Congress consider the adequacy of FDA's inspectional coverage of food plants with the resources available under its current appropriations. Also, GAO stated that the

Congress should be aware that FDA relies almost entirely on State and local governments for inspectional coverage of some 500,000 restaurants and retail food stores that receive or ship products interstate. Inspections of these establishments by FDA to the extent necessary to judge whether such reliance is justified would require the use of inspection resources.

To attain additional flexibility in enforcing the Federal Food, Drug, and Cosmetic Act, GAO recommended that the Congress consider amending the law to provide for civil penalties when sanitation standards are violated. (B-164031(2), April 18, 1972.)

Need for action to preclude ineffective or subpotent biological products from being marketed in interstate commerce

Pursuant to the Public Health Service Act, biological products (vaccines, serums, etc.) must be licensed by the Secretary of the Department of Health, Education, and Welfare (HEW) before they may be transported interstate. To obtain a license under that act, manufacturers must produce products which meet standards of safety, purity, and potency. The Division of Biologics Standards (DBS), a division of the National Institutes of Health (NIH), licensed biological products.

Another act, the Federal Food, Drug, and Cosmetic Act, requires that the Secretary of HEW approve a drug for safety and efficacy before it may be introduced into interstate commerce. The requirement for efficacy was added by a 1962 amendment and was to be applied to (1) all drugs approved subsequent to October 10, 1962, and (2) any drugs approved during the period June 25, 1938, to October 10, 1962, which generally were not recognized by scientific experts to be effective in use.

Although it found no evidence of any ineffective biological products licensed after 1962, GAO did find that ineffective products licensed prior to 1962 were being marketed. Seventy-five of the 263 biological products licensed by DBS generally were not recognized--according to the Director of DBS--as being effective by most of the medical profession. All 75 of the products were licensed by DBS prior to the 1962 amendment.

DBS had not required biological products to be effective as a condition of licensing and had not removed ineffective products from interstate commerce because it did not believe that legislative authority existed for such actions. However, HEW's General Counsel ruled that drugs, as defined in the Federal Food, Drug, and Cosmetic Act, included biological products, and the Secretary of HEW took action in February 1972 to require DBS to apply the provisions of the act to biological products.

GAO also found that, of 221 lots of influenza virus vaccines permitted to be released by DBS during 1966, 1967, and 1968, 115 lots failed, according to the manufacturers' own tests, to meet potency tests established by DBS. A licensed product may not be released by a manufacturer for sale until

FOOD AND DRUG ADMINISTRATION (continued)

the manufacturer has completed tests to determine that the product conforms to the standards applicable to its safety, purity, and potency. DBS may require a manufacturer to submit, prior to the release of a product to the public, samples of production lots and the results of the manufacturer's tests. DBS then may either release a lot or reject it when necessary to insure the safety, purity, or potency of the product.

GAO recommended that:

--To stop the marketing of ineffective or subpotent biological products, HEW (1) require NIH to establish milestones to implement the efficacy provisions of the Federal Food, Drug, and Cosmetic Act and (2) monitor NIH's progress in stopping the marketing of biological products determined to be ineffictive.

--HEW require DBS to revise its instructions to provide sufficient controls to preclude vaccines from being released if tests by either the manufacturers or DBS show the vaccines to be subpotent.

HEW stated that it was in full agreement with these recommendations and informed GAO of actions that had been or would be taken. One of the actions taken was to transfer DBS to the Food and Drug Administration on July 1, 1972. (B-164031(2), Mar. 28, 1972.)

Lack of authority limits protection of consumers from harmful products

The Federal Food, Drug, and Cosmetic Act and the Federal Hazardous Substances Act were enacted to protect American consumers from harmful and potentially harmful commercial products. Except with respect to biological products, the Secretary of HEW delegated his responsibility for administering these acts to FDA. GAO examined FDA's actions in fulfilling the intent of the legislation and evaluated the authority provided FDA to protect consumers.

FDA's effectiveness depends largely on its ability to act promptly. GAO found that FDA has had difficulties in removing defective products from markets because, with the exception of records relating to prescription drugs, it lacks authority to obtain access to records needed to identify, examine, and remove products suspected or known to be defective and, without obtaining court action, it lacks authority to (1) detain products from interstate shipment until determination can be made as to whether or not they should be removed from the market, and (2) take steps required to withdraw them.

GAO recommended that the Secretary of HEW propose legislative changes to the Federal Food, Drug, and Cosmetic Act and the Federal Hazardous Substances Act to provide FDA with authority to (1) examine records and data related to the production and distribution of products, (2) detain products suspected or known to be defective, and (3) require firms to recall these products.

FOOD AND DRUG ADMINISTRATION (continued)

GAO also recommended that the Congress consider amending the Federal Food, Drug, and Cosmetic Act and the Federal Hazardous Substances Act to strengthen FDA's authority.

HEW said it was giving serious consideration to the inclusion of GAO's legislative proposals in its legislative program for the Ninety-third Congress. (B-164031(2), Sept. 14, 1972.)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

HEALTH SERVICES AND MENTAL HEALTH ADMINISTRATION

Need for adequate planning to provide for orderly transition in funding methods under title V, Social Security Act

In response to a request from the Chairman, House Ways and Means Committee, GAO reviewed the plans for, and impact of, the change in the method of distributing funds under title V of the Social Security Act that was scheduled to become effective July 1, 1972. GAO was requested to obtain information primarily on (1) plans made and actions taken by the Department of Health, Education, and Welfare (HEW) and the States for an orderly transition from a combination of special project and formula grants to formula grants on July 1, 1972, and (2) the impact that termination of the authority for funding special project grants directly would have on the amount of funds previously made available to individual States.

Of the funds appropriated annually for allocation under title V of the Social Security Act:

--50 percent were available for distribution to States, on the basis of formulas, for maternal and child health services and for services for crippled children.

--40 percent were available for special project grants for maternity and infant-care services, health services for children and youths, and dental health services for children and youths.

--10 percent were available for supporting training and research projects as authorized by the act.

Title V stipulated that, for fiscal year 1973 and subsequent years, 90 percent of the funds would be available for distribution to the States through formula grants, thus terminating the authority for making 40 percent available for special projects.

GAO reported that, on the basis of the formula used for fiscal year 1972, the termination of authority for special project grants would result in a substantial change in the amount of funds made available to many States. GAO estimated that (1) 37 States and Guam would receive additional funds of about $31 million, and (2) 13 States, the District of Columbia, Puerto Rico, and the Virgin Islands would experience reductions of about the same amount. The change in the method used to distribute funds also could result, according to GAO, in a substantial shift in emphasis from maternal and child health programs to crippled children's programs and could have a substantial impact on the health services being provided within the States.

GAO also reported that HEW had made no plans for an orderly transition from a combination of special project and formula grants to formula grants and that few States had made plans for the transition, primarily because of the lack of Federal guidance. Although the impact of the transition on existing projects could not be fully assessed in the absence of State plans,

responses from States in which the major portion of the existing projects were located indicated that most of these States would reduce funding of their projects.

GAO suggested to the Committee that, if an orderly transition were to be achieved, the termination date for Federal funding of special project grants would have to be extended beyond June 30, 1972. Subsequently, the Congress extended the termination date to June 30, 1973.

In its report to the Committee, GAO stated that, prior to the new termination date, HEW should:

--Consider revising the formula being used to allocate title V funds among States, to lessen the immediate impact of large reductions in funds on States having concentrations of low-income families.

--Reconsider its practice of dividing formula funds equally between the maternal and child health program and the crippled children's program after making a determination of the types of services which can be provided under each program.

--Advise each State of the estimated amount of funds it will receive and the services it must provide subsequent to the revision in fund distribution methods.

--Assist each State in developing plans to adjust to the new funding levels with a minimal disruption of services.

(B-164031(3), June 23, 1972.)

Need for improved controls over changes in use of medical facilities financed with Hill-Burton program funds

The Health Services and Mental Health Administration (HSMHA), Department of Health, Education, and Welfare (HEW), is responsible for the administration of the hospital and medical facilities construction grant program authorized by title VI of the Public Health Service Act, commonly known as the Hill-Burton program. Under this program, HSMHA makes grants for the construction of certain types of hospital and medical facilities for which a need is certified to exist by the responsible State agency.

In a review of certain aspects of the Hill-Burton program, GAO noted that some grantees, after receiving Federal assistance for the construction of specific types of medical facilities, had redesignated and used a part of the facilities for other purposes without obtaining approval.

In one case, HEW approved an application from a hospital for Federal assistance to (1) construct a new diagnostic and treatment unit and (2) reconstruct several floors of the hospital. The reconstruction project was to

provide about 247 (later reduced to 224) long-term-nursing-care beds. When the hospital applied to the State for the annual renewal of its hospital license on December 1, 1969, shortly after the reconstruction had been completed, only 49 of the 224 beds which had been constructed with Federal assistance were shown on the application as long-term-nursing-care beds. Hospital officials advised GAO that the other 175 beds in the reconstruction project were licensed and used for general-care purposes or were unoccupied.

State planning documents showed that, at the time the Federal financial assistance was approved, a need existed for long-term-nursing-care beds in the area where the hospital was located but that a need did not exist for general-care beds. A State official advised GAO that the bed reclassification by this hospital had contributed to both the shortage of long-term-nursing-care beds and the excess of general-care beds in the local area.

It was GAO's belief that, because projects are approved for Federal financial assistance under a priority system based on need, it would be desirable to have a procedure requiring review and approval by HEW and the responsible State agencies of proposed changes in the use of facilities to insure that the changes are merited.

Although HEW did not agree that Federal approval should be required, it did agree with GAO's proposal that grantees be required to obtain approval from their State agencies for proposed changes in the use of facilities constructed with Hill-Burton funds. HEW stated that it had an understanding with grantees that (1) changes from one eligible use to another must not exceed the requirements for the facility category shown in the HEW-approved State plan and (2) the State agency would be notified before such changes took place. HEW advised GAO that, to strengthen this long-established policy, it planned to require that applicants for Hill-Burton funds include statements in their applications that they would not convert any parts of their proposed facilities from one use to another without State approval. HEW also advised GAO that it planned to require, as GAO had recommended, that State agencies establish policies and procedures for monitoring and approving changes in the use of facilities constructed with Hill-Burton funds. (B-164031(2), Mar. 23, 1972.)

BLANK PAGE

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

NATIONAL INSTITUTES OF HEALTH

Improvement needed in management of construction grants for health research and teaching programs

The National Institutes of Health (NIH) makes grants to assist in financing the construction of facilities for use in health research teaching programs. The objectives of the programs are to prevent and control the many crippling and killing diseases affecting the Nation's population and to alleviate shortages of physicians and other professional health personnel.

In reviewing these programs GAO found that, since the NIH system for awarding health research facilities grants was based primarily on the individual scientific merits of each proposed project, many approved applications had not been funded. GAO recommended in a report issued to the Secretary, HEW, on June 16, 1972, that, to obtain the most benefits from the health research facilities construction program, HEW determine systematically the nature and dimensions of the Nation's health research needs, including assessing the existing research efforts and capabilities by area, discipline, and disease, and establish program objectives and priorities on the basis of such determinations so that these needs can be met within the constraints of available funding limitations.

HEW concurred with the recommendation and stated that it would develop a program plan if research facility program funds again became available. According to NIH, funds were not requested for this program in recent years because of overall constraints on funds.

GAO also found, in a review of seven research facilities which had been completed for more than 2 years, that none had attained the research personnel levels projected in the grant applications. At five of these facilities, space was being used for research in areas other than the specific areas to which the grantees had committed themselves as conditions of the grants. Similar problems were noted in the use of space at a completed teaching facility. The law provides for recovery of Federal funds when facilities are not used for the purposes for which constructed.

GAO recommended that HEW:

--require applicants for grants to submit detailed information on the proposed use of space, and

--establish appropriate follow-up procedures to insure that the grant-funded facilities are being used for the purposes for which they were constructed, and either concur in such uses or seek appropriate recoveries.

HEW concurred with these recommendations and informed GAO of corrective actions which had been or would be taken. (B-164031(2), June 16, 1972.)

BLANK PAGE

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

OFFICE OF EDUCATION

Improved administration needed in New Jersey for Federal program of aid to educationally deprived children

Title I of the Elementary and Secondary Education Act of 1965, administered by the Office of Education, provides financial assistance to local educational agencies to meet the special educational needs of educationally deprived children residing in areas having high concentrations of children from low-income families. In a report dated April 7, 1971, GAO expressed the belief that a substantial part of the title I program in Camden, New Jersey, funded at about $1 million annually, had provided general aid to the public and private school systems there rather than aid to educationally deprived children as prescribed in the act.

GAO recommended that HEW review those projects in Camden that appeared to be inconsistent with the objectives of the act and effect recoveries of, or make adjustments in, title I funds where warranted.

HEW advised GAO that the Office of Education, in conjunction with State officials, would conduct a thorough review in Camden and make prompt recoveries or appropriate adjustments of all amounts found to have been expended for purposes, or in a manner, inconsistent with title I objectives or regulations. GAO was informed in August 1971 that a task force had been established to study its findings and determine the amount of recoveries to be effected.

In response to questioning during hearings by the House Subcommittee on Appropriations in February 1972 on its appropriations for 1973, the Office of Education submitted for the record a statement in which it said that it had conducted an on-site visit, interviewed both State and local officials, examined relevant information, and prepared a report on its findings. The Office of Education also said in its statement that it was preparing a letter, on the basis of its report, to send to the New Jersey Commissioner of Education stating the Office of Education's preliminary determination as to the amounts due for recovery.

Office of Education officials advised GAO in September 1972 that the letter had not been sent to the New Jersey Commissioner of Education but that one was being prepared. GAO is reporting herein on the status of this matter because the report prepared by the Office of Education indicated that further action was warranted. (B-164031(1), Apr. 7, 1971.)

Federal program of aid to educationally deprived children in Illinois can be strengthened

In a report dated June 22, 1972, GAO expressed the belief that, under the title I program, local educational agencies in Chicago, Harrisburg, and Rockford, Illinois, implemented projects that provided new or additional

services which otherwise might not have been available, or which would have been available only on a limited basis, to educationally deprived children.

GAO noted, however, that certain areas in program operation and administration required special attention by management officials to help insure that their programs were having the maximum impact on the educationally deprived children and recommended that HEW work with the State and local educational agencies or take other necessary action to insure:

--That project objectives are developed in measurable terms and that techniques and procedures for evaluating the success of the projects are devised.

--That current and complete data on the number of children are used in determining school attendance areas eligible to participate in the program.

--That comprehensive assessments are made of the needs of educationally deprived children.

--That the title I program (1) is concentrated in a limited number of eligible school attendance areas and is providing a variety of services to the participating children, (2) is focused on the most educationally deprived children, (3) is extended to eligible non-public-school children, and (4) involves parents and other groups in the community.

--That equipment purchased with title I funds is being used to meet the needs of educationally deprived children and, if no longer used for such purposes, is properly disposed of.

HEW concurred in GAO's recommendations and described actions it had taken or planned to take to implement them. (B-164031(1), June 22, 1972.)

Opportunity for increased effectiveness of the Teacher Corps program

In a report assessing the effectiveness of the Teacher Corps program in attaining its legislative objectives, GAO noted that the program strengthened educational opportunities for children in low-income area schools where corps members were assigned. Corps members introduced several innovative teaching methods and projects not previously used in the schools and participated in education-related community activities. Almost 75 percent of the corps members covered by the GAO review remained in the field of teaching and, of these, almost 80 percent became teachers in schools serving poor areas. Also, some degree of success was achieved in accomplishing the Teacher Corps' second legislative objective--broadening teacher preparation programs.

OFFICE OF EDUCATION (continued)

The program could have been more effective if local educational agencies had continued successful innovative methods after corps members completed their assignments and if the participating universities had established formal procedures for evaluating and incorporating useful ideas, experiments, and techniques into their teacher preparation programs. Also, State departments of education and the Office of Education needed to take a more active role in disseminating information about successful features of the Teacher Corps program.

By letter dated August 24, 1972, HEW stated that it concurred with GAO's recommendations and that a number of actions had been or would be taken to strengthen the Teacher Corps program. (B-164031(1), July 14, 1972.)

Need for improved coordination of federally assisted student aid programs in institutions of higher education

The Office of Education administers four major programs providing financial aid to students attending colleges, universities, and vocational schools. These include the Guaranteed Student Loan program, the National Defense Student Loan program, the College Work-Study program, and the Educational Opportunity Grant program. The four programs provided assistance of about $1.7 billion to approximately 2.3 million students in fiscal year 1971. GAO examined the coordination of these programs because student enrollment and tuition costs have increased significantly in recent years and have added to the demand for financial assistance and to the Government's potential liability in the case of defaulted loans.

In an August 1972 report to the Congress, GAO pointed out that seven of eight institutions visited generally awarded aid to students under Office of Education programs that require a showing of need without considering whether the students also had obtained or requested loans from lending institutions under the Guaranteed Student Loan program. As a result, some students were provided with aid in excess of their indicated financial needs and some students borrowed under both loan programs and incurred large debts that could be difficult to repay.

GAO reviewed 400 student aid cases selected at random from a list of approximately 6,500 students who had obtained loans under the Guaranteed Student Loan program. Of the 400 students, 57 (14 percent) were awarded aid totaling about $51,800 in excess of their indicated financial needs. On the basis of the sample, GAO estimated that 900, or 14 percent of the 6,500 students, had been provided with aid totaling at least $761,000 in excess of their indicated needs.

GAO also noted that some institutions have not had sufficient Federal aid funds to meet the financial needs of their students and that students who received excess aid made such aid unavailable to others who qualified.

OFFICE OF EDUCATION (continued)

GAO recommended that HEW direct the Office of Education to:

--Require institutions of higher education to establish procedures for coordinating assistance provided under Federal student aid programs which require a showing of financial need with any assistance provided under the Guaranteed Student Loan program and other school-administered aid programs.

--Monitor implementation of the procedures to preclude awarding assistance in excess of students' financial needs.

By letter dated April 24, 1972, HEW stated that it concurred with the intent of GAO's recommendations. However, before deciding on whether to implement the recommendations, HEW planned to determine the magnitude of the coordination problem nationwide, by requiring institutions of higher education to provide data on total student aid awards.

GAO believes that such data may not be adequate for determining the extent of the coordination problem. The data must also show students' total resources (aid, parental contributions, and student income or savings) that are to be applied toward the costs of their education. GAO intends to stay abreast of the progress of HEW's study and to determine, on the basis of the study results, whether appropriate action was taken.

GAO also suggested that the Congress consider establishing an overall limitation on the amount that a student may borrow when participating in more than one loan program. (B-164031(1), Aug. 2, 1972.)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL AND REHABILITATION SERVICE

Problems in attaining integrity in welfare programs

In March 1972, GAO reported to the Congress on the effectiveness of the quality control system used by States to insure that public assistance funds are being provided to eligible persons only and that public assistance programs are being managed fairly and efficiently. This system was developed by the Department of Health, Education, and Welfare (HEW) in 1964. In October 1970, HEW required the States to implement a revised quality control system.

GAO informed the Congress that the revised system had not accomplished its purpose of maintaining integrity over the public assistance programs. In a review of the system used by eight States--California, Colorado, Louisiana, Maryland, Michigan, New York, Ohio, and Texas--GAO noted that these States had not fully implemented the revised system and had encountered problems in implementing, operating, and carrying out the quality control function.

HEW had decided that the revised system should be implemented as soon as possible after its design was completed. GAO reported that HEW was not ready, however, to deal with many of the complexities of implementing a system that required close cooperation between the Federal Government and the States. GAO reported further that HEW regional offices, because of insufficient staff and limited knowledge of the system, usually were able only to react to State problems as they occurred rather than to anticipate them and assist States in avoiding the problems.

On the State level, GAO noted that problems varied in intensity from State to State. Two States--California and New York--had not implemented the Federal system statewide as of July 1971 but had attempted to use other methods to control public assistance expenditures. The methods used were not designed to meet Federal objectives.

The remaining six States--which implemented the system statewide--encountered one or more of the following problems.

--Staffing. As of April 30, 1971--7 months after the Federal system was to be implemented--only Colorado and Michigan had met their staffing needs. Insufficient staffing continued to be a major problem.

--Investigations. HEW specified the number of cases to be reviewed in each State so that reliable statistical projections could be made concerning the total number of cases. None of the six states completed the required number of quality control reviews for the first quarter, October to December 1970, although Colorado and Ohio came close. For those cases that were reviewed, ineligibility rates or incorrect payment rates generally were high.

--Verification. HEW requires that independent verification and documentation of all aspects of eligibility and payment be pursued to the

point at which decisions on eligibility and the amounts of payment are conclusive. About 90 percent of the completed quality control reviews analyzed by GAO had not done this.

GAO recommended that HEW:

--Insure, through appropriate efforts, that top State officials are aware of the benefits to be derived from an effective quality control system.

--Increase headquarters and regional office quality control staffs to a level at which they can effectively assist and monitor State quality control operations.

--Define, for the guidance of State and local quality control reviewers, necessary steps to be considered as requirements in determining recipients' resources, incomes, and other eligibility factors so that quality control investigations can provide conclusive findings.

HEW informed GAO that (1) its regional commissioners were taking vigorous action to insure that States which did not have fully operational quality control systems complied with Federal regulations, (2) training seminars were being conducted for its regional staff so that they could provide assistance to States for realizing fuller use of quality control as a management tool, (3) as of March 1972 all but one of the 55 quality control staff members authorized for its headquarters and regional offices had been hired, and a request had been submitted to the Congress for additional staff members, and (4) it was developing additional guidelines for issuance to State agencies so that quality control investigations could provide conclusive findings. (B-164031(3), Mar. 16, 1972.)

Problems in functioning of State systems for reviewing use of medical services financed under Medicaid

At the request of the Chairman, House Committee on Ways and Means, GAO reviewed the functioning of the utilization review systems under the Medicaid program in Missouri and Florida. The purposes of the review systems are to safeguard against unnecessary medical care and services and to insure that Medicaid payments are reasonable and consistent with efficiency, economy, and quality care.

GAO concluded that the utilization review system in Missouri was operating in a satisfactory manner and was producing positive benefits. Over a 1-year period, payments to hospitals were reduced by about $260,000 and payments to physicians were reduced by about $715,000. Florida's utilization review system, like Missouri's, produced positive results. The use of claims-processing procedures resulted in reducing claims for payment by hospitals by about $268,000 over a 4-month period. Claims for payment for skilled nursing-home care were reduced by about $222,000 during an 11-month period. Nevertheless, GAO noted opportunities for improvement.

SOCIAL AND REHABILITATION SERVICE (continued)

GAO recommended that HEW assist the State of Missouri and monitor Missouri's actions to

--periodically evaluate the effectiveness of utilization review controls, and

--expand the utilization review of hospital care to increase the number of hospitals covered and the incidence of evaluations of the need for continued care.

GAO recommended that HEW assist both States and monitor their actions to

--provide for the systematic accumulation of data enabling a comparison of the costs of utilization review with the benefits it provides, and

--study the HEW model system for the purpose of adopting design features offering opportunity for improvement.

HEW informed GAO that the Social and Rehabilitation Service had established the study and improvement of utilization review systems as one of its priorities. HEW also stated that, in those States that were implementing the SRS utilization review system, it planned to identify and try to correct any problem areas the States might encounter in implementing the system. (B-164031(3), Mar. 27, 1972, and June 9, 1972.)

Need for guidance to States in establishing rates of payment for nursing home care under Medicaid program

HEW administers the Medicaid program under which the Federal Government pays part of the State's cost of nursing home care provided to persons unable to pay for such care.

GAO reported to the Congress in April 1972 that HEW had not

--formulated and issued appropriate criteria and requirements to guide the States in establishing rates of payment for nursing home care,

--enforced the requirement of the Social Security Act that State plans include a description of the methods and procedures used in establishing payment rates, or

--instituted effective policies and procedures for reviewing and evaluating methods and procedures actually being used by the States in establishing payment rates.

GAO believed that the administration of the Medicaid nursing home program could be significantly improved through HEW's issuance of definitive criteria to guide States in establishing payment rates. These criteria should consider

such matters as frequency of rate setting, use of audited cost data, allowability of items to be included in the rate, limitations on allowances for inflation and profit, desirability of home-by-home rate setting, and recognition of differences caused by demographic characteristics when group rates are used.

GAO recommended that HEW:

--Instruct the Social and Rehabilitation Service (SRS) to expedite the formulation and issuance of appropriate criteria and requirements for guiding States in the establishment of payment rates for nursing home care.

--Require that States furnish periodically for review by HEW's regional offices detailed descriptions of the methods followed in establishing payment rates.

--Require that SRS review periodically States' implementations of the prescribed criteria to help insure the proper and efficient administration of the Medicaid nursing home program.

HEW advised GAO that:

--It would issue formal guidelines for implementing the nursing home reimbursement regulation by June 15, 1972.

--It was preparing proposals for studies on nursing home costs which would have significant bearing on future departmental policy governing reimbursement for skilled nursing home services and lead to guides which would assist States in adopting general reimbursement principles.

--It intended to make program reviews in each State on a continuing basis with emphasis on reimbursement methods.

--States would be required to furnish periodically for review by HEW's regional offices detailed descriptions of the methods followed in establishing payment rates.

(B-164031(3), Apr. 19, 1972.)

Problems in collection of child support under program of aid to families with dependent children

At the request of the Chairman, House Committee on Ways and Means, GAO examined into the collection of child support from absent parents whose children are receiving assistance under the aid to families with dependent children (AFDC) program. The examination was made in four States. The AFDC program is administered by the States, and general guidance is provided by HEW.

An absent father who is financially able but does not contribute to the support of his public assistance-receiving family causes taxpayers (through Federal and State Governments) to carry a financial burden which should be borne by the parent.

In line with the requirements of the Social Security Act, HEW regulations require States to have a program for establishing paternity for children born out of wedlock and for securing financial support for these and all other children being aided under the AFDC program who have one or both of their parents absent from the home. In addition, each State is required to establish a separate unit for carrying out these support enforcement activities.

In March 1972 GAO reported to the Committee that opportunities existed to increase substantially the amount of child support collected from absent parents. HEW has not emphasized the collection of child support because there is a shortage of regional staff and because this activity represents a small part of the total effort needed to administer the AFDC program. Nor has HEW required States to report regularly on their accomplishments in securing child support. Consequently HEW has not been in a position to provide guidance to the States to assist them in overcoming problems in their support enforcement programs.

In three States the responsibility for establishing paternity, locating absent parents, and securing support was fragmentized. Also, these States did not routinely collect and analyze pertinent data regarding their programs for collection of child support. Consequently they did not have a sound basis for evaluating the effectiveness of their programs. The fourth State, Washington, was achieving the best results, principally because emphasis was placed on encouraging absent parents to contribute to child support voluntarily and State laws and regulations emphasized the responsibility of absent parents for the financial support of their children.

GAO recommended that HEW initially review each State's child support enforcement program

--to determine how effective the program had been in identifying and locating absent parents and in securing child support,

--to identify problems encountered by the State in its support enforcement program, and

--to find ways to assist the State in solving its problems.

GAO recommended also that, to fulfill its continuing responsibility for the oversight of the States' support enforcement activities and to assist the States in increasing the effectiveness of their programs, HEW should

--adopt procedures for monitoring the States' support enforcement programs;

SOCIAL AND REHABILITATION SERVICE (continued)

--require States to periodically report to HEW statistical information, such as the number of cases involving absent parents and the amount of support collected, and accomplishments and problems encountered;

--disseminate to all States information on particular accomplishments or organizational or operational features of either States or HEW regional offices that might assist other States in improving their programs; and

--encourage States to consider the features of the State of Washington's program that had contributed to its success and, when practicable, to adopt those features that would strengthen their support enforcement programs.

(B-164031(3), Mar. 13, 1972.)

Excessive payments to States for administrative expenses of public assistance programs

The Federal Government shares with the States the expense of administering the public assistance programs for the needy--the States spent $1.3 billion for this purpose in fiscal year 1970; the Federal share was about $800 million.

GAO reviewed the payments made by HEW to two States and found that they exceeded authorized amounts by $3.7 million in two counties in one State--California--and by $1.7 million Statewide in the other State--Pennsylvania. State officials estimated that, Statewide, the excessive payments could have amounted to $7 million in California.

GAO noted that the excessive payments to California could have been avoided if HEW had promptly reviewed claims and had disapproved those which exceeded authorized amounts. Excessive payments to Pennsylvania could have been avoided if HEW had promptly (1) resolved questions concerning payment rates and conditions to be met in making claims and (2) determined whether the amounts claimed were proper.

GAO recommended that HEW insure that:

--Issues relating to claims are resolved promptly.

--When issues are unresolved, States be directed to claim payment at the lower rates until the issues are resolved.

--States adhere to prescribed conditions and rates of payment.

--When payments in excess of authorized amounts are identified, prompt actions be taken to recover the excess payments.

SOCIAL AND REHABILITATION SERVICE (continued)

GAO recommended also that the HEW Audit Agency give increased attention to evaluating the effectiveness of State procedures for claiming administrative expenses.

HEW informed GAO of various actions it had taken or was considering to meet the objectives of GAO's recommendations.

Pennsylvania repaid the excess amount in question, but California did not agree that its claims had been excessive. California contended that the lack of a definitive response from HEW had led it to believe that its approach eventually would be approved and that, because of the tacit approval, exceptions to payments made seemed unjustified. HEW was negotiating with California to settle the questioned payments. (B-164031(3), Feb. 7, 1972.)

BLANK PAGE

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION

Need for improvement in systems designed to assure that physicians' services are medically necessary

Since the advent of Medicare and Medicaid--and the legislative requirement to prevent payment for unnecessary medical services--HEW and its paying agents have devoted much effort to developing and implementing utilization review systems designed to detect and prevent payments for physicians' services provided unnecessarily to Medicare and Medicaid patients. GAO reviewed the safeguards used by seven paying agents in five States to evaluate the progress that had been made.

Each of the paying agents included in GAO's review had established procedures which helped to identify instances of unnecessary services, for which payments were disallowed. Six of the agents reported that they had disallowed payments of $8.6 million during the first 6 months of 1971 for services found to be medically unnecessary. GAO believed, however, that opportunities existed for further savings by improving the paying agents' procedures, which had been independently developed and varied widely.

GAO recommended that HEW evaluate the overall effectiveness of the paying agents' utilization review systems to identify the more effective features or procedures of each system and provide information to the paying agents as to which systems and/or procedures are most effective and should be adopted.

GAO recommended also that HEW (1) provide guidance to paying agents for identifying the patterns of medical services which warrant further investigation to determine whether unnecessary services were provided, encourage their investigation to the fullest extent possible, and require that evaluations of the need for medical services be based on professional medical judgment, and (2) establish procedures for effective exchange of data on known or potential utilization problems and monitor the exchange of such data.

HEW agreed that there was a need for improvement in the utilization review systems being used by paying agents and outlined several actions it had taken or proposed to take to improve the utilization review function. (B-164031(4), Aug. 2, 1972.)

SOCIAL SECURITY ADMINISTRATION (continued)

Questionable payments to hospitals for costs of health services

Federal payments to hospitals for health services provided to Medicare patients usually are made through fiscal intermediaries acting under contracts with HEW. The contracts are administered by the Social Security Administration (SSA).

GAO made a review at 14 hospitals to determine whether the Federally-prescribed systems and procedures were adequate to insure that Medicare payments to hospitals were in accordance with the law and regulations.

Although most of the payments were correct, GAO noted several problem areas in the administration of the existing systems and questioned net charges of about $622,000 to Medicare for payments made by the intermediaries. These questionable payments were made because:

--Hospitals had difficulty in identifying the costs of services and activities not covered under the Medicare program--such as private-duty nurses; convenience items, such as television and telephone services; and research, educational, or commercial activities which are not directly related to the care of Medicare patients.

--Hospitals did not apply certain non-patient revenues or other monies as offsets to reimbursable costs as required by HEW regulations.

--Certain hospital costs were incorrectly allocated between inpatient and outpatient activities.

--Statistical and payment data used by hospitals in computing Medicare's share of the hospital costs and/or in computing the cost settlements were incomplete or inaccurate because (1) there were errors in computer programs and (2) hospitals and intermediaries did not consider the most current data available at the time of the audits and settlements.

--Hospitals charged Medicare more than the hospitals paid for the services rendered by radiologists and pathologists.

GAO recommended that HEW--through SSA--(1) communicate to all intermediaries the problem areas of hospital reimbursement discussed in GAO's report and (2) emphasize to all intermediaries the need for improving audits to better assure that payments made under the current Medicare reimbursement system are in accordance with the law and regulations. (B-164031(4), Aug. 3, 1972.)

SOCIAL SECURITY ADMINISTRATION (continued)

Problems in collecting overpayments to institutions terminating their participation in Medicare program

GAO made a review to find out why health care institutions were leaving Medicare and whether Federally-prescribed systems and procedures were adequate to insure that terminated institutions refunded any amounts due the Government.

While institutions have terminated their participation in Medicare for a variety of reasons, GAO believed that actions already proposed by the Congress and HEW should reduce many of the objections to the program which were mentioned by officials of the institutions as reasons for leaving it.

Many of the institutions that terminated their participation in Medicare owed the Government sizeable amounts totaling millions of dollars. These debts resulted from overpayments by intermediaries, who act as fiscal agents for SSA in reviewing and paying Medicare benefit claims to health care institutions. Most of the overpayments resulted from the intermediaries' making interim payments that were higher than the actual cost of providing services to Medicare patients. Interim payments are made on the basis of estimated costs, and adjustments are supposed to be made after the institutions file annual reports of actual costs which are subject to audit by the intermediaries.

GAO found that the efforts of both the intermediaries and HEW to recover overpayments had been only partially successful. When an overpayment to an institution has been identified, the intermediary generally has two ways to recover it within the present legislative framework and SSA instructions. These are to offset the overpayment against other Medicare amounts due the institution or obtain a refund from the institution. GAO recommended that management controls be designed to enable SSA to more effectively manage its collection activities. GAO also recommended that, to reduce overpayments, HEW take actions to obtain closer adherence by intermediaries to existing SSA instructions for estimating costs.

While improvements in existing instructions and procedures would help avoid or minimize overpayments, there also was a need for better means of obtaining refunds from institutions that were overpaid. Since many of the institutions that terminated their participation in Medicare without refunding overpayments continued to participate in State Medicaid programs, which are to a large extent Federally-financed, GAO recommended that the Congress authorize HEW to withhold--subject to appropriate advance notice to a State--Federal participation in State Medicaid payments to those institutions that terminate from Medicare and refuse to refund Medicare overpayments.

On March 20, 1972, the Senate Committee on Finance announced that, in connection with its deliberations on the Social Security Amendments of 1971 (H.R. 1), it had decided to initiate an amendment to the law along the line recommended by GAO. (B-164031(4), Aug. 4, 1972.)

SOCIAL SECURITY ADMINISTRATION (continued)

Excessive cost of providing durable medical equipment to Medicare patients

In a review made to see if the Medicare law was promoting the most economical ways of providing durable medical equipment, such as wheelchairs, hospital beds, and respirators, used by Medicare patients in their homes, GAO found that it was not. Medicare patients often rented durable medical equipment even when the periods of need--as estimated by their physicians--were long enough to justify purchase. Based on an analysis of samples selected from the claims of 20,000 patients at six Medicare insurance carriers in five States, GAO estimated that savings of nearly $1 million could have been realized for the 20,000 patients if equipment had been purchased when the anticipated period of need indicated that purchases would have been more economical than rentals.

The original Medicare law provided only for rental of equipment for use in patients' homes. In January 1968 the Congress amended the law to authorize either purchase or rental but required Medicare to pay for purchases of "expensive" equipment costing over $50 in periodic installments equal to rental payments. The amendment was intended to prevent Medicare payments for the purchase of costly equipment used or needed for only a short time.

If a Medicare patient dies, recovers, or is hospitalized, Medicare installment payments are stopped even though the patient or his estate may not have been fully reimbursed for the purchase price. A factor that led patients to rent equipment even though their physicians indicated that the equipment would be needed for a long time was their inability to afford to make lump-sum purchase payments which were reimbursable by Medicare only through installments. GAO recognized that the best solution to this problem might vary from area to area and believed that HEW should have flexibility in finding the best solution in a given locality.

GAO recommended that the Congress amend the Medicare law to enable HEW to deal more effectively with the problem by including authority to (1) make lump-sum payments for purchases of equipment when, on the basis of anticipated periods of need, purchase appeared to be more economical than rental, and (2) enter into agreements with suppliers aimed at limiting rental payments after they exceed the purchase prices by specified percentages.

HEW agreed with GAO's recommendations. Further, on March 17, 1972, the Senate Committee on Finance announced that, in connection with its deliberations on the Social Security Amendments of 1971 (H.R. 1), it had decided to initiate an amendment to the Medicare law along the lines recommended by GAO. (B-164031(4), May 12, 1972.)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Contents

BLANK PAGE

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

COMMUNITY DEVELOPMENT

Stricter enforcement of housing codes needed

The Congress directed that communities, to be eligible for Federal housing programs, adopt and enforce codes to prevent deterioration and decay of housing and stop the spread of blight. Also the Congress established the Code Enforcement Grant Program, administered by the Department of Housing and Urban Development (HUD), to assist communities financially in enforcing housing codes.

Ineffective local code enforcement

The General Accounting Office (GAO) reviewed code enforcement activities in 29 communities and found that 28 of them had not enforced housing codes effectively and that HUD had not used its legislative authority to stop funds for other Federal housing programs until they did so.

HUD had continued to certify cities as eligible for Federal assistance without insuring that they had effective citywide code enforcement. Community resistance to adopting and carrying out local code enforcement is a difficult problem, causing HUD to emphasize construction of low- and moderate-income housing and to give a low priority to code enforcement. In GAO's opinion, HUD had been continuing piecemeal, sporadic thrusts at a problem which should have been attacked in all its aspects simultaneously.

GAO recommended that HUD (1) promote the acceptance of the benefits to homeowners of effective code enforcement, (2) set minimum requirements for certification of a community's workable program, which must include information showing the community's progress in adopting and enforcing housing codes and be certified by HUD before the community is eligible for other urban renewal programs, and (3) apply, nationwide, a new requirement initiated by one HUD area office for code inspection and compliance as a condition for Federal Housing Administration mortgage insurance.

HUD acknowledged that more needed to be done and said that it planned to work with the cities to develop their techniques and capacities for evaluating the adequacy and effectiveness of local code enforcement activities.

Projects approved for inappropriate areas

The objectives of the Code Enforcement Grant Program were to prevent the spread of blight and to preserve good neighborhoods by using Federal aid to restore basically sound housing which was beginning to deteriorate. HUD had frequently approved projects in areas where housing was too deteriorated for code enforcement to work. GAO's review of 10 projects in two HUD regions showed that only three were in areas appropriate for code enforcement and that seven were in areas which should have been either rehabilitated or redeveloped.

HUD's guidelines for selecting appropriate code enforcement areas were inadequate because they did not take into consideration the degree of deterioration in the structures and the incomes of property owners. Intensive

deterioration coupled with low incomes results in the owners being unable to make the repairs necessary to bring their properties into compliance with housing codes.

GAO recommended that the Secretary of HUD reemphasize the slum prevention objective of code enforcement and establish criteria to insure that the program be used only in areas appropriate for preventing housing deterioration.

HUD said that it planned to implement several management changes in its criteria for site selection. HUD did not agree, however, with GAO's suggestion that HUD's site-selection criteria include provision for more intensive testing of the degree of deterioration in proposed project areas and the extent of poverty in the areas.

Deficiencies in staffing and monitoring code enforcement projects

GAO found that additional time and administrative costs had been incurred because HUD had not adequately reviewed the communities' plans to insure that the proposed staffing would be adequate to complete the code enforcement projects in the approved time periods. Also, HUD had not adequately monitored the projects to identify and correct problems causing delays. In response to GAO's recommendations, HUD said that it planned to implement administrative changes to improve its management of the program.

Overemphasis on public improvements

GAO found that as of June 30, 1970, about 54 percent of all code enforcement funds approved by HUD had been for public improvements. GAO believes that the Congress intended that the code enforcement program should concentrate on preventing housing deterioration and arresting blight and that spending for public improvements (paving streets, repairing sidewalks, etc.) should be minimal.

GAO recommended that the Secretary of HUD have procedures established to provide for a more critical review of requests for public improvements. To do so, HUD would have to revise its criteria to provide sufficient and adequate guidance for approving public improvements in code enforcement projects. HUD commented that, although it believed public improvements were important to the success of the program and, in some cases, essential public improvements were keys to the success of the projects, it was reviewing its present policy and expected to provide clearer guidelines as part of its overall review of the program. (B-118754, June 26, 1972.)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING PRODUCTION AND MORTGAGE CREDIT

Benefits could be realized through reuse of designs for public housing projects

Most of the 2,500 public housing projects approved and subsidized by HUD since July 1965 have been based on individual designs. Since designs are often reused in the construction of private housing, motels, schools, and other public and private buildings, GAO made a review to determine the benefits that might feasibly be realized by reusing designs in the construction of public housing projects.

GAO's review showed that construction of public housing could be expedited and that project costs could be significantly reduced if designs were reused.

One of the major benefits of reusing designs is that construction can be started earlier. Information obtained during GAO's review indicated that construction of public housing projects could be started from 5 to 19 months sooner when designs were reused.

GAO's review showed also that reuse of designs could result in reductions in (1) design costs and (2) labor and material costs, because of the avoidance of price escalation. GAO estimated that such cost reductions could have amounted to about $31 million in fiscal year 1970 if 50 percent of the projects placed under construction during that year had been based on existing designs.

Over 55 percent of the 700 housing projects placed in construction during fiscal year 1970 were turnkey projects for which local housing authorities (LHAs) had not acquired title to the designs.

GAO recommended that HUD implement procedures to encourage greater reuse of designs for public housing projects and require that LHA contracts with developers under the turnkey method provide for acquiring title to designs so that they will be available for reuse on other turnkey projects and on conventional projects also.

HUD agreed that there was potential for economies in reusing designs modified to fit different sites, but stated that there were constraints which limited the degree to which reuse of designs was feasible to produce savings.

HUD stated that public housing should not become standardized and must reflect the architectural standards of the neighborhood and community. Since an inventory of approximately 1,400 designs could be made available to LHAs for selection, GAO believes that such variety would preclude the necessity of duplicating a project in any one community.

HUD stated also that implementation of design reuse would involve an extensive effort and widespread cooperation by LHAs and architectural firms

servicing them, as well as considerable Federal effort in providing assistance. GAO interviews indicated that there is a willingness by both LHAs and architects to participate in the reuse of designs. GAO therefore believes that the Federal assistance needed to promote such a program should be provided and that the costs for such assistance would be minimal compared to the savings in time and costs that could be achieved.

HUD stated that public housing sites differed so widely that completely new site and landscape plans were inevitable. GAO agrees that basic designs generally have to be modified to meet local conditions and foundation requirements but believes that such modifications would not represent a major problem. Representatives of an engineering and building firm stated that necessary changes in basic building designs could be identified and made within 30 days after a proposed site was selected.

Although HUD stated that it hoped to develop a systematic method of bringing superior project designs to the attention of housing authorities on a nationwide basis, GAO believes that HUD's proposal to encourage the reuse of only superior designs would limit the inventory of project designs which LHAs could choose from and would not afford LHAs the opportunity to reuse project designs which go unrecognized but which are otherwise attractive, well-designed, and perhaps suitable to the needs of local communities. (B-114863, Dec. 2, 1971.)

HOUSING PRODUCTION AND MORTGAGE CREDIT (continued)

Benefits could be realized by revising policies and practices for acquiring existing structures for low-rent public housing

The low-rent housing program is designed to make decent, safe, and sanitary dwellings available to low-income families at rents within their financial means. HUD provides financial and technical assistance to LHAs, which develop and/or acquire, own, and operate low-rent public housing projects to accomplish this aim.

To provide low-rent public housing, LHAs use several methods--conventional construction, turnkey, direct acquisition of existing privately owned dwellings, and leasing.

Use of direct acquisition method does not increase housing supply

GAO reviewed HUD's and LHAs' practices and procedures relating to the direct acquisition method of obtaining existing, occupied standard structures and found that, although the method had the advantage of being expedient, it had certain disadvantages which tended to make it less desirable than other methods.

By using the direct acquisition method, the LHAs increased the supply of low-rent public housing but did not directly help to achieve the national housing goal of increasing the housing supply.

GAO's review of 15 projects in eight selected cities or metropolitan areas showed that about $80 million had been expended by the LHAs to acquire the projects without increasing the supply of standard housing by a single unit. HUD's analyses of housing-market conditions showed that, in seven of the eight cities, a need for both subsidized and nonsubsidized standard housing existed at the time of the acquisition of these projects. The LHAs' action, therefore, did not improve the overall condition of the housing market. It appears that, in such cases, the construction of new housing and the rehabilitation of substandard housing would be the preferred method and would use Federal funds more effectively by adding to the supply of standard housing.

GAO proposed that HUD limit its financial assistance to LHAs to the acquisition of privately-owned standard housing at those locations where the supply of such housing exceeds the demand and terminate the acquisition of existing, currently occupied, privately-owned standard housing which is in the planning or early development stages and use the funds instead to finance the construction of new low-rent public housing projects or to purchase and rehabilitate existing substandard housing.

HUD did not agree with this limitation because it felt that such a practice would be too restrictive. HUD commented that, despite an overall demand for unsubsidized housing in a community, for various reasons, some structures would not meet the demand.

HOUSING PRODUCTION AND MORTGAGE CREDIT (continued)

GAO agreed that, if certain standard housing had a high vacancy rate and could be purchased at an acceptable price, acquisition of such housing by an LHA would be beneficial. Of the 15 projects reviewed by GAO, however, all had low vacancy rates.

Acquired units are not being used to house those most in need

GAO's review showed that the acquisition of privately owned standard housing generally had not resulted in substantially reducing the number of families or persons living in substandard housing, because many of the occupants of the acquired housing units had previously lived in standard housing. Some of the families occupying the acquired units had incomes exceeding the established limits entitling them to public housing. Also, some persons were occupying units larger than those suggested in HUD's guidelines.

Because only a relatively small number of the occupants of the acquired housing projects included in GAO's review had previously occupied substandard housing, there appeared to be a need for specific standard admission policies to insure that those families or persons most in need are given preference.

GAO suggested that the Congress might wish to require that LHAs give preference for admission to public housing to occupants of private substandard housing over those who are occupying private standard housing.

Hardships to former occupants of acquired properties

The acquisition of privately owned standard housing has provided standard housing to certain low-income families sooner than it could have been provided under the other methods, but it has resulted in (1) hardships to former occupants of acquired projects who were forced to move and (2) loss of tax revenues to local governments. In some cases, the people forced to move were not given assistance in relocating although such assistance was provided for by HUD regulations. Other displaced occupants were subjected to physical and financial hardships.

GAO recommended that HUD, prior to approving LHAs' acquisition of occupied, privately owned standard housing, require the LHAs to adequately demonstrate that housing of comparable quality and rent exists in the areas and that adequate relocation assistance will be available for tenants who will be displaced.

HUD stated that it was preparing a program description of the direct acquisition method which would provide that relocation responsibilities and requirements be fulfilled in accordance with its relocation handbook that requires the submission of a complete relocation plan.

HOUSING PRODUCTION AND MORTGAGE CREDIT (continued)

Need to assure that prices of acquired properties are reasonable

GAO's review indicated that HUD needed to improve its procedures to provide adequate assurance that the prices of acquired properties are reasonable. GAO recommended that HUD establish appraisal requirements for the direct acquisition method similar to those established for the turnkey method which require that two independent cost estimates be obtained and provide that the total price be no greater than the average of the cost estimates. HUD agreed with this recommendation. HUD stated that revised procedures were being prepared that would include pertinent instructions and regulations. (B-114863, Sept. 7, 1972.)

BLANK PAGE

DEPARTMENT OF THE INTERIOR

Contents

BLANK PAGE

DEPARTMENT OF THE INTERIOR

BONNEVILLE POWER ADMINISTRATION AND BUREAU OF RECLAMATION

Charges for use of Federal electrical power transmission lines should be reevaluated

The Bonneville Power Administration's wheeling rates--fees charged for transmitting non-Federal power over Federal transmission systems--in effect in fiscal year 1970, had not been adjusted for changes in costs and other factors that had occurred after the rates were established in 1956, and the wheeling revenues received in 1970 were inadequate to recover the cost of providing wheeling services.

At its Missouri River Basin Project, the Bureau of Reclamation generally had paid for Federal power transmitted over private transmission systems at a standard rate and had charged the same rate for non-Federal power transmitted over the Federal system. The General Accounting Office (GAO) was unable to determine the basis on which the standard rate had been established or whether the rate was intended to recover the Government's costs of providing the wheeling services. Bureau officials stated that periodic reviews had not been made of the adequacy of the standard rate.

GAO recommended that the Secretary of the Interior (1) establish a policy providing specific criteria as to the cost elements or other factors to be considered by the power agencies in developing wheeling rates and (2) require the power agencies to periodically reevaluate the adequacy of wheeling rates.

With respect to GAO's first recommendation, the Department stated that it had, within general principles, approved established criteria and guidelines for determining wheeling rates, but that specific criteria had not been established because of the complexities involved and the advantages in system management of retaining flexibility of criteria in determining specific wheeling charges. With respect to GAO's second recommendation, the Department stated that the power agencies were continually involved in the determination of the adequacy of the wheeling rates and that each established wheeling rate was reviewed at least once every 5 years.

The Department did not furnish GAO either Department-approved criteria or guidelines which required that wheeling rates be adequate to recover the cost of wheeling services or evidence that periodic reviews of the adequacy of the wheeling rates had been made by the power agencies. In GAO's opinion, the varying circumstances involved in wheeling power and the advantages of having flexible criteria do not overcome the need for a policy which clearly defines the elements of cost to be considered in developing wheeling rates because, in the absence of such a policy, significant variances will continue to exist between and within the agencies relative to the establishment of wheeling rates. In view of its findings, GAO continues to believe that the actions recommended are necessary to recover from wheeling customers the full cost of providing wheeling services and therefore should be implemented. (B-114858, Sept. 29, 1971.)

BLANK PAGE

DEPARTMENT OF THE INTERIOR

BUREAU OF RECLAMATION

Need for revision in interest-rate criteria for determining financing costs of water resource projects

Multipurpose water resource projects are constructed, operated, and maintained by the Federal Government through the Bureau of Reclamation, Department of the Interior, and the Corps of Engineers (Civil Functions), Department of the Army. The Bureau also makes loans to assist State and local organizations in developing small reclamation projects. Costs repayable by project users generally include (1) the Government's investment--land acquisition costs, construction costs, and interest capitalized during construction--and (2) annual interest on the unrepaid investment in the project or loan. The rates at which interest is capitalized and is payable annually on the unrepaid Federal investment in the projects are based on formulas and criteria in existing legislation.

The Water Supply Act of 1958 (43 U.S.C. 390) prescribes criteria for computing interest rates on the Government's investment in municipal and industrial water supply projects. The act requires that interest rates be computed on the basis of the computed average interest rate payable by Treasury on those outstanding obligations which are neither due nor callable for redemption for 15 years from their dates of issue.

GAO's review of three Bureau and two Corps multipurpose projects in the Southwestern United States, constructed at a total cost of about $170.4 million, showed that basing interest rates on criteria prescribed in the 1958 act rather than on rates more representative of Treasury's borrowing costs

--resulted in the Government's understating its investment in the municipal and industrial water supply features of the projects by about $5 million and

--will result in reduced annual interest payments of about $80 million to Treasury on the Government's unrepaid investments in the projects during the repayment period.

The interest rate criteria in the 1958 act also applies to the interest charged on repayable costs associated with the recreation and fish and wildlife enhancement features of multipurpose projects.

GAO believes that interest rates based on such criteria are not representative of Treasury's cost of borrowing funds to finance multipurpose projects and that using current market yields on outstanding Government obligations of comparable maturity is the best measurement of the Government's cost of financing an activity.

In addition to charging interest on certain costs associated with financing Bureau and Corps multipurpose water resource projects, the Bureau charges interest on portions of the funds it lends to State and local

organizations to construct small reclamation projects. However, the interest rate criteria used by the Bureau, as prescribed by the Small Reclamation Projects Act of 1956, as amended (85 Stat. 488), do not result in full recovery of the Government's cost of financing the loans.

GAO recommended that the Congress amend the existing legislation to provide that:

--The interest costs to be capitalized as part of the Government's investment in water resource projects be based on an interest rate annually prescribed by the Secretary of the Treasury and, in establishing a rate, the Secretary consider the average market yield, during the year in which the investment is made, on the outstanding marketable obligations which he considers to be most representative of Treasury's cost of borrowing money to finance construction of the projects.

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

--The interest on unrepaid small reclamation loans be charged at the rate prescribed by the Secretary of the Treasury for the year in which the loan is made.

The Treasury Department noted that it had long recommended use of current market yields on long-term outstanding Government obligations of comparable maturities as the best measurement of the Government's cost of financing an activity. Treasury said that GAO's recommendation was consistent with the approach taken by the Congress for other Federal lending and investment activities in recent years.

The Department of the Interior observed that the net effect of GAO's recommendation would be to make the interest rate for repayment of all interest-bearing debts representative of Treasury's borrowing rate for the year in which the investment or loan was made. Interior noted that, although it had revised its interest rate criteria for new Federal power projects to more nearly reflect the current cost of money borrowed to finance power projects, the Congress had been reluctant to deviate from the interest rate criteria in the 1958 act. (B-167712, Aug. 11, 1972.)

Need for comparison of scheduled and actual repayments of Government's investment in Missouri River Basin hydroelectric system

The Bureau of Reclamation has not published or prepared annual rate and repayment studies since 1963 to show whether electric power rates are adequate to repay the Federal investment in the Missouri River Basin hydroelectric system within the required 50 years. The results of similar studies usually are published annually for other Federal hydroelectric power projects.

BUREAU OF RECLAMATION (continued)

GAO is of the view that the Bureau, in addition to publishing annual rate and repayment studies for the power projects, should publish supplementary statements comparing the actual repayments to date with the scheduled repayments established on an orderly basis for repaying the investment in the projects within the repayment period. Such comparisons would show whether the scheduled repayments were being met in accordance with predetermined milestones and, if not, the extent of the deficiencies. Such comparisons also would provide management and the Congress with a basis for inquiry into the action necessary to insure that revenues will be available to meet the increased repayments required during the remainder of the repayment period.

Although the legislation authorizing the Missouri River Basin integrated projects does not require that the Federal investment therein be repaid in regularly scheduled annual amounts, GAO computed the annual repayments required for repaying the Federal investment in the projects over a 50-year period on the basis of two amortization methods--the compound-interest amortization method and the straight-line amortization method.

GAO's comparison of the actual repayments as of June 30, 1969, with the cumulative computed annual repayments required under each of these methods showed that the deficiency in the actual repayments would have been about $41.8 million under the compound-interest amortization method and about $131.2 million under the straight-line amortization method.

Preparation of annual rate and repayment studies supplemented with statements comparing actual repayments with scheduled repayments established on an orderly basis, which GAO recommended, would provide useful information for inquiry into how the additional revenues will be obtained and into the adequacy of power rates.

The Department agreed that the Bureau should give consideration to the practicability of publishing an annual rate and repayment study, but did not agree that a supplemental statement showing the status of repayments was necessary. GAO believes, however, that a comparison of actual repayments with scheduled repayments is needed for evaluating the adequacy of revenues in meeting repayment requirements. (B-125042, Feb. 28, 1972.)

Need for development of public recreation facilities at Lake Berryessa, California

The Bureau of Reclamation entered into a management agreement with Napa County, California, in July 1958 for the administration and development of recreational facilities at Lake Berryessa, California. This agreement, rewritten in 1962, provided that the county, and all parties acting under its authority, would develop the Lake Berryessa area in accordance with a public use plan prepared by the National Park Service in 1959. The plan stipulated the areas that should be developed and the number of boat launching, picnicking, and other recreational facilities that should be provided in each area.

BUREAU OF RECLAMATION (continued)

GAO reported to the Secretary of the Interior that the Bureau had not adequately controlled the development of public recreational facilities at Lake Berryessa and that the general public has been severely restricted in its access to and use of the lake because of (1) extensive development by concessionaires of mobile-home parks along the shoreline and (2) the failure to provide recreational facilities in accordance with the plan. The principal development at the lake has been the construction of mobile-home parks which occupy some of the most desirable areas along the shoreline.

GAO recommended that the Secretary of the Interior

--require the Bureau of Reclamation to act to insure adequate development of public recreational facilities at the lake, as provided in the proposed revised public use plan;

--require the Bureau to prescribe suitable accounting records to be maintained by the concessionaires operating the facilities; and

--consider the feasibility of obtaining Federal authorization and funding for capital improvements at the lake, to reduce the reliance on others for development of public recreational facilities.

The Bureau indicated that it was aware of the problems at the lake and was considering various corrective actions, including taking over the management of the lake. (B-174172, Feb. 22, 1972.)

DEPARTMENT OF THE INTERIOR

BUREAU OF LAND MANAGEMENT, BUREAU OF INDIAN AFFAIRS, AND GEOLOGICAL SURVEY

At the joint request of the Chairman and the ranking minority member of the Conservation and Natural Resources Subcommittee of the House Committee on Government Operations, GAO reviewed the Department of the Interior's administration of regulations for surface exploration, mining, and reclamation of public and Indian coal lands.

In January 1972 the Department estimated that 41 million acres of the 825 million acres of public land had coal deposits. Of the 41 million acres, 1.6 million were covered by prospecting permits or mining leases. The Department also estimated that 13.5 million acres of the 50 million acres of Indian lands had coal deposits. Of the 13.5 million acres, 700,000 were covered by coal prospecting permits or mining leases.

Need for improvements in administration of surface exploration, mining, and reclamation regulations

On January 18, 1969, the Department of the Interior issued new regulations for surface exploration, mining, and reclamation of public and Indian lands, to avoid, minimize, or correct damage to the environment and hazards to public health and safety. These regulations, which apply only to permits and leases issued, extended, or readjusted after January 18, 1969, do not provide specific requirements for exploration, mining, or reclamation activities. The specific technical requirements for such activities are based on examinations (called technical examinations) and are included as special stipulations in permits or leases granted by the Department to the mining operators.

Permits and leases on public and Indian lands are administered by the Department's Bureau of Land Management (BLM) and Bureau of Indian Affairs (BIA), respectively. The Department's Geological Survey (Survey) is responsible for providing scientific and technical advice to both BLM and BIA.

GAO's review of 65 permits and leases (53 for BLM and 12 for BIA) showed that:

--The required technical examinations had not been conducted for 35 of the permits and leases. The purpose of a technical examination is to determine the effects that the proposed exploration or mining would have on the environment and to serve as a basis for formulating appropriate reclamation requirements.

--Some permittees were operating without approved exploration plans--an essential element of control in protecting the environment--and some plans had been approved without technical examinations.

--Some required compliance and performance bonds had not been obtained from the operators. The amounts of some of those that had been

BUREAU OF LAND MANAGEMENT,
BUREAU OF INDIAN AFFAIRS, AND
GEOLOGICAL SURVEY (continued)

obtained were insufficient to meet the estimated cost of the reclamation requirements of the permits or leases.

--Some of the reports required to be submitted by the operators at various stages of their operations on such matters as grading and backfilling, planting, and abandoning of operations had not been received by the Department.

GAO recommended that the Secretary of the Interior clarify the requirements of the Department's regulations by providing guidance as to (1) the timing and scope of technical examinations and the submission and approval of exploration and mining plans, (2) the required amount of performance bonds, (3) the need for adequate documentation of the results of the activities conducted under the regulations, and (4) the need for documented periodic reviews of the administration of the regulations.

Department officials stated that appropriate actions would be taken by BLM, BIA, and the Survey to develop procedures which would clarify the requirements of the regulations and to require adequate documentation of the results of the activities conducted under the regulations.

Need to appraise adequacy of application fees for coal exploration and mining permits and leases

The Department requires an applicant to submit a $10 fee with each permit and lease application for coal exploration or mining. The fee was to recover the cost of processing the applications. Because personnel costs have nearly doubled since the amount of the fee was established and because the regulations now require a more comprehensive evaluation of the application than previously required, GAO recommended that the Secretary of the Interior appraise the adequacy of the $10 fee. Department officials agreed to study the matter and indicated that fees would be adjusted, if warranted.

Need to develop procedures for implementing the National Environmental Policy Act of 1969

BLM procedures for applying the provisions of the National Environmental Policy Act of 1969 to the exploration or coal mining operations did not comply with guidelines of the Council on Environmental Quality because they did not outline the criteria to determine when and under what circumstances environmental impact statements should be prepared. Also, BIA had not developed procedures for the preparation of impact statements. Both agencies stated that they would issue the necessary procedures, as recommended by GAO. (B-148623, Aug. 10, 1972.)

DEPARTMENT OF THE INTERIOR

BUREAU OF LAND MANAGEMENT AND GEOLOGICAL SURVEY

Improvements needed in administration of Federal coal-leasing program

In a review of the Department of the Interior's program for leasing Federal lands to be used for mining coal, GAO found that only limited mining of coal had been conducted on leased Federal lands, and most lessees apparently had no immediate plans to begin mining operations. The Department permitted this condition to exist by issuing leases for indeterminate periods with no requirement that coal be mined if the lessee made a minimum royalty payment for 1 year in advance. GAO recommended that the Department consider discontinuing the issuance of leases that permit lessees to defer or suspend mining operations without special justification.

GAO also found that the Government had not received equitable royalties for coal produced on Federal lands because (1) royalties were computed on the basis of a fixed amount a ton which did not take into account variances in costs of extracting coal and in coal selling prices and (2) increases in royalty rates were not applied to outstanding leases on a timely basis, inasmuch as lease terms could be adjusted only at 20-year intervals. Although an improved method, which provides that royalties be computed on a percentage of the value of coal mined, was adopted in February 1971, it was not to be applicable to existing leases until their terms were adjusted at the expiration of the 20-year lease periods. GAO recommended that the Department study the desirability of seeking a change in the law that would permit the adjustment of royalty rates and other lease terms on a more timely basis.

The Department advised GAO that it would consider its recommendations. (B-169124, Mar. 29, 1972.)

BLANK PAGE

DEPARTMENT OF THE INTERIOR

BUREAU OF MINES

Improvements needed in assessment and collection of penalties--Federal Coal Mine Health and Safety Act of 1969

In July 1972 GAO reported to the Chairman, Conservation and Natural Resources Subcommittee, House Committee on Government Operations, on its review of the Department of the Interior's implementation of the civil penalty provisions of the Federal Coal Mine Health and Safety Act of 1969.

Delays in assessing penalties

GAO found, in sampling assessments, that (1) about 4 months elapsed from citation of a violation by a mine inspector to assessment of a penalty and (2) about 10 weeks elapsed from the request for a hearing by a mine operator to the Bureau's referral to the Department's Solicitor's Office for initiation of the hearings process. The Chief of the Assessment Office stated that, although an initial backlog of 39,000 violation citations--created during the period following a temporary order of the court restraining the assessment of penalties--was eliminated by June 1971, the time required for processing the initial backlog resulted in a further backlog and in time lapses in assessing penalties throughout 1971.

The Chief stated further that, as of February 18, 1972, the backlog was down to 5,800. According to the Chief, after January 1972 penalties were being assessed within 30 days of receipt of citations of violations by the Assessment Office. This 30-day period was not comparable to the 4-month average mentioned above because it did not include the time from the citation of a violation to its receipt by the Assessment Office.

The Bureau's management control system was not adequate to readily identify the status of cases and to provide data needed to identify and correct the causes of processing delays. The Bureau was changing its system at the time of GAO's review, and GAO recommended that the Director, Office of Survey and Review, Department of the Interior, be given responsibility for determining whether the revised system, when installed, is effective in meeting management's needs.

Delays in conducting hearings

Significant delays in referring cases for hearings and in conducting hearings on cases disputed by mine operators resulted in a backlog of 1,062 cases awaiting hearings at December 31, 1971. The Director of the Hearing Office informed GAO in March 1972 that certain steps were being taken or planned to expedite the processing of cases. GAO recommended that the Director, Office of Survey and Review, be given responsibility for evaluating the effectiveness of the actions taken to speed the processing of the cases.

BUREAU OF MINES (continued)

Consideration of factors required by law

Bureau officials stated that the six statutory factors which the act requires to be considered in determining the amounts of penalties to be assessed were considered in making assessments. GAO noted, however, that (1) no written guidelines had been established to aid the assessors in considering the factors, (2) there was no documentation of the consideration given to each of the factors by the assessors, and (3) no such documentation was required. GAO believes that the Bureau should (1) develop written guidelines defining the factors and the consideration and weight that should be given to each, (2) make the guidelines available to mine operators so that they can better understand how penalties are assessed, and (3) require assessors to document adequately the consideration and weight they give to each factor in assessing a penalty.

Limited collection results

GAO reported also that, as of November 30, 1971, there were 1,785 assessment cases on which collection action should have been taken. As of December 31, 1971, no collection action had been taken on about 60 percent of these cases and action taken on the remaining 40 percent had not been timely. The Chief of the Assessment Office stated that primary efforts had been, and would continue to be, directed toward assessment of penalties because it was important to impress upon mine operators that violations of regulations would result in penalty assessments. GAO recommended that the collection of penalties be given equal priority with their assessment.

Staffing of Assessment Office

By December 31, 1971, the Assessment Office had filled only 4 of the 12 permanent assessor positions authorized under fiscal year 1972 appropriations because of problems in attracting qualified personnel and manpower limitations imposed by the Office of Management and Budget. In November 1971, the Assessment Office began developing plans to decentralize the assessment operation by establishing four field offices, which were expected to assist in attracting qualified personnel. (B-170686, July 5, 1972.)

DEPARTMENT OF THE INTERIOR

BUREAU OF INDIAN AFFAIRS

Increased income could be earned on Indian trust monies

At the joint request of the Chairman, Subcommittee on Indian Affairs, Senate Committee on Interior and Insular Affairs, and Senator Mike Gravel, the General Accounting Office (GAO) reviewed the procedures and policies of the Bureau of Indian Affairs (BIA) for managing Indian trust monies. GAO found that additional income could have been earned if surplus Tribal Trust Funds under BIA's control and available for investment had been invested at yields comparable to those earned on investments of other Tribal Trust Funds.

BIA's area and agency office officials were not able to invest funds promptly as they became available, because the monthly financial reports they received from the Division of Financial Management contained data up to 45 days old. Also, these officials seldom used the information, even though it was untimely, to determine whether funds were available for investment and to advise Indian groups on possible investments.

GAO recommended that the Department of the Interior require the Commissioner of Indian Affairs to determine and implement the most effective and economical method of realizing the maximum possible investment return on Tribal Trust Funds. The Department concurred with this recommendation but stated that existing policies and procedures provided such a method. GAO believed, however, that BIA's policies and procedures did not provide the needed assurance that all Tribal Trust Funds were invested to the maximum extent possible. (B-114868, April 28, 1972.)

Opportunity to improve Indian education

The major goal of BIA's education program is to close the education gap between Indians and other Americans by raising the academic achievement level of Indian students up to the national average by 1976. In April 1972, GAO reported to the Congress that BIA had made relatively little progress toward attaining this goal. BIA had not adequately communicated the goal to its area offices and schools and had not developed a specific plan for identifying and overcoming obstacles to, or for measuring progress toward, its accomplishment.

Certain factors which adversely affected students' abilities to achieve at the national average were not fully dealt with in the established school programs. These factors included the need for (1) compensatory training in English communication skills, (2) special education programs, (3) professional counseling services, and (4) a sufficient number of substitute teachers.

Also, BIA did not have an effective management information system which would provide education program officials with data necessary for identifying educational needs of Indian children, designing programs and activities for accomplishing educational goals, allocating resources to these programs, and evaluating the costs and benefits in relation to the goals.

BUREAU OF INDIAN AFFAIRS (continued)

The Department of the Interior stated that it was in general accord with GAO's findings and that its conclusions and recommendations would constructively support the Department's efforts to improve the Indian education program. The Department outlined a number of steps to be implemented for identifying and assigning priorities to deal with all critical factors known to impede accomplishment of the program goal.

Concerning GAO's recommendation for establishing periodic milestones--such as the amount of improvement in the academic-achievement level necessary at the end of each successive year to accomplish the established goal--and for making periodic evaluations of program results, the Department stated that these exercises were impractical because the goal must be tempered by the reality of Indian self-determination, the special nature of the students served, and the availability of funds.

GAO believes, however, that, in the Indian education program, effective management requires the development of an appropriate strategy for meeting established goals and the periodic evaluation of progress toward meeting these goals. (B-161468, April 27, 1972.)

Slow progress in eliminating substandard Indian housing

The goal of the Indian housing program is to eliminate substandard housing on reservations in the 1970's. GAO reported to the Congress in October 1971 that the program's progress had been slow and, unless it was accelerated substantially, thousands of Indian families would continue to live under severe hardship conditions.

The Department of the Interior informed GAO that the program's slow progress was due, in part, to reluctance of some tribes to obtain Federal housing assistance. Also, BIA officials cited delays in obtaining Federal financing as contributing to slow progress. Other problems were inadequate identification of Indian housing needs, and defective design, incomplete construction, and inadequate maintenance of houses.

GAO reported that housing needs had not been identified adequately because BIA

--had not established guidelines for determining whether existing housing units were standard or substandard and, if substandard, whether they needed to be renovated or replaced;

--had classified newly constructed or renovated houses as standard although they lacked basic necessities;

--had not insured that inventories of housing conditions and needs were taken periodically; and

--had not considered family migration, adjacent off-reservation Indian population, housing deterioration, and family size and income, in determining and planning to meet long term needs.

BUREAU OF INDIAN AFFAIRS (continued)

As a result of suggestions GAO made during its review, BIA issued new guidelines providing standards for general construction, heating, plumbing, wiring, and living space for use in inventorying housing needs.

The Department was in general agreement with GAO's conclusions and recommendations and informed GAO of various actions that had been taken or planned to improve the program. (B-114868, Oct. 12, 1971.)

BLANK PAGE

DEPARTMENT OF THE INTERIOR

GEOLOGICAL SURVEY

More specific policies and procedures needed for determining royalties on oil from leased Federal lands

The Geological Survey (Survey) is responsible for supervising oil production on leased Federal lands, maintaining oil production accounts, and collecting oil royalties on the oil which lessees sell or remove from Federal land. At the option of the Government, royalties may be paid in oil or in cash. If paid in cash, the amount of the royalty is based on the value of the oil sold.

In February 1972 GAO reported to the Congress that Survey's regional officials had not evaluated adequately the reasonableness of many royalty payments because of the lack of adequate definitive criteria for determining the value of oil sold or removed and its transportation costs to the nearest market. In several cases, information available to Survey's regional personnel indicated that the oil might have had a value greater than that used to compute the royalties due the Government.

In response to GAO's recommendation that Survey be required to establish more definitive policies and procedures, the Department stated that Survey would review and revise its operating manual to insure proper computation of royalties due the Government. Survey also investigated the specific cases which GAO brought to its attention and took corrective action on these cases. (B-118678, Feb. 17, 1972.)

BLANK PAGE

DEPARTMENT OF THE INTERIOR

OFFICE OF TERRITORIAL AFFAIRS

Opportunities for improving effectiveness of activities of Government Comptroller for Guam

At the request of the Chairman, House Committee on Interior and Insular Affairs, GAO reviewed the effectiveness of the activities of the Government Comptroller for Guam and the adequacy of support furnished to his office by the Department of the Interior.

GAO's review showed that:

--The manner in which the Comptroller allocated his audit resources resulted in certain significant activities of the government of Guam being given very little attention.

--The Comptroller's audit reports often did not contain enough information to permit an understanding of the problems reported, their causes, or the necessary corrective actions needed. These inadequacies resulted mainly from the Comptroller's not adhering to auditing standards established by his office.

--Certain of the basic support needed to maintain a professional staff in the Comptroller's office was not being furnished by the Department of the Interior. Vacancies on the Comptroller's staff were not being filled on a timely basis.

--Members of the staff were not provided with employee benefits comparable to those provided to employees of other Federal agencies on Guam: they received no assistance in obtaining or paying for housing, the Department did not pay for the shipment of their privately owned automobiles to Guam, suitable office space had not been furnished to the Comptroller or his staff, and members of the Comptroller's staff did not have reemployment rights with the Department in the continental United States.

The Department informed GAO that it intended to take or had taken action to improve auditing and reporting by the Comptroller and to improve some of the other conditions noted. The Department did not agree, however, with GAO's recommendation that reemployment rights be provided and therefore took no action in this matter. (B-146742, Feb. 2, 1972.)

BLANK PAGE

DEPARTMENT OF JUSTICE

Contents

BLANK PAGE

DEPARTMENT OF JUSTICE

BUREAU OF NARCOTICS AND DANGEROUS DRUGS

Need for improved efforts to prevent dangerous drugs from illicitly reaching the public

In April 1972 the General Accounting Office (GAO) reported to the Congress on the manner in which the Bureau of Narcotics and Dangerous Drugs (BNDD), Department of Justice, was carrying out its responsibility to curb the flow of dangerous drugs (stimulants and depressants) from legitimate manufacturers to the illicit market. BNDD estimated that about 90 percent of the dangerous drugs in the illicit market were diverted from licensed sources--manufacturers, distributors, doctors, and pharmacists--either intentionally or unintentionally, into the hands of illicit dealers.

GAO noted that BNDD was making some progress in curbing diversion, but that much more needed to be done. GAO reported that:

1. Opportunities existed for BNDD to improve its information system regarding drug diversion by

   --developing a more complete inventory of manufacturers' identification markings,

   --developing a procedure for identifying the manufacturers of drugs seized by State and local enforcement groups,

   --developing a more systematic method for obtaining information from drug manufacturers and distributors on suspected illegal drug purchases,

   --developing a procedure for obtaining information from the military services on possible drug diversion, and

   --defining the types of statistical information desired from State and local agencies on dangerous drug thefts, seizures, and arrests.

2. BNDD needed to increase its activity in monitoring the drug industry's compliance with Federal regulations. As a result of congressional action, BNDD developed plans to increase significantly its monitoring activities. GAO believed that BNDD's plans, if effectively carried out, would provide added assurance that drug firms were complying with Federal regulations.

3. BNDD needed to work with the drug industry to establish self-regulation guidelines for members of the industry, develop a means to disseminate self-regulation information to all members, and establish a procedure for gathering information on self-regulation measures taken by them.

4. A need existed for increased monitoring of licensed drug retailers' activities. BNDD was establishing agreements with States to share the monitoring of these retailers although some of the States involved

have limited capabilities to carry out the monitoring activities. Also BNDD began to evaluate systematically the capabilities of the States to carry out effective monitoring programs.

GAO made several recommendations to BNDD for strengthening its methods to curb diversion. The Department of Justice agreed that GAO's recommendations were valid and said that they would be implemented, to the greatest extent possible, on a priority basis.

With respect to suggesting that BNDD define the types of statistics needed from States and local agencies, the Department said that development of a uniform collection program would require extensive time, effort, and resources and would hamper present operations. The Department stated that BNDD, the Federal Bureau of Investigation, and the Law Enforcement Assistance Administration were establishing a task force to consider this matter. (B-175425, April 17, 1972.)

DEPARTMENT OF JUSTICE

IMMIGRATION AND NATURALIZATION SERVICE

Opportunities to reduce costs of returning aliens to Mexico

In an August 1971 report, GAO informed the Department of Justice that, in GAO's opinion, the Immigration and Naturalization Service (INS) could reduce the costs in its Southwest Region of transporting, for return to Mexico, aliens illegally in the United States, by:

--Transporting the aliens in INS-owned buses exclusively. GAO showed that it was much more expensive to transport the aliens in INS-owned planes than in INS-owned buses.

--Requesting aliens who are financially able, to pay their own transportation costs within the United States. The INS Southwest Region did not request aliens who were financially able, to pay the costs of their transportation from the point of apprehension to the Mexican border. In contrast, the INS Northeast, Northwest, and Southeast Regions did request aliens to pay for their transportation.

In commenting on GAO's report, the Department of Justice said that INS was rapidly extending the use of buses in substitution for the more expensive transportation of aliens by plane. Subsequent to the issuance of the report, INS discontinued the use of its three planes in transporting aliens and began using buses in their place. Also, INS began requesting aliens to pay their transportation costs when being transported on chartered buses within the Southwest Region and stated that it planned to request aliens to pay their transportation costs when being transported on INS-owned buses within that region. (B-125051, Aug. 26, 1971.)

BLANK PAGE

DEPARTMENT OF JUSTICE

LAW ENFORCEMENT ASSISTANCE ADMINISTRATION

Need for dissemination of data on existing criminal justice information systems to prevent duplication of design and development costs

In March 1972 GAO reported to the Administrator of the Law Enforcement Assistance Administration (LEAA), Department of Justice, that there was a need for controls to prevent duplicative design and development of criminal justice information systems by State and local criminal justice agencies.

Under provisions of the Omnibus Crime Control and Safe Streets Act of 1968, LEAA awards grants for the development of criminal justice information systems. As of fiscal year 1971, about $54 million had been awarded for this purpose and substantial future funding was expected.

GAO reported that no system existed for accumulating and disseminating information on existing systems and that grant applications requesting funds for developing systems often did not contain sufficient data about the proposed systems. Personnel reviewing grant applications told GAO that, for these reasons, they often were unable to determine whether the proposed systems were similar in design to systems already operational or under development by other criminal justice agencies.

GAO believed that significant savings could be realized if the recipients of LEAA funds were to adapt existing systems and take advantage of the experience of other developers and existing documentation.

During GAO's review LEAA officials agreed that there was a need for control procedures and stated that they were implementing plans to resolve the problem of duplication. In a letter dated April 25, 1972, commenting on GAO's report, the Administrator, LEAA, stated that computer systems analysts had been hired for each LEAA regional office to review information system grant applications and advise applicants of existing systems that might be adapted to their needs. Also LEAA planned to have available in fiscal year 1973, and promote appropriate use of, a clearinghouse on existing automated criminal justice information systems. (B-171019, Mar. 14, 1972.)

BLANK PAGE

DEPARTMENT OF LABOR

Contents

BLANK PAGE

DEPARTMENT OF LABOR

EMPLOYMENT STANDARDS ADMINISTRATION

Need to improve administration of minimum wage rates under Davis-Bacon Act

In a series of reports issued between June 1962 and August 1970, GAO informed the Congress of the manner in which the Department of Labor--under the Davis-Bacon Act and related legislation--made minimum wage rate determinations for selected major federally financed construction projects. The reviews covered wage rate determinations for 29 selected construction projects, including military family housing, low-rent public housing, federally insured housing, and a water storage dam.

GAO estimated that, as a result of minimum wages' being established at rates higher than those actually prevailing in the area of the project, construction costs had increased 5 to 15 percent. This amounted to about $9 million of the total $88 million construction costs involved in these projects. Higher wage rates not only increase the cost borne by the Federal Government but can adversely affect the economic and labor conditions in the area of the project and in the country as a whole.

The concept of the Davis-Bacon Act was that payment of prevailing wages would preclude depressing local wages but would not be inflationary and therefore would not bring about unreasonable increases in the cost of federally supported construction. GAO believed that these objectives could and should be achieved through a more reasonable implementation of the act and by improving the wage determination process in the following respects:

--The Department needed to identify the classification of workers for which determinations should be made. In some cases, the Department applied the wage rates of one classification to another classification without investigating the rates paid to each.

--In defining the geographical area for which prevailing wages were to be determined, the Department, in some cases, had gone beyond the county where the project was located and applied rates from other, sometimes nonadjacent, counties or from another State having different labor conditions.

--In many cases, the Department had not distinguished between different types of construction, such as commercial and residential, although significant variances existed between labor rates applicable to these two types of construction. Often wage determinations had applied the higher rates for commercial-type building construction and had disregarded the rates for residential-type construction.

--The Department had placed undue emphasis on wage rates established in prior determinations or rates included in collective-bargaining agreements, without verifying whether such rates were representative of the rates prevailing on similar construction in the area. These practices could be attributed to the fact that the Department had not

compiled sufficient up-to-date and accurate information on prevailing basic wages and fringe benefits.

--The Department's wage determinations did not generally prescribe separate rates for helpers and trainees. GAO believed that, where local labor practices recognize these categories, separate rates would assist in lowering construction costs and encourage contractors to hire semiskilled and untrained persons on Government financed projects. Such a procedure could be particularly desirable in areas of hard-core unemployment.

--To obtain up-to-date information--including data on wage patterns and labor practices in specialized industries--the Department needed the cooperation of the Federal agencies which financed construction projects.

GAO recommended that the Department (1) formulate explicit guidelines and criteria covering the principal elements of adequate wage determinations, (2) implement improved procedures for collecting needed data on basic wages and fringe benefits, (3) establish with the principal Federal agencies financing construction contracts a formalized and continuing working relationship for the exchange of pertinent wage information, and (4) require that, where appropriate and in accordance with labor practices, helper and trainee classifications be included in the Department's wage determinations.

The Department assured GAO that it was conscious of the need for continuing its efforts to find a practical solution to the accurate predetermination of prevailing wage rates.

GAO suggested also that the Congress consider revising the Davis-Bacon Act to increase the minimum contract cost (presently $2,000) subject to wage determination. GAO stated that an amount between $25,000 and $100,000 would be more representative of present-day costs of construction projects. Also an increase in the minimum contract cost would substantially reduce the number of wage determinations to be issued by the Department and thereby lessen the administrative burden imposed on it (and on the contracting parties) without appreciably affecting the wage stabilization objectives of the act. (B-146842, July 14, 1971.)

DEPARTMENT OF LABOR

MANPOWER ADMINISTRATION

Improvements needed in operation of Concentrated Employment Program in rural Mississippi

The Concentrated Employment Program (CEP) is designed to draw together under one sponsor work and training resources of the Federal Government in urban and rural areas having large numbers or proportions of persons unemployed or existing on low incomes. The ultimate goal of CEP is to place enrollees into permanent jobs.

The Federal Government spent about $14 million on the CEP program in rural Mississippi from June 1967 through December 1971, but the effectiveness of the program was hampered by administrative problems and a poor economic situation.

During the period December 1968 through February 1970, less than half of those enrolled in CEP were placed in jobs. About one half of those who were employed did not receive any orientation, training, or work experience, and many were limited to the same types of low-skill jobs they held before joining CEP. Moreover, many placements were only temporary, with slightly more than half the persons placed being employed 6 months later. In many cases placement was not related to the type of training an enrollee had received. For example, a person trained as a welder might be employed as a janitor and an offset printer as a mail clerk.

The economic situation which hindered effective implementation of the program included insufficient labor demand and the lack of a comprehensive economic development program to attract new industry or otherwise create new job opportunities. Also, increased mechanization had displaced many black farm workers who did not have the necessary educational and vocational skills to obtain other jobs.

GAO recommended that the Department (1) insure that skill training and other specialized manpower services are provided with due regard to the capabilities and needs of CEP participants and available job opportunities and (2) make all possible use of work experience programs and other subsidized employment for those participants who cannot be placed readily in jobs. The Department planned to continue its efforts toward improvements.

Various proposals for assisting depressed rural areas in overcoming long-standing poverty, unemployment, underemployment, and outmigration to cities are considered by the Congress. GAO concluded that, unless manpower programs are accompanied by strong Federal, State, private, and local action to create new job opportunities, CEP program accomplishments will continue to be severely limited in such rural areas as the Mississippi Delta. (B-130515, Mar. 15, 1972.)

MANPOWER ADMINISTRATION (continued)

Improvements needed in operations of computerized job banks

Computerized job banks are being used in the Federal-State employment security program to process, distribute, and control announcements of job openings to provide job market information more quickly and on a broader scale. Maryland's Department of Employment Security established a job bank in Baltimore in May 1968 which was adopted by the Department of Labor as a prototype for job banks in other metropolitan areas throughout the country. By June 1971, job banks had been established in 88 metropolitan areas throughout the country at a cost, in fiscal year 1971, of about $14.3 million.

GAO reported that use of a computerized job bank in the Baltimore area improved services to employers and job seekers but that further improvement was needed if potential benefits were to be realized. There was need for improvement in reporting job placements, strengthening the interviewing function and supplementing it with improved counseling and job-development services for applicants, and improving the application of the prescribed criteria for classifying persons as disadvantaged. Also, there was need to require the sponsors of all federally-financed manpower programs in the Baltimore area and in other metropolitan job bank areas to furnish the State agencies with information on available training opportunities.

The Department of Labor agreed generally with GAO's findings and related recommendations and cited various corrective actions that it was taking. (B-133182, Apr. 27, 1972.)

Need to improve effectiveness and management of Neighborhood Youth Corps summer program

The Neighborhood Youth Corps (NYC) summer program provides work-training experience and other services during the summer school recess to youths from low-income families. Its purpose is to encourage youths to return to school in the fall.

GAO's review of the program in the Washington, D.C. area indicated that the impact of the program on school dropout tendencies had not changed since GAO's earlier reviews, which had indicated that program participation had no significant effect on whether youths from low-income families continued in or dropped out of high school. Program sponsors generally did not consider a youth's dropout potential in determining his eligibility for enrollment in the summer program.

GAO also reported that:

--Many enrollees did not meet NYC income eligibility requirements, or their eligibility could not be determined because program records did not contain enough information.

MANPOWER ADMINISTRATION (continued)

--At most of the work stations GAO visited, enrollees appeared to have been provided with useful work experience and adequate supervision. At some work stations, however, enrollees did not have meaningful jobs and were inadequately supervised.

--Although the Department intended that remedial education be an important part of the summer program, it was not sufficiently emphasized by the sponsor of the NYC program in the Washington area.

GAO made several recommendations to the Manpower Administration for improving program operations. (B-130515, May 31, 1972.)

BLANK PAGE

DEPARTMENT OF STATE

Contents

BLANK PAGE

DEPARTMENT OF STATE

Improved financial administration and revision of fees needed in consular services program

The Department of State issues several million passports and visas annually to individuals traveling between the United States and foreign countries. During fiscal year 1970, State collected fees of about $32 million for providing consular services, including the issuance of approximately 4,500,000 passports and visas. The fees collected for issuing passports covered the costs, but the costs of issuing visas to foreign nationals exceeded revenues by $9 million.

In a report to the Congress in April 1971, the General Accounting Office (GAO) noted that the Secretary of State had not established definitive policy and criteria for establishing fees for consular services pursuant to the laws which authorize him to establish such fees. Nor did State have an accounting system which would provide for the systematic accumulation of cost and revenue data necessary to establish fees and to manage effectively the financial aspects of the various consular activities.

GAO recommended that State (1) revise immigrant visa and other consular fees to establish the basic fees at levels which would recover the costs of providing such services, (2) promulgate definitive policy and criteria for establishing consular fees, and (3) devise procedures for periodically determining the cost of providing consular services through an integrated cost accounting system. State agreed with the recommendations and stated that it would follow up on them.

In a letter dated April 20, 1972, to the Comptroller General, State said that a study, although delayed in starting, was in process, which would establish the basis for determining direct and indirect costs for consular services on a worldwide basis, including those services related to passport issuances, domestic and overseas.

The working group was also considering policies, criteria, and methods for assessing costs. After agreement is reached on these matters, State will determine what action to take.

It appears that it will be some time before the study will be completed and the results translated to specific actions. (B-118682, Apr. 14, 1971.)

Possible reduction in the amount of U.S. Government moneys provided to Radio Free Europe and Radio Liberty

In May 1972, at the request of the Chairman, Senate Committee on Foreign Relations, GAO reported on the amount of U.S. moneys provided to Radio Free Europe and Radio Liberty and evaluated the administrative effectiveness of the Radios in making expenditures for salaries, travel, equipment, contractual services, etc. GAO concluded that the two Radios, and the respective corporations to which they belong, had exercised adequate fiscal

controls over the Federal funds made available to them and that such funds had been used effectively and efficiently for the purposes intended.

GAO also expressed the opinion that, if U.S. Government financial support were to be continued and in view of the Radios facility improvement program requiring large capital outlays, it appeared that the costs for providing the Radios' services could be reduced if the organizations were consolidated and if some or all of their activities were merged to reduce program overlap and administrative duplications. GAO recognized, however, that, before any action could be taken on the consolidation or merger of the two organizational activities, a detailed study would be required on the legal aspects of such action, the feasibility of consolidating technical facilities, and the effect on the arrangements with foreign governments.

In August 1972, GAO was told that the Radios had established several task forces to examine operational areas where economies could be made by physically merging certain support areas and providing administrative support through consolidation of activities.

On August 10, 1972, the President announced the establishment of the Commission on International Radio Broadcasting to review the Government's methods and mechanisms for providing support to the Radios. The Commission is expected to submit its report to the President by February 28, 1973, so that its findings and recommendations can be considered in formulating any necessary legislation early in the 93d Congress. GAO believes that the results of the task force studies should lead to reducing U.S. contributions to the Radios. (B-173239, May 25, 1972.)

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

Contents

BLANK PAGE

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

Potential cost savings in transportation of donated food for distribution abroad

In a followup review concerning costs of transporting food donated for distribution abroad, the General Accounting Office (GAO) found that the United States was continuing to pay considerable amounts of ocean freight costs, ranging from $1.6 million to approximately $6.5 million, depending on the standard used. These ocean freight costs are borne under nonprofit agencies' food donation programs for recipient countries which appear to be financially able to bear all or part of such costs. GAO found no evidence that the Agency for International Development (AID) had developed criteria to evaluate the financial capability of recipient countries to bear part or all of such costs, and no documentation was available to show that periodic efforts had been made to have recipient countries do so.

In response to a prior GAO report, AID advised GAO of positive steps it was taking to persuade financially capable recipient countries to absorb ocean transportation costs, to make these efforts on a continuing basis, and to document efforts made. GAO believes that significant progress has been made under government-to-government donation programs but that further effort is needed under the nonprofit agencies' programs.

Because of budget reductions, on June 7, 1971, AID issued regulations requiring that, on a selective basis, recipient countries pay 50 percent of ocean transportation costs for fiscal year 1972 shipments under Public Law 480 title II donations. GAO was advised that, notwithstanding economic determinations, recipient countries will not be asked to share in the cost of transporting commodities donated under the voluntary agency programs of title II.

In view of the considerable potential savings, GAO again recommended that AID exert every reasonable effort, on a continuing basis, to obtain contributions from financially capable recipient countries to defray ocean transportation costs on all donated commodity programs. GAO recommended that, to measure a country's economic viability, AID develop and apply appropriate financial criteria and that the periodic evaluations be documented. GAO recommended that the payment of ocean freight charges by the United States be authorized only after appropriate certification that reasonable efforts had been made to obtain recipient country contributions.

AID did not concur in these recommendations. AID stated that:

--Title II, Public Law 480 commodities were shipped on U.S. vessels unless none were available.

--It was continuing to monitor Public Law 480 programs and was terminating and phasing down these programs in certain countries as their ability improved.

--It believed reviewing program requirements instead of one element, such as transportation would lead to better programing and use of U.S. resources.

--In view of its experience with requesting foreign governments to pay port charges, it believed requests for payment of ocean transportation cost would not be in best U.S. interests.

--Receiving countries would be required, and in certain cases would not be willing, to make funds available in support of these programs. Voluntary agencies and their counterparts lacked the resources to pay unloading costs and the World Food Program did not require payment of any unloading costs.

GAO, although agreeing that the concept of reviewing overall programing requirements has merit, continues to believe that the component parts of programs must be reviewed, analyzed, and adjusted to insure maximum economy and efficiency of operations. (B-159652, Aug. 17, 1971.)

DEPARTMENT OF TRANSPORTATION

Contents

DEPARTMENT OF TRANSPORTATION

FEDERAL AVIATION ADMINISTRATION

Imbalance in use of Washington area airports

Washington National and Dulles International Airports are owned by the Federal Government and are managed and operated by the Federal Aviation Administration (FAA), Department of Transportation. National was opened for commercial air service in 1941 to low-speed propeller aircraft. Dulles, a commercial jet airport, was opened in 1962 to share with Friendship Airport near Baltimore, Maryland, the long-haul service provided by air carriers for the Washington area.

During early years, Dulles' growth as a jetport appeared promising, although below expectations. However, in 1966 FAA lifted an existing ban on the use of commercial jet aircraft at National. Air carriers steadily increased area jet service there, making National the principal jetport in the Washington area, while Dulles continued to be substantially underutilized.

FAA implemented jet use restrictions in 1966, directed at making National principally a short-haul airport and at enhancing the further development of Dulles. Non-stop service at National was limited principally to cities within 650 miles of the airport, and aircraft larger than the Boeing 727 were not to be admitted. However, the first restriction did not effectively preclude long-haul service from National and the second was relaxed by FAA in 1970.

In April 1969 FAA began a study to determine alternatives for increasing the use of Dulles. The study was directed toward methods to transfer a portion of National's traffic to Dulles. The study was completed in September 1969 and indicated that FAA could take action to create a better balance in the use of the area's airports. The General Accounting Office found no indication, however, that FAA planned to take such action. (B-159719, Aug. 18, 1971.)

BLANK PAGE

DEPARTMENT OF TRANSPORTATION

FEDERAL HIGHWAY ADMINISTRATION

Effects of Federal requirements and State actions on time consumed in highway planning

At the request of the Chairman, Senate Committee on Public Works, the General Accounting Office (GAO) reviewed highway planning to determine what caused the increase in time required to complete the process. Several highway construction projects in each of five States--Arizona, Kansas, Michigan, North Carolina, and Pennsylvania--were included in GAO's review.

Planning for a highway is time consuming. It ranged from 2.5 to 14 years--an average of 8.7 years--for the 10 projects GAO reviewed.

Although the lengthy planning time is, to a large extent, attributable to Federal requirements, these requirements are designed to protect the interests of the public by promoting the planning and construction of safe and sound highways, by minimizing the hardships on persons and businesses along the route, and by giving considerations to environmental factors.

The time taken to meet the Federal requirements and to process a project to the construction stage is, to a great extent, controllable by the States. Such factors as the priority assigned to a project or the work load or number of projects in process are determined by the States. Some projects were inactive during the planning process for up to 4 years because of low priorities assigned by the States.

In addition, GAO noted that planning time for some projects was extended because (1) States could not reach timely agreements with local government units, (2) during 1967, 1968, and 1969, Federal funding was delayed or withheld to curb inflationary pressures, and (3) the Federal Highway Administration (FHWA) required the States to incorporate new Federal requirements into projects in process.

Federal review and approval of State actions at the various planning steps did not represent a major obstacle to the timely completion of projects reviewed, except for those involving the construction of highways through parkland and recreation land. Approval and eventual construction of highways through such lands has become increasingly difficult because of the public's concern with environmental matters.

GAO suggested that the Committee might wish to discuss with FHWA the prossibility of obtaining earlier public particiaption in the environmental impact of highways and on the use of parkland for highways. (B-164497(3), Mar. 10, 1972.)

Construction problems encountered in meeting highway opening date

At the request of two members of Congress, GAO reviewed the construction of two parts of Interstate Route 71 (I-71) in Cleveland, Ohio, to determine

why certain construction problems had been encountered. The review was a followup to an earlier review requested by the same members.

Construction problems resulted because the State of Ohio and FHWA were trying to meet the contract date for opening the highway to traffic. The State and FHWA did not thoroughly review construction plans, require compliance with plans, and change the specified opening date when difficulties which obviously would delay completing the highway were encountered. In expediting construction, the State and FHWA authorized or permitted the use of other-than-normal construction methods and procedures. Construction problems increased contract costs by $6.4 million, bringing the cost of the two segments, totaling 2.8 miles, to $29.3 million.

Several significant construction problems requiring costly, time consuming corrective measures were encountered. These included:

--Several piers supporting a bridge adjacent to two large embankments cracked and/or moved during construction. The embankments had not been built according to normal procedures. FHWA shared in the $1.4 million repair cost.

--The State instructed the contractor to build an embankment and part of the roadway over landfill. After the highway was completed, the embankment began to sink, damaging the roadway and causing it to separate fron the surface of a bridge. Despite corrective measures, the roadway continued to sink, requiring continuing maintenance. FHWA did not particiapte in the maintenance costs.

--To speed up construction by working through the winter, the State, with the approval of FHWA, authorized the contractor to buy special material to use in building embankments. The special material, which cost $786,000, would not have been needed if the contractor had used available embankment material. FHWA agreed to share in the cost of the material.

Although not all the adverse conditions were attributable to an inadequate plan review and a lack of field review by FHWA, GAO believed that many of the problems encountered might have been avoided or minimized had there been a more thorough review. FHWA agreed to bring GAO's report to the attention of its division offices. (B-118653, Mar. 16, 1972.)

Need for a systematic approach to problem of highway hazards

Because of the large number of traffic deaths--54,800 in 1970--GAO reviewed the highway safety improvement program established to identify and correct hazards on Federal-aid highways. The purpose of GAO's review, which was conducted in six States, was to gauge the results of FHWA's

attempts to develop a voluntary national program to alleviate the highway hazard problem.

The program started in 1964 when the President expressed concern over the large number of highway fatalities and designated FHWA as the focal point for an accelerated attack on traffic accidents and fatalities.

Eight years after its inception, the highway safety improvement program had yet to become a fully implemented major national program. GAO's review showed that varying degrees of State compliance with FHWA's program guidance had produced a fragmented approach to reducing highway accidents and fatalities. GAO believes that this happened because FHWA guidance to States largely had been advisory, rather than mandatory, and because quantified goals had not been established. GAO noted that an opportunity existed to materially improve the Nation's traffic safety record if the Government would provide stronger program leadership.

GAO suggested that an effective program for systematically eliminating hazardous highway locations required routine reservation and use of funds (1) to identify hazardous locations on the basis of actual accident experience, and (2) to correct hazards in accordance with priorities based on potential for accident reduction in relation to the cost of the correction. FHWA had not reserved Federal-aid highway funds specifically for highway safety programs nor had the six States routinely set aside and used a part of their Federal-aid highway funds to correct hazardous highway locations. Of the total Federal-aid funds available to the six States during the 7 years ended December 31, 1970, only 3 percent was spent for that purpose.

The Department of Transportation agreed generally with GAO's analysis of the progress and status of the highway safety improvement program.

Because it believed that legislative action specifically setting aside a part of highway trust funds to insure an appropriate level of accomplishment would provide a more effective program incentive, GAO suggested in its report to the Subcommittee on Investigations and Oversight, House Committee on Public Works, and during hearings held in June 1972, that the Subcommittee might wish to consider the need for legislative action to establish a viable Federal highway safety improvement program. (B-164497(3), May 26, 1972.)

BLANK PAGE

DISTRICT OF COLUMBIA GOVERNMENT

Contents

BLANK PAGE

DISTRICT OF COLUMBIA GOVERNMENT

DEPARTMENT OF ECONOMIC DEVELOPMENT

Amount of regulatory fees is insufficient to recover costs of all regulatory services provided

The District of Columbia Government is responsible for regulating a variety of business, professional, occupational, and other activities requiring governmental supervision in the public interest. The District issues licenses, permits, or certificates of occupancy for the conduct of such activities, establishes standards, and makes inspections to insure that the public interest is protected.

Regulatory fees are established by the District or by statute. In fiscal year 1971, revenues from these fees amounted to about $2.9 million, of which about $100,000 was derived from fees established by statute.

By law the fees are to be established at levels generally sufficient to recover the costs of issuance, inspection, supervision, or other regulatory activities.

GAO found that the District does not have an adequate policy for establishing regulatory fees. The fees were revised only once in 14 years before December 1970. In December 1970, the District increased the fees for permits and certificates of occupancy by 32 percent because, after fiscal year 1967, employees administering the regulatory activities had received pay raises in that amount. The license fees were not increased because the District's study showed that revenues from license fees were sufficient to recover costs.

GAO found, however, that the decision to increase fees for permits and certificates of occupancy did not appropriately consider cost data which showed that fee increases averaging about 200 percent were necessary to cover costs of issuance, inspection, and other supervisory services. Furthermore, the cost data accumulated for all regulatory fees did not include such costs as office space, utilities, transportation, executive direction, and general support.

In response to GAO's recommendations, the District's Commissioner advised GAO in May 1972 that he had directed the development of a defined policy for establishing regulatory fees that would fully recover, where authorized, all costs, direct and indirect. He said also that the policy would provide for periodic review and adjustment of the prevailing fee structure.

Legislation (S. 1338 and H.R. 9275) which would provide the District with the authority to revise certain regulatory fees now fixed by statute was considered in the 92d Congress but was not enacted. (B-118638, July 12, 1972.)

DEPARTMENT OF ECONOMIC DEVELOPMENT (continued)

Lead poisoning hazards in residential dwellings

The Housing Division, Department of Economic Development, District of Columbia Government, is responsible for making inspections and enforcing the housing regulations relative to the use of lead-based paint on exposed interior surfaces of dwellings.

Studies on the lead poisoning problems in the District recently completed by the Public Services Laboratory of the Georgetown University estimated that lead-based paint hazards exist in 28,000 housing units in the District. The laboratory estimated that 20,000 young children are exposed to the lead hazards in these dwellings each year and that, of these 20,000 children, 120 will appear at District hospitals with acute symptoms of lead poisoning. Thirty of these children will have suffered brain damage.

GAO recognized that, because of the widespread problem in the District, it would be difficult to eliminate immediately all existing risk of lead-based paint poisoning. GAO recommended that:

--The Housing Division be required to (1) enforce the housing code relative to the use of lead-based paint by having its inspectors take positive measures on dwelling inspections to ascertain whether lead-based paint hazards exist, (2) take timely action to insure that any existing hazards are eliminated, and (3) enforce, on a timely basis, its orders issued for correction of such hazards, because delays increase the possibility of severe damage to children from ingestion of leaded paint.

--The City Council's agreement be obtained to amend the housing code to provide that paint containing lead in quantity sufficient to be a health hazard be removed from exposed surfaces of dwellings and that the surfaces be repainted with paint free of lead pigment.

--Procedures be established whereby a child who has been poisoned will not be returned to a leaded environment until the lead hazard has been eliminated and the possibility of a subsequent repoisoning thereby precluded.

In June 1972 the District Commissioner informed GAO of various steps that had been taken to strengthen enforcement of the housing regulations relative to the use of lead-based paint. He also informed GAO that a general review of the regulations was being made and that District officials expected to recommend some amendments to the City Council shortly thereafter. (B-118638, Mar. 20, 1972.)

DISTRICT OF COLUMBIA GOVERNMENT

DEPARTMENT OF HUMAN RESOURCES

Problems caused by proliferation of Federal grant-in-aid programs in support of child-care activities

Increasing concern of the Congress with proliferating Federal grant-in-aid programs prompted GAO to undertake a study of the programs in the District of Columbia. Because the Congress was considering legislation involving child-care programs, the first phase of the GAO study was directed to this area.

In the District, funds are provided under 11 Federal programs for child-care activities administered by three District agencies and several private organizations. These agencies and organizations contracted with 62 private and public child-care-center operators to provide services for about 4,450 children in 120 centers at a Federal contribution of about $5.9 million in fiscal year 1971.

The GAO study showed that the numerous Federal programs and lack of coordination at the local level contributed to the following problems in the District:

--An apparent imbalance existed in the location of child-care centers.

--Children of working parents were in half-day programs, and children of nonworking parents were in full-day programs.

--Varying methods of using professional staff in half-day programs resulted in wide cost variances.

--The most economical food service arrangements were not used in all cases.

--Existing public services and facilities were not used by private operators.

GAO believes that its study of child care in the District indicates a need for consolidating and/or coordinating the Federal child-care programs. (B-174895, Jan. 24, 1972.)

BLANK PAGE

DISTRICT OF COLUMBIA GOVERNMENT

EXECUTIVE OFFICE OF THE COMMISSIONER

Inadequate administrative control of funds

By letter dated February 8, 1972, the Chairman of the Subcommittee on the District of Columbia, Senate Committee on Appropriations, asked GAO whether the District of Columbia had violated the Anti-Deficiency Act in connection with its fiscal year 1971 appropriations or allotments. To respond to this request, GAO compared the obligations shown in the District's financial report for fiscal year 1971 with the cumulative apportionments and reapportionments for each operating expense appropriation for that fiscal year. By letter dated March 13, 1972, GAO advised the Chairman that, in 18 instances, obligations exceeded the amount of the cumulative individual apportionments of the particular appropriations to operating units.

GAO reported that overobligation of apportionments constituted a violation of the Anti-Deficiency Act (31 U.S.C. 665) and noted that the District had not reported a violation of the act to the President, through the Office of Management and Budget, or to the Congress.

In a subsequent letter to the Chairman, GAO evaluated the District's response to its earlier letter and reaffirmed its opinion that the District had violated the act. GAO noted, however, that the District appeared to have a new appreciation that stronger controls and more accurate information were needed to manage its fiscal affairs. The development of an acceptable statement of accounting principles was an important step in this direction. More recent actions, such as the reorganization of the budgeting and accounting functions and the issuance of interim regulations relating to control of funds, indicate that a serious effort is underway. (B-118638, Mar. 13, 1972, and Sept. 15, 1972.)

BLANK PAGE

ENVIRONMENTAL PROTECTION AGENCY

Contents

BLANK PAGE

ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF AIR PROGRAMS

Need for improvements in motor vehicle certification activities

At the request of the Chairman, Subcommittee on Air and Water Pollution, Senate Committee on Public Works, the General Accounting Office (GAO) examined into the adequacy of the motor vehicle certification procedures of the Environmental Protection Agency (EPA), the capacity of EPA to oversee the automobile companies' preparation of certification data, and the companies' procedures for developing the data. The request was prompted by the withdrawal by the Ford Motor Company on May 16, 1972, of four applications made to EPA for certification of 1973 vehicles. Ford test personnel had performed unauthorized maintenance on prototype vehicles which had been tested for certification.

GAO reported that the number of EPA personnel assigned to certification activities (10) had been insufficient to adequately perform all activities necessary to insure that automobile companies complied with Federal certification regulations. No EPA personnel had been assigned to specifically monitor activities at the test facilities of the companies. EPA also had had difficulties in hiring and retaining qualified staff, primarily because of low entrance salaries for recent college graduates and noncompetitive salaries for engineers with automotive emissions experience.

In view of the limited EPA staff assigned to certification activities and the lack of EPA in-plant monitoring of compliance with certification regulations, GAO believed that EPA did not have reasonable assurance that the automobile companies had complied with Federal regulations related to maintenance.

EPA officials stated that EPA was considering several alternative procedures for insuring the integrity of certification testing by the automobile companies, including (1) making unannounced spot inspections of the companies' records and test facilities, (2) stationing inspectors at the companies' test facilities to provide continuous monitoring, or (3) assuming responsibility for some or all testing and mileage accumulation of the companies' prototypes. (B-166506, June 12, 1972.)

OFFICE OF AIR PROGRAMS (continued)

Problems encountered in controlling auto-caused air pollution

The Congress, in the 1965 amendments to the Clean Air Act, called for a Federal program to reduce air pollution from cars by prohibiting the sale of new cars--domestic and foreign--that did not conform to Federal emission standards. Further amendments in 1967 provided for Federal assistance to States to develop programs for on-the-road inspections to insure that cars would continue to meet the standards. GAO's review of EPA's progress and the problems encountered in controlling auto-caused air pollution showed that some progress had been made but that much remained to be done before the desired control over pollutants from cars was achieved.

EPA's plans called for testing emissions during three stages of a car's life cycle--design, production, and actual use. In the design stage EPA had been testing and certifying prototypes since the 1968 model year, but there were a number of weaknesses in the certification program. Starting with the 1972 model year, a number of changes were made which should result in a more effective certification program.

Although GAO believed that EPA had had authority since 1965 to test emissions from cars as they came off the assembly line, an assembly-line test program had not been developed. EPA's goal was to begin testing on 1973 model cars, but the goal was changed to the 1974 model year because a number of problems had to be resolved.

GAO reported that even less progress had been made in the final, and perhaps most important step--the periodic inspection of a car's emission throughout its useful life. Tests of cars in actual use showed that their emissions often exceeded the standards applicable to the certified prototypes. EPA had awarded a few grants to State and local governments to develop highway inspection programs, but it informed GAO that implementation of an effective nationwide highway inspection program was 2 to 4 years away. Although various problems were being considered, EPA hoped to achieve some measure of control over the emissions from cars on the road through a recall program planned for 1972 models.

The recall program has one inherent weakness, however, in that the return of cars to the manufacturers for modifications when emissions exceed established standards is voluntary. The manufacturers are required to notify owners whose cars' emissions exceed standards, but the owners are not required to have the emission control systems modified. GAO recommended that the Congress consider the need for additional legislation to require car owners to return their cars for modification if they have been notified that their cars' emissions exceed established standards.

GAO reported also that EPA's efforts to research, develop, and test control devices for conventional automobile engines were limited because EPA (1) did not have adequate financial resources, (2) did not obtain detailed information from the automobile manufacturers on a timely basis, and (3) did not disseminate all available information to interested persons.

OFFICE OF AIR PROGRAMS (continued)

In addition, GAO noted that resources committed to the search for a low-polluting alternative to the internal-combustion engine had been considerably less than those considered necessary to accomplish the program objectives by 1976. EPA's allocation of the limited resources to many types of engines, including those with little likelihood of timely success, slowed the research and development work related to the more promising engines. In July 1971 EPA decided to discontinue work on engine systems requiring long-term development and to concentrate its resources on the most promising engines; namely, the gas turbine, the Rankine cycle engine, and the stratified-change engine. (B-166506, May 15, 1972.)

BLANK PAGE

OFFICE OF WATER PROGRAMS

Impediments to Federal and State efforts to abate water pollution

GAO reviewed the Federal and State efforts to enforce water quality requirements in Florida, Georgia, Indiana, Massachusetts, New Jersey, and North Carolina. In the past, both the States and the Federal Government relied heavily on voluntary compliance with water quality requirements. Few enforcement actions were taken against polluters. As a result only limited success was achieved in abating water pollution. GAO reported, however, that since 1970, Federal and State programs have been improved substantially and enforcement actions have been pursued vigorously. The policies and practices of some States led to more effective enforcement and should, in GAO's opinion, be adopted by other States.

Federal enforcement under the Federal Water Pollution Control Act has been hampered by the lack of authority to enforce specific effluent restrictions. Present enforcement action against a polluter must be based on a showing that its waste discharge reduces the quality of the water below established standards or endangers health and welfare, which may be difficult and costly. The use of effluent restrictions would permit the setting of treatment requirements before pollution became a problem and would facilitate enforcement action, because showing a failure to meet the restrictions would be sufficient grounds to start enforcement proceedings.

Also, the act does not permit swift enforcement action. A minimum waiting period of 6 months is required between the date that EPA notifies a polluter of a violation and the date that EPA can refer the case to the Department of Justice for court action.

The Refuse Act of 1899 has provided EPA with more effective enforcement authority with regard to industrial plants discharging wastes into navigable waters. Under the act EPA and the Corps of Engineers are implementing a permit program to regulate the discharge of industrial pollutants into navigable waters. Violators can be referred without delay to the Department of Justice for court action. The act, however, does not provide EPA with the comprehensive authority needed to adequately carry out Federal enforcement because municipalities discharging sewage in a liquid state and industrial plants discharging wastes into municipal sewers generally have not been subjected to enforcement proceedings under the act. In addition, enforcement authority is split between EPA and the Corps of Engineers.

Some Federal enforcement actions were taken without coordination among the Federal agencies concerned and/or without consultation with the State water pollution control agencies. The lack of coordination among the Office of Water Programs, EPA; U.S. attorneys; and State water pollution control agencies, in some cases, resulted in duplication of State and Federal efforts and caused confusion among polluters as to which agency had responsibility for enforcement. During 1971 both the Department of Justice and EPA issued guidelines designed to promote coordination among Federal and State enforcement agencies.

OFFICE OF WATER PROGRAMS (continued)

Effective implementation of recently enacted legislation should aid in resolving the major problems noted in GAO's review. The legislation

--expanded Federal authority to municipal discharges into all navigable waters,

--authorized the establishment and enforcement of specific effluent limitations,

--provided for the establishment of a comprehensive permit program,

--facilitates swift enforcement action, and

--requires a water quality inventory.

(B-166506, Mar. 23, 1972.)

Alternatives to secondary sewage treatment offer greater improvements in Missouri River water quality

The Environmental Protection Agency (EPA) is authorized to award grants to States and municipalities for constructing sewage treatment facilities if enforceable water quality standards have been established. The legislation empowering the grants does not specify the minimum levels of sewage treatment necessary to meet the water quality standards. EPA, however, is requiring the States along the Missouri River to provide secondary sewage treatment by 1975 for municipal wastes entering the river. The cost of providing secondary treatment along the Missouri main stem is estimated at $206 million.

To enforce its requirements, EPA has advised State and local officials that the Federal Government will not participate in the cost of constructing sewage projects along the river unless the States include secondary treatment in their water pollution control programs.

GAO believes that water pollution control programs along the Missouri River main stem would be more effective if available Federal funds were used to construct or improve primary plants and sewer systems to prevent raw sewage from entering the river rather than to provide secondary treatment at this time. Tests have shown that the dissolved-oxygen levels in the Missouri River currently are above the minimum required by State standards. However, untreated sewage, producing offensive conditions, is pouring directly into the river at certain locations. Many projects for constructing or improving primary treatment facilities or interceptor sewers to channel sewage to primary treatment plants are being delayed until after 1975, to concentrate on providing secondary treatment required by EPA.

OFFICE OF WATER PROGRAMS (continued)

GAO recommended that EPA reconsider the timing of the requirement for secondary treatment of municipal wastes along the Missouri River in the light of conditions existing along the river and the nature of the sources of its pollution. The Administrator should also determine whether greater public benefits would be attainable sooner from expenditures for pollution abatement projects other than secondary treatment projects.

EPA agreed that the conditions existing in the river, the sources of pollution, and the intended uses of the water should be considered in determining the level of treatment required. State and local officials with whom GAO discussed the matter agreed that construction of secondary treatment plants would divert funds from other projects which might provide more immediate results. (B-125042, Jan. 6, 1972)

ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF SOLID WASTE MANAGEMENT PROGRAMS

Limited impact of demonstration grant program on national solid waste disposal problem

In view of the increasing public and congressional concern over solid waste disposal, GAO reviewed the effectiveness of the Federal grant program conducted by EPA for demonstrating new and improved means of solid waste disposal. GAO reported that the grant program has been beneficial in improving existing technology to a limited extent, in stimulating public interest in proper solid waste disposal methods, and in solving a number of local solid waste disposal problems. In GAO's opinion, however, greater benefits could have been achieved if more emphasis had been placed on developing methods of recovering natural resources from waste for reuse (recycling) and on new or improved and more economical methods of disposal.

GAO found that few grants had been awarded for projects primarily concerned with recycling and that some grants for projects to demonstrate new and improved techniques were, in reality, merely refinements of existing disposal methods.

GAO attributed the limited effectiveness of the program to the failure of the Office of Solid Waste Management Programs to:

--Establish specific program objectives.

--Develop a systematic method for establishing priorities and for making specific program needs known to prospective grant applicants.

--Provide criteria or guidance for its staff to use in reviewing and approving grant applications.

GAO stated that, in establishing goals and priorities, the Administrator, EPA, should place greater emphasis on the need to develop and demonstrate new methods, devices, and techniques of solid waste disposal--particularly those related to resource recovery and recycling--which have potential for national or widespread use.

EPA agreed generally with GAO's recommendations for improving the operation of the program and stated that it had taken or planned to take appropriate steps to implement them. (B-166506, Feb. 4, 1972.)

GENERAL SERVICES ADMINISTRATION

Contents

GENERAL SERVICES ADMINISTRATION

PUBLIC BUILDINGS SERVICE

Building services not provided to Federal tenant agencies on a uniform and equitable basis

The General Services Administration (GSA) operates and manages about 10,500 Government-owned and -leased buildings that house Federal departments and agencies. The cost, including rentals, of operating and managing these buildings averaged $460 million a year for the 3-year period ended June 30, 1971. About 80 percent of this cost was paid for with funds appropriated to GSA and about 20 percent was paid for with other agencies' funds.

GSA's stated policy is to provide, at an economical cost, building-management services uniformly and adequately to the tenant agencies. GSA's regulations provide that additional services specifically requested by tenant agencies shall be paid for by the tenant agencies and shall be provided only to the extent that the services can be performed by GSA without interfering with GSA's other responsibilities.

GAO's review showed that building services--cleaning, painting, and preventive maintenance--had not been provided uniformly and equitably to Federal agencies. Agencies paying building-service costs with their own funds requested, and were provided with, on a priority basis, services comparable to those enjoyed by private business. Such services exceeded those provided by GSA to other agencies located in space where the operating costs are paid with GSA funds.

Differences in the level of services include variations in the extent of cleaning and in the frequencies of interior painting.

Appraisals of cleaning performances are stated as percentages of the 100 percent, or standard, level normally required by private industry. GSA has stated to congressional committees in the past that the cleaning at the 70 percent level it was then performing was well below the level considered acceptable in commercial building operations. When the cleaning is done at a level less than the standard level, the frequencies for performing some jobs such as dusting, sweeping, and vacuuming are reduced or not done at all.

Because of cumulative employment and expenditure constraints over the years, GSA had been performing its cleaning operations in 1971 at about 56 percent of standard in those buildings where the cleaning was done by its employees and paid from funds appropriated to GSA. Cleaning has been performed at about the standard level in buildings where GSA is reimbursed from tenant agencies' funds and in leased buildings where the lessors provide cleaning services. Leases usually require that building owners provide cleaning services at the standard level, and the costs for these services are included in the rents. GSA has stated that this is an acceptable level of cleaning and should not be reduced.

GSA's regulations provide for the interior painting of Government-owned buildings on a 6-year cycle and in leased buildings on a 5-year cycle.

PUBLIC BUILDINGS SERVICE (continued)

Because of the limited GSA funds from appropriations available for painting during fiscal years 1969, 1970, and 1971, GSA's Washington region repeatedly instructed its building managers to assign painters to reimbursable work. GAO noted in its review that the interior painting of Government-owned buildings was neither scheduled nor done on a 6-year cycle. GSA will paint the interiors of buildings more frequently when the tenant agencies request and pay for special painting; this painting may not necessarily be on the basis of need. Because about 80 percent of the painters in the Washington region were assigned to such request work, non-request work was often done less frequently than on a 6-year cycle.

GAO recommended that GSA strive to provide building services to federally-occupied buildings on a uniform and equitable basis. GSA contended that building services had been planned and allocated as consistently and equitably as possible and had been programmed to provide standard service in all areas except for cleaning. GSA maintained that cleaning at the standard (100 percent) level under funding restrictions was possible only when the total operation was fully reimbursable. With respect to painting, GSA stated that the reimbursable painting in excess of GSA standards was, in fact, "interior decorating" for the tenant agencies as opposed to normal operations and maintenance. (B-118623, Feb. 28, 1972.)

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Contents

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Critical areas of uncertainty in cost-benefit analysis supporting the Space Shuttle Program

Senator Walter F. Mondale requested GAO to review the cost-benefit analysis used by the National Aeronautics and Space Administration (NASA) in support of the Space Shuttle Program announced in January 1972. GAO's report identified critical areas of uncertainty in the estimated costs of the program and showed the effects of changes in the costs estimated for these critical areas on the program's economic justification. With the Senator's agreement, GAO's report was released to the Congress in view of widespread interest in the program.

The primary focus of GAO's analysis was a study by Mathematica Incorporated of how economical the shuttle would be compared with the existing launch system, which is used only once. NASA and Mathematica officials said that this study demonstrated the space shuttle to be economically justified.

The Mathematica study compared the estimated total space program costs for three alternative space transportation systems--the existing expendable system, the proposed expendable system, and the space shuttle system. Mathematica defined "total space program cost" as the sum of launch system life-cycle costs and payload system life-cycle costs. In making its study, GAO used NASA's cost model developed by Mathematica to show the effect of increasing or decreasing the costs estimated for selected critical areas within their plausible boundaries. ("Critical areas" were defined as assumptions and/or study elements that significantly influenced the estimated total space program cost.) GAO's report also identified the percent of increase in the estimated costs that could take place before an investment in the Space Shuttle Program would become uneconomical compared to the existing launch system.

GAO examined the economics of the Space Shuttle Program by comparing the estimated total space program costs for the shuttle and the costs of the existing expendable system. Although the proposed expendable system's estimated cost was lower than the cost of the existing expendable system, GAO did not consider it in the study because of the uncertainty in cost estimates for any new class of system, including this one, and the lack of time to review the new expendable launch system estimates.

NASA generally agreed with the approach used by GAO in assessing the effects on the economics of the Space Shuttle Program of changes in the cost and mission assumptions used in Mathematica's study. (B-173677, June 2, 1972.)

OFFICE OF ECONOMIC OPPORTUNITY

Contents

OFFICE OF ECONOMIC OPPORTUNITY

COMMUNITY ACTION PROGRAM

Improvements needed in training and technical assistance services provided to antipoverty agencies

In April 1972, the General Accounting Office (GAO) reported on a review of the adequacy of the policies, procedures, and practices followed by the Office of Economic Opportunity (OEO) in initiating and administering 11 selected contracts for training and technical assistance services provided to antipoverty agencies.

GAO reported that the services provided under the contracts did not satisfy, to a significant extent, the needs of local antipoverty agencies. As indicated by the following list of deficiencies, improvements were needed in OEO's planning, monitoring, and evaluation of the contracted services.

--OEO program offices did not determine the specific needs of the local antipoverty agencies prior to awarding the contracts. As a result, in some cases, services contracted for could not be provided, services provided were inadequate or inappropriate to satisfy agency needs, and some agencies refused to accept services because they were dissatisfied with services previously received from OEO contractors.

--Under several contracts the services to be provided had not been scheduled adequately in advance by OEO, the contractors, or the recipient agencies. As a result, training sessions were poorly attended and technical assistance services were not provided in a timely manner.

--In some cases, OEO had not promptly assigned project managers who could have participated in planning the contracted services and who could have guided contractor performance throughout the contract period.

--No evaluations had been performed to determine whether the intended objective of strengthening antipoverty programs had been achieved.

A follow-up review by GAO of contracts for services to be provided during fiscal year 1972 showed that little progress had been made in identifying specific agency needs prior to the award of the contracts.

OEO recognized the shortcomings in the training and technical assistance services provided to antipoverty agencies and stated that measures had been taken to reduce the furnishing of such assistance through contractors. Also, an OEO task force was appointed to revise instructions on grant and contract management procedures and policies, to improve project management of training and technical assistance contracts. (B-130515, April 26, 1972.)

COMPREHENSIVE HEALTH SERVICES PROGRAM

Opportunities for improving Neighborhood Health Services program, Rochester, New York

In October 1971, GAO reported that improvements were needed in the operations of the Neighborhood Health Services Program, a project operating in Rochester, New York, and funded by OEO under the Comprehensive Health Services Program. The project seeks to demonstrate how the resources and capabilities of a major medical school--the University of Rochester--and a large county health department--Monroe County--can be combined to deliver comprehensive, high quality, family-oriented health services to a target population of approximately 12,000 poor persons.

GAO reported that during its first 3 program years, ended July 31, 1970, the project generally succeeded in involving target-area residents in its planning and operation. Also the project enrolled about three quarters of its intended target population and provided medical services that generally satisfied these enrollees.

The following opportunities were noted, however, for improving the operations of the project.

--The relatively low average number of patients seen by project physicians and dentists during the period November 1967 through March 1970 indicated that the project was not making maximum use of available professional health manpower.

--Improvements were needed in preventive health care and medical recordkeeping if the project was to make comprehensive health services available to its target population in the manner called for by OEO guidelines and approved project proposals.

--As of September 1971, project managers had not provided OEO with an acceptable schedule of the amounts to be charged for services to individuals whose income was above the standard for free care, as required by OEO guidelines.

--As of March 1972, OEO had not audited the tentative indirect cost rate of 20 percent of project direct costs (excluding renovations) charged by the University of Rochester during the project's first 3 program years.

Public Health Service medical specialists assisted GAO by reviewing patient medical records and dental records and concluded that:

--The health care rendered was primarily episodic rather than preventive.

--There were no plans for fully assessing the health care needs of individuals or families.

COMPREHENSIVE HEALTH SERVICES PROGRAM (continued)

--Information recorded in case files related primarily to episodic visits. Records of complete physical examinations were available in only a small percentage of cases.

--Except on occasion, the documentation did not show evidence of routine semiannual dental examinations. Visits to the Center seemed to be in response to specific dental needs.

--Documentation of diagnostic results was fragmented.

In commenting on this report, OEO stated that despite various handicaps, the project was generally successful in achieving the OEO goals of continuity of care, accessibility, comprehensiveness, acceptability, and community participation. OEO stated also that measures had been taken to (1) provide adequate facilities for project physicians and dentists, (2) improve preventive health care and medical recordkeeping, and (3) develop an acceptable fee schedule as required by OEO. (Report to Deputy Director, OEO, Oct. 29, 1971.)

OFFICE OF ECONOMIC OPPORTUNITY

GENERAL

Need for improvement in contract award procedures and practices

In December 1971, GAO reported on a review of the adequacy of OEO's policies, procedures, and practices in awarding contracts in fiscal years 1969 and 1970. Particular attention was paid to contracts awarded in June and to problems associated with June contracting.

GAO reported that:

--Forty-five percent of the 332 contracts awarded in fiscal year 1969 and 56 percent of the 169 contracts awarded in fiscal year 1970 were awarded during the month of June. This high level of activity in the month of June lessened OEO's ability to adequately evaluate the strengths and weaknesses of prospective contractors and their proposals.

--OEO did not always allow sufficient time for preparation of contractors' proposals. In some cases, this restricted the number of proposals submitted to OEO.

--OEO did not always include in the negotiation process all contractors that had submitted responsive proposals determined to be in a competitive range.

--Prior to the award of many of its contracts, OEO did not adequately determine whether prospective contractors possessed the technical and financial capacity to perform proposed contracts or were eligible to receive such contracts under applicable Government laws and regulations.

A follow-up review of OEO's June 1971 contracting activities generally showed improvement in the time periods allowed by OEO for preparation of proposals by contractors and that there had been a marked increase in negotiations held with contractors submitting responsive proposals.

OEO recognized the problems discussed in the report and stated that measures had been taken to strengthen the contracting process. OEO convened a high-level task force to reexamine and assess OEO's planning process, as well as the various phases associated with project definition, project management, and source solicitation and selection, (B-130515, Dec. 15, 1971.)

Improvements needed in administration of contracts for evaluations and studies of antipoverty programs

In December 1971, GAO reported on a review of the adequacy of the procedures and practices followed by OEO in administering contracts awarded for continuing evaluations of antipoverty programs or for testing or assisting in the development of new approaches or methods to further

GENERAL (continued)

Improvements needed in administration of contracts for evaluations and studies of antipoverty programs

the purposes of the programs. GAO reviewed 14 evaluation and study contracts totaling about $3.2 million, which had been completed recently or which were to be completed during fiscal year 1970. GAO reported that:

--The reports obtained under 10 of the contracts did not provide OEO with objective and useful information to aid in the design, development, and assessment of its programs.

--Contract specifications did not always clearly and accurately describe the technical requirements of services to be procured.

--Improved monitoring of contractor performance was needed to insure that contractors' work was progressing satisfactorily.

--Although informal appraisals of the general acceptability of contractors' reports were made, OEO had no system for insuring that the validity of study results was formally assessed and that valid recommendations were acted upon.

OEO indicated that it agreed with the intent of GAO's recommendations and stated that a high-level task force on program management, contracting, and grant issuance had been convened to deal with those problems, identified in GAO's report and in studies made by OEO, that had not already been corrected. (B-130515, Dec. 28, 1971.)

OFFICE OF MANAGEMENT AND BUDGET

Contents

OFFICE OF MANAGEMENT AND BUDGET

Coordinated consideration of buy-national procurement program policies needed

The General Accounting Office (GAO) looked into the buy-national procurement program as implemented by Federal procurement policies under the Buy American Act and the Balance-of-Payments Program. The program regulates Federal procurement in situations in which suppliers offering domestic products and services are competing with suppliers offering foreign products and services.

Policies and procedures implementing the buy-national procurement program generally permit Federal agencies to pay up to 50 percent more for domestic products over comparable foreign products, to protect domestic interests and to improve the U.S. balance-of-payments position.

Need for reports on balance-of-payments benefits

Although the buy-national procurement program has been in existence for a number of years, information has not been accumulated to evaluate its effects on the balance of payments or the cost for obtaining balance-of-payments benefits. GAO questioned whether it was in the national interest to pay millions of dollars annually to retain procurement dollars in the United States, without some form of reporting to determine the balance-of-payments benefits being achieved.

GAO found a case involving several civil agency procurements and a single Department of Defense (DOD) procurement which showed that additional costs had been incurred without balance-of-payments benefits because of different procurement policies under the buy-national program. DOD saved an estimated $12.8 million in balance of payments by buying domestic sandbags at a premium of $7.7 million, 60 percent more than the estimated cost of foreign procurement. At the same time, civil agencies purchased foreign-made products at a cost of $12.9 million. The civil procurements offset the balance-of-payments benefits achieved by DOD.

Value of foreign and domestic components not considered

Federal agencies are not required to determine the values of foreign and domestic components in end products and whether the additional cost that may be paid for a domestic end product will result in an appropriate benefit to the U.S. balance-of-payments position. GAO believes that, to guarantee that premium prices are paid only when demonstrable balance-of-payments benefits will result, Federal agencies should consider the values of American and foreign components in the end product.

In one instance GAO noted that DOD approved an Air Force procurement from a domestic firm for $2.3 million more than the price offered by a foreign supplier. Because of the foreign components in the product, however, only $1.4 million in balance-of-payments benefits were achieved. Using a guideline that a $2 advantage in the U.S. balance-of-payments

position was necessary for each $1 in additional cost, a premium price of only $700,000 was justified. DOD was aware of the effect of the foreign components on the balance-of-payments benefits but did not have enough time to readvertise the procurement to obtain data on the components from bidders.

Complexities call for high-level coordination

The buy-national program affects the major domestic and international program policies, such as the level of Federal spending, efforts to curb inflation, protection of domestic industry and employment, and U.S. foreign economic and trade objectives, including negotiations aimed at gaining access to foreign government procurements.

GAO recognizes that most of these considerations are not subject to precise measurement and that subjective judgments by management may well outweigh the basic buy-national determinants of cost versus benefits. Decisions must consider that changes in any program may result in divergent effects on other programs.

GAO recommended that the Director, Office of Management and Budget (OMB):

--initiate a reporting system to assist in evaluating the effectiveness of buy-national procurement policies in terms of balance-of-payments benefits and additional cost incurred and

--determine the feasibility of requiring that component information be obtained and considered on procurements that involve buy-national program policies.

The creation by President Nixon of a new, high-level Council on International Economic Policy recognized the need for coordinating economic and trade policies with overall national objectives.

GAO recommended also that the Director, OMB, in his role as the overseer of executive agency programs and policies, assess the indicated costs and benefits under the buy-national procurement program against the

--potentially adverse impact of buy-national policies on other U.S. foreign economic and trade objectives formulated by the Council on International Economic Policy and

--potentially greater benefits in assisting the domestic economy and the U.S. balance-of-payments position by reallocating budgetary resources to other programs which reportedly are more cost effective and are consistent with traditional U.S. efforts toward freer and fairer world trade.

Ten agencies commented on a draft of the report. Only DOD disagreed with GAO's proposal for a reporting system and stated that the 50 percent premium for domestic procurement discouraged foreign bids and therefore

only estimates were available. GAO believes, however, that estimates would be useful in evaluating the efficiency of buy-national policies.

OMB and DOD did not agree with the objective of obtaining and evaluating component information. The remaining agencies, although basically agreeing with GAO's position, expressed concern that undeterminable administrative costs might be incurred before the benefits to be realized were known.

GAO agrees that the feasibility of adopting a more stringent component policy should be fully evaluated before it is adopted.

OMB in commenting on the final report stated that it differs with GAO's apparent premise that buy-national procurement programs are an effective or an appropriate means for achieving the balance-of-payments objectives of the United States. OMB would like more information on the effectiveness of buy-national procurement policies but has reached a preliminary judgment that the reporting systems' limited capabilities do not justify the relatively high costs of development and implementation.

OMB doubts both the necessity and practicability of requiring component information on procurements involving buy-national program policies. Solicitation of such information, OMB said, would furnish a substantial basis for bid protests.

As for reallocating budgetary resources to other programs, OMB believes that, given the many program complexities described in the report and the degree of flexibility available under existing statutes, the current coordination of buy-national procurement policies is adequate and appropriate.

In view of the apparent millions of dollars that the buy national program is costing the U.S. Government, GAO remains of the view that, to assess the effect of the policy, a system of reporting is needed that will provide a basis for making judgments on whether it is cost effective. (B-162222, Dec. 9, 1971.)

TENNESSEE VALLEY AUTHORITY

Contents

TENNESSEE VALLEY AUTHORITY

Opportunities for improvements in reclaiming strip-mined lands under coal purchase contracts

About 1960, the Tennessee Valley Authority (TVA) began to encourage adoption of strip-mining environmental protection legislation in the States from which it buys coal. Because not all these States had adopted such legislation by 1965, TVA decided to include reclamation requirements in its strip-mined-coal purchase contracts. These requirements did not provide sufficiently precise standards for achieving adequate reclamation, however, and TVA modified and strengthened them in 1968, 1970, and December 1971.

The General Accounting Office (GAO) reported that TVA's 1971 requirements represented a significant improvement in TVA's approach to reclamation of strip-mined lands but that the requirements could be improved further by providing for:

--Restricting strip mining on steep slopes to a greater extent.

--Grading the final bench on contour strip-mining sites to closely conform to the original contour of the land and thereby minimize the entrapment of water and diminish the view of the unsightly highwall.

--Giving careful attention to the problem of excess soil acidity prior to including an area in an approved mining plan.

--Stockpiling and using topsoil to enhance revegetation.

TVA stated that it had been studying the feasibility of implementing improvements in these areas. At the time of GAO's review, however, TVA had not taken action to incorporate such improvements as part of its reclamation requirements.

Additionally, GAO reported that TVA could strengthen the enforcement of its reclamation requirements by:

--Establishing guidelines on the types of enforcement action that should be taken when contractors are not reclaiming land in accordance with contract requirements.

--Establishing procedures for use in performing and reporting on inspections which would provide guidance as to the frequency of inspections and require inspectors to document their conclusions as to the extent and adequacy of the contractors' compliance with reclamation requirements.

(B-114850, Aug. 9, 1972.)

U.S. CIVIL SERVICE COMMISSION

Contents

U.S. CIVIL SERVICE COMMISSION

Opportunities for improving administration of Government-wide indemnity benefit plan of health insurance for Federal employees and annuitants

The Indemnity Benefit Plan (Plan), one of the health benefit plans for Federal employees and annuitants administered by the Civil Service Commission, is carried out by the Aetna Life Insurance Company under contract with the Commission. GAO reviewed the administration of the Plan, which is the second largest of the plans in number of enrollees, because of the considerable cost being incurred by Federal employees and by the Government. GAO believes that costs could be reduced and inequities to current and future enrollees could be avoided if the Civil Service Commission took action on the following matters.

Method of establishing premium rates

GAO recommended that the Commission encourage Aetna to refine its method of establishing premium rates for the Plan by making and using, to the extent practicable, the results of studies of claims experience for different age, sex, and geographical groupings of the Plan's participants. The Commission believes that the long-term effect on employees' costs and total contributions to the Plan of the application of more accurate premium rates that would result from use of the recommended method would be negligible because, under the existing procedures, any excess or deficit in the premium rates for a year would be taken into consideration in establishing the premium rates for the following year. GAO believes, however, that the annual premium rates established for the Plan should represent, as nearly as practicable, the costs of the benefits to be provided in that year, to avoid inequities to current and future enrollees.

Contingency reserves

Both the Commission and Aetna maintain reserves which may be used to meet the costs of the Plan. From 1960 through December 31, 1971, the combined total of these reserves at the end of each contract period ranged from 6.2 percent to 32.3 percent of premiums. The Commission had not made studies to determine the amounts of the reserves needed.

Contingency reserves in excess of the amounts needed to protect the Plan's enrollees result from unnecessarily high premium rates. GAO believes that the reserves should be maintained at the minimum levels necessary to provide protection against adverse variations in claims costs.

GAO actuaries calculated that combined contingency reserves of about 5 percent of annual premiums would be sufficient protection against adverse variations in claims costs, if premium rates were established by taking into consideration the Plan's claims experience for various underwriting factors, such as different age, sex, and geographical groupings of its participants.

U.S. CIVIL SERVICE COMMISSION

GAO recommended that the Commission determine, by using principles of risk theory or other acceptable methods, the combined amount of the reserves needed to be maintained to cover adverse chance variations in claim costs and that it take such determinations into consideration before approving premium rates for the Plan. The Commission stated that its actuaries would make a study in which the level of reserves to be maintained would be considered.

Risk charges

For 1970 and 1971 the Commission paid Aetna a risk charge equal to 1 percent of premiums. This charge, according to the Commission, was intended, in a very general sense, to cover risk, but more basically to provide a fee or profit. Because the contingency reserves have been higher than needed to protect against adverse chance variations in claim costs, GAO believes that no significant risk has been involved.

GAO suggested that the Commission consider reducing the risk charge allowances by eliminating the part intended to cover risk. GAO also questioned whether risk charge allowances should be based on a fixed percentage of premiums and suggested establishing alternative means of determining such allowances, such as the use of a fixed fee in payment for services.

Commission officials subsequently advised GAO that the Commission and Aetna had agreed to amend the 1972 contract to provide for a flat-rate service charge of $1.3 million in lieu of the prior risk charge of 1 percent of premiums. On the basis of the premiums for 1971, GAO estimated that, if this proposed amendment had been in effect for that year, the charges to the Plan for risk charges would have been reduced by about $600,000.

The Commission's actions in reducing the risk charge do not fully satisfy the objectives of GAO's recommendation that the Commission, in its negotiations with Aetna for future contract periods, reassess the reasonableness of the amounts allowed Aetna and the reinsurers for service charges.

If the $1.3 million service charge allowance is to be distributed among Aetna and the reinsurers in proportion to the amounts of insurance held--as risk charges were distributed in previous years--about 91 percent ($1,183,000) will be paid to the reinsurers and about 9 percent ($117,000) will be retained by Aetna.

In GAO's opinion, the amounts of the service charges payable by the Plan to Aetna and the reinsurers should be commensurate with the risks and services performed. This does not now appear to be the case with respect to the reinsurers. Therefore GAO believes that there is need for further reassessment by the Commission of the reasonableness of the service charges payable to the reinsurers.

U.S. CIVIL SERVICE COMMISSION

Reinsurers' expense allowances

In addition to risk charge allowances, reinsurers are paid expense allowances, which amounted to about $383,000 in 1971. GAO's review indicated that the expense allowances might have been considerably higher than the cost incurred by the reinsurers in carrying out their responsibilities under the Plan. GAO believes that the Commission should reassess the reasonableness of the amounts allowed for reinsurers' expense allowances. Such a reassessment seems particularly warranted when considering the fact that (1) the reinsurers' expense allowances have been arrived at on the basis of a fixed percentage of subscription charges, (2) subscription charges have more than doubled since inception of the Plan, and (3) the reinsurers' expenses have been related primarily to making entries in accounting records.

The Commission stated it would reassess the reinsurers' expense allowances to determine whether reductions could be made and that it would explore the possibility of determining the amounts by some method other than the use of a percentage of premiums. (B-164562, May 22, 1972.)

Obstacles to employment of disadvantaged persons in the Federal Government

It is the policy of the Federal Government to hire the economically disadvantaged. Efforts to carry out this general policy fall into five categories: Government-wide employment efforts, individual agency programs, youth programs, federally-assisted manpower training programs, and the Public Service Careers Program.

The General Accounting Office (GAO) reported to the Congress in April 1972 that, because of a prohibition against requiring applicants for Federal employment to disclose information on family size and income, there was no assurance that the persons enrolled in Federal employment programs for the disadvantaged, such as the Public Service Careers Program, were actually disadvantaged, as the term is used in federally supported programs in the private sector. The Civil Service Commission said that requiring an applicant for Federal employment to disclose information on family size and income would be an unwarranted invasion of privacy.

Another problem in effectively implementing the Government policy, GAO was told, is that the merit system requires the appointment of the best qualified candidates to the Federal service. This presents obstacles to those applicants who have limited skills and education. The Commission stated that it legally could not limit entry into the competitive service on such nonmerit factors as family size and income and other criteria used to determine whether a person is disadvantaged.

GAO reported that specific legislation would be required if the Congress wanted the Civil Service Commission to have authority (1) to obtain and consider data needed to identify applicants as disadvantaged persons and (2) to afford preference to disadvantaged persons seeking Federal employment. GAO noted that in the past the Congress has provided certain statutory exceptions from the merit system, such as those for veterans and for unemployed and underemployed persons under the recently enacted Emergency Employment Act (P.L. 92-54). (B-163922, Apr. 17, 1972.)

U.S. POSTAL SERVICE

Contents

BLANK PAGE

Unrecovered costs of providing service to commercial firms renting multiple post-office boxes

Many commercial firms rent numerous post-office boxes (multiple boxes) for the purpose of having their mail sorted by postal employees. In many of these cases boxes are neither used nor provided. Instead, postal employees place mail addressed to the box numbers in mailbags for the addressees (phantom boxes). The General Accounting Office (GAO) reported that the costs of providing service to the firms renting phantom boxes exceeded the revenues received for these services by about $3.1 million annually at 80 large post offices.

The Postal Service acknowledged the need to modify its policy to recover the costs of the services provided but informed GAO that box rental policy proposals would not be submitted to the Postal Rate Commission until January 20, 1973. The Commission is responsible for reviewing any changes in postal rates and fees proposed by the Service. The Service was not sure when the new fees or services it might propose would become effective. (B-114874, July 19, 1971.)

Costs of processing business reply mail should be recovered

The Congress intended that fees charged for business reply mail service should be adequate for recovering the costs of this service. Although Postal Service costs have increased, the fees have not been changed since they were established by law in 1958.

GAO's review at 13 postal facilities in seven cities showed that the average direct labor cost for each piece of business reply mail exceeded the average fee by about 0.9 cent. In fiscal year 1970 the Service processed about 733 million pieces of business reply mail.

Because the Postal Service had not compiled information on the nationwide costs of providing the business reply mail service, GAO believed that an informed decision could not be made as to the fees that would be required to recover the costs of providing the service. GAO recommended that the Service determine the nationwide costs and propose to the Postal Rate Commission appropriate fee adjustments to recover the costs.

The Service agreed to undertake a comprehensive study of the matter but stated that it would not submit its proposals to the Postal Rate Commission until January 20, 1973, on which date it is required by law to submit proposals on the mail classification system. (B-114874, Oct. 28, 1971.)

BLANK PAGE

VETERANS ADMINISTRATION

Contents

BLANK PAGE

Low use of open-heart-surgery centers at Veterans Administration hospitals

Over the past several years, VA medical officials and cardiovascular surgeons in the private sector have stressed the need for surgical teams to perform a minimum number of open-heart-surgery operations to retain their proficiency. VA has adopted a minimum criterion of 52 operations a year for each of its 23 open-heart-surgery centers. Other medical experts have recommended as high as six cardiac operations weekly.

GAO reviewed the activity at VA's centers during 1971 to determine whether surgical teams were performing the minimum number of operations considered necessary by VA. GAO found that, during fiscal year 1971, only seven of the 23 centers performed at least the minimum number of operations. During fiscal years 1965 through 1971, only five centers averaged the annual number of operations considered necessary. Eight centers never performed more than 30 open-heart operations in any year.

Several reasons were given for the low use of the centers. One VA surgeon estimated that as many as 40 percent of all open-heart operations throughout the country were for congenital heart defects. Individuals having such defects are usually not admitted into military service. Also, VA allows some of its hospitals which are not open-heart-surgery centers to perform open-heart surgery or to transfer their patients to medical school hospitals with which they are affiliated, rather than to the nearest VA open-heart-surgery centers.

GAO recommended that VA evaluate the program to redetermine the number and location of open-heart-surgery centers. The evaluation should consider the needs of VA patients and the minimum workload necessary to permit surgical teams to retain the required technical skill.

VA agreed in principle with GAO and was developing plans to carry out the recommendation. (B-133044, June 29, 1971.)

Noncompliance with congressional intent

At the request of the Chairman, Subcommittee on Housing and Urban Development, Space, Science, and Veterans, House Committee on Appropriations, GAO examined into and reported on whether VA had complied with the intent of the Congress as expressed in a special provision of VA's medical care appropriation act for fiscal year 1972 (Public Law 92-78, approved August 10, 1971), which required that funds appropriated by the act not be apportioned to provide for less than an average of 97,500 operating beds in VA hospitals or to furnish inpatient care and treatment to an average daily patient load of less than 85,500 beneficiaries during the fiscal year 1972.

VA made funds available to operate at the specified levels, starting November 1, 1971, although funds could have been made available sooner under authority provided by the continuing resolution dated July 1, 1971, after the intent of the Congress was clearly established by passage of the 1972 appropriation bill by the Senate on July 20, 1971.

VETERANS ADMINISTRATION

GAO expressed the opinion that, because of the delay, VA's administration of the special provision was not in accord with the intent of the Congress. (B-160299, Mar. 16, 1972.)

VARIOUS DEPARTMENTS AND AGENCIES

Contents

Contents (continued)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Commerce, Department of Housing and Urban Development, and Small Business Administration)

Limited impact of Federal programs on economic development, employment, and housing in New Bedford, Mass.

GAO reviewed the major Federal programs designed to deal with the unemployment and housing problems in New Bedford, Mass., including economic development and community action activities related to the problems. The city utilized various Federal programs in economic planning, attracting new industries, expanding or maintaining existing industries, and training manpower.

GAO reported that, although efforts had been made during fiscal years 1965 through 1971--the period GAO reviewed--and were continuing to be made to expand the city's economic base, the city's economy continued to lag significantly behind that of the State and of the Nation and there was little evidence that the efforts being made would significantly improve the situation. The dimensions of the city's other problems, such as housing, were interrelated directly to the city's economic situation.

GAO recommended that the New England Federal Regional Council, the Small Business Administration, and the Economic Development Administration, Department of Commerce, assist the State and local governments to pursue the following possibilities for increasing the city's economic activities:

--Obtaining additional Federal assistance to renew areas, construct public facilities, and finance businesses.

--Placing Federal contracts with area firms to stimulate additional employment.

--Creating jobs by locating federally supported facilities or Federal offices in the area.

--Financing additional jobs under the Emergency Employment Act.

--Offering State- or city-supported low-rent facilities to attract industry.

--Providing tax incentives to attract additional business activity.

--Intensifying efforts to coordinate the activities of the various development organizations in the city and continuing to involve the Community Action Agency, to more effectively focus on and pursue the city's overall economic objectives.

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Commerce, Department of Housing and Urban Development, and Small Business Administration)

GAO recommended that the Department of Housing and Urban Development assist the city to formulate and implement its housing renewal program to insure that adequate attention would be given to the following considerations:

--Identifying and periodically reassessing the types of housing needed at each income level, taking into account data on family sizes and patterns, age groups, immigration trends, etc.

--Delineating the appropriate Federal and State subsidy housing programs needed and available for low- and moderate-income families.

--Identifying and resolving institutional barriers to economic housing construction, such as zoning restrictions for multifamily housing or obstacles to new low-cost construction techniques.

--Studying the local property tax structure to see whether some form of incentive is feasible.

--Obtaining or organizing sponsors for housing projects.

--Coordinating planning and action among the various local agencies involved in housing, renewal, and conservation activities to provide a unified effort in meeting the city's housing problems. (B-159835, Jan. 11, 1972.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Defense and Department of State)

Continued intensified efforts needed to strengthen U.S. Government foreign tax relief on defense expenditures overseas

In January 1970 GAO issued a report to the Congress entitled "Questionable Payment of Taxes to Other Governments on U.S. Defense Activities Overseas" in which GAO recommended that the Secretaries of State and Defense jointly develop and promulgate specific guidelines that will define the U.S. tax exemption policy, clearly establish the responsibilities of the concerned U.S. agencies, and provide for an adequate management system to operate an effective tax relief program.

GAO issued a followup report in January 1972, informing the Congress of the progress being made to strengthen the U.S. Government foreign tax relief program on defense expenditures overseas. GAO noted that the Departments of State and Defense had taken commendable steps to strengthen the management and administrative procedures concerning the U.S. foreign tax relief program and were pursuing a unified course of action to minimize the payment of foreign taxes on U.S. defense expenditures overseas.

Despite these improvements, GAO noted that three countries in particular, Thailand, Vietnam, and Italy, presented continuing problems in the foreign tax relief program on defense expenditures overseas.

The United States did not have satisfactory tax relief agreements with the Governments of Thailand or Vietnam.

Although the Thai Government in 1972 granted a 1-year exemption from customs duties and taxes for milk ingredients imported by the U.S. Government, estimated to save $250,000, these were not permanent measures and tax relief on bakery products remained to be considered in the light of a needed overall tax relief agreement with Thailand.

State advised that the U.S. Government had not yet negotiated with Thailand an overall formal or informal agreement for exemption from customs duties, taxes, and other charges of U.S. defense expenditures in that country. It also advised that the American Embassy was continuing informal talks with Thai officials and, if satisfactory results were not obtained in the near future, State might need to press for formal diplomatic negotiations. As of August 1972, negotiation results had been disappointing.

With regard to Vietnam, State commented that, until the future pattern of U.S. Government expenditures had been assessed, any effort to enter into negotiations would be counterproductive.

In its January 1970 report, GAO discussed instances in which contractors had excluded taxes from their contract prices but, because of a breakdown in administrative procedures, had been unable to obtain tax relief from the Italian Government despite the fact that the United States had an

agreement with it (Dunn-Vanoni Agreement) which stipulated that the Italian Government would assume the burden of taxes on U.S. defense expenditures in Italy. In January 1972 GAO reported that two contractors had filed appeals with the Armed Services Contract Appeal Board for reimbursement of the foreign taxes paid by them. In the event of an adverse judgement by the Board, these contractors will be free to bring suit against the U.S. Government. The exact amount of potential contractor claims is unknown, but it has been estimated in excess of $1,000,000.

State noted that the validity of the agreement on reimbursing Italian contractors for registration and certain taxes had been confirmed to the American Embassy in Rome by the Italian Ministry of Foreign Affairs. The agreement was being tested in the Italian courts. Legislation was pending in the Chamber of Deputies to permit implementation of the agreement. The American Ambassador had personally interceded with the Italian Government to bring about a prompt solution.

GAO recognizes that this is a very complex problem which, in some cases, involves negotiations with foreign governments. However, GAO believes that efforts to reach satisfactory tax agreements and administrative arrangements with foreign governments should be intensified to eliminate as rapidly as possible the continued U.S. payment of foreign taxes on defense activities overseas. (B-133267, Jan. 6, 1972.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Defense, Department of State, and Agency for International Development)

Need for changes in funding and management of pacification and development program in Vietnam

GAO reported to the Congress suggestions for changes in U.S. funding and management of pacification and development programs in Vietnam. The U.S. Government, to coordinate management of these programs, established in 1967 the Civil Operations for Rural Development Support (CORDS) organization to administer these programs. GAO found that CORDS had not established financial control nor had it been given responsibility for financial stewardship over more than $2.1 billion provided by the U.S. in direct support of these programs.

CORDS receives funds from the Department of Defense (DOD), the Agency for International Development (AID), and other U.S. agencies. The contributing agencies procure most of the equipment and commodities used in CORDS programs and provide the U.S. personnel to oversee the programs.

Neither CORDS nor DOD had developed a system for CORDS programs that would provide sufficient data to budget the assistance required by these programs or to measure the amounts of assistance already provided. GAO believed that this information was not known partly because of the use of the military assistance service funded system which also provided funding for assistance to the Vietnamese Armed Forces. GAO concluded that the justification presented to Congress in 1966, based on conditions at that time, for merging military assistance appropriations for Vietnam into the regular appropriations of DOD might no longer be valid.

Financial controls over other programs administered by CORDS were loose. GAO found that (1) about $360 million in U.S. owned or controlled local currency had been obligated for CORDS programs with limited U.S. say over how the money would be spent and (2) controls over the commodities provided for war victims were not established; large quantities of food had spoiled, unneeded items had been purchased but not used for long periods, and items had been diverted to ineligible recipients.

GAO concluded that, in view of these observations and with the emphases on Vietnamization and withdrawal of U.S. military personnel who make up the majority of U.S. personnel assigned to CORDS, it might be appropriate to reexamine the justification and rationale for continuing CORDS.

GAO recommended that Defense, State, and AID review the need to retain CORDS. GAO also recommended that improvements be made in the management and financial controls of the pacification and development programs.

GAO suggested that the Congress might wish to reexamine the need to continue funding the major portion of the pacification and development programs in Vietnam from regular DOD appropriations. By appropriating these funds as military assistance under the Foreign Assistance Act, the Congress would have

more meaningful program and cost data on aid to Vietnam and could exercise more control over the amounts of assistance to be provided and the purposes for which the aid will be used.

GAO did not obtain formal agency comments; however, it discussed the substance of the report with appropriate officials of Defense, State, and AID. Those officials agreed generally with the facts in the report but they believed it to be overly critical in tone. They believed that the report failed to recognize sufficiently the war environment or that CORDS activities were Vietnamese programs administered by the Vietnam Government. (B-159451, July 18, 1972)

Opportunity for savings in providing war-risk insurance for contractor property and employees

The Department of Defense (DOD) and the Agency for International Development (AID) generally reimbursed Government contractors for the cost of insurance purchased to provide protection against war hazards to their property and employees.

The General Accounting Office (GAO) found that the cost of this war-risk insurance to the U.S. Government substantially exceeded the losses experienced by its contractors. This was true for insurance purchased for contractor-owned vessels, contractor employees, and third-country nationals.

GAO observed that the Military Sealift Command and the Defense Fuel Supply Center, a unit in the Defense Supply Agency, had followed a practice of reimbursing contractors for premiums paid for commercial war-risk coverage on vessels and crews. Savings (excess of cost over losses) of $16.2 million could have been realized over the 3-year period covered by the report if these DOD agencies had followed the Government's long-standing policy of self-insurance. It was GAO's opinion that significant savings could be expected if these agencies adopted a self-insurance policy for future years.

GAO also found that DOD and AID had reimbursed contractors for commercial war risk insurance to provide contractor employees with supplemental coverage for war-hazard death or injury. The coverage provided lump-sum benefits in addition to the workmen's compensation type of benefits provided under the Defense Base Act and the War Hazards Compensation Act. The cost of such insurance exceeded the losses incurred by $2.7 million over the 3-year period reviewed.

AID and two military commands have continued to reimburse contractors in Vietnam for war-risk insurance coverage of third country nationals (citizens of countries other than the United States and Vietnam) employed by the contractors even though a program of self-insurance generally adopted by DOD for such employees has offered substantial savings.

GAO therefore recommended that the Secretary of State and/or the Secretary of Defense:

--Establish a plan of self-insurance for contractor-owned vessels.

--Seek legislation to authorize lump-sum benefit payments to contractor employees for war-hazard death or injury.

--Discontinue reimbursing contractors for the cost of supplemental war risk insurance and, in the interim, reopen negotiations on the present policy to bring the administrative costs, brokers' commissions, and profit under Government audit.

--Seek authority from the Congress to self-insure for war-risk losses incurred by third-country nationals under AID contracts and issue instructions to all DOD procurement activities to provide for self-insurance of third-country nationals as authorized by Defense Procurement Circular 64.

Except for the matter of third-country nationals, DOD generally disagreed with those recommendations directed toward promoting the concept of Government self-insurance. DOD advised that their studies of these matters concluded that it would be impractical to implement an exclusive self-insurance program and that the financial problems involved in self-insurance were such that adoption of self-insurance was not recommended. Also, since contractor recruitment in Southeast Asia was past its peak, it did not appear feasible to pursue legislation to permit the payment of lump-sum benefits.

AID, in responding for the Secretary of State, agreed that savings might be available through self-insurance but stated that administrative cost and other administrative problems would preclude it from undertaking a self-insurance program.

GAO believes that savings from a self-insurance program warrant the additional administrative burden. In GAO's opinion, the policy of self-insurance by the Government should be broadened to cover all programs, even when in a period of decline, because the self-insurance concept offers an inherent savings to the U.S. Government in all but the most unique situations. (B-172699, Nov. 9, 1971.)

BLANK PAGE

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Housing and Urban Development and Department of Transportation)

Progress and problems of urban and transportation planning

Urban and transportation planning is being carried on, with Federal support, in every major metropolitan area. During fiscal year 1970 about $50 million was appropriated to the Department of Housing and Urban Development (HUD) for comprehensive areawide urban planning and about $60 million was appropriated to the Department of Transportation (DOT) for comprehensive transportation planning.

GAO reviewed urban and transportation planning for the Detroit, Michigan, metropolitan area because of its size and advanced planning process and because the area could be expected to have complex problems common to other metropolitan areas.

Detroit has a continuing planning process which has made, and should continue to make, some contribution to urban growth by developing plans for land use and transportation systems. However, because of the difficulty in getting numerous units of government in the six-county Detroit metropolitan area to agree on a master plan, it appeared that the planning process would not have a major impact in directing future area development toward the most desirable growth patterns.

Detroit's urban planning problems may be indicative of those confronting many other major urban areas with similar complex government structures. GAO's limited review in 15 other metropolitan areas showed that regional planners were confronted with many units of government sharing responsibility and authority for transportation and land use. From this type of structure arises the problem of getting the units to agree on a master plan which, although it might benefit the entire region, might be detrimental to the individual government units.

In December 1970, the Congress amended the Housing Act of 1954 to require that the Secretary of HUD encourage the formulation of plans and programs for effectively guiding and controlling major decisions as to where urban growth should take place. At the same time the Congress amended the Federal-Aid Highway Act of 1962 by requiring that local views on transportation projects in urban areas be considered. The act, as amended, states that no highway project may be constructed in any urban area with a population of 50,000 or more unless the views of the public officials of these areas have been considered with respect to the corridor, location, and design of the project.

GAO proposed that HUD and DOT revise their guidelines to set forth more clearly the urban planning objectives required by the 1970 legislation and to assist planning agencies in devising methods to overcome local opposition to areawide plans.

HUD agreed that improvements in the planning process and the implementation of urban development plans were desirable. Several HUD policy

changes were included in pending legislation. In commenting on GAO's proposals, DOT stated that the Federal Highway Administration was revising its Policy and Procedures Memorandum to include the planning objectives set forth in the Federal-Aid Highway Act of 1970. (B-174182, Nov. 19, 1971.)

VARIOUS DEPARTMENTS AND AGENCIES

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

Problems in accomplishing objectives of the Work Incentive Program

The Work Incentive Program (WIN) was designed to provide recipients of welfare under the Aid to Families with Dependent Children (AFDC) program with training and services necessary to move them from welfare dependency to employment at a living wage.

WIN achieved some success in training and placing AFDC recipients in jobs, which resulted in savings in welfare payments in some cases. The complete results of the program could not be determined readily, however, because of significant shortcomings in WIN's management information system. Complete, accurate, and meaningful information was not generally available on program costs, benefits, or operations.

Because of its limited size in relation to soaring AFDC roles, WIN did not appear to have any significant impact on reducing welfare payments. The success of WIN is determined largely by the state of the economy and the availability of jobs for its enrollees. WIN is not basically a job-creation program and, during periods of high unemployment, encounters great difficulty in finding permanent employment for the enrollees.

On the basis of the problems in program design discussed in the following paragraphs, GAO expressed the opinion that WIN and the AFDC program needed to be changed if the overall objective of encouraging AFDC family heads to seek employment were to be realized.

Fathers frequently lost money by going to work. AFDC payments were discontinued when fathers obtained full-time employment, regardless of their wages. Mothers, on the other hand, continued to receive AFDC payments. The immediate cutoff of welfare payments to AFDC families with working fathers was unrealistic and tended to discourage fathers from seeking employment. It was GAO's opinion that family income should be the primary criterion for establishing AFDC eligibility, irrespective of whether the family head is male or female.

AFDC payments to mothers were not reduced fairly after they became employed. In Los Angeles a mother with three children might have continued to receive payments, plus food stamps and free medical and dental care for herself and her children, until her earnings exceeded $12,888 a year. (Medical and dental care might have continued beyond this point if the family were medically needy.) In Denver a similar family could continue to receive benefits until the mother's income reached $9,000 a year.

The effectiveness of sanctions applied against persons who refused to participate in WIN or to accept employment, without good cause, appeared questionable. Local officials were hesitant to apply the sanctions because their application was administratively time consuming and penalized the entire family, not just the uncooperative individual.

VARIOUS DEPARTMENTS AND AGENCIES

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

Funding restrictions had severely limited implementation of the special work projects. The projects were provided by law to subsidize employment for AFDC recipients who were not considered suitable for training or who could not be placed in competitive employment.

Because it believed that the designs of WIN and the AFDC program could not be dealt with effectively by administrative action alone, GAO suggested that the Congress, during its deliberations on welfare reform, consider:

--Making family income and family needs the principal criteria upon which AFDC eligibility determinations are based, irrespective of whether the family head is male or female or whether employment accepted by heads of families is full-time or part-time.

--Adjusting the welfare cutoff provisions with respect to both dollar payments and related supplemental benefits.

--Examining the present penalty provision of WIN and enacting legislation which would strengthen work incentive and work requirements.

--Amending the Social Security Act to permit the use of regular WIN funds to subsidize the wages of enrollees in special work projects. (B-164031, Sept. 24, 1971.)

Opportunities for improving the institutional manpower training program

Title II of the Manpower Development and Training Act of 1962 authorizes both on-the-job and institutional (classroom) training programs to prepare persons for jobs. GAO made a number of reviews to assess the results of the institutional training program and the way it has been administered at the Federal and local levels. In a report on the program in South Carolina, GAO pointed out the following opportunities for improvement.

Extensive and timely surveys of job opportunities in the State were needed to correlate training courses with the best available job opportunities. Better job development and placement were needed to assist the significant number of program graduates who were unemployed or who had not obtained jobs relating to their training. Neither of the State agencies responsible for running the program had prepared areawide or Statewide reports needed to make informed judgments as to program effectiveness and desirable changes in program direction. Also, controls over training equipment were inadequate.

GAO also pointed out opportunities for improvement in a report on the operations of an institutional training program at a manpower training skills center in Boston, Mass. Persons who received prevocational training were not always adequately prepared for further training in the vocational

courses being offered, and enough vocational openings were not always available to accommodate those who were prepared. Other problems were the enrollment of a disproportionate number of persons who were not disadvantaged, a need for improved counseling and monitoring services, and a need for an improved information system.

The Department of Labor and HEW had not established appropriate procedures to follow up on the adequacy of the State's actions to correct weaknesses in program operations in South Carolina. And in Massachusetts, many of the weaknesses could have been identified if the Departments and the State agencies in charge of the training programs had monitored the operations on a more timely basis.

The two Departments advised GAO of their general agreement with its recommendations to improve program operations and outlined corrective actions which had been taken or were being taken to correct the problems cited in the report. (B-146879, Mar. 21, 1972, and Apr. 11, 1972.)

BLANK PAGE

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Labor; Department of Health, Education, and Welfare; and Department of Housing and Urban Development)

Opportunities for improving federally assisted manpower training programs

GAO examined into the combined impact of the nine federally assisted manpower training programs in the Atlanta, Ga., area. The programs provided direct manpower services to the disadvantaged and other poor, including training to some extent for about 10,300 persons and job placement for 5,600 persons, at a cost of about $8 million to the Federal Government in fiscal year 1970.

GAO reported the following opportunities for improving the manpower services provided by the programs:

--The Model Cities Program has not attained its enrollment goals in providing training opportunities for inner city residents. Since the Concentrated Employment Program served the same inner city target area and had an ongoing training program, the Model Cities Program could have utilized, on a reimbursable basis, the Concentrated Employment Program as an agent for providing training. GAO questioned the continuation of the Model Cities training component as a separate effort and recommended that the Departments of Labor and Housing and Urban Development closely monitor the coordination between the two programs until the Model Cities training program was operating closer to its capacity.

--Improvements were needed in the several manpower programs in screening activities concerning the assessment of enrollees' vocational needs and abilities. GAO recommended that the Departments of Labor; Health, Education, and Welfare (HEW); and Housing and Urban Development (HUD), in cooperation with State and local agencies, consolidate, to the extent feasible, screening for all federally assisted manpower programs in metropolitan areas such as Atlanta, so that the entire range of vocational assessment services could be made available to meet the individual needs and desires of program participants.

HEW and HUD agreed with the recommendation to consolidate screening activities in Atlanta, but the Department of Labor favored continuation of the approach to screening that had been followed. Both the Department of Labor and HUD agreed with the recommendation for increased coordination of training activities under the Model Cities and Concentrated Employment Programs.

GAO reported also that training allowances, which were determined in accordance with enabling program legislation, varied significantly among the several programs--differences in monthly payments could have been as much as $145 for trainees with three dependents who were not welfare recipients. GAO suggested that the Congress consider legislation that would standardize training allowances under the federally assisted manpower programs. (B-146879, Jan. 7, 1972.)

BLANK PAGE

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Labor; Department of Health, Education, and Welfare; and Office of Economic Opportunity)

Improvements needed in operations and management of the Opportunities Industrialization Center program

The Opportunities Industrialization Center (OIC) program, which emphasizes minority group leadership, seeks to attract unemployed and underemployed persons who ordinarily have not been attracted to public agency-sponsored manpower programs and to provide them with motivational and basic work orientation, basic education, skill training, and job placement assistance.

GAO reviewed the activities of five OICs which were jointly funded by the Departments of Labor (Labor) and Health, Education, and Welfare (HEW) and the Office of Economic Opportunity (OEO). The five OICs had made some measurable progress in enrolling persons in the program, providing training and supportive services, developing jobs, and making job placements. In addition, community acceptance of OICs was evidenced by the large number of persons who sought their services.

GAO reported, however, that the operations and management of the five OICs needed to be improved in the following respects if available resources were to be used more effectively and efficiently. GAO found a need for specific eligibility criteria; improved counseling programs; establishment of standards against which enrollees' needs, progress, and readiness to advance could be objectively measured; more accurately and consistently classified and recorded job-placement information; a more systematic basis for monitoring and evaluating efforts; and a clearer definition of the responsibility for these efforts.

Labor, HEW, and OEO generally concurred with GAO's recommendations and stated that actions were being taken to improve program operations and management.

Funding arrangements were changed since the period of GAO's review to provide that all Federal funds be channeled through Labor to the OIC National Institute. The Institute was established to provide technical assistance and training in the philosophy and methods of organizing and operating programs similar to those of the prototype, the Philadelphia OIC. The Institute is the prime contractor principally responsible to Labor for the performance, monitoring, and evaluation of all local OICs.

The administration of OICs at the Federal level continues to be vested in the three Federal agencies in varying degrees. Labor, acting as the lead agency, is to keep HEW and OEO apprised of OIC program policy changes and, generally, the results of its monitoring and evaluation functions. Agreements provide for (1) HEW to maintain its statutory responsibility, particularly that for institutional training activities, and (2) OEO to be involved as

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Labor; Department of Health, Education, and Welfare; and Office of Economic Opportunity

Labor carries out its evaluation and monitoring functions and to retain authority to evaluate overall program effectiveness and impact to insure that the criteria for low-income participants are being met.

Although single-source Federal funding, in effect, has been achieved administratively by the three Federal agencies, GAO recommended that the Congress, in its deliberations on centralizing at the Federal-agency level responsibility for administration of the OIC program, consider the problems of divided administrative responsibility which remain. (B-146879, April 20, 1972.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of the Treasury and Department of State)

Improvements needed in U.S. system for appraising and evaluating Inter-American Development Bank projects and activities

The Inter-American Development Bank (IDB) makes loans and provides technical assistance for the economic development of its Latin American member countries. Toward this end, the U.S. Government, as one of the Bank's 24 members, has contributed 95 percent ($3.5 billion) of the Bank's hard currency resources contributed by its members since 1960 and has agreed to contribute another $1.8 billion.

The Secretary of the Treasury has primary responsibility for directing and managing U.S. interests in IDB. He is the U.S. member on IDB's Board of Governors and is chairman of the National Advisory Council on International Monetary and Financial Policies, a U.S. council consisting of the Secretaries of the Treasury, State, and Commerce; the President of the Export-Import Bank of the United States; and the Chairman of the Board of Governors of the Federal Reserve System. The Council assists the Secretary in carrying out his responsibility.

The General Accounting Office (GAO) made a review to assess how U.S. officials were managing U.S. financial participation in IDB. GAO's efforts were considerably hampered by Treasury's delaying tactics and refusal to make certain records available for examination.

GAO found, however, that U.S. officials had pursued a soft line, or low-profile approach, in their dealings with IDB and its members. The Council had not been very effective in dealing with problems on a timely basis. For the most part, the United States had not done much more than agree to IDB proposals put before it or merely advise IDB of a contrary or different U.S. view on a proposed project or transaction. Though U.S. officials privately opposed loans behind the scenes, the United States had never voted against any loan proposed by IDB's President.

U.S. officials had been able to delay loans to countries involved in expropriations of property and to exercise a restraining influence in some other areas considered out of line with U.S. interests. On other issues, however, the United States had not fared well. U.S. officials had been aware of persistent problem areas attending IDB operations, but lack of forcefulness in handling these issues had let them go unattended or only partially corrected.

As a consequence, IDB had acquired a reputation as a borrower's bank; i.e., the 22 Latin American members generally shaped policies and dictated terms and conditions under which they borrowed. A number of significant deficiencies that reportedly had been existing in IDB's organization, administration, and operating practices, including inadequate project planning and execution, remained uncorrected.

(Department of the Treasury and Department of State)

U.S. officials had long known that IDB did not adhere to any stringent criteria based on the economic performance of borrowing countries. Lending practices had been somewhat flexible and permissive, with reference to fair share allocations of resources, which allowed political pressures from the borrowing countries to influence the process of development lending. Such practices did not necessarily result in the best use of IDB's resources.

Despite U.S. efforts over several years to get constraints placed on access to IDB's funds for long-term loans at low interest rates by the more developed Latin American countries, more than $270 million of such funds were committed to these countries in the 20-month period ended December 31, 1971.

The executive branch did not have an adequately functioning system for appraising proposed activities, following through on their implementation, and evaluating the results. A move toward such a system was made with the establishment in 1968 of an independent group to review and evaluate IDB operations. GAO pointed out, however, that no review system, no matter how independent and comprehensive, would perceptibly alter an organization's operations and activities unless members of the governing body were willing to use the information acquired, together with adequate leverage, to bring about desired improvements. The executive branch seemed to have belittled the leverage available to the United States in this regard.

GAO felt that, if the review and evaluation group established in 1968 was to become an effective tool on which the United States could rely for information on IDB operations and activities, the Secretary of the Treasury would need to continue working to strengthen the group, be willing to press IDB to act on the information the group provided, and develop stronger positions than he had in the past for dealing with IDB. Specifically, GAO recommended that the Secretary, in consultation with other Council members, should:

--Sort out the recommendations made by the review and evaluation group which the United States wished to support and vigorously pursue their acceptance and implementation by IDB.

--Develop instructions to guide U.S. officials in making appraisals of specific loan proposals and provide for followup, to have working knowledge of the implementation and results of projects.

--Develop, and get IDB to agree to, firm and sustainable lending criteria.

All member agencies of the Council commented on a draft of GAO's report. The Export-Import Bank of the United States commented that the draft report represented a constructive review of the major procedure and policy questions affecting U.S. relations with IDB. The Federal Reserve System commented that the draft report made a persuasive case for the need for

improvements in the appraisal of proposed loans and evaluation of the results of lending activities.

Treasury agreed with GAO recommendations aimed at improving the effectiveness of IDB's review and evaluation group, as well as those aimed at improving the appraisal and followup on implementation of projects. However, it raised strong objections to GAO's including in its report discussions of the foreign economic policy issues confronting the executive branch in managing U.S. participation in IDB. GAO believed that these issues were appropriate for disclosure so that the Congress might be better informed in exercising its oversight role concerning U.S. support. Treasury also rejected GAO suggestions directed toward furnishing information on IDB operations that would assist the Congress in exercising this oversight role. GAO therefore suggested that the Congress might wish to consider:

--Whether the executive branch's low-profile approach in dealing with IDB and its members was compatible with the magnitude of financial support the Congress was asked to approve for contributions to IDB.

--Whether the executive agencies' decision to withhold certain information from GAO and the Congress concerning IDB activities was compatible with such level of support.

(B-161470, Aug. 22, 1972.)

BLANK PAGE

VARIOUS DEPARTMENTS AND AGENCIES

(Office of Management and Budget and Department of Housing and Urban Development)

Improvements needed in Federal agency coordination and participation in the Model Cities Program

The Department of Housing and Urban Development (HUD) has overall administrative responsibility for the Model Cities Program. At the Federal level nine agencies administer programs which involve model cities activities.

A GAO review and certain Federal agency studies--made for the purpose of examining into the manner in which Federal participation in the Model Cities Program could be strengthened--indicated a need for certain improvements in its administration.

In a Federal interagency report, it was pointed out that Federal agency financial and staff commitments to the program had not been adequate to accomplish its objectives. GAO noted that recommendations made to improve the level of coordination among Federal agencies were not always adopted by the agencies.

GAO noted also that HUD and other Federal agencies--the Departments of Labor and Health, Education, and Welfare, and the Office of Economic Opportunity--often had not agreed on the (1) appropriate levels of Federal funding and staffing commitments necessary to accomplish the goals of the program and (2) roles of their respective agencies relative to the responsibilities for reviewing, approving, and administering model cities plans and programs.

GAO found that there was a need to provide (1) increased staff support and authority to regional representatives assigned to coordinate Federal agency participation in the Model Cities Program, (2) specific and timely information to cities on the availability of Federal funds to support model cities projects, and (3) procedures for identifying and soliciting potential sources of financial and technical assistance for such projects.

GAO believes that the ultimate success of the Model Cities Program depends to a great extent on the continuous support of, and the funding and staffing commitment by, the participating Federal agencies. In GAO's opinion, measures should be initiated at the Federal level to increase the effectiveness of Federal agency response to the model cities concept. In this regard, it appears that the levels of effort of the Federal agencies in responding to the needs of the cities should be independently and objectively monitored and periodically evaluated by an agency having central authority, such as the Office of Management and Budget (OMB).

GAO recommended that the Director of OMB

--monitor and periodically evaluate the level of Federal agencies' responses to the model cities concept and

--make such suggestions and recommendations to the participating Federal agencies as appear to be appropriate under the circumstances, to help insure that the agencies respond to the model cities concept at a level that is consistent with the Administration's expressed support of the program.

OMB stated that the interagency problems discussed in GAO's draft report were being addressed by the Administration's recent proposals on the reorganization of the executive branch of the Federal Government and on revenue sharing.

GAO recognizes that the proposals for reorganization of the executive branch were designed to improve the overall management of Federal programs through a consolidation of many of the present functions and activities of existing Federal agencies and that their implementation undoubtedly would alleviate certain problems which have consistently confronted the program. Assuming that the basic objectives of the proposed reorganization were accomplished, GAO believes that there still would be a need for Federal interdepartmental cooperation and coordination to effectively accomplish the basic objectives of the Model Cities Program or similar federally assisted programs which, to succeed, require the full and continuing support of several Federal agencies or departments. (B-171500, Jan. 14, 1972.)

VARIOUS DEPARTMENTS AND AGENCIES

(Smithsonian Institution and Office of Management and Budget)

Effectiveness of Smithsonian Science Information Exchange hampered by lack of complete, current research information

The Smithsonian Science Information Exchange is intended to be a clearinghouse for information on current research in physical, biological, and social sciences. The information is compiled to facilitate more effective planning and coordination of research and development programs sponsored by Federal funds. The Exchange was administered by the Smithsonian Institution under a contract with the National Science Foundation for fiscal years 1963 through 1971. Beginning with fiscal year 1972, the Smithsonian Institution assumed entire responsibility for the Exchange.

GAO found that many Government agencies were not using the Exchange to the fullest extent because, they claimed, its data bank was not current or complete. At the same time the ability of the Exchange to provide current information was hampered because the agencies were not providing the Exchange with the information it needed to perform the function of an information clearinghouse. Also, Government agencies were not required to submit complete information on their research and development programs to the Exchange.

GAO recommended that (1) the Office of Management and Budget (OMB) evaluate the role of the Exchange as part of OMB's responsibility for fostering coordination of Federal programs, and (2) if OMB found that the Exchange should be continued, Federal agencies be required to submit pertinent, timely information about their research projects to the Exchange.

OMB stated that the Smithsonian Institution had agreed to contract for a study of the role of the Exchange and that decisions regarding the future of the Exchange and the establishment of a policy requiring mandatory reporting of all currently pertinent information to the Exchange would be based on the results of the study. (B-175102, Mar. 1, 1972.)