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Opportunities for the utilization of United States-owned or controlled foreign currencies in lieu of dollars

In a report submitted to the Congress in January 1968, we suggested to the Bureau of the Budget that it bring to the attention of all departments and agencies of the Government certain actions taken by the Maritime Administration, Department of Commerce, as an example of the type of potential increased usage of foreign currencies that might exist in programs other than those of Maritime so that other agencies could identify and exploit any similar opportunities that might exist in their programs.

We reported that certain ship operators who were subsidized by the Maritime Administration had purchased from commercial banks, instead of from the Treasury Department, substantial amounts of foreign currencies with U.S. dollars for use in excess-currency countries. We stated that, if the ship operators would purchase certain foreign currencies from the Treasury Department for use in their overseas operations, they could help to alleviate the U.S. balance-of-payments and budget deficits and reduce the Government's holdings of excess foreign currencies.

We found that, during the period March 1965 to May 1967, three of the six subsidized ship operators providing service to the seven foreign countries designated as excess-currency countries, had purchased about $1.7 million of foreign currencies from commercial banks for use in Ceylon, Guinea, India, and Pakistan. These purchases were made subsequent to the negotiation of agreements that made it permissible for the U.S. Government to sell such currencies to U.S. citizens.

In a letter to the Acting Maritime Administrator, dated July 21, 1967, we proposed that Maritime act as a liaison between the subsidized ship operators and the Government to encourage the operators to purchase from the Treasury Department their foreign currency needs for use in countries that had agreed to such sales and that Maritime develop effective procedures for such purchases. Maritime agreed with our proposal and, in cooperation with the Treasury Department, informed both the subsidized and the nonsubsidized ship operators of the desirability of making certain of their foreign currency purchases from the Treasury Department. Maritime informed the ship operators also as to the countries where excess foreign currencies were available for sale and the procedures to be followed in purchasing such currencies from the Treasury Department.

In April 1968 the Bureau of the Budget revised certain of its guidelines regarding excess foreign currencies to call attention to all Government agencies that new uses for the excess and near-excess currencies should be sought and developed from among related programs of non-Government organizations, such as subsidized ship operators and voluntary foreign-aid agencies. (B-146749, Jan. 11, 1968.)

OFFICE OF ECONOMIC OPPORTUNITY

Contents

COMMUNITY ACTION PROGRAM

Need for standards of eligibility for participation in poverty programs

Our review of the Community Action Program in the Los Angeles area revealed that, although eligibility of persons to be served was generally in accord with the Office of Economic Opportunity (OEO) requirements, these requirements had not been sufficiently refined to ensure that those persons most in need of assistance were being helped.

The Economic Opportunity Act of 1964, as amended, does not stipulate specific eligibility criteria with regard to those who may be served by the Community Action Program. Although the act clearly directs its benefits to low-income individuals and families, the definition of "low income" is left to determination by OEO.

The eligibility criteria issued by OEO in its Community Action Program Guide were also general in nature. The Guide stated that a Community Action Program had to focus on the needs of low-income families and individuals and that agencies applying for Community Action Programs might have considerable flexibility in determining which families and individuals were to be assisted.

The Guide further stated that, where the nature of the program activity required administration by areas or groups, services and assistance should be made available only in areas and for groups which had a high incidence of poverty. The Guide stated also that, in determining the incidence and location of poverty in the community, the number and proportion of low-income families, particularly those with children, were to be given significant weight.

In the absence of specific OEO criteria for determining the eligibility of participants in most programs, other than Head Start, the Economic and Youth Opportunities Agency of Greater Los Angeles (EYOA) and its delegate agencies established their own standards. (EYOA was the principal Community Action agency in the Los Angeles area during the period November 1964 through June 1966, the period covered by our review.)

We expressed the view that OEO should strive, on the basis of its nationwide experience, to encourage grantees to develop more refined techniques for identifying the most needy through the application of meaningful indicators or criteria of eligibility weighted according to their relative importance in achieving the objectives of the Community Action Program.

We further suggested that, although certain social and motivational accomplishments were among the objectives of the poverty program, the lifting of people from relief rolls to a self-supporting level was one of the paramount objectives and that, therefore, persons receiving assistance from public or private agencies as the sole or major source of their support should be accorded the top eligibility rating.

COMMUNITY ACTION PROGRAM (continued)

OEO advised us that it did not concur in our suggestions and stated several reasons why income had not been used as a governing or predominant eligibility criterion in all programs. Subsequently, after considering our findings and suggestions based on reviews in two other cities, OEO advised us that it planned to study the feasibility of developing more refined techniques for identifying the most needy by assigning weights to the various indicators or criteria of eligibility. (B-162865, Mar. 11, 1968.)

Need to consider reasonableness and adequacy of basis for claims for indirect costs

Our review of the Community Action Program in the Los Angeles area revealed that the Office of Economic Opportunity, directly and through its contract with the Economic and Youth Opportunities Agency of Greater Los Angeles, had reimbursed the Los Angeles Unified School District (hereafter referred to as City Schools) for about $265,000 more than the allowable indirect costs incurred for administration, maintenance, and operation of school facilities used in the Community Action Program.

As a result of our bringing this matter to their attention in June and July 1966, City Schools and EYOA adjusted the prior claims and took action to reduce subsequent claims that would be made for reimbursement of indirect costs in connection with programs that were underway or for which funds had been requested. Estimated reductions on the subsequent claims amounted to about $347,600. Also, OEO and EYOA were accepting in the claim of City Schools, as the non-Federal share of program costs, approximately $132,000 more than the indirect costs incurred.

These actual and potential overcharges, totaling about $744,600, occurred because City Schools claimed a pro rata share of the total indirect costs incurred in its operation of education programs instead of submitting claims based on the incremental costs incurred in the operation of the programs financed by OEO.

OEO indicated that it was reluctant to issue extensive instructions to its field organizations as we had suggested, pending issuance by the Bureau of the Budget of Government-wide guidelines for computing allowable indirect costs.

We recommended that, for all future grants, the basis for claims for indirect costs be approved in advance and that all OEO regional offices be instructed to carefully consider the reasonableness and propriety of the basis on which indirect costs are reimbursed or allowed. We were subsequently advised that OEO planned to make a special study to determine what additional guidance was needed. (B-162865, Mar. 11, 1968.)

Need for closer analysis of program budgets

In reporting on our review of the Community Action Program in Los Angeles, California, we stated that the budgets submitted by the Economic

COMMUNITY ACTION PROGRAM (continued)

and Youth Opportunities Agency of Greater Los Angeles, and approved by the Office of Economic Opportunity for certain programs, contained unrealistically high estimates of funds needed. Since the budgets are used by OEO in establishing the amounts of Community Action Program grants, unnecessarily high budgets may delay or preclude the availability of funds for other programs and could result in OEO's reporting misleading information to the Congress.

Although one of the responsibilities of OEO in the Community Action Program is to review and evaluate the budgets for proposed programs, OEO's analyses of these budgets apparently were not being made in sufficient depth to detect the overestimated requirements for funds. For example, in our review of the budget of the Los Angeles Unified School District for selected programs, we found that salaries of teachers had been budgeted at the maximum level of pay although it should have been apparent at the time the budget was prepared and approved that salaries would be paid at less than the maximum rates.

We compared the budgeted salary rates with the actual salary rates paid for a 4-week pay period in January 1966 for a majority of the teachers in five of the larger programs. Our comparison showed that, using the budgeted rates, salaries would have amounted to $140,944; whereas, using the actual rates, salaries amounted to $121,016--a difference of about 14 percent. The School District budgeted $2,058,397 in teacher salaries for the full 12-month period of the particular grant, using maximum salary rates. Assuming a 14-percent differential, this amount was overstated by $288,175.

In a situation such as prevails in the Community Action Program where needs exceed available funds, estimates beyond reasonable expectancy of requirements result in a reduction of the amount of funds available for the program in other communities. Therefore, we recommended that the Director, OEO, take action to ensure full compliance with the control mechanisms it had established for strengthening its analyses of budget estimates.

In line with our recommendation, OEO informed us in June 1968 that improved procedures had been installed for communication and approval of necessary budgetary adjustments. In addition, OEO published a new monthly grantee financial reporting procedure which will measure expenditures in relation to approved programs. In addition to providing reports to regional analysts for their use in monitoring individual grantees, OEO is developing a computerized program to determine which grantees have expenditure rates that indicate possible budget-related problems. (B-162865, Mar. 11, 1968.)

Need to avoid excessive cash advances to grantees

In March 1968, we reported to the Congress that Community Action Program funds were being maintained by the Economic and Youth Opportunities Agency of Greater Los Angeles and certain delegate agencies in amounts which appeared to be in excess of their cash needs because the agencies were not following Office of Economic Opportunity cash withdrawal guidelines.

COMMUNITY ACTION PROGRAM (continued)

We pointed out that, by ensuring that funds are advanced to agencies at the minimum levels required for cash needs, OEO could assist in lowering public borrowing and in reducing related interest costs.

The U.S. Treasury Department requires all Federal agencies administering grant and contract programs to make payment to grantees and contractors by a letter-of-credit procedure to the maximum extent possible. Under this procedure, OEO establishes a line of credit through the Federal Reserve System against which the grantee can draw cash for deposit in its commercial bank account.

OEO's Community Action Program Guide, Volume II, dated June 1965, instructs grantees (1) to withdraw Federal funds only as needed and (2) to make accurate determinations of the additional cash it will need for operations in the next period. The guidelines permit a contingency fund of not more than 10 percent of anticipated expenses for the operating period. In the case of EYOA, the guidelines permit semimonthly withdrawals to cover its cash needs.

Our review indicated that at June 30, 1966, EYOA had excess cash advances amounting to about $2.6 million. We were advised by the Chief of the General Accounting Section, EYOA, that EYOA policy was to maintain a cash balance of $2.5 million, rather than to make full use of the procedures in the OEO guidelines which require an accurate determination of cash needs.

We advised OEO that it appeared to us that OEO did not monitor the cash balances held by EYOA and the delegate agencies, to keep balances reasonably in line with proximate cash needs.

In its reply to our draft report, OEO conceded the presence of somewhat high cash balances but attributed the situation to a desire to be prepared for any eventuality which might occur in the semimonthly period for which cash might be obtained. Also, OEO stated that it had advised EYOA to improve its cash budgeting to avoid excessive withdrawals in the future.

We believe that OEO has a responsibility that requires efforts beyond advising EYOA to improve its cash budgeting procedures. In our report to the Congress, we recommended that, to avoid situations wherein grantees have excessive funds on hand, OEO require grantees to establish cash budgeting systems that will provide the needed protection against excessive withdrawals of funds and that OEO put into operation control mechanisms to check on grantee cash withdrawals and on expenditure levels. We also recommended that the effectiveness of such systems be considered in future audits by OEO of grantee activities. (B-162865, Mar. 11, 1968.)

COMMUNITY ACTION PROGRAM (continued)

Need for coordinated direction and control over Community Action Program projects

In our report to the Congress on our review of the Community Action Program, Detroit, Michigan, we pointed out that the Office of Economic Opportunity had permitted agreements between the Mayor's Committee for Human Resources Development (MCHRD), Detroit, Michigan, and its delegate agencies--which carry out educational projects--which provided that the delegate agencies would independently formulate, manage, and evaluate their projects. Apparently because of these agreements, concerted efforts by the agencies to coordinate their activities had not been made and efforts by OEO to improve coordination had not been effective.

Although in many cases the Detroit Board of Education and the Catholic Archdiocese of Detroit carried out the same programs, each had its own administrative staff for each program, which resulted in duplication of administrative effort and cost. We noted that employees of MCHRD and the board canvassed the same neighborhoods to advertise their projects and to recruit participants.

We noted also that, since officials of the board's schools established their own policies and procedures relating to their classes, there were wide variations in subjects, titles, and sizes of the classes. In our opinion, these variations hampered evaluation of the program in relation to the objectives of the educational projects and the economy of operation.

We felt that the above conditions had a common characteristic in that they pointed to the need for closer coordination among the local agencies having responsibility for the educational projects and for more vigorous attention by OEO to the coordinating features of these projects.

OEO concurred in our proposals (1) that the relationship between MCHRD and its delegate agencies be modified to give MCHRD clear authority to prescribe requirements for its delegate agencies to ensure that all activities for which MCHRD has overall responsibility are effectively coordinated, (2) that OEO obtain and evaluate the evidence on which separate administrative staffs for the board and the Archdiocese are justified, (3) that OEO direct MCHRD to take the leadership in consolidating the canvassing activities of MCHRD and the schools, and (4) that OEO arrange with MCHRD for developing with its delegate agencies appropriate standards for class subjects, titles, and sizes.

In July 1968, OEO informed the Bureau of the Budget that, beginning in September 1968, the Deputy Director of MCHRD would be responsible for unifying and standardizing the performance of the delegate agencies. (B-163237, Apr. 10, 1968.)

COMMUNITY ACTION PROGRAM (continued)

Need for improved accounting and financial reporting

Improvement needed to integrate OEO and grantee financial information

In our review of the Community Action Program in Detroit, Michigan, we found that the Mayor's Council for Human Resources Development reported its cash transactions to the Office of Economic Opportunity but not its accrued receivables and payables because, as permitted by OEO guidelines, its accounts were set up to furnish information only on cash transactions in accordance with the accounting system of the city of Detroit.

The Budget and Accounting Procedures Act of 1950, as amended (31 U.S.C. 66a(c)), requires Federal agencies to adopt an accrual basis of accounting. Under an accrual basis, accrued receivables and payables are recognized in the current accounting period even though a cash collection or disbursement has not been made. At the time of our review, OEO's system was primarily one of obligation and expenditure accounting, but it was in the early stages of conversion to accrual accounting.

We stated that it appeared that, at such time as OEO would convert to the accrual basis of accounting, the differences between the requirements for the accounting systems of OEO and its grantees and their delegate agencies would lead to complications in the interpretation of grantee financial information and in its integration into OEO accounts.

We expressed the opinion that, to resolve this problem, OEO should provide grantees with clear instructions for ascertaining and including accrued items in their reports to OEO.

OEO advised us in August 1967 that such instructions were then the subject of study and development and that revised procedures and forms were being developed to cope with the problem of integrating grantee financial information into OEO accounts.

Certification of adequacy of delegate agency accounting systems

Guidelines issued by OEO in February 1965 stated that a private nonprofit organization had to submit, prior to the receipt of any grant funds, evidence that it had established an accounting system which, in the opinion of a certified public accountant or a duly registered public accountant, was adequate to meet the purposes of the grant. The guidelines placed on a community action agency (grantee) the responsibility for ensuring that its delegate agencies adopted adequate accounting systems.

COMMUNITY ACTION PROGRAM (continued)

The Archdiocese of Detroit had received contracts from MCHRD for fiscal year 1965 and 1966 projects. On June 10, 1966, a certified public accounting firm stated that the accounting procedures of the Archdiocese were not adequate during the period to afford satisfactory accounting records and that, as a result, the firm was unable to express an opinion on the summary of recorded income and expenditures for the period.

In view of the questioned adequacy of the accounting system of the Archdiocese, we asked MCHRD officials whether they had obtained a certification of an adequate accounting system for the Archdiocese. It developed that no certification was received until September 1966--after the contracts for fiscal years 1965 and 1966 had been awarded.

OEO advised us in August 1967 that MCHRD had been apprised of its responsibility in regard to delegate agency compliance with OEO requirements and that follow-up action would be taken by OEO. (B-163237, Apr. 10, 1968.)

Guidance needed for valuation of non-Federal contributions

The Economic Opportunity Act provides that Federal assistance to a Community Action Program grantee shall not exceed 80 percent of the total program costs unless the Director, Office of Economic Opportunity, determines that assistance in excess of 80 percent is required. Prior to July 1, 1967, the percentage was 90. The non-Federal contributions offered as a grantee's share of the cost may be in cash or in kind, fairly evaluated and including--but not limited to--plant, equipment, and services. The grantee contributions have to be in addition to the cash and in-kind contributions made from non-Federal sources for the same or similar purposes prior to the extension of Federal assistance.

In March 1968, we reported to the Congress on our review of the Community Action Program in Los Angeles, California. We stated that our review of non-Federal contributions with respect to selected programs evidenced certain problems relating to the recording of contributions, the reasonableness of valuations for contributed space, and the reasonableness of claims for indirect costs. These problems prevented us from arriving at a conclusion as to whether the community was complying with the legislative requirements for non-Federal contributions.

The valuations placed on space contributed by the community and used in certain programs varied considerably and in some cases appeared to be excessive when compared with criteria used to value space in the Head Start Program, with the amounts budgeted for space in the Teen Post Program, and with criteria used by a Federal agency to estimate space requirements for employees. As an example, in the educational programs we found wide variances in the values assigned to classroom space caused by the use of different methods of valuation by each of the educational organizations. The problems related to space valuations were attributable in part to the need for OEO guidance.

COMMUNITY ACTION PROGRAM (continued)

In April 1968, we reported to the Congress on our review of the Community Action Program in Detroit, Michigan. We stated that the value assigned by the Detroit Board of Education to donated classroom space, which was to be counted toward the non-Federal share of program costs of the Mayor's Committee for Human Resources Development, included charges for days or periods during which the space had not been used or reserved for community action projects. Our review of a claim of $342,160 made in 1965 indicated that a more reasonable value, based on days when the space had actually been reserved for community action projects, would have been about $71,855.

In our review of the Community Action Program in Chicago, Illinois, we selected for examination non-Federal contributions totaling $1,688,679, or about 80 percent of the contributions reported by the Chicago Committee on Urban Opportunity organizational units and its delegate agencies. On the basis of our review, we calculated that non-Federal contributions totaling about $1,296,075 of the $1,688,679 of contributions examined were of questionable allowability.

In response to our proposals regarding the Community Action Program in Los Angeles, OEO advised us that the Economic and Youth Opportunities Agency of Greater Los Angeles had prepared and distributed to delegate agencies a manual providing for contributed space to be valued at fair market value and for supporting documentation to be furnished.

In our report on the Community Action Program in Detroit, we recommended that OEO revalue past and present claims for in-kind contributions of the Detroit Board of Education and determine whether there was compliance with the requirements of the Economic Opportunity Act.

In connection with our review of the Community Action Program in Chicago, OEO advised us that certain actions had been or would be taken to accomplish the purposes of our proposals concerning valuation of space, documentation of volunteer services, and indirect costs. In our report on this program, we recommended that OEO pursue these actions to completion and, thereafter, through its audit and program review operations, give specific attention to evaluating the implementation of these actions by the community action grantees.

In July 1968, in commenting to the Bureau of the Budget on our report on the Community Action Program in Detroit, OEO stated that it had already published extensive guidance, in a number of issuances, on the treatment of non-Federal contributions. OEO agreed that a single comprehensive guide on budget analysis and allowable costs was needed and stated that it planned to develop a comprehensive budget analysis manual within 6 to 8 months. (B-162865, Mar. 11, 1968; B-163237, Apr. 10, 1968; B-163595, May 20, 1968.)

COMMUNITY ACTION PROGRAM (continued)

Need for improvement in accuracy and reliability of statistical reports on participation in program activities

In reports on our reviews of the Community Action Program in Los Angeles, California; Chicago, Illinois; and Detroit, Michigan, we stated that, although the Office of Economic Opportunity required grantees to submit statistical reports on persons participating in Community Action Programs activities, the information being reported was inaccurate and misleading.

For example, in our review of the Chicago program we stated that, at urban progress centers, participation was measured by the number of contacts with individuals and families coming to the centers or elsewhere. Each contact was counted and reported to OEO regardless of whether the same individual or family had been contacted more than once. At one center, a count of the number of different persons contacted was significantly less than a count of the number of contacts made. The centers counted persons visiting delegate agencies housed in the centers, and the delegate agencies also counted and reported these contacts.

OEO acknowledged the need for closer attention to statistical reporting and, in July 1967, issued a manual to all grantees for reporting program activities and participation of persons in such programs. We stated that it was not enough for OEO to issue instructions and expect that all grantees would comply without positive surveillance by OEO. Accordingly, we recommended that OEO audits of grantee activities give specific attention to the accuracy and reliability of grantee reports. (B-162865, Mar. 11, 1968; B-163237, Apr. 10, 1968; B-163595, May 20, 1968.)

Need for expanding audit activities

In our reviews of the Community Action Programs in Los Angeles, California; Detroit, Michigan; and Chicago, Illinois, we noted that audits made by the Office of Economic Opportunity were generally restricted to financial and administrative matters.

The OEO Community Action Program Guide, Volume II, provides that Federal auditors shall make periodic audits of grants and that these audits shall determine whether OEO funds have been expended effectively, prudently, and in accordance with the provisions of approved applications and OEO regulations. The guide provides also that the audits shall include a review of the grantee's accounting system to make certain that adequate internal controls and records are maintained. Further, it requires grantees to ensure that periodic audits are made of each delegate agency.

In our report on the Community Action Program in the Los Angeles area, we stated that we believed that the value of OEO audits would be greatly enhanced if they were broadened to encompass certain elements of program

COMMUNITY ACTION PROGRAM (continued)

activities, such as eligibility, non-Federal contributions, and management aspects of individual projects. We suggested that, in planning for future audits, OEO give consideration to expansion along these lines.

OEO stated, in essence, that it lacked the necessary auditing manpower to provide the desirable audit coverage of grantees but that, as additional manpower became available, OEO would direct its efforts more toward program and selected management areas. (B-162865, Mar. 11, 1968; B-163237, Apr. 10, 1968; B-163595, May 20, 1968.)

JOB CORPS

Need for monetary penalty for unsatisfactory conduct and attendance

In November 1967, we submitted a report to the Congress on our review of selected program activities of the Parks Job Corps Center, Pleasanton, California, one of the first centers opened under the Job Corps program authorized by the Economic Opportunity Act of 1964, which is administered by the Office of Economic Opportunity (OEO). Our review covered essentially the period of the initial contract with private industry for operation of the Center, which ran from January 20, 1965, through December 31, 1966. The area of corpsman conduct is an especially critical area since a basic objective of the Job Corps program is to prepare corpsmen for employment and since a number of former corpsmen were dismissed from jobs for poor attendance or other disciplinary reasons.

At the time of our review, Center-wide standards and procedures to provide a uniform application of penalties for improper behavior had not been established. As an example, the Center had not established a standard for unexcused absences from class and did not withhold pay and allowances unless the individual had been classed as absent without leave (AWOL). Infractions, such as class absenteeism, might be judged by the various corpsmen groups in dormitories, and penalties assessed, such as minor fines or restrictions, could vary among groups.

If a corpsman stayed at the Center more than 90 days, he would have been paid, in addition to basic pay (ranging from $30 to $50 a month), a readjustment allowance based on his length of stay. This readjustment allowance could have ranged from $75 to $150 for 90 days up to $600 to $1,200 for 2 years, depending on whether he sent an allotment home.

We did not consider it reasonable for this type of allowance to be paid to corpsmen who do not make serious attempts to progress through the program. We therefore recommended that OEO adopt a policy whereby appropriate reductions in the corpsman's monthly salary and readjustment allowance would be made in those instances where the corpsman's conduct and attendance are not satisfactory.

In January 1968, OEO advised the Bureau of the Budget that a policy change had been made whereby corpsmen were being terminated from the Job Corps if they were AWOL for 15 cumulative days, rather than being terminated after being AWOL for 30 consecutive days, and that corpsmen were being fined for each day they were AWOL. In addition, a readjustment allowance would be payable only if a corpsman remained in the program for more than 90 days but would be reduced by $25 for each month he remained less than 180 days. Further, the Center directors were given authority to discharge or fine corpsmen for lack of class attendance or for behavior considered to be disruptive to Center or class discipline. (B-161076, Nov. 8, 1967.)

JOB CORPS (continued)

Need to establish uniform number of training hours a day at Job Corps centers

In our report on our review of selected program activities at the Parks Job Corps Center, Pleasanton, California, we suggested that time in the Center's training day might be better utilized.

For the typical corpsman at the Parks Center, the scheduled classroom and laboratory time consisted of 2-1/2 hours each for basic educational training and vocational training for a total of 5 hours a day, 5 days a week. These classes were generally conducted between 8 a.m. and 10:30 a.m., and between 1 p.m. and 3:30 p.m., with a break within each period.

Considering that homework was not required and that the corpsmen were resident at the Center, it seemed that, notwithstanding counseling, physical education, and work-experience activities, the corpsmen had considerable free time each day and on Saturdays and Sundays. We believed that it would be to the benefit of the corpsmen and to OEO if the educational and vocational training could have been increased beyond 5 hours a day. In this regard, we noted that the schedule at other men's centers ranged from 5 to 6-1/2 hours a day for vocational and basic education training.

Since all centers serve essentially the same types of corpsmen, it seemed that the training schedule should be uniform for all centers and that either a 5-hour schedule was too short or the longer schedules at the other centers were too long. We therefore recommended that OEO make a study to determine what a reasonable daily schedule of educational and/or vocational training should be and, on the basis of this study, institute a uniform time schedule for all men's centers.

In January 1968, OEO advised the Bureau of the Budget that educational, vocational, avocational, counseling, and work-experience activities would be structured in such a way as to provide a minimum of a 60-hour week at all men's centers. (B-161076, Nov. 8, 1967.)

Need to maintain current and complete counseling data records on individual corpsmen

In our report on our review of selected program activities at the Parks Job Corps Center, Pleasanton, California, we stated that the Center generally had no standard procedure for dealing with specific corpsman behavioral problems but that counselors were expected to assess each individual case and determine an appropriate course of action. The records maintained for individual corpsmen in the counseling section offices varied as to completeness, and it was often impossible to determine what steps had been taken by the counselors in regard to problems encountered.

JOB CORPS (continued)

Subsequent to our review, a correction system was developed by the Center setting forth the sanctions, jurisdiction, and forms to be filled out for specified types of misbehavior. In addition, OEO reported in July 1967 that the Center had recently revised a guide for counselors, which set out the requirements and functions of the counselor and described to him the relationship which he must achieve with the individual corpsmen.

We expressed the belief that complete records of counseling actions taken appeared to be necessary to enable the Center to determine the type of actions which proved to be the most effective in counseling and to permit one counselor to benefit from the experience gained by another. In addition, reasonably complete records would seemingly be of great value in providing continuity of treatment to the corpsmen in those instances when, for one reason or another, a counselor would become disassociated from the program. We therefore recommended that the Job Corps review the implementation of the Center's "correction system" to ensure that the system was providing reasonably complete data in the counseling area.

In January 1968, OEO advised the Bureau of the Budget that the Job Corps Project Manager assigned at the Center had been directed to maintain a continuing review of corpsmen's files to ensure that appropriate documentation was being required and that adequate reciprocal information among counselors was accessible. (B-161076, Nov. 8, 1967.)

Purchase of training materials and equipment prior to performing adequate studies to evaluate their need and suitability

In our report on our review of selected activities at the Parks Job Corps Center, Pleasanton, California, we pointed out that training materials and equipment had been purchased prior to performing adequate studies to evaluate their need and suitability. The development of appropriate training programs and selection of training material and training aids were assigned to the contractor as part of its responsibility to organize and operate the Center. The contractor, through September 1966, had purchased about $1.5 million worth of training material and equipment.

Material and equipment purchased by the contractor included educational materials costing about $347,000 purchased from one of the contractor's sister divisions, an audio-visual educational system costing about $13,000, and an instructional television system costing about $185,000. We found no evidence that adequate studies had been made prior to these acquisitions to evaluate the need for, and suitability of, the material and equipment or to establish how it would be incorporated into the training program.

We also found no evidence that an analysis had been made to assess the advantages and disadvantages of this type of training material and equipment over other types which might have been available. It appeared that OEO

JOB CORPS (continued)

officials, in approving these purchases, had not evaluated the need for the material or equipment nor required that the contractor appropriately justify its proposed procurement.

The material and equipment, by and large, had not been effectively utilized, and a major portion appeared of questionable use to Job Corps corpsmen.

We proposed that the Job Corps require the Center to make a thorough analysis of the costs of the material and equipment purchased in relation to the benefits attainable and that, if the analysis did not justify the use of the items, they be made available to other Government activities or, in the case of items purchased from the contractor's sister divisions, they be returned for credit.

OEO concurred in that proposal except for the return of material for credit. OEO stated that it had approved the procurement of this material and that there was no provision in the contract for its return under such conditions.

We recommended that, with regard to similar procurements in the future, OEO satisfy itself, prior to approving the procurements, that the equipment and materials to be procured are suitable for use at the centers for which they are proposed and, to the extent practicable, that the costs of such equipment and materials and of the equipments' operation are reasonably commensurate with the benefits attainable from their use.

In January 1968, OEO advised the Bureau of the Budget that a listing, complete with justification, of all equipment currently proposed for purchase by the contractor was to be submitted to OEO for review and approval by various responsible officials. Substantially the same procedure is to be utilized when any large amount of training materials is purchased. (B-161076, Nov. 8, 1967.)

Need to improve methods of recruiting, screening, and assigning Job Corps applicants

In a report issued in February 1968 on our review of the establishment and operation, between April 1965 and July 1966, of the St. Petersburg Job Corps Center for Women, St. Petersburg, Florida, we pointed out that the Center had a high percentage of corpswomen who terminated without completing one of the available training programs. On the basis of our review, it appeared that this high percentage may have been attributable, in part, to the assignment to the Center of corpswomen who apparently had problems which the Center was not geared to solve.

Corpswomen who drop out receive only minimum benefits from the program. Also, a high percentage of early terminations and serious disciplinary problems increase the cost of operating a center.

JOB CORPS (continued)

We found that the possible causes for an individual corpswoman's failure to complete her training were usually many, deep-rooted, and complex. The more frequent of these causes were generally categorized as (1) emotional problems and immaturity, (2) lack of motivation, and (3) family influence. In some cases all of these causes were present; in many cases the causes never became known.

It appeared reasonable to expect that, with continued experience, OEO and the contractors who operated the centers would develop further capability in dealing with problems of terminations and discipline. In our draft report we suggested that these problems might be partially obviated by preventive measures in the form of more intensive screening; closer surveillance by OEO of screening and recruiting functions; and careful analysis in the assignment of applicants to the most suitable centers; and timely, unified decisions on matters of discipline. Accordingly, we proposed that OEO give urgent priority to positive efforts along these lines.

The Director of the Job Corps advised us that the Job Corps had taken action to refine and improve the procedures for screening and assigning Job Corps enrollees. These improvements consisted of a new policy of reporting the inappropriate assignment of corpswomen to centers; regional and national meetings held on screening and recruitment with OEO, screening agencies, and center personnel; encouragement of screeners to visit centers to interview corpswomen to ascertain the corpswoman's reaction to impressions gained during her recruitment; and the development of informational materials on center programs for use by the screeners.

We believe that the actions taken by the Job Corps, as stated by the Director, should help strengthen the Job Corps program. However, the need for continuous vigilance in the area of recruiting and screening was manifested by the opinions of various educational experts and others as a result of their visits to Job Corps centers and camps during April and May 1967. These opinions, as summarized by the Job Corps in June 1967 and presented to various congressional committees, were that the recruiting and screening process needed refinement and overhaul. (B-130515, Feb. 5, 1968.)

Need for orderly system of vocational training

In a report issued in May 1968 on our review of activities of the Job Corps Men's Center at Tongue Point, Oregon, from inception of the Center in December 1964 through December 1966, we pointed out that execution of the program at the Center had been characterized by certain factors that we believed had an unfavorable influence on the degree to which the goals of the Job Corps programs had been achieved. Realization of these goals requires, among other things, training in certain vocational skills and in essential related academic fields.

JOB CORPS (continued)

No determination was made of the grade levels (in academic skills--reading, writing, spelling, mathematics) that were required for the respective vocational skills offered by the Center.

The Center departed in varying degrees from its detailed plans, apparently to satisfy individual corpsmen's choices, because of its conception of the Center as an educational experiment. Courses were given in academic and vocational subjects that were neither included in the detailed plans nor approved by OEO and for which neither specific programs of instruction had been developed nor employment opportunities explored.

Center officials informed us that tests had not been given to incoming corpsmen to assess their technical skills and social adjustment and that aptitude tests had been given only to certain individuals. Further, tests had not been given to corpsmen at the conclusion of their training to ascertain the extent of improvement in academic skills or the level of vocational skills which they had acquired.

Also, the Center did not know whether graduated corpsmen had obtained employment in the areas of their vocational training or whether the graduates were successful in retaining the jobs they had obtained. As a result, the Center did not know whether its training program was effective in achieving the principal objective of the Center--to prepare corpsmen for employment.

In view of the primary mission of the Job Corps, essentially the same types of enrollees at all centers, and the more than 2 years of operations the Center had experienced, we expressed the belief that an orderly system of training for specific vocations was not only feasible but also important to the accomplishment of program goals at minimum cost. Therefore we proposed that OEO:

--establish a required level of academic training for entry into all vocational courses,

--develop and administer tests to all enrollees to assess their capabilities and require appropriate evaluations of enrollees' progress,

--approve contractor deviations from the established academic and vocational curricula,

--reassign to other centers or programs enrollees who manifest no interest in or aptitude for the vocational training offered at the assigned center, and

--provide more effective monitoring of center operations.

We were advised that the basic principle that had been applied to the Tongue Point Center was that maximum flexibility in program operations would be allowed. According to OEO, that concept has now changed and important

JOB CORPS (continued)

steps in developing some form of standardization in curriculum, reporting, discipline, and placement have been taken. OEO stated that, in the main, they concurred in our proposals and that implementing actions had been taken. (B-130515, May 3, 1968.)

Need for improvement in establishing and reviewing rental rates and related charges to contractor employees for Government-owned quarters

In our report on our review of activities of the Job Corps Men's Center, Tongue Point, Oregon, we stated that rental rates for Government-owned housing at Tongue Point had not been established in accordance with Bureau of the Budget Circular No. A-45, Revised, dated October 31, 1964.

To obtain some indication of the possible consequences of not following Circular No. A-45, we compared rental rates in effect at the Center for two-and three-bedroom units with rental rates for similar-type housing in the adjacent Astoria, Oregon, area. Although our comparison did not consider all the specific provisions of the circular, it indicated that, if the average rental rates for the private housing were used at the Center, rental income would increase by approximately $10,000 a month, or $120,000 a year.

OEO, in commenting on our report draft, expressed the belief that Circular No. A-45 was not applicable because the housing in question was not made available directly by the Government and because the public law (Public Law 88-459, approved August 20, 1964), which authorized the establishment of rental policy, as set forth in Circular No. A-45, and the circular itself, appeared to apply only where the Government was the direct lessor. It was our opinion, however, that the circular was applicable and that OEO, by entering into a prime contract for operation of the Center, had not relieved itself of the responsibility for control of the housing facilities.

We therefore recommended that OEO take such action as might be necessary to fix the rental rates at Tongue Point on the basis of comparable private housing, as required by Circular No. A-45. Also, since it appeared that incorrectly established rental rates might also exist at other Job Corps centers, we recommended that OEO evaluate the propriety of rental rates charged at the other centers. The Bureau of the Budget subsequently concurred in our opinion that the circular was applicable.

In a letter dated August 29, 1968, to the Bureau of the Budget, OEO stated, in commenting on our recommendation, that the Tongue Point center and other centers had been directed to have an appraisal made in accordance with Circular No. A-45 for the purpose of establishing rental rates. (B-130515, May 3, 1968.)

JOB CORPS (continued)

Potential for lower costs through use of Federal Telecommunications System

In our report on our review of the Job Corps Men's Center at Tongue Point, Oregon, we expressed our belief that there existed a potential for lower telephone costs at Tongue Point through the use of the Federal Telecommunications System (FTS) in lieu of commercial long-distance telephone service.

Charges for long-distance calls at the Tongue Point Center for the period of December 20, 1965, through May 20, 1966, amounted to about 52 percent of the total monthly billings for telephone service. During the month of May 1966, for example, long-distance charges amounted to $2,397 of total billings of $4,456. This represented 1,081 long-distance calls at an average cost of $2.22 a call.

An official of the General Services Administration (GSA) advised us that, because GSA had changed its billing procedures for FTS services, Government agencies, including OEO, should receive FTS service by fiscal year 1969 at an average rate of $0.80 a call.

OEO, in commenting on our draft report, advised us that it had been reluctant to install FTS because it would be very difficult to prevent abuse of the system by the Center's adolescent population who might use it to call home. OEO also commented that, notwithstanding the questions of abuse, a determination had been made to use the Wide Area Telephone System (WATS) whereby a flat rate was charged for calls within an established zone. We understand that the zone was limited to the State of Oregon on the basis that the need to make cross-country calls had been eliminated. OEO advised us also that WATS was no more costly than FTS would be.

As to OEO's comment on possible abuse of FTS, we believe that the control problem is no greater than that of any other system, inasmuch as outgoing telephone calls are handled through a central switchboard. Regarding the cost of using WATS rather than FTS, OEO officials were unable to furnish any data in support of OEO's statement. Accordingly, we recommended that OEO initiate appropriate studies to determine the feasibility of using FTS at Tongue Point and at other Job Corps centers.

OEO, in a letter dated August 29, 1968, to the Bureau of the Budget on our recommendation stated that GSA was undertaking a study of the feasibility of using FTS in lieu of the commercial system for long-distance calls. (B-130515, May 3, 1968.)

Contents

Need to strengthen management controls to improve accounting for property

Our review of certain management controls of the Panama Canal Company showed that there was a need to improve accounting for the valuation of property. The Company is required to pay interest to the U.S. Treasury on the net direct investment of the United States Government in the Company. Incorrect accounting for the valuation of property affects the amount of the interest calculation.

We found instances where the Government's net direct investment in the Company had been understated. This resulted in the Company's interest payments to the Treasury being less than the amounts which should have been paid. Inconsistencies between the accounting treatment for properties acquired by loan for an extended period of time and that for properties acquired by transfer also resulted in less interest being paid to the Treasury.

As a result of our review and of work performed by the Company's internal auditors, the Company adjusted the valuation of certain properties. These adjustments caused a retroactive interest payment of about $113,000 to be made in fiscal year 1966 and annual interest payments to be increased by about $27,000. Further adjustments were made in fiscal year 1967, requiring a retroactive interest payment of about $75,000 and future annual interest payments of about $39,000.

We concluded, however, that, in view of (1) the indicated ineffectiveness of the Company's procedures for initiating appropriate revaluation and reactivations of properties and (2) the lack of adequate usage information for focusing accounting and management officials' attention on the changes in usage of such properties, there was a need for the Company to improve its management controls over accounting for the use of properties fully or partially offset by special valuation allowances.

We therefore recommended that:

--Company policies governing the use of such properties be enforced or appropriately modified.

--Adequate accounting records showing current property usage be maintained.

--Reports be made periodically to appropriate accounting and management officials on the current status of such properties.

--Property valuations be reviewed and increased, where appropriate, to ensure proper interest payments to the Treasury.

--Rental payments be made to Federal agencies for properties acquired on an extended loan basis.

PANAMA CANAL COMPANY

The President of the Panama Canal Company agreed with our findings and recommendations and informed us that certain actions had been or would be taken to improve property controls. (B-114839, July 9, 1968.)

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Economies available through consolidation of local draft boards

The Military Selective Service Act of 1967--formerly the Universal Military Training and Service Act--permits the Selective Service System (SSS), under certain conditions, to consolidate local county draft boards. We found, however, that SSS had not established criteria and guidelines to implement this provision of the act. As a result, local boards in only 10 States, Puerto Rico, and the Virgin Islands had been consolidated in accordance with the act. We estimated that, if certain boards in eight of the States included in our review were consolidated, $466,000 in personnel, office space, and telephone costs could be saved annually. We expressed the belief that greater savings are possible if local boards are consolidated nationwide.

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

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

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

Accordingly, in a report submitted to the Director of Selective Service in October 1967, we recommended that he (1) establish appropriate guidelines for use by the State Directors in identifying those areas where savings can be realized either by consolidating local draft boards or by consolidating the clerical operations of local boards and (2) encourage State officials to consolidate wherever they determine that such action will result in greater efficiency and economy in operations. (B-162111, Oct. 30, 1967.)

Economies available through improved records management

We believe that case files maintained by the Selective Service System on about 8 million registrants age 35 or over who are no longer liable for training and service in the Armed Forces are not needed for the operations of the Selective Service System. If these records were destroyed and certain other records relating to World War II registrants were transferred to Federal Records Centers of the General Services Administration (GSA), economies of about $108,000 in personnel and space costs could be realized annually. In addition, filing equipment originally costing about $355,000 could be released or utilized for other purposes.

Our tests indicated that most of the information requested from the case files was available from other SSS records or from military personnel folders. The records pertaining to World War II registrants are not used in classifying registrants under the Military Selective Service Act, but serve primarily as sources for information requested by registrants and others, mainly such information as dates and places of birth to establish eligibility for old-age and survivorship benefits in connection with social security programs. The Archivist of the United States ruled that these records should be retained indefinitely.

The information preserved on World War II registrants is essentially the same as the information that was retained on the persons who registered at the time of World War I. The files of World War I registrants are stored in the GSA-operated Federal Records Center at Atlanta, Georgia.

The Director of Selective Service disagreed with our proposals that the case files be destroyed and that the records relating to World War II registrants be transferred to Federal Records Centers. Generally, the basis for disagreement was that SSS had a need for the case files and was not convinced that records of World War II registrants could be serviced at Federal Records Centers at less cost to the Government.

After considering the agency's comments, we were still of the opinion that our proposals were feasible and that economies could be effected if our proposals were adopted. Accordingly, in a report submitted to the Director of Selective Service dated April 11, 1968, we recommended that SSS (1) request permission from the Administrator of General Services to destroy certain case files of registrants aged 35 and over who are beyond the age of liability for training and service in the Armed Forces and (2) take the action necessary to have the records of World War II registrants transferred from SSS to GSA for storage and servicing. (B-160672, Apr. 11, 1968.)

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Need to strengthen examinations of small business investment companies

We concluded, on the basis of our appraisal, that the examinations made by the Small Business Administration (SBA) of small business investment companies (SBICs) had not been sufficiently comprehensive to provide SBA with data essential to adequately carry out its regulatory responsibilities and to protect the Government's financial interests in the SBICs.

We proposed to the Administrator, SBA, that, to provide for effective examinations, SBA require the SBICs to maintain essential data regarding the financial condition and operations of the small business concerns to which they have made loans or in which they have made a capital investment. We proposed also that SBA issue comprehensive examination guidelines setting forth specific criteria to be followed in evaluating the small business investment companies' lending and investment policies and practices and financial condition and that SBA increase its supervision over the conduct of the examinations.

The Administrator, SBA, informed us that he was in agreement with our findings and proposals. He advised us that a procedural release had been issued setting forth steps to be taken by the SBICs to ensure sound lending practices, including the obtaining of current, complete, and accurate data of a financial and nonfinancial nature with respect to their loans and investments in small business concerns; that examination procedures and standards had been established for evaluating the financial position of the SBICs; and that various other measures had been taken to strengthen the examination function.

Although we believe that the most effective means of providing for the SBICs to obtain and maintain current, complete, and accurate financial information with respect to their loans to and investments in small business concerns is by regulation, the SBICs' voluntary acceptance and adherence to SBA's procedural release will fulfill equally as well the purpose of our proposal. Also, we believe that the new examination procedures and other measures, if properly carried out, should result in strengthening the examination function. (B-149685, Sept. 29, 1967.)

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Savings available by assessing late charges on delinquent loan repayments

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

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

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

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

We found no evidence, however, that the Congress had specifically considered the effect of the VA's policy on this matter. Therefore, in a report submitted to the Congress in April 1968, we recommended that the VA revise its loan policy to require assessment of a late charge on loan repayments which are received more than 15 days after they are due. (B-118660, Apr. 3, 1968.)

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

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

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

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

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

Because the VA is not legally required to audit accountings annually and because substantial economies could be achieved by reducing the frequency of audits without adversely affecting VA's management of the guardianship program, we recommended that the VA examine into the feasibility of arranging with appropriate court officials for workable plans for reducing the frequency of VA audits of guardian accountings. (B-114859, Jan. 11, 1968.)

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VARIOUS DEPARTMENTS AND AGENCIES

(Department of Agriculture and Department of State (AID))

Need to reevaluate restrictive policies and procedures affecting overall level of agricultural barter program

In May 1968 we reported to the Congress the results of our examination into an opportunity to improve the U.S. balance of payments position through an increased agricultural barter program.

We pointed out that the barter program, which was administered by the Foreign Agricultural Service, Department of Agriculture, made a worthwhile contribution to the budgetary and balance-of-payments position of the United States. Proceeds from barter transactions were used to pay for supplies and services that otherwise would have been bought abroad with dollars. Nonetheless the program was managed in a fashion which, in our view, kept it from realizing its full potential.

Under the program, agricultural commodities--wheat, feed grain, vegetable oil, cotton, and tobacco--are used in place of dollars to acquire goods and services needed in United States overseas operations. Dollars that would be spent abroad for this purpose are kept in the United States.

The needs for proceeds from barter transactions by Government agencies operating abroad--particularly the Department of Defense and the Agency for International Development--greatly exceeded amounts received from barter transactions in recent years.

We identified nearly $700 million worth of Government expenditures abroad as qualifying for payment from barter transactions annually, compared with $260 million worth actually bartered.

We expressed the belief that the Department of Agriculture should adopt a policy of letting market conditions determine the size of the barter program rather than attempt to hold the size below a theoretical or administrative limit.

We expressed the belief also that relaxation of barter constraints would increase American agricultural exports and balance-of-payment savings for the United States and would increase budgetary savings. The potential financial and related advantages deriving from an expanded barter program warrant reevaluation of basic policies that held the program at its then-current level which was below its potential.

The Departments of Agriculture and State and the Bureau of the Budget stressed that consideration would have to be given to a number of potential problem areas before determining the extent to which the program could be expanded. The Department of the Treasury, however, questioned the desirability of removing the existing constraints on the program.

We recommended that a study be undertaken to explore the best ways and means of increasing benefits from this program to the highest level

permissible under governing statutes. Such a study could be undertaken by the Cabinet Committee on Balance of Payments.

We proposed that the Congress might wish to inquire further into this matter in view of the controversial nature of this program and the potential of the program in achieving balance-of-payment savings. (B-163536, May 29, 1968.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Health, Education, and Welfare; National Science Foundation; National Aeronautics and Space Administration; and Bureau of the Budget)

Need for Government-wide standardization of allowances under Federal fellowship and traineeship grant programs

Our review of selected graduate fellowship and traineeship programs administered by a number of Government agencies showed a need for standardization of stipends and allowances under comparable programs.

Such standardization is desirable because it would (1) be more equitable to the fellowship and traineeship recipients by providing comparable allowances at equivalent stages of their educational development, (2) aid in minimizing competition between comparable Government programs for the most qualified fellows and trainees, and (3) simplify the administration of the several Government programs by the educational institutions and thus reduce overhead expenses by standardizing the many and varied Federal policies and procedures that currently must be adhered to by these institutions.

Our review included selected fellowship and traineeship grant programs of the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and three constituent agencies of the Department of Health, Education, and Welfare (HEW)--namely, the National Institutes of Health, the National Institute of Mental Health, and the Office of Education. The grant programs included in our review account for the majority of all fellowships and traineeships awarded by Federal agencies, and the grants under these programs totaled about $422 million in fiscal year 1967.

We found that there were varying bases and criteria and considerable variances in amounts allowed for stipends, dependents, and travel, for which there was no adequate justification from an overall Government viewpoint. For example, we found that predoctoral stipends ranged from a low of $1,800 to a high of $2,700 for a calendar year of support for a fellow or trainee in his first year of study. Dependency allowances, in some programs, ranged from a low of $375 to a high of $1,350 for a dependent for an academic year and from $500 to $1,800 for a calendar year; certain comparable training grants either did not provide any dependency allowance or did not specify the amount payable for each dependent.

Travel allowances were provided under 24 of the 34 programs reviewed by us, while the other 10 programs permitted no such allowances. Among the 24 programs, some allowed a flat mileage rate, others allowed actual cost; some allowed for one-way travel, others for round-trip travel; some provided for dependents' travel, others did not. We also found that supplementation policies, which govern the extent to which a fellow or trainee may receive funds from other sources in addition to his Federal stipend and thus influence the setting of stipends, varied significantly among agencies for both predoctoral and postdoctoral programs.

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Health, Education, and Welfare, National Science Foundation, National Aeronautics and Space Administration, and Bureau of the Budget)

In a report to the Congress in May 1968, we recommended that the Director, Bureau of the Budget, take appropriate action to standardize on a Government-wide basis, to the extent considered feasible and desirable, the allowances paid for stipends, dependents, and travel under Federal fellowship and traineeship programs, taking into consideration our views and comments as expressed in the report. The Bureau of the Budget and the agencies whose programs we reviewed, in commenting on our findings, generally agreed that there was a need for greater standardization of fellowship and traineeship stipends and allowances.

The Bureau of the Budget informed us in June 1968 that it planned to delay developing and publishing criteria for uniform allowances under fellowship and traineeship programs until it had an opportunity to review the effectiveness of the efforts of HEW in establishing criteria for its programs. The Bureau pointed out that HEW expected to release, in the near future, new administrative instructions aimed at standardizing stipends similar in nature and purpose; standardizing dependency allowances; setting ceilings on travel allowances; and establishing consistent policies on supplementation of stipends.

With respect to the two other agencies dealt with in our report--NSF and NASA--the Bureau stated that NSF paid, for the most part, stipends and allowances analogous to those paid by the National Institutes of Health and that, although the NASA program had certain differences, basically the amounts of its allowances were similar to related programs of other agencies and represented only a small percentage of the total Federal support of direct training.

In July 1968, HEW released its new administrative instructions on regularizing stipend levels and other types of student support. Although the new instructions should substantially aid in eliminating some of the differences among the HEW programs noted by us, they will not be applicable on a Government-wide basis unless the Bureau of the Budget takes appropriate action to prescribe their applicability to other agencies' fellowship and traineeship programs. Therefore, in our opinion, the Bureau of the Budget should study this matter further and should take action, as we had recommended, to standardize the allowances on a Government-wide basis to the extent considered feasible and desirable. (B-163713, May 24, 1968.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Health, Education, and Welfare; Veterans Administration; United States Civil Service Commission; Railroad Retirement Board; Department of Labor; and Bureau of the Budget)

Need for improving procedures for identifying individuals ineligible for benefits due to remarriage

In a report to the Congress in August 1968, we pointed out that, on the basis of our examination, we believed that the various Federal agencies involved in benefit programs could strengthen their procedures for identifying widow beneficiaries who become ineligible for benefits, because of their remarriage, by providing for obtaining information from State marriage records for comparison with data in the agencies' files.

Our comparison of information obtained from marriage records in seven States, for rather limited periods, with data obtained from the records of five Federal agencies mentioned above showed that benefit payments had been made to 147 widows who were ineligible for such benefits because they had remarried. Subsequent to our reporting of these cases, the agencies terminated benefit payments in 135 cases and, in the 12 remaining cases which had been previously terminated, took action to correct improper termination dates. In addition, action was taken in an effort to collect the overpayments which amounted to about $82,000. If these benefit payments had been continued, they could have amounted to about $1.2 million.

Also, the Social Security Administration (SSA) promptly initiated certain actions in an effort to identify other widow beneficiaries who had not reported their remarriage. SSA informed us that these actions had resulted in identifying about 1,000 widow beneficiaries under 40 years of age who were improperly receiving benefit payments and about 6,000 widow beneficiaries over 40 years of age who had become ineligible for benefits because of their remarriage. Some of the latter group may not have been receiving benefits, however, because of earnings limitations or for other reasons. We were advised that work was in process to determine the number in this group who were currently improperly receiving benefit payments.

In our opinion, the adoption of a procedure for obtaining information from State marriage records would provide an additional means of disclosing unreported marriages and would result in a significant reduction in benefit payments by keeping the number and amount of improper payments to a minimum. Other benefits that would result include (1) increased likelihood that the resulting smaller overpayments could be recovered, (2) reduced administrative costs in recovering such smaller overpayments, and (3) a means for determining whether the correct dates of remarriages have been reported and whether the related benefit payments have actually been terminated.

We therefore recommended that the Director, Bureau of the Budget (BOB), arrange with the five agencies to make feasibility studies to determine whether the benefits to be derived from using State marriage record

data for identifying widow beneficiaries' unreported or incorrectly reported remarriages would exceed the costs of such a program and to evaluate the results of the studies and, if warranted, (1) make arrangements for obtaining from the various States data on widows who have remarried and (2) assign to one of the agencies the responsibility for receiving State marriage record data and for converting such data to a form usable by each of the agencies for identifying ineligible beneficiaries and incorrect benefit payments.

In commenting on our draft report, the Director, BOB, stated that SSA had under way a study involving the matching of its beneficiary rolls with marriage records of 15 States and that BOB would arrange for interagency participation in this study. The Director stated also that, if, after evaluating this study, it appeared that a more extensive study was desirable, BOB would take the lead in making the arrangements.

We believe that, unless the results of SSA's study obviate the need for further action, BOB should implement our recommendations so that any action necessary to improve the procedures for determining the continuing eligibility of widow beneficiaries may be accomplished as soon as possible. (B-164031(4), Aug. 22, 1968.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of State and Department of State (AID))

Opportunity for improvement in efficiency and economy by merger of automatic data processing operations

In our previous report on selected significant audit findings (B-106190, January 18, 1968, p. 121), we discussed the merger of the automatic data processing (ADP) operations of the Department of State and the Agency for International Development (AID). We are again bringing this to the attention of the Committee because information we received in July 1968 indicated that the two agencies were again moving in the direction we had recommended.

In July 1967, we reported to State and AID that, although both agencies were continuing to utilize separate ADP facilities to process information for housekeeping activities and were planning to separately apply ADP to their substantive activities:

1. The existing ADP systems were largely oriented toward essentially similar financial and statistical data.

2. The planned substantive applications, which in many cases were unique with respect to the agencies' activities, nevertheless would not involve incompatibility in terms of their adaptation to ADP.

3. The geographical locations of the respective agencies' activities were such as to permit full service to both by a merged ADP facility.

We pointed out that substantial efficiency and economy could be accomplished by merging the separate ADP operations of State and AID in an ADP service center installation designed to serve the needs of both agencies.

In fiscal year 1965, although a joint State-AID study of the feasibility of merging the two systems was under way, State issued a letter to a computer company for a more sophisticated new-generation computer configuration having much greater capacity than those in use by State and AID. We therefore wrote a letter to responsible State and AID officials on March 30, 1965, regarding the feasibility of merging the separate operations, in which we pointed out that the plans for acquisition of the advanced equipment had not included consideration of the possibility of merger and recommended that they explore such possibility before making a firm commitment for new equipment. State, however, procured and installed the new computer configuration in November 1965.

State and AID advised us that they agreed, in principle, with our suggestion for a shared State-AID ADP facility and had been looking to such a common utility in the future but that they did not believe that such a facility was feasible or desirable at that time. They stated that the tentative conclusion of a joint study of information management by the agencies

concerned with foreign affairs activities and the Bureau of the Budget indicated that a master ADP facility might eventually be used by the foreign affairs agencies and that several agencies might find it essential to maintain ADP installations, compatible with and satellite to this central system, to meet agency-unique ADP problems.

We suggested that State and AID jointly reconsider the merger of the administration, management, and other operations of their ADP activities to achieve more economical and effective utilization of ADP equipment without unnecessary proliferation and to improve systems design and programming leading to more effective management of ADP operations. We believe that prudent management dictates prompt efforts in order that the advantages of joint application to the presently compatible agencies' activities may be realized. Such joint application could be extended later to other appropriate areas, in view of the incipient plans for substantive applications.

In July 1968, we were advised by State and AID that they had reestablished a joint working group which had set forth a four-step plan to thoroughly explore not only a bilateral integration but also a common ADP capability for the foreign affairs community. The plan sought:

1. Through interagency working groups of systems analysts and programmers, common applications for operation in the State and AID facilities. The U.S. Information Agency and the U.S. Arms Control and Disarmament Agency would be invited to participate in these efforts. Payroll and personnel data applications would be the first step, followed by other housekeeping functions.

2. The building of these common applications within certain parameters to ensure their future compatibility with a single foreign affairs data processing center, the design and establishment of which would be the second step of the overall effort.

3. The linkup of the various agency common systems to the central facility using on-line, remote-terminal, and time-sharing techniques as appropriate to each serviced agency's needs would be the third step.

4. The servicing through the foreign affairs data processing center of program applications unique to the user agencies and the gradual elimination of hardware at each user site would be the fourth step.

We believe that the reestablishment of a joint working group was a step in the right direction. However, in view of the fact that this project had been under consideration since 1965, we believe that the agencies involved should put forth their best efforts to complete the study stage of the plan as rapidly as possible so that the implementation stage of the plan can be undertaken without further undue delay. (B-158259, July 14, 1967.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of State and U.S. Civil Service Commission)

Opportunity to reduce the Federal Government's cost of medical benefits furnished to Foreign Service employees overseas

In May 1968 we reported to the Congress that the Government could save an estimated $234,000 yearly if the Department of State and the U.S. Civil Service Commission (CSC) were to coordinate their participation in the cost of medical services and insurance protection provided to about 40,000 Foreign Service employees and dependents stationed overseas. The matter was brought to the attention of the Congress so that it might consider whether the intent of the Congress needed to be clarified with regard to the Government's contribution to the cost of medical benefits provided to Foreign Service employees.

Our review of certain aspects of the Foreign Service medical program administered by the Department showed that the United States was bearing dual costs relating to medical care for Foreign Service employees stationed overseas, because it provided them with substantial free medical service while they were stationed overseas and, at the same time, contributed toward the employees' membership in health benefits programs.

Employees of the Foreign Service assigned to overseas posts are eligible for health benefits under two different Federal programs which are financed in part or wholly with appropriated funds. These programs are the Foreign Service medical program administered by the Department and the Federal employees health benefits program administered by CSC.

The Foreign Service medical program was established in 1947 under the authority of section 941 of the Foreign Service Act of 1946. The Department also administers the medical program for the Agency for International Development and the U.S. Information Agency. Foreign Service employees are also generally enrolled in one of the several health benefits program plans administered by the CSC. To alleviate the additional expense incurred under its Foreign Service medical program, the Department requires employees to file claims under their CSC plans for services received overseas and to endorse the proceeds over to the Government.

We found, however, that one of the CSC plans--the Foreign Service benefit plan--did not assume liability for medical services covered by the Department's Foreign Service medical program and that, as a result, the Government incurred full costs for medical treatment received by employees enrolled in this plan. Since the Government contribution to this CSC plan was the same regardless of whether the employee was stationed overseas or within the United States, the Government was, in effect, bearing the costs of certain medical care for overseas employees twice--once as a direct patient cost and again as an insurance premium cost.

VARIOUS DEPARTMENTS AND AGENCIES

(Department of State and U.S. Civil Service Commission)

Subsequent to the issuance of our report, we were advised by the Department that it had consulted with representatives of the Bureau of the Budget and CSC. Also, meetings were held with officers of the U.S. Information Agency, the Agency for International Development, and the underwriter of CSC's Foreign Service benefit plan. As a result, the underwriter agreed to undertake actuarial studies to determine the cost of extending the full range of existing benefits to overseas employees and the effect of such coverage on the subscribers' rates. (B-162639, May 23, 1968.)

Contents

Need to give greater consideration to the use of in-house maintenance of Government-owned automatic data processing equipment

The Federal Government is a large user of automatic data processing (ADP) equipment. In most cases, maintenance services for Government-owned computers are being obtained from computer equipment manufacturers. Only a relatively small number of Government computer installations have adopted a policy of in-house maintenance for their equipment. Because of the increasing investment of the Federal Government in computer facilities and the related increase in direct maintenance costs, our Office has made a study of the many factors that are involved in making decisions on obtaining adequate maintenance service at reasonable cost.

On the basis of our study, we have concluded that greater consideration should be given to in-house maintenance of Government-owned ADP equipment because of the potential for cost reduction in obtaining this necessary service and other possible advantages, including greater management control over maintenance work, increased acceptance of computer operations by other employees, and a high level of computer efficiency (i.e., little downtime).

Although in-house maintenance of ADP equipment in the Federal Government is not a common practice, we did visit several Government installations that followed this practice successfully. We also visited several non-Federal and private organizations that do their own maintenance work.

No simple, precise criteria for determining the feasibility of in-house maintenance can be set forth which will apply uniformly to all Government installations. During our inquiries at Government and private industry installations which had adopted in-house maintenance policies, we noted that the following operational and cost factors were considered before making in-house maintenance decisions:

--Operational character of systems.
--Location of equipment.
--Split maintenance responsibility.
--Quality of maintenance.
--Modification by equipment manufacturers.
--Size of computer installation.

We pointed out in a report submitted to the Congress in April 1968 that the investment of the Federal Government in computer facilities and related direct maintenance costs, currently about $50 million annually, could be expected to continue to increase. We concluded that there was need for more management attention toward ascertaining the most efficient, effective, and economical methods of maintaining Government-owned ADP equipment. For these reasons, we recommended that:

--The Bureau of the Budget require the executive agencies to consider in-house maintenance in reaching procurement and maintenance decisions and that the General Services Administration accelerate its

studies now under way on this subject with an objective of promulgating more specific policies for the guidance of Federal agencies in obtaining adequate maintenance service at the least cost to the Government.

--The head of each Federal agency arrange for the establishment of procedures for arriving at the most advantageous decisions for maintenance of ADP equipment.

We also suggested that, pending issuance of more specific policy guidance in the executive branch, the Federal agencies use the detailed operational and cost factors we referred to in our report in arriving at maintenance decisions for their ADP equipment.

The Bureau of the Budget has advised us that it is taking steps to amend its Circular No. A-54, which relates specifically to acquisition and use of ADP equipment, to ensure that agencies give appropriate consideration to the use of in-house maintenance.

The General Services Administration has accelerated its study by awarding a contract for consulting services to conduct a survey "to identify the optimum least cost alternative means for maintenance of ADP within appropriate parameters such as make, size and type of equipment, type and priority of applications and geographical considerations."

The General Services Administration also has advised us that it will issue a Federal Property Management Regulation containing some initial interim guidelines to assist agencies in their evaluation of alternative means of maintenance. These guidelines will cover the factors brought out in our report. (B-115369, April 3, 1968.)

Savings attainable through direct purchase of components and spare parts for automatic data processing equipment

During our study of maintenance practices of ADP equipment users in the Federal Government and of several non-Federal and private organizations, we noted instances where aggressive managers saved their activities significant sums of money by not purchasing ADP system components and repair parts from the computer manufacturer but by purchasing the items direct from the actual manufacturers of the components or from other sources of supply. For instance:

--The United States Fleet Numerical Weather Facility performed its maintenance on an "in-house" basis. As a result, it was in a position to determine the best method of procurement. The Facility, for example, made two procurements of drum-storage devices and related controllers for $900,300 from the actual manufacturers of the items. Equivalent equipment procured from the computer manufacturer could have cost an additional $475,200.

--Repair parts for the large-scale computer system at the Data Processing Center, United States Army Deputy Chief of Staff for Logistics (DCSLOG), were not usually purchased from the manufacturer. Some of the repair parts were obtained by the purchase of a complete computer system deemed obsolete and sold at salvage or scrap price on the open market. This practice contributed to the relatively low cost of maintenance at this installation.

--A private computer service bureau followed the same practice as DCSLOG (above). The modest price this company paid for spare parts contributed to the relatively low overall cost of maintenance of the company.

In our report submitted to the Congress in April 1968, we expressed the view that the cost savings from direct procurement, illustrated by the cases we encountered, suggested that this method of procurement should be more extensively explored in procuring ADP components and parts needed in maintaining Government-owned ADP equipment. We are conducting further studies of this question as a preliminary to making specific recommendations. (B-115369, April 3, 1968.)

Observations on the United States balance-of-payments position

Over the past several years, the General Accounting Office has issued a number of reports to the Congress on the subject of the United States balance-of-payments position. Many of these reports have been cited in our annual reports on selected significant audit findings which are made to the Committee on Appropriations, House of Representatives.

The problem of balance of payments is one of Government-wide importance and one which is identified with several agencies and departments. It has been an area of increasing interest to both the Congress and the executive branch. Because of this interest, we felt that a compilation-type report of all our prior reports was in order.

This report, which was submitted to the Congress in October 1967, pointed out that over the years the General Accounting Office had sought ways and means of benefiting the United States balance-of-payments position. The report, together with a separate classified supplement, summarized the results of our efforts subsequent to 1961.

A wide range of Government programs has been developed to deal with continuing balance-of-payments deficits. Some of these programs depend for their success on the voluntary cooperation of a broad segment of the American business community and public; others involve largely matters of domestic or foreign policies.

The General Accounting Office has directed many of its efforts toward identifying specific situations which lend themselves to achieving additional balance-of-payments benefits. We have examined into the management of Government-owned foreign assets and claims, the negotiation and enforcement of bilateral agreements that result or should result in the accrual of proceeds to the Government, efforts made to encourage multinational participation in foreign aid programs, and areas where operations could be carried out abroad with more efficiency or at less cost.

As we discovered situations having beneficial balance-of-payments implications, we brought them to the attention of the Congress and of cognizant agency officials. In many cases remedial action was taken.

While it is not possible to estimate precisely how much the United States balance-of-payments situation has benefitted because of the actions later taken by agency officials, it was our belief that such actions with respect to the matters included in the report and in the separate classified supplement had resulted in benefits of many millions of dollars. In a number of cases little or nothing was done about the matters we identified because agency officials maintained that the adoption of our proposals would not be in the foreign-policy interests of the United States. It appears that significant balance-of-payments advantages in these areas are not likely until and unless basic policies change.

GOVERNMENT-WIDE

We issued our report to the Congress because the problem of coping with chronic balance-of-payments deficits was prominent among the contemporary economic issues confronting the United States. This report outlined areas of Government operations where balance-of-payments advantages might be possible, the status of cognizant agencies' efforts in these areas, and reasons why in some cases the potential advantages had not been pursued to date. (B-162222, Oct. 31, 1967.)

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