



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

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Dear Mr. Gross:

This is in response to your letter of February 4, 1971, in which you asked the General Accounting Office to determine whether, at any time since 1966, the Institute for Defense Analyses has made expenditures or has provided to its employees fringe benefits similar to those mentioned in a July 1966 newspaper article forwarded with your request. The source of the information on which the article is based is a report dated February 18, 1966, by the Surveys and Investigations Staff of the House Committee on Appropriations.

As a part of our audit, we have reviewed the Institute's regular fringe benefits--such as retirement and life, disability, and health insurance--which are funded jointly by deductions from employees' pay and contributions from the Institute. We also screened the miscellaneous reimbursements to Institute officials for entertainment and other out-of-pocket expenses they had incurred on behalf of the Institute. We examined the Institute's policies concerning reimbursements for travel expenses and dislocation and relocation allowances and examined a representative number of these reimbursements.

We have found no evidence that the Institute regularly is paying any of the personal expenses of its officers or is authorizing any unusual type of expense allowance for them, but we have noted a few instances where employees have received reimbursements for out-of-the-ordinary expenditures. Details of these reimbursements follow.

Special dislocation allowance
for outgoing president

The Institute paid one of its former presidents approximately \$14,475 to cover his cost of moving from Boston, Massachusetts, to Washington, D. C., to assume the Institute's presidency. Approximately \$9,000 of this amount--\$7,000 cash and \$2,000 in withholding tax--was paid to him as a special dislocation allowance, and payment was made from funds the Institute had received as management fees. The authorization approving the allowance mentions, as justification for the payment, the unusual costs associated with obtaining housing in Washington, renting out the Cambridge, Massachusetts, house, and providing for private schools for the two children to minimize the disruption in their education. The actual costs incurred by the former president were not itemized, however, and the Institute was not able to furnish us with documentation supporting the actual expenditures.

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In addition to the \$9,000 special dislocation allowance, the former president received \$3,600 for round-trip travel for himself and his family between Boston and Washington and for the cost of transporting his household goods from Boston to Washington and return. Furthermore he was reimbursed \$1,875 in accordance with the Institute's policy of providing a dislocation allowance of up to one half of a month's salary to incoming staff members.

Institute officials informed us that a special dislocation allowance of up to \$11,538 was authorized for this individual in 1964 when he assumed the presidency but that this allowance was settled at \$9,000 in August 1966. Therefore the Institute was committed to the allowance before the House Committee on Appropriations report was issued in February 1966.

Special payment to division director.

The Institute made a special payment of about \$3,900 to the director of its Communications Research Division in November 1970 as reimbursement of expenses for enrolling his daughter in a private school. The Communications Research Division is located on the Princeton University campus.

Reimbursement was made on the basis of the director's claim that, because of his association with the Institute, his daughter had become a target of abuse by the children of local radicals and by the radical faculty members of the public high school that she attended. Consequently, after consultation with a psychiatrist, the director decided to enroll her in a private school. He then requested reimbursement for the tuition and other charges and claimed that the additional expense was a direct consequence of his employment at the Institute.

The board of trustees approved a reimbursement to net the director \$2,175 after taxes in recognition of the unusual and unexpected nature of the expenses incurred and in view of the community situation. The payment was made from funds the Institute had received as management fees and did not appear as a direct or indirect charge against any Government contract.

This director also is continuing to receive reimbursement from management fees for the cost of his annual membership dues at the Nassau Club. This matter originally was reported by the Surveys and Investigations Staff of the House Committee on Appropriations in their report of February 18, 1966. The director currently is being reimbursed because he asserts membership in the club is maintained entirely for Institute business purposes.

Family travel expenses
to summer study program

The Institute is continuing to reimburse its employees for expenses incurred in transporting their families to summer study programs. For example, the Institute paid approximately \$8,546 to transport employees' families to La Jolla, California, for a 1969 summer study program. A similar example, involving the expenditure of \$6,000 to transport the families of participants for a summer study program held in England, was included in the report of the Surveys and Investigations Staff of the House Committee on Appropriations. The Institute usually conducts two summer study programs each year.

Three Government employees--two from the Navy Ship Systems Command and one from the National Aeronautics and Space Administration--took leave of absence from their Government positions and accepted appointments as temporary Institute employees for the 1-month duration of the La Jolla study program. As Institute employees they were authorized to receive up to \$25 a day for subsistence expenses, as opposed to the \$16 maximum then payable to Government employees. One of the Navy employees received \$25 a day and the other received \$24 a day. In addition, the National Aeronautics and Space Administration employee, who had seven children, was paid a subsistence rate of \$32 a day to defray the additional expense involved in securing housing for such a large family. Two of the three Government employees were accompanied by their families and were reimbursed for the cost of their families' travel to the summer program location.

We noted that other Government employees and military personnel attended the study program and were not reimbursed by the Institute. Presumably these individuals were reimbursed by their agencies at the normal Government per diem rate.

Out-of-the-ordinary relocation allowances

The Institute's policy is to reimburse new staff members for relocation expenses. Until recently the Institute has paid a special dislocation allowance, not to exceed one half of a month's salary, for certain nonrecurring costs incident to the relocation. Within this limitation a new employee could be reimbursed for the cost of a house-hunting trip, the storage of household effects, temporary subsistence, or other special moving expenses. There are instances in which the latter included the shipment of a boat, a horse, and special housing costs, such as recording fees, transfer taxes, and title search and insurance. Within the limitation, a new employee also could be reimbursed for the tax liability on those relocation costs which were taxable income to him.

Our review showed that the Institute occasionally had reimbursed incoming employees for expenses in excess of one half of a month's salary and for other expenses not provided for specifically in its regulations. We found two instances in which incoming employees had been reimbursed for realty fees incident to disposal of their homes. Reimbursement for this type of expense was not provided for in the Institute's regulation. Furthermore, the amounts of reimbursements paid to these employees--\$2,070 and \$2,460--were in excess of the salary limitation. On the basis of their starting salaries, the employees would have been entitled to reimbursements of \$875 and \$1,200.

In another instance involving reimbursements for housing expenses, an employee received \$1,388 for realty expenses incurred in acquiring a new home and about \$440 for house-hunting trips, but, under the limitation, he would have been entitled to a maximum of \$950.

We noted another instance in which an incoming employee had received \$4,680 in temporary subsistence while away from his permanent residence. The subsistence was for a period of 358- $\frac{1}{2}$ days between February 1, 1968, and January 25, 1969, and was paid because the employee did not change his permanent residence to the Washington, D.C., area when he accepted a permanent position with the Institute. The employee's temporary subsistence was terminated when he received the 1-year maximum allowable under the Institute's regulations. In accordance with the Armed Services Procurement Regulation, however, only 30 days of such subsistence are allowable contract costs. Therefore the Institute's management fee probably will bear the cost of the remaining 328- $\frac{1}{2}$ days, which amounts to approximately \$4,270. This same employee received \$283 for a house-hunting trip and approximately \$2,640 as reimbursement for the income-tax liability he incurred on the subsistence allowance.

The Institute justified payment of realty fees on the basis that the reimbursements had been offered to the prospective employees in lieu of additional salary as an inducement to accept Institute employment. In other instances the Institute elected to reimburse employees in excess of the established limitation, because of misunderstandings between the Institute and the employees as to their entitlements and, in the case of the tax reimbursement, because the employee had not been told his temporary subsistence payments were taxable income.

At the time of our review, the Institute was revising its regulation for the special dislocation allowance and was operating under a proposed regulation which appeared to be less liberal and made no specific provision for reimbursement of a number of expenses formerly reimbursed. Probably the most significant of the deletions is the provision for reimbursing new members for income-tax liability on

those relocation reimbursements which are taxable income. Because the Institute was in the process of revising its regulation, we did not attempt to uncover all the questionable payments made under the previous regulation. We believe, however, that we have included the more significant instances in this letter.

Summary of reimbursements

Most of the out-of-the-ordinary reimbursements discussed in this report were made from funds which the Institute had received as management fees, rather than from those received as reimbursements under Government contracts. A tabulation showing the nature of the expenditures and the sources of the funds used follows.

Out-of-the-ordinary Expenses

	<u>Amount</u>		
	<u>Total</u>	<u>Paid from management fees</u>	<u>Charged to Government contracts</u>
Special dislocation allowance for an outgoing president	\$ 9,000	\$ 9,000	\$ -
Special payment to a division director for daughter's schooling	3,877	3,877	-
Nassau Club dues	140	140	-
Summer study program:			
Family travel	8,546	8,546	-
Government employee per diem	1,000 ^a	212	788
Relocation expenses:			
Realty fee	2,070	2,070	-
Realty fee	2,460	2,460	-
Realty fee	1,388	1,388	-
Temporary subsistence	4,270	-	4,270 ^b
Income-tax liability	2,640	2,640	-
Total	<u>\$35,391</u>	<u>\$30,333</u>	<u>\$5,058</u>

^aThe amount of the out-of-the-ordinary expense was calculated as the difference between the amount these individuals received and the amount they were entitled to receive as Government employees.

^bThe Institute charged this expenditure to its Government contracts; however, the Defense Contract Audit Agency informed us they were questioning this amount, because only 30 days of temporary subsistence were allowable in accordance with the Armed Services Procurement Regulation.

Conclusion

The use of management fees by nonprofit organizations, such as the Institute, to pay certain costs and expenses is not subject to control by the Government. Further, under current Department of Defense procedures, the manner in which fees are expended is not a consideration in the negotiation of contracts with nonprofit organizations. These matters, with appropriate recommendations, were reported previously to the Congress in our report entitled "Need For Improved Guidelines in Contracting For Research With Government-Sponsored Nonprofit Contractors" (B-146810, Feb. 10, 1969), a copy of which is enclosed.

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We trust that this information is responsive to your request. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,


Comptroller General
of the United States

Enclosure

The Honorable H. R. Gross
House of Representatives

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DEFENSE DIVISION

JUL 8 1971

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Dear Mr. Secretary:

On October 22, 1970, we sent you a draft report for comment, which dealt with Navy procurement of publication services for the revision of technical manuals under indefinite-quantity-type contracts (OSD case No. 3196). This report contained the findings from our review of five contracts awarded by the Navy and Marine Corps for such services as typing, editing, proofreading, writing, and illustrating.

Our findings were that the Navy had followed the practice of awarding an indefinite-quantity-type contract to the contractor who quoted the lowest hourly rate, and then paying the contractor at that rate for the hours billed by the contractor without checking the records to determine the actual number of hours that had been used to complete the work. The Marine Corps had a somewhat different system, but the results were about the same. The Marine Corps made awards of indefinite-quantity-type contracts to several of the most technically qualified contractors who bid the lowest hourly rates. The Marine Corps, however, did not follow its policy of having the several contractors compete for each order. Instead, it negotiated fixed-price orders almost exclusively with one contractor using, as the basis for the price, the hourly rates bid by the contractor and contractor estimates of the hours that would be needed to perform the work. Therefore, the Marine Corps was not getting competitive prices. Further, because it did not obtain information as to the hours actually expended doing the work, it did not know how the contractor's estimates and actual hours compared.

The Navy and Marine Corps' methods of handling these purchases made it possible for contractors to charge for a substantially larger number of hours than actually had been required to perform the work. In this respect our review of \$100,000 worth of orders, selected from the \$2.1 million worth then placed under the five contracts, showed that the contractors had received

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payments for 22,000 hours, although only 12,000 hours had been used in performing the work. During discussions held with Navy and Marine Corps officials, we were advised that, where appropriate, recovery action would be taken against the contractors for overpayments made under the contracts.

In view of the substantial overcharges resulting from this method of contracting, we recommended that the Navy issue instructions governing the use of indefinite-quantity-type contracts to provide the safeguards needed to secure reasonable prices for the Government and that the Armed Services Procurement Regulation (ASPR) Committee consider revising ASPR, to require improved control over the use of indefinite-quantity-type contracts.

We have received two replies to our report from the Deputy Assistant Secretary of Defense (Installations and Logistics), one dated December 16, 1970, and the other dated April 5, 1971. In these replies we were advised that, with regard to our first recommendation, the Navy had modified ongoing contracts, to establish a ceiling price for each order placed against these contracts and to limit the contractor's compensation to the actual hours expended, not to exceed the ceiling. Also the contractors will maintain specific and detailed records of the costs incurred, and the Government will have the right to audit the contractors' records. In addition, the Navy has issued specific and detailed instructions regarding the placing of orders under indefinite-quantity-type contracts where the price is established on the basis of estimated time. The Navy has issued also an appropriate warning to all contracting officers regarding the use of indefinite-quantity-type contracts for the procurement of services.

With regard to our second recommendation that ASPR be revised to require improved control over the use of indefinite-quantity-type contracts, we were advised that the current guidance in ASPR was considered adequate. We were advised also that it was the opinion of the Deputy Assistant Secretary that the problem identified was mainly one of ensuring the application of current guidance in the regulations governing the administration and payment of contracts. The Deputy Assistant Secretary also stated that a similar situation probably did not exist in the other services. The Air Force indicated that its requirements for such services usually were obtained by competition on a fixed-price-per-page basis. The Army indicated that it buys these services under time-and-material-type contracts and that, on such contracts, an audit is requested from the Defense Contract Audit Agency prior to final payment.

We believe that the vigorous action taken by the Navy in response to our report is commendable. In view of this action, and the indications that the Army and Air Force use other procurement methods to obtain these types of publication services,

we do not plan to pursue this matter further at this time. We plan, however, to review the results of the Navy's corrective action at an appropriate time to determine if the action has been effective. After we have reviewed the results of the Navy's action, we will give further consideration to the need for providing more specific guidance in ASPR.

We appreciate the cooperation extend to members of our staff by Navy and Marine Corps personnel during our review. Copies of this letter are being sent to the Secretary of the Navy and the Office of Management and Budget.

Sincerely yours,


Director, Defense Division

The Honorable
The Secretary of Defense