

**REPORT TO  
THE CONGRESS OF THE UNITED STATES**

**COMPILATION OF  
GENERAL ACCOUNTING OFFICE  
FINDINGS AND RECOMMENDATIONS  
FOR IMPROVING GOVERNMENT OPERATIONS  
FISCAL YEAR 1960**



**BY  
THE COMPTROLLER GENERAL OF THE UNITED STATES  
MARCH 1961**



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

MAR 27 1961

**B-138162**

**Honorable Sam Rayburn**  
**Speaker of the House of Representatives**

**Dear Mr. Speaker:**

Enclosed for the information of the Congress is a compilation of General Accounting Office findings and recommendations for improving Government operations. These findings and recommendations relate, for the most part, to the fiscal year 1960. The compilation also describes the actions taken by the departments and agencies of the Federal Government as a result of these recommendations. The purpose of this report is to provide a convenient summary showing the nature, extent, and variety of matters with which the General Accounting Office concerns itself in its audit activities.

The recommendations included in this compilation were made in connection with our responsibilities under the Budget and Accounting Act, 1921; the Accounting and Auditing Act of 1950; and other laws which require us to independently examine for the Congress the manner in which the departments and agencies are discharging their financial responsibilities. The financial responsibilities are construed as including the administration of funds and the utilization of property and personnel for only authorized programs, activities, or purposes and the conduct of programs or activities in an effective, efficient, and economical manner. Particular emphasis is placed on any aspects suspected or found to require correction or improvement and on the means of accomplishing it.

Our examinations range from inquiries into individual transactions or phases of operations to reviews of selected aspects of major programs. Recommendations have been made on such diverse subjects as production planning and control, operation of motor pools, debt collection, rate of interest earned on foreign currency deposits, accounting procedures, use of automatic data processing equipment, internal controls over cash and other assets, fees charged for Government-furnished services, warehousing, use of facilities, administration of economic and technical assistance programs in foreign countries, need for the Air Force to develop in-house capability



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to provide systems engineering and technical direction for its ballistic missile program, and need for effective review of contractors' costs in negotiating prices for the purchase of materials and supplies.

This report is also being sent today to the President of the Senate.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "W. M. Campbell". The signature is fluid and cursive, with a large initial "W" and a long, sweeping underline.

Comptroller General  
of the United States

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COMPILATION OF  
GENERAL ACCOUNTING OFFICE  
FINDINGS AND RECOMMENDATIONS  
FOR IMPROVING GOVERNMENT OPERATIONS

FISCAL YEAR 1960

CIVIL DEPARTMENTS AND AGENCIES

REVIEW OF CONTRACTING PROCEDURES

1. Reopening of contract negotiations based on information developed during our audit resulted in savings of \$6,000,000--In our report on the review of certain negotiated fixed-price contracts for the procurement of uranium concentrates from one of the Atomic Energy Commission (AEC) contractors, we presented in detail the sequence of events leading to a reopening of contract negotiations, based on information developed during our audit, which resulted in savings to AEC of \$6,000,000. Our report pointed out that AEC negotiators tentatively agreed to fixed unit prices for a new contract, to run for 7 years and 8 months, without obtaining and evaluating the contractor's cost data under the existing contract. During the same month that AEC was negotiating the new contract, we informed AEC that our audit of the contractor's operations under the contract for the 15-month period ended June 30, 1958, indicated that the contractor's profits from April 1, 1957, through March 31, 1962--the expiration date of the then-existing contract--would greatly exceed those estimated originally. AEC informed us that it was not reasonable to assume that the contractor's profits during the remaining period of the contract would continue at the rate realized during the 15-month period. We therefore decided to extend the period of our audit to December 31, 1958--an additional 6 months--and advised AEC to that effect.

However, in April 1959, AEC negotiators tentatively agreed to prices to be paid under the new contract. On April 29, 1959, we informed AEC that our audit of the contractor's operations under the contract for the 21-month period ended December 31, 1958, showed that the contractor had realized profits of about 27 percent more than the amount estimated at the time the last amendment was negotiated. As a result, the contract negotiations were reopened and the contractor accepted a lower price for deliveries to be made after May 1, 1959, or during the first 35 months of the new contract, thus making the price uniform during the entire period of the new contract and resulting in the reduction of \$6,000,000 in the amount to be paid for deliveries in the first 35 months. This uniform price was based solely on the guaranteed price established in AEC's announcement of a new domestic uranium procurement program on May 24, 1956. We have made no review of the basis used in establishing that price.

## REVIEW OF CONTRACTING PROCEDURES (continued)

2. Contract requirements changed to decrease Federal cost of dredging channels and harbors--In our report dated July 13, 1959, on our review of spoil disposal activities of the Corps of Engineers, we pointed out that the Corps permitted modification of terms of dredging contracts after they had been competitively awarded. Because this practice provided an advantage to the contractors which was not shared with the Federal Government, we recommended that dredging contracts be executed which would provide for adjustment of price if contract terms are modified. At the 1961 hearings before the Subcommittee on Public Works (Army Civil Functions), House Committee on Appropriations, the Corps advised the Subcommittee that recently revised guide specifications provided for a price adjustment to protect the Government's interest.

Also, we noted that, while it is the Corps' policy to require local interests to provide spoil disposal areas (for disposal of dredged materials) free of cost to the United States whenever possible, the Corps, in general, had not interpreted its policy to mean that local interests should bear the expense of required dikes, bulkheads, and embankments. At our recommendation the Corps amended its procedures to provide that local requirements include in addition to spoil disposal areas any necessary dikes, bulkheads, and embankments.

3. Instructions issued that complete records of contract negotiations be maintained--In our review of an agreement between the Post Office Department and a railroad for providing mail-handling services, we noted that a complete record of the negotiations leading to the agreement was not maintained. After we brought this matter to the attention of appropriate Department officials, the Department's Bureau of Transportation issued instructions that contract files should contain complete records of all negotiations, including minutes or memorandum records of meetings showing the persons in attendance, the matters discussed, and the conclusions reached.

4. Contract clauses to be revised to preclude purchases after expiration of contract period under term contracts--During the year we questioned the propriety of purchases by General Services Administration (GSA) of large quantities of metal office furniture which were ordered near or after the expiration of term contracts covering these items. Substantially all these purchases were made at prices which were higher than the prices under the new term contracts awarded shortly after these orders were placed.

The orders which we questioned either (1) provided for delivery of the furniture subsequent to the expiration dates and delivery periods specified in the contracts, (2) were not received by the contractors until after the end of the contract periods, or (3) were issued in the form of purchase order amendments, well after contract expiration dates, to increase the quantities previously ordered.

## REVIEW OF CONTRACTING PROCEDURES (continued)

We informed the Administrator of General Services in December 1959 that these orders could not be considered as being covered by the terms of the expired contracts and that there was a serious question as to whether the contractors were entitled to payment except on a quantum meruit basis.

We requested the Administrator to inform us of his views as to the propriety and nature of any action that might be taken to obtain refunds of some reasonable part of the amounts paid under these orders. We were informed that GSA subsequently obtained refunds of \$12,500 from two of the contractors involved and that GSA intended to include clauses in future contracts specifically restricting contract coverage to orders mailed before the expiration of the period covered by the contracts.

5. Contracting and contract administration strengthened--As a result of our audit findings in several GSA regional offices, regional officials took or agreed to take appropriate corrective action to improve over-all procurement performance and eliminate various deficiencies observed in contracting and contract administration. Examples of such deficiencies were (1) the award of a contract on the basis of a bid postmarked after the date and time set for the bid opening, (2) the award of a contract without sufficient documentation to support rejection of the two lowest bids, and (3) the absence of adequate measures to require compliance with completion-time provisions of repair and improvement contracts.

6. Adequate cost data to be obtained in support of negotiated prices for material-handling contracts--Three contracts and 98 contract amendments were negotiated by the GSA Chicago Regional Office for handling materials at GSA warehouses in the region. In almost all instances the contractors' price quotations were accepted as fair and reasonable without an analysis of the cost and profit elements included in the proposals. In response to our criticism of this practice during fiscal year 1960, regional officials stated that competitive bids would be secured when the contracts were relet or adequate data would be secured in support of future negotiated contracts or amendments.

7. Action initiated to formulate improved contract negotiating policies and procedures--In a report to the Administrator, Federal Aviation Agency, we commented on the predecessor agency's inadequacies in negotiating major contracts for the procurement of electronic equipment. The Federal Aviation Agency informed us in December 1959 that a newly formed division would be concerned with the formulation of policies and procedures governing the agency's contracting and would give early attention to improving its analyses of contractors' cost proposals and to providing for price re-determination where appropriate.



## REVIEW OF CONTRACTING PROCEDURES (continued)

8. Improper contracting for personal services should be corrected--The Foreign Service Institute, Department of State, has secured the services of language tutors and similar specialized services by means of nonpersonal service contracts which are unauthorized for this purpose and permit circumvention of regular employment procedures. The use of these contracts makes difficult an effective administration of personnel ceilings and circumvents the statutory prohibition against paying compensation to certain aliens. Also, we noted that contracts were being renewed at increased rates of compensation in the manner of annual salary increases, contracts were predated to cover services received prior to formal execution, and contract terms were not sufficiently definite as to the contractor's duties. We recommended in our report of June 1960 that the Department discontinue these improper contracting practices. The Department informed us that efforts were being made to work out a satisfactory solution and to follow prescribed procedures. Amending legislation to the Foreign Service Act was passed by the Eighty-sixth Congress, second session (Public Law 86-723, approved September 8, 1960), providing authority for the employment of aliens.

9. Need for full documentation of actions relating to awards of contracts--Our review at the Atomic Energy Commission's San Francisco Operations Office disclosed that all factors relating to the award of research and development contracts are not always properly documented in contract records. The records for a certain project agreement under a cost-plus-fixed-fee contract did not show the basis for allowing certain estimated costs as part of the fee base. In another instance, the contract records did not show that the Contract Selection Board had determined why the selected contractor's proposal was based on a cost estimate about \$50,000 higher than the \$49,940 cost estimate pertaining to the proposal rated second highest.

We recommended on May 25, 1960, that, to provide for effective control over contract awards, the Operations Office require its contract negotiators and selection boards to fully document all actions taken in connection with the award of cost-plus-fixed-fee research and development contracts.

10. Need for inserting damage clauses in Post Office Department contracts--The contract awarded by the Post Office Department for overprinting stamped envelopes at the Philadelphia Regional Distributing Office (RDO) did not contain an appropriate damage clause. Neither did the contracts awarded for overprinting stamped envelopes at the Boston, Chicago, and New York RDOs contain such a clause.

The daily rate of production under the contract for the Philadelphia office was far below the production standard established in the contract. We were informed by Government officials that

## REVIEW OF CONTRACTING PROCEDURES (continued)

the quality of Government-furnished labor and material as well as the mechanical failure of the contractor's equipment contributed to the delay in performance.

So that the liability of contractors for costs or losses incurred by the Government because of their failure to meet their contractual obligations may be specifically established, we recommended to the Deputy Postmaster General that future contracts include appropriate damage clauses.

By letter dated July 14, 1960, the Assistant Postmaster General, Bureau of Finance, advised us that the Department had never favored supply contracts with penalty clauses where the quality of Government-furnished material and labor could not be clearly defined.

We believe that, if Government supplies and services are involved in the performance of a contract, their nature and extent should be clearly defined in the invitations to bid and appropriate provisions relating thereto should be incorporated in the contracts. Such definitions and provisions would not only aid in establishing the liability for failure to meet contractual obligations but by removal of uncertainties could also aid in obtaining more effective competition in bidding. We believe also that the amount of Government-furnished supplies and services could be established on a basis of estimates obtained by means of selected tests.

11. Efforts made to strengthen negotiations of fixed-price contracts--During our review of the negotiation of fixed-price contracts awarded for cancer chemotherapy screening tests by National Institutes of Health (NIH), Department of Health, Education, and Welfare, we discussed with NIH officials the problems involved in negotiating reasonable prices without effective competition or reliable cost information.

During fiscal year 1960, NIH strengthened its negotiations of fixed-price contracts by reviewing more closely cost data submitted by prospective contractors. NIH officials assured us in April 1960 that efforts to strengthen contract negotiations would continue.

12. Recommendation to convert future letter agreements to definitive, formal contracts within specified time--In our review we noted that a General Services Administration contract had not been converted from a letter agreement to a definitive contract although more than 3 years elapsed between the time the agreement was made and the date it was amended to eliminate the Government's obligation to buy the metal called for in the letter agreement.

## REVIEW OF CONTRACTING PROCEDURES (continued)

We believe that, because of the indefinite nature of letter agreements, differences of opinion as to contract terms might arise. Therefore, we recommended in our report dated April 20, 1960, that the Administrator of General Services take steps to assure that future letter agreements contain provisions requiring that such agreements be converted to definitive, formal contracts within a specified period of time.

13. Policy governing use of public exigency authority to negotiate nonstores purchases should be clarified--The Federal Property and Administrative Services Act of 1949, as amended, permits GSA to make purchases without advertising if the public exigency will not admit of the delay incident to advertising. GSA procedures provide that the use of negotiation for public exigency purchases shall be accompanied by a signed statement of the contracting officer justifying the use of negotiation. Regulations dealing with the use of the public exigency authority for negotiating the purchase of stores stock items for direct delivery to requisitioning agencies require GSA to obtain the facts justifying negotiation from the requisitioning agency involved. However, GSA regulations do not require similar support for negotiation of purchases of nonstores items ordered by these agencies.

We noted in our review, completed in October 1959, at the Seattle Regional Office that GSA made a number of negotiated purchases of nonstores items without any evidence of a public exigency other than a requested delivery time or an indication that unreasonable delays would result from failure to meet restrictive shipping schedules to specified points. We believe that facts showing the compelling need, adverse results, and financial loss to the Government, or other underlying facts, which actually justify use of the public exigency authority should be obtained from the requisitioning agencies and included in the contract files.

We recommended that GSA amend existing instructions to clarify the policy regarding the use of the public exigency authority to negotiate purchases for nonstores items to assure that adequate justification for such action is obtained from requisitioning agencies and documented in GSA's contract files.

14. Need for administrative review of adequacy of solicitation of competition for large nonstores purchases--At the GSA Seattle Regional Office, our test of the bid solicitations for eight large nonstores purchases, which we feel were suitable for national coverage because of the nature of the items involved, disclosed that only 5 percent of the manufacturers of these items who are listed in a directory of manufacturers used by the buyers were solicited. The percentage of bid responses from firms listed in the register was much higher than the percentage of bid responses from firms not so listed. We believe that this situation indicates that increased competition can be expected from wider use of the



## REVIEW OF CONTRACTING PROCEDURES (continued)

register. In four of the eight purchases, the regional office prepared a special list of firms to be solicited and did not use the regular bid mailing list.

We noted two instances where manufacturers whose brand name products were mentioned in the purchase specifications were not solicited. In one of the two cases, the price quoted by one manufacturer was about \$21 a unit less than the price of the dealer who was awarded the contract. We believe that manufacturers whose brand name products are cited in purchase specifications should be solicited unless it is known that the manufacturer will not submit a bid directly to the Government.

We brought these matters to the attention of Seattle regional officials in a letter dated August 14, 1959, and were informed that mailing lists would be extended to include additional brand name manufacturers. However, regional officials questioned the value of expanding bid lists to include other prime manufacturers and stated that they had found that solicitation of these firms did not necessarily produce a greater proportion of low responsive bids.

We do not believe that a larger proportion of low bids from prime manufacturers is necessary to justify additional solicitations to bid. We recommended that the Commissioner of the Federal Supply Service review with the Seattle Regional Office its procedures with respect to the solicitation of bids for the larger non-stores purchases of supplies and material, with the objective of determining whether increased competition will be realized through wider solicitation of manufacturers.

## REVIEW OF PROCUREMENT PROCEDURES AND PRACTICES

15. Changes made to eliminate duplication of effort in purchasing blank Government card checks--During our audit of the Bureau of Engraving and Printing, we noted that the Bureau had responsibility for purchasing blank Government card checks--a function which appeared to be extraneous to its prime responsibility of printing engraved documents such as currency and stamps.

As a result of our recommendation, the Treasury Department transferred the responsibility for purchasing blank Government card checks to the Office of the Treasurer, effective July 1, 1960. A Treasury Department official stated that this change would eliminate existing duplication, that several days should be saved in processing orders for card checks, and that the estimated over-all savings would amount to about \$11,000 annually.

16. Measures taken to correct procurement procedures--In our report on procurement at the National Institutes of Health, Department of Health, Education, and Welfare, we recommended:

1. Consolidation of requisitions, purchase documents, and payment vouchers to eliminate unnecessary paper work and related costs.
2. Simplification of cash purchase and charge account procedures.
3. Greater use of negotiated contracts for costly equipment from sole sources of supply.
4. Review of direct purchases made under blanket purchase orders, continuing contracts, and cash purchase authority to assure compliance with instructions and limitations.
5. Control of emergency purchase requests received by telephone from personnel not authorized to request regular purchases.
6. More adequate support for payments to vendors.
7. More intensive supervisory review.

Corrective action in all the above instances was taken either at the time of our review or shortly after the issuance of our report in February 1960.

17. Procurement of milk in bulk to provide savings--During our reviews at various Veterans Administration (VA) centers, hospitals, and domiciliaries, we observed that large quantities of milk were being purchased in one-half pint cartons when substantial savings could have been realized if the milk had been purchased in bulk and served through dispensing machines. We recommended that the stations study the advantages of procuring bulk milk versus procurement in half-pint cartons.



## REVIEW OF PROCUREMENT PROCEDURES AND PRACTICES (continued)

The managers of the centers in Kecoughtan, Virginia, and Hot Springs, Arkansas, informed us on December 9, 1959, and May 20, 1960, respectively, that studies indicated that the procurement of bulk milk would result in annual savings of \$2,700 at Kecoughtan and \$1,310 at Hot Springs. We estimated that annual savings of \$1,290 at the Sioux Falls, South Dakota, hospital; \$4,600 at the Tomah, Wisconsin, hospital; \$29,000 at the Bedford, Massachusetts, hospital; and \$2,000 at the Clinton, Iowa, center would be realized if milk were purchased in bulk. Hospitals at Lexington, Kentucky, and North Little Rock, Arkansas, have begun procuring bulk milk and have reported estimated annual savings of \$3,400 and \$19,000, respectively.

18. Uneconomical procurement of potatoes--Peeled potatoes were being purchased at the VA center, Kecoughtan, Virginia, and at the VA hospital, American Lake, Washington, at a cost substantially in excess of the cost of purchasing unpeeled potatoes. We pointed out that the purchase of unpeeled potatoes would result in estimated annual savings at American Lake and Kecoughtan of \$2,300 and \$1,600, respectively.

The manager of the American Lake hospital informed us on August 20, 1959, that the matter would be given further study, and the manager of the Kecoughtan center informed us on December 9, 1959, that the purchase of peeled potatoes had been discontinued.

## REVIEW OF CONTRACT ADMINISTRATION

19. Elimination of commitment to purchase about \$10.5 million worth of unneeded metals at higher than market prices--During our review of a General Services Administration contract for the procurement of metals, we questioned the need for entering into this contract in December 1956 to help expand the Nation's capacity to produce nickel, cobalt, and copper in view of the circumstances then prevailing and impending with respect to the production capacity of the industries.

At the time of our review, we believed that contract operation continued to be unnecessary and we therefore recommended that GSA negotiate a settlement of the contract which would result in curtailing the acquisition of unneeded metals and thus would minimize the Government's expenditures under the contract. On January 7, 1960, GSA negotiated an amendment which eliminated the Government's contractual commitment to purchase about \$10.5 million worth of unneeded metals at higher than market prices. In return, the contractor agreed to accept, in lieu of a cash settlement, payment in the form of surplus nickel metal valued at \$2.5 million.

20. Title to be obtained to certain refinery facilities not deeded to GSA--Although a General Services Administration contract required the contractor to furnish the Government with a deed to all the facilities constituting a certain refinery, some of the facilities costing about \$443,000 were not included in the deed received by the Government. In response to our inquiry, GSA officials informed us in January 1960 that title to the facilities would be obtained by an amendment to the deed or otherwise, and the contractor informed us that it would transfer the facilities to GSA.

21. Procedures established to provide for selection of most advantageous freight option prior to issuance of purchase orders--GSA term contracts covering repetitive purchases of stores items frequently require a choice between an f.o.b. shipping point price and an f.o.b. destination price. Determining freight charges and selecting the most economical delivered price are responsibilities of the regional office placing orders under the contracts. At the GSA Seattle Regional Office, our review of purchases of office furniture under term contracts disclosed 17 instances where purchases were not made at the most favorable prices. Among these purchases were 6 for office furniture for which purchase orders were issued to a contractor in St. Louis, Missouri, specifying delivery on the basis of the f.o.b. shipping point price. If these purchase orders had specified the f.o.b. destination price, transportation charges in excess of \$9,000 could have been saved.

When we brought this matter to the attention of regional officials, they amended three outstanding purchase orders to provide for shipment at the lower f.o.b. destination price and realized

## REVIEW OF CONTRACT ADMINISTRATION (continued)

savings of about \$2,100. The Regional Commissioner later advised us, in October 1959, that procedures had been established to provide for a determination of freight charges prior to the issuance of orders under all contracts offering origin and destination freight options.

22. Improvements to be made in contracting for construction and installation of air navigation facilities--In a report dated September 16, 1959, to the Federal Aviation Agency on our audit of the Fort Worth, Texas, Regional Office, we commented on weaknesses in contracting for the construction and installation of air navigation facilities and on the unrealistic use of stop and change orders granting contractors additional time to complete work which had the effect of permitting contractors to overrun contract periods without being subjected to liquidated damages.

We recommended the adoption of more critical policies regarding the timely completion of contracts, the assessing of liquidated damages, and the issuing of stop and change orders to insure their propriety. The agency informed us that steps were being taken to improve the conditions noted.

23. Controls strengthened over contractor's compliance with terms of contracts for storage and delivery of fuel oil--During the year, we completed a review of the activities of GSA's Washington, D.C., Regional Office relative to the procurement, storage, and delivery of No. 6 fuel oil. These activities involve the issuance of annual contracts with commercial suppliers for the procurement of oil in tanker-load lots for delivery to the facilities of a contractor responsible for the storage of the oil and its subsequent delivery to Federal agencies in the Washington, D.C., metropolitan area and to schools and other institutions of the Government of the District of Columbia.

In our report dated October 6, 1959, covering this review, we commented on several deficiencies which we noted in the administration of these contracts; namely: (1) the failure to determine whether the contractor was complying with the contract requirement to continuously maintain, at the Washington, D.C., terminal, a minimum fuel oil inventory of 1,500,000 gallons, deemed necessary by GSA to provide a supply of oil to meet emergency needs of the Government if the oil supply should be diminished or cut off, (2) the need for more effective control over Government oil, since the contractor had in the past withdrawn and sold commingled oil stored for GSA and others, and (3) other deficiencies involving control over the quality, quantity, pricing, and delivery of the fuel oil. GSA has either taken or agreed to take corrective action on all of the aforementioned deficiencies.

## REVIEW OF CONTRACT ADMINISTRATION (continued)

24. Action to be taken to curb unnecessary processing of agency orders for nonstores items available from Federal Supply Schedule contractors--Our review of regional purchasing practices disclosed that many purchases were made by GSA for nonstores supply items which customer agencies could have purchased directly from Federal Supply Schedule contractors at less over-all cost to the Government. Most of the purchases examined were made for Air Force installations which generally employ their own purchasing officers. While there may be special instances where GSA should order Schedule items for the agencies, we believe that GSA should ordinarily refrain from this practice. In our opinion, the number of such purchases now made by GSA can be reduced, thus reducing paper work and the use of Federal Supply Fund capital.

GSA Central Office officials stated in June 1960 that appropriate steps would be taken to establish uniform practices in this respect. They stated also that they would review the matter of the Air Force orders to determine whether substantial reductions could be made in the number of such purchases.

25. Need for correction of deficiencies in leasing procedures and operations--Our review of the contract relating to the cannery owned by the Government of American Samoa and leased to a private company disclosed that the cannery operator was granted many rights and privileges at the time of lease renegotiation without a review's being made of the financial status of the cannery operations. We also noted that, in the administration of the contract, the Government had not enforced compliance with all lease requirements and other pertinent regulations and the policy of providing employment for American Samoans was not being adequately fulfilled.

In our report issued in April 1960, we recommended to the Secretary of the Interior and the Governor of Samoa that prior to the next lease renegotiation a review of the financial status of the cannery operation be made to determine the extent to which the operation should be subsidized by exemptions from taxes, duties, fees, and other levies. We recommended also that compliance with lease terms, as well as the policy of providing employment for American Samoans, be enforced.

The Department of the Interior informed us that a complete review of the contract was under way and that our recommendations would be taken into account in renegotiating the contract. The Department also stated that, if it was found that violations had been committed, appropriate corrective steps would be taken.



## REVIEW OF CONTRACTORS' ACTIVITIES

26. Changes made to eliminate excessive preventive maintenance--Our review of transportation and maintenance operations of an Atomic Energy Commission contractor disclosed several instances where preventive maintenance on buses and other automotive equipment was excessive. Failure to coordinate new-car, off-plant, and other types of inspections resulted in duplicated work at low mileage intervals. We were informed by AEC on May 15, 1959, that certain changes in the practices for preventive maintenance on buses and other automotive equipment were effected. These changes will result in annual savings of about \$29,200.

27. Deficiencies in timekeeping practices corrected--Our audit of selected activities of an Atomic Energy Commission contractor disclosed instances where time worked was not posted daily, timecards were certified before the end of the pay periods, controls for recording annual leave were inadequate, and the distribution of timecards for the subsequent period was untimely. Also, a significant number of employees arrived late for work and reported their time erroneously. We recommended that the contractor and AEC officials review timekeeping procedures and practices and take measures to correct the deficiencies. The contractor and AEC agreed with our recommendation and informed us on April 13, 1960, that corrective action was being taken.

28. Deficiencies in quality control and recruiting activities corrected--Our review of the quality control activities of an Atomic Energy Commission contractor disclosed a need for (1) revising procedures for the establishment of inspection requirements, (2) revising requirements for the review of vendor welding and manufacturing procedures, and (3) establishing procedures for the evaluation of vendor quality control systems. Our review of the recruiting activities disclosed that (1) procurement of employment and advertising services had not been carried out in accordance with the terms of the contract or with the current procedures of the contractor, (2) payments of employment fees had not been supported by the required formal documents and proper administrative approval, and (3) subcontracts had not been established for recruitment advertising.

Our findings were brought to the attention of responsible officials on July 20, 1959, who informed us on February 3, 1960, that corrective action had been taken.

29. Contractor's policy of issuing cups without charge discontinued--Our review of selected activities of an Atomic Energy Commission contractor disclosed that, at one of its plants, cups utilized in employee-operated coffee-making facilities were furnished to employee groups from stores at Government expense.

As a result of our audit, AEC informed us on October 7, 1959, that the contractor discontinued issuing cups to employees without charge. This action will result in estimated savings to the Government of about \$31,600 annually.

## REVIEW OF WAREHOUSING OF MATERIALS AND SUPPLIES

30. Cost of transporting strategic materials to storage depots reduced--Our review of storage operations for strategic and critical materials, on which we reported to the Congress on December 14, 1959, disclosed that GSA did not always select storage locations which were the closest to the domestic sources or port of import for materials in excess of stockpile requirements. In our opinion, over \$9 million in transportation costs was expended by GSA which could have been deferred or saved had more appropriate storage sites been used. Such action would have been feasible and would not have hindered the objectives of the stockpiling program or the other related programs under which the materials were acquired.

During our review, we brought certain of our findings with respect to specific cases to GSA's attention when we believed that prompt corrective action would result in deferral of expenditures or savings to the Government. The corrective action taken by GSA in these cases will result in deferral of expenditures estimated at approximately \$5.5 million, with the likelihood of actual savings of all or part of this amount.

31. Qualitative maintenance inspections to be more effectively controlled--We found in September 1959 that qualitative maintenance inspections of commodities in storage at depots in the GSA New York region, designed for checking on compliance with storage instructions and on the condition of the commodities, were not made within the time prescribed by the GSA materials inspection manual. GSA regional officials informed us that more effective controls on inspections had since been established.

32. Accounting control for storage supplies to be improved--Control records over storage supplies such as steel drums, wooden pallets, and bags at GSA warehouses in the GSA Chicago region were inadequate and inaccurate. In view of the possibility that other GSA or military warehouses could use these supplies instead of purchasing new items, we recommended to GSA regional officials during fiscal year 1960 that procedures be established for maintaining accurate and current inventory records for these supplies and that periodic reports of excess supplies be submitted by the depots to the regional office to achieve efficient use of these materials. We were subsequently informed by GSA regional officials that such records would be maintained and that items excess to a depot's requirements would be transferred to other depots in the region if practicable.

33. Security measures to be strengthened at stores depots--Our review of the GSA stores warehouse at Franconia, Virginia, disclosed that warehouse employees were permitted unrestricted movement from the building confines to the parking lot and that non-Government personnel had unattended access to certain parts of the warehouse. At the Fort Worth, Texas, stores depot, the warehouse doors opening to railroad trackage and to truck-loading docks were

## REVIEW OF WAREHOUSING OF MATERIALS AND SUPPLIES (continued)

left open and unattended during periods when merchandise was not being received or shipped. Also, warehouse employees were permitted to enter and leave by any door. Regional officials advised us that these conditions would be corrected and that warehouse security would be improved.

34. Security measures to be improved and strengthened--In three of the four depots reviewed by us during fiscal year 1960 in the GSA Chicago region, we noted inadequate or undesirable security practices, such as inadequate lighting of outside storage areas and handling of classified information by employees without proper clearance. We were advised that most of the deficiencies noted by us were later corrected or were being corrected and that depot security programs were receiving close attention and continuous study.

35. Need for more effective consolidation of warehouse shipments--In GSA's New York and Dallas regions, numerous shipments from the stores depot to the same location could have been combined to obtain reduced freight costs. Also, combining shipments would result in the preparation of fewer bills of lading.

We suggested in August 1959 that procedures in the Fort Worth, Texas, depot be revised to provide for greater use of consolidated shipments by establishing shipping cycles, based on the volume of orders from specific locations, shipping routes, or delivery zones, so that orders would be processed and shipment made to specific agencies or geographical areas on established delivery days. The Regional Commissioner at Dallas informed us that action was being held in abeyance pending installation of data processing equipment, which we understand will incorporate certain revisions in procedures for handling and scheduling warehouse shipments.

The Regional Commissioner at New York informed us in January 1960 that, although the order-processing flow at the Belle Mead depot was such that maximum consolidation could not be achieved, the depot was then holding bills of lading for active consignee points so that shipments and bills of lading may be consolidated and that efforts to obtain maximum consolidation would continue.

36. Need to apprise depots of changed storage requirements to preclude unnecessary handling costs--Although both GSA Central Office and regional offices were aware of an impending change in storage requirements for mercury, one depot in the GSA New York region was not notified in time to prevent duplicate rewarehousing of this commodity at an additional cost of about \$1,000. Since inventory operations were still being carried on at this and other depots, we recommended to the Regional Commissioner in September 1959 that, to preclude unnecessary handling costs, storage depots be apprised of any potential changes in storage requirements for commodities scheduled for inventorying or rewarehousing.



## REVIEW OF PROCEDURES FOR ISSUING SUPPLIES AND MATERIALS

37. Instructions issued requiring the periodic review of unfilled requisitions for material--Our review of the field supply activity at the Coast Guard Aircraft Repair and Supply Base (AR&SB) disclosed a large backlog of unfilled aeronautical material requests many of which were so old that it was doubtful whether the original requirements for the material still existed.

We recommended that Coast Guard officials at Headquarters and AR&SB issue instructions requiring originating units to make periodic reviews of unfilled material requests and cancel those not representing current material needs. In October 1959, the Commandant of the Coast Guard informed us that appropriate instructions were issued to carry out this recommendation.

38. Instructions issued to requisition supplies and materials in standard packages--Our review of storage and distribution functions at various Veterans Administration field stations for fiscal years 1957 and 1958 disclosed that many items carried in VA supply depot stock were being issued to hospitals and other field stations in quantities less than that contained in the manufacturer's standard package, case, or other container. These items could have been issued in standard manufacturer's packages at a substantial reduction in handling cost. We recommended to the VA that field stations be required to order in standard package units in order to reduce packaging, handling, and perpetual inventory accounting costs and to minimize the risk of inventory losses caused by opening standard packages.

On April 20, 1960, the VA instructed its field stations to requisition supplies and materials from its supply depots in multiples of original shipping containers whenever possible or in multiples of intermediate packages contained in the original shipping containers if the full original containers are not required.

39. Revised procedures issued to reduce supply issue points--Our review of storage and distribution functions at various Veterans Administration hospitals for fiscal years 1957 and 1958 disclosed that individual supply divisions distributed supplies to an unnecessarily large number of issue points throughout the respective hospitals. Supply issue points had been established primarily for the purpose of obtaining exact costing of supplies to fiscal cost (accounts) centers. The consolidation of issue points and of issues would result in better utilization of manpower and space because there would be fewer requisitions to process and fewer stockrooms to maintain. We recommended to the VA that definite guidelines be prescribed in its operating procedures for the establishment of supply issue points.

During June 1960 the VA issued revised procedures, effective July 1, 1960, which will reduce the number of fiscal cost centers by approximately 30 percent and, correspondingly, should reduce the number of supply issue points significantly.



## REVIEW OF INVENTORY PROCEDURES

40. Instructions issued to put excess repairable material under financial inventory control--The Coast Guard Aircraft Repair and Supply Base (AR&SB) was not maintaining financial accounting control over repairable aeronautical material declared excess. As of July 1, 1958, excess repairable material valued at about \$660,000 was on hand awaiting disposition but was not under financial accounting control. So that a better basis for custodial accountability may be furnished and that all AR&SB excess inventory may be properly included in the accounting records, we recommended that the Coast Guard Comptroller direct AR&SB to retain excess repairable aeronautical material under financial inventory control until final disposition is made. In October 1959, appropriate instructions were issued by the Comptroller for this purpose.

41. Deficiencies in destruction of postage stamp and postal card stock corrected--During our review at the Philadelphia Regional Distributing Office of the Post Office Department, we found that prescribed procedures for destruction of nonsalable postage stamps and postal cards were not being followed. Certain stock was certified as destroyed prior to its destruction. Moreover, accountability for the stock had been removed from the records prior to destruction of the stock. Failure to follow prescribed procedures regarding certification of destruction of nonsalable stamp and other stock reduces the value of the certification for management and internal control purposes. Moreover, removing the stock from accountability records before it is destroyed weakens the internal control and may result in unauthorized or improper use of postage stamps or other items.

We noted that costly methods were used in destroying obsolete postal card stock. About 43 tons of obsolete postal card stock were destroyed by canceling at a cost of about \$45 a ton and by shredding at a cost of about \$30 a ton, when the wastepaper value was about \$3 a ton. We discussed with appropriate officials of the postal region and the Philadelphia post office the possibility of employing a less costly destruction method.

We commented on the matters in a letter to the Regional Operations Director, who informed us in December 1959 that the conditions relating to destruction of postage stamp stock had been corrected and proper procedures were now being followed and that arrangements had been made for destruction of postal card stock without cost.

42. Personal property records improved--The Southern Regional Business Office, Agricultural Research Service, Department of Agriculture, did not have adequate control over the personal property located in the geographical area serviced by it, as evidenced by its (1) failure to reconcile detail personal property records with physical inventories, (2) adjustment of the general ledger control account to agree with the unreconciled personal property records,

## REVIEW OF INVENTORY PROCEDURES (continued)

and (3) failure to record additions to and dispositions of personal property in the detail personal property records. In accordance with our recommendations, agency officials adopted plans to record all property changes in the detail personal property records, reconcile these records with the general ledger control account on a monthly basis, and reconcile them with physical inventories when taken.

43. Control improved over equipment loaned to foreign service personnel--The Foreign Service Institute, Department of State, did not maintain adequate control over certain teaching equipment, particularly tape recorders, loaned to students and staff as language teaching aids. These loans were made without certain required documentation and without a strict follow-up to assure prompt return of the equipment. The Institute advised us in March 1960 of improved controls over such loans, including required approvals; properly signed documents; and limitation of loans to 30 days, with renewals limited to 3 months.

44. Excess property to be disposed of and controls to be established to prevent future accumulations--Our review of the activities of Region 4, Bureau of Commercial Fisheries, Department of the Interior, disclosed that the Bureau had on hand sea lamprey control program generators and office equipment such as typewriters, calculators, and other office machines, which were excess to the needs of the locations reviewed. It was indicated also that the motor vehicle fleet could be reduced by greater use of multiple-purpose vehicles. We recommended in our report issued in June 1960 that the needs of the various locations be carefully evaluated and that excess items be disposed of on a timely basis. We recommended also that particular consideration be given to greater use of multiple-purpose vehicles and that excess vehicles disclosed by this review be disposed of by authorized means.

In reply, the Regional Director informed us that property found to be excess to the Region's needs had been or would be disposed of. He also stated that controls would be established to prevent future accumulations of excess property and that the Region was looking into the possibility of reducing its fleet of motor vehicles by assigning certain vehicles for multiple-purpose use.

45. Excessive precanceled postage stamp stocks disposed of--Our review of certain Regional Distributing Offices of the Post Office Department disclosed that excessive stocks of precanceled postage stamps were being maintained. When substantial excess quantities of stamps are kept on hand, unnecessary costs are incurred in accounting for and storing the stock. We pointed this out to the Regional Operations Directors concerned, and we were later informed that the excess stocks had been destroyed or otherwise disposed of.

## REVIEW OF INVENTORY PROCEDURES (continued)

46. Deficient physical inventory procedures to be corrected-- Our review of the activities of two Regional Distributing Offices of the Post Office Department included observations of physical inventories of postage stamp stock by post office station examiners and reviews of the related workpapers and reports. We noted the following deficiencies regarding the taking of inventories.

1. Contents of sealed containers were not adequately identified in the inventory count.
2. Adequate control of access to the stock of postage stamps and other accountable paper was not maintained by the employees taking the inventories.
3. Slow-moving, obsolete, or unsalable stock on hand was not identified and reported for appropriate disposition.

We reported these deficiencies to the Regional Operations Directors concerned and have been informed that action has been taken to prevent these deficiencies in future inventories.

47. Procedures being revised for review of inventory adjustments-- Significant differences between physical inventory counts and stock record cards were written off the books of the GSA New York Regional Office without determining the reasons for the differences. As a consequence, management could not determine whether further investigation or revision of accounting and physical control procedures was needed.

GSA procedures provide in part that responsible officials may request a Board of Survey review of inventory differences when it is deemed necessary and, further, that a Board review and determination as to cause shall always be required when the loss arising from missing, damaged, or destroyed property is significant in amount or, regardless of amount, if the loss is known or suspected to be due to theft, negligence, or wrongful acts of an employee.

We brought these observations to the attention of the Regional Commissioner in November 1959 and suggested a need for more effective control and review of these adjustments. We have been informed that new procedures are being developed which will provide for automatic Board of Survey reviews of all inventory adjustments in excess of \$500 for each stock item.

48. Procedures to be established to provide accounting control over merchandise returned to contractors-- We noted that the GSA Dallas Regional Office procedures did not afford adequate control over merchandise which was returned to contractors when defects were noted after the material had been accepted by GSA. Although the merchandise was shipped to the contractors, its value was not



## REVIEW OF INVENTORY PROCEDURES (continued)

removed from the inventory account and a record was not established to show the amounts due the Government.

We informed the Regional Director of the Federal Supply Service of the lack of detailed regional procedures necessary to implement the existing GSA Manual instructions for this type of transaction and suggested that regional procedures be established. He stated in July 1959 that corrective action would be taken.

49. Need for simplifying the method of accounting for minor expendable supplies--In our report of June 6, 1960, on audit of the financial transactions and records of the Bureau of Accounts, Treasury Department, we advised the Bureau that the perpetual inventory method of accounting for minor expendable supplies was not warranted because of the relatively small dollar value involved and the amount of time expended in maintaining the inventory records. We recommended that the Bureau adopt a periodic inventory method of accounting for minor supplies because such a method is less costly to operate and is especially suitable for accounting for large quantities of small items of low unit cost.

The Bureau advised us on July 15, 1960, that instructions were being drafted to implement our recommendation on a Bureau-wide basis. In addition, the Treasury Department informed the other Bureaus within that Department of our recommendation and suggested that it be implemented wherever it could be applied.

50. Deficiencies in requisitioning of accountable paper (postage stamp stock) to be corrected--Our review of certain Regional Distributing Offices (RDOs) of the Post Office Department disclosed that in numerous cases repetitive requisitions were submitted for postage stamp stock, requisitions for bulk quantities were submitted to the RDOs instead of to the Department's central suppliers, and numerous orders for slightly less than bulk quantities were submitted to the RDOs.

The Postal Manual provides that (1) post offices should order postage stamp stock at specified intervals and (2) bulk quantities should be ordered from the Department's central suppliers. Deviations from the requirements of the Postal Manual result in additional costs for handling postage stamp stock.

We brought these matters to the attention of the Regional Operations Directors concerned who informed us that they would take appropriate action to comply with applicable Postal Manual provisions and to reduce the costs of handling postage stamp stock.

51. Need to strengthen procedures for evaluating accountable paper stock levels at Post Office Department Regional Distributing Offices--The Post Office Department does not have adequate procedures for evaluating accountable paper stock levels at Regional



## REVIEW OF INVENTORY PROCEDURES (continued)

Distributing Offices. We noted that excessive inventories of some denominations of stamp stock were on hand at the RDOs we visited. The RDOs requisition accountable paper stock direct from Department central suppliers under contracts let by the Department. The stocking of accountable paper in excess of needs results in additional Government funds being tied up in inventory. Moreover, excessive stock on hand at the RDOs requires storage space and personal services for inventorying and accounting.

By letter dated July 14, 1960, the Assistant Postmaster General, Bureau of Finance, agreed that there was a need to strengthen procedures for evaluating accountable paper stock levels at the RDOs and advised us that appropriate action would be taken.

52. Need to strengthen controls over property and supplies--  
In our report on our review of the Department of Corrections, District of Columbia Government, September 1959, we discussed the lack of control over property, materials, supplies, and equipment. The deficiencies in control include the failure to maintain any records for some property, the maintenance of uncontrolled quantity records for other property, the absence of a definite assignment of responsibility for the custody of some property, and the maintenance of records for certain inventories by employees who had been assigned the responsibility for the physical custody of those inventories. The report disclosed that the District frequently purchased items for this Department without determining whether the items were available in other departments of the District. We repeated our recommendation made in a previous report that the Board of Commissioners give consideration to centralizing the management of common-use supplies and equipment in order to coordinate the supply needs of all departments.

## REVIEW OF SURPLUS REAL PROPERTY DISPOSAL ACTIVITIES

53. Negotiations for sale of surplus real property reopened--  
In our investigation, at the request of a Member of the Congress, into negotiations for the proposed sale of a shipyard by the Maritime Administration during fiscal year 1960, we found that the conduct of the negotiations appeared to have been characterized by an atmosphere of forced sale which was not conducive to obtaining the most favorable sales price or to establishing reliable evidence of the fair market value of the shipyard. The Comptroller General advised the agency by letter in January 1960 that its negotiations with a proposed purchaser had not resulted in a contract which was legally enforceable by either party. The agency's attention was called to those administrative aspects of the negotiation proceedings which we believed were not in keeping with sound management practices and should be avoided in future similar transactions. Upon receipt of our letter, the agency reopened negotiations with prospective purchasers and concluded the sale of the shipyard for an amount which was \$579,000 in excess of that previously offered.

## REVIEW OF BUILDINGS MANAGEMENT ACTIVITIES

54. More efficient utilization being made of space in Chicago customhouse--Our review of General Services Administration leasing activities disclosed that since 1954 space assigned to the Bureau of Customs in the United States Customhouse, Chicago, Illinois, included large areas excess to the agency's needs. We recommended in July 1959 to GSA that a survey be made of the utilization of space assigned in the building to the Bureau of Customs and that any space found to be in excess of Customs' needs be made available for reassignment to other Federal agencies. GSA informed us in March 1960 that a survey was made in accordance with our recommendation and that the Treasury Department agreed to rearrange various of its bureaus to make more efficient use of space. This rearrangement resulted in the release of about 24,000 square feet of space assigned to the Bureau of Customs which is now being used to meet the space requirements of the United States Savings Bond Division.

55. Changes made in GSA's standard practices in the management and servicing of buildings--In a decision of May 13, 1959 (38 Comp. Gen. 758), the Administrator of General Services was informed that we would not generally object to the continuance of GSA's practice of performing special service work for agencies on a reimbursable basis without regard to the specific availability of the agencies' appropriations, provided the matter is promptly and fully disclosed to the Congress, but that prompt action should be taken by GSA to revise the standard practices in order to (1) exclude from the reimbursable work category items not qualifying for reimbursement because of the provisions of section 3733, Revised Statutes, relating to public improvements, or of other applicable laws or decisions, and (2) define more specifically the classes of work which may and may not be performed on a reimbursable basis.

On December 2, 1959, GSA issued a statement of revised standard practices in line with our recommendation which was incorporated in GSA's 1961 budget submission to the Congress. The revised practices call for continuance by GSA of performance of special service work for the agencies on a reimbursable basis, but only as set forth in the release of December 2, 1959.

56. Improvement to be made in records showing space available for assignment--Our review of General Services Administration leasing activities disclosed that (1) the space assignment records in several regional offices were not kept on an accurate and current basis and (2) GSA Central Office instructions were incomplete in that there was no requirement for maintaining control records summarizing information on space available for assignment. Inasmuch as the space assignment records are a basis for management decisions on the availability of unassigned space and are used for billing and budgetary purposes, it is desirable that the records

## REVIEW OF BUILDINGS MANAGEMENT ACTIVITIES (continued)

be kept on an accurate and current basis to preclude unnecessary acquisition of additional leased space, erroneous billings to tenant agencies, and incorrect budget and accounting data.

In a report to the Administrator of General Services dated July 22, 1959, we recommended that the Central Office establish procedures requiring the maintenance of summary control records of all vacant space and space considered excess to the needs of occupant agencies, to be kept on a uniform basis in all regional offices. In response to our recommendation, we were informed by GSA in November 1959 that a system of records and a reporting procedure were being established as recommended.

57. Special-use permit to be revoked--Our review of the activities of the United States Fish and Wildlife Service, Department of the Interior, disclosed that agency officials in Region 2 of the Bureau of Sport Fisheries and Wildlife had not taken prompt and aggressive action in the past several years to correct inequities resulting from concession operations' being conducted on a national wildlife refuge beyond the scope contemplated in a special-use permit. The delay in terminating this permit and in negotiating a contract containing a provision for payment of an equitable franchise or rental fee has resulted in a loss of revenue to the Government.

After we had brought this matter to the attention of Fish and Wildlife Service officials, we were advised in September 1959 that the special-use permit would be terminated and that a standard Bureau of Sport Fisheries and Wildlife concession contract would be executed.



## REVIEW OF FOREST MANAGEMENT ACTIVITIES

58. Additional improvements to be made in the administration of certain forest management activities--We made a follow-up audit on the administration of forest activities on the Quinault Indian Reservation, which we previously reported on in April 1957. Although we noted considerable improvement, we concluded that further improvement was necessary in the management and sale of Indian timber. We recommended in our report issued in March 1960 that, in order to provide greater assurance that excessive road allowances will not be granted to timber purchasers, the Commissioner of Indian Affairs require the area director to establish a definite plan for obtaining adequate information on road requirements and costs and on timber volumes. We noted also that, as previously reported, reappraisal computations of timber sales prices under contract were not adequately verified and documented, that a need still existed for a uniform check-list control procedure in the Portland area, and that certain unnecessary recordkeeping should be eliminated.

In reply to our report, the Department of the Interior related a number of steps that were taken to improve these conditions. In regard to road requirements and costs, the Bureau of Indian Affairs made an inspection of the purchaser's cost records and a valuation data analyst was added to the Portland Area Office to analyze contractors' financial and operating statements and to inspect contractors' books of account. Employees were assigned to make an inventory of timber volumes. The Department believes that substantial improvement has been made in documenting appraisals since our 1957 report; however, it agreed that further improvement was needed. The Department advised that check lists would be developed as needed and that consideration was being given to changing the Bureau's procedures so as to eliminate unnecessary recordkeeping.

59. Procedure to be revised to help obtain more accurate timber volume estimates--In a report dated September 24, 1959, we commented on the large differences between the presale estimates of timber volume made by the Forest Service and the volume eventually cut on some sales. Inaccuracies in volume estimates result in inaccurate appraisal allowances for road costs, misleading sales proposals to prospective purchasers, and subsequent problems in sale administration.

One factor responsible for the differences was that cruises (presale examinations to arrive at estimates) were made prior to the time that trees were marked for cutting. The cruiser did not designate the trees he considered in estimating the volume, and the trees subsequently marked for cutting might, because of differences in judgment between the cruiser and the marker, differ from those on which the cruiser based his estimate.

## REVIEW OF FOREST MANAGEMENT ACTIVITIES (continued)

The agency agreed with our recommendation that, wherever practicable, timber be marked and cruised at the same time in order to obtain more accurate volume estimates.

60. Need for solution of right-of-way problems--In our report dated March 15, 1960, on our review of selected activities of the Portland Regional Office of the Forest Service, Department of Agriculture, we stated that lack of rights-of-way to build roads across privately owned lands or to use existing privately owned roads for hauling national forest timber had forced the postponement of planned sales, prevented the attainment of annual allowable cut, and prevented the harvesting of many millions of board feet of overmature and blown-down timber in the Snoqualmie National Forest in the State of Washington. Although in many cases negotiations to obtain rights-of-way had been unsuccessful over a period of years, the Forest Service had made little use of the Government's right of condemnation. Also, in many cases during these years there were long periods of inactivity during which negotiations were not conducted.

We recommended that consideration be given by the Chief, Forest Service, to increased use of condemnation procedures, in accordance with the expressed policy of the Forest Service to condemn when negotiations are unsuccessful. The Forest Service stated that it had been hampered in obtaining rights-of-way across private lands intermingled with national forest lands because there was no provision in law for reciprocal grants.

Pertinent portions of our report were inserted in the Congressional Record during discussions in the Senate on the Federal Highway Act of 1960. In its report on the bill, the Senate Committee on Public Works directed the Department of Agriculture to include in its requests for funds for fiscal years 1962 and 1963 to purchase or condemn roads, a history of past negotiations, their results, and losses in revenues and other values because of lack of access roads. The Committee report stated that condemnation should be vigorously utilized.

## REVIEW OF LEASING POLICIES AND PROCEDURES

61. Improvements made in procedures relating to compliance with Economy Act limitation on rental payments--Our review of General Services Administration leasing activities disclosed deficiencies in the procedures being followed to obtain compliance with section 322 of the Economy Act of June 30, 1932 (40 U.S.C. 278a), which limits annual rentals to be paid by the Government to not more than 15 percent of the fair market value of the leased premises at the date of the lease. The deficiencies consisted of (1) delays by the GSA Dallas Regional Office in making appraisals, leaving the validity of leases in doubt, (2) absence of a procedure for subsequent review of fair market values determined before construction of leased premises, and (3) lack of adequate procedures for valuing lessors' services in determining the "net rent" subject to the limitation.

In reports issued during the fiscal year 1960 to the Administrator of General Services, we recommended that appraisals to determine the fair market value of leased premises be made in a more timely manner and that guidelines and criteria be established to aid in the valuation and identification of lessors' services. GSA has issued revised operating instructions designed to correct the deficiencies disclosed by our reviews.

62. Need to evaluate reasonableness of lease rentals--Our review of the Atomic Energy Commission's San Francisco Operations Office disclosed that AEC approved a 3-year lease agreement between an AEC contractor and the owner of certain leased premises without an adequate confirmation of the reasonableness of the appraised fair market value of the leased premises on which the rental of \$111,000 for the 3-year period was based, or of the independence of the appraiser. The applicable appraisal report did not disclose the basis on which the fair market value of the leased premises was determined. Moreover, the independence of the appraiser is subject to question because he acted as an agent of the AEC contractor in appraising the property and, at the same time, represented the lessor for the purpose of leasing the property to the AEC contractor.

We recommended on May 25, 1960, that, to provide for control over lease transactions of this nature, the operations offices be required to evaluate the reasonableness of the bases for appraised fair market values used in setting lease rentals and to ascertain the independence of the appraisers.

## REVIEW OF CHARGES FOR GOVERNMENT-FURNISHED SERVICES

63. Increased revenue received after revising rates for utility services--Our review of the results of operations and leasing of the industrial facilities at the Crab Orchard National Wildlife Refuge disclosed that expenditures for maintaining the facilities and furnishing utility services to the lessees exceeded the revenues received. We informed the Regional Director, North Central Region, Bureau of Sport Fisheries and Wildlife, Department of the Interior, of this matter in October 1958 and recommended that the rates charged for utility services be increased. The rates for water, sewer, and railroad switching services were increased, resulting in estimated increased revenue in fiscal year 1960 of about \$25,000.

64. Policy on sales of synoptic charts to the public revised--It had been the Weather Bureau's policy to make available to commercial airlines, railroads, industrial concerns, and other private interests, copies of synoptic weather charts and/or related data in exchange for materials used in preparing such charts. On our recommendation, the Bureau ascertained the total costs incurred in preparation of the charts and, effective July 1, 1960, established a schedule of fees to be used in the sale of the charts that provides for the recovery of all costs. It is estimated that annual savings to the Government resulting from this action will amount to \$21,000.

65. Allocations of salary cost to outpatient services to be revised--Our audit at the Public Health Service (PHS) hospital, Memphis, Tennessee, disclosed that salary costs of doctors and nurses were not being appropriately allocated as a cost of providing outpatient medical services. We noted that for a 6-month period ended December 31, 1958, salary costs charged to outpatient medical services were understated approximately \$9,300. PHS advised us in June 1960 that this and other discrepancies were being eliminated as a result of the revision in the cost accounting system instituted at PHS hospitals in July 1959 and by the hospital's periodic revision of the formula used for computing the distribution of costs between inpatient and outpatient services.

66. Action taken to provide for recovery of cost of furnishing utility services--Our review of utility rates charged by the National Park Service, Department of the Interior, disclosed that, at Colonial National Historical Park and Yosemite and Grand Teton National Parks, recorded costs of furnishing utility services to non-Federal users were not being recovered in full.

We were informed by the Department that, pursuant to our recommendation, utility rates and costs had been reviewed and revised to provide for the recovery of recorded costs to the fullest extent possible and that rates would be reviewed not less than every 3 years to determine if any changes should be made.



## REVIEW OF CHARGES FOR GOVERNMENT-FURNISHED SERVICES (continued)

67. Larger part of cost of telephone services rendered to non-Government organizations to be recovered--Non-Government organizations located in the United States Post Office and Courthouse Building, Boston, Massachusetts, were furnished telephone services by GSA without being charged a sufficient amount to recover the cost of rendering the services. The organizations were billed for the direct costs, i.e., telephone company charges; however, no charge was made to recover their pro rata share of the switchboard operating costs. Following our recommendation of July 24, 1959, that an equitable surcharge for switchboard services be made to non-Government users, GSA devised a system of charging such users for the services rendered.

68. Inadequate reimbursement for services rendered to railroad corrected--In a report to the Post Office Department on our review of an agreement between the Department and a railroad for mail-handling services provided to the railroad, we stated that the annual payments provided by the agreement do not adequately reimburse the Department for the cost of the services. The annual payments were established on the basis of a test period which was not representative and recovery of overhead costs was not provided for. Also, we noted that action had not been taken to amend the agreement to obtain reimbursement for increased labor costs resulting from a 10-percent pay increase effective in January 1958.

In September 1959 we were advised that the agreement was amended by negotiation to include pay increases retroactive to January 1958. In reply to our recommendation that the Department establish an appropriate basis for estimating the annual direct labor and overhead costs incurred in providing the services, we were informed in February 1960 that more appropriate test periods had been selected for determining reimbursements to the Department for services performed and that the railroad had agreed to reimburse the Department for certain administrative costs for the operation.

69. Charges for utilities furnished the Veterans Canteen Service increased--At the VA center, Kecoughtan, Virginia, monthly utility charges to the Veterans Canteen Service (VCS) had not been revised, although new equipment requiring electricity, steam, and water had been installed in the VCS kitchen. We recommended that the hospital make a review of current consumption of utilities by the VCS.

The VA manager informed us on December 9, 1959, that, as a result of the subsequent review, the utility rates were increased about \$2,000 annually.

70. Practice of furnishing free telephone service to employees occupying Government quarters discontinued--During the review we completed in October 1959 at Mount Rainier National Park, administered by the National Park Service, Department of the

## REVIEW OF CHARGES FOR GOVERNMENT-FURNISHED SERVICES (continued)

Interior, we found that free telephone service was being furnished to all employees occupying Government quarters in the park. We discussed this matter with the park superintendent who took action to discontinue free service on 18 telephones. Also, we were advised that telephone service at Government expense would be furnished only where absolutely essential for the efficient conduct of official business.

71. Vehicle inspection fees not adequate to recover costs-- In a letter to the Board of Commissioners of the District of Columbia dated March 29, 1960, we pointed out that the costs of the Inspection Section, Department of Motor Vehicles, exceed the fees received for inspection of vehicles and that the nonrecovery of costs is caused primarily by the many reinspections necessary to meet vehicle-operating requirements. We recommended that the Board of Commissioners consider the feasibility of establishing fees for these services which would result in the recovery of inspection costs. The Commissioners informed us that consideration was being given to making additional assessments for reinspections which would assist in recovering all costs and encourage motorists to more properly maintain their vehicles.

72. Firm basis to be established for setting commercial utility service rates--Our current review of selected activities of the Government of American Samoa, Department of the Interior, disclosed that the Government did not have a firm basis for establishing commercial rates for utility services. We had reported a similar deficiency in a prior report. Rate schedules for services, such as water, electricity, and telephone, had not been developed from the actual costs of furnishing these services. The records showed that expenditures for these services exceeded revenues by \$92,215 in fiscal year 1958. However, the accounting records are not maintained in a manner by which all costs relating to such services are charged against them. No cost studies were made on furnishing water, electricity, or telephone services.

We again recommended in April 1960, that, to provide a firm basis for negotiating rates for utility services, the Governor develop commercial rate schedules and other plans for water, electricity, and repair of equipment. We recommended also that accounting records be established and maintained in a manner by which all costs relating to each utility service can be properly accumulated and that this data be used in establishing rates based on actual costs of furnishing the services. The Department informed us that it would take steps to carry out these recommendations.

73. Inconsistencies in pricing of miscellaneous services to be corrected--During our review of selected operations of the Coast and Geodetic Survey, Department of Commerce, in fiscal year 1960, we observed a number of inconsistencies in the pricing of

## REVIEW OF CHARGES FOR GOVERNMENT-FURNISHED SERVICES (continued)

miscellaneous services to the public. As a result, either no charges or varying charges were made for the services. We recommended that the agency issue detailed pricing policies and control procedures establishing uniform fees to be charged for miscellaneous services, for general application throughout its various operating divisions. The agency has informed us that this will be done.

74. Need to establish charges adequate to recover costs of overseas communications services--In a report dated July 12, 1960, to the Administrator, Federal Aviation Agency, we pointed out that the charges to air carriers and other aircraft operators for the transmission of radio messages via the agency's international communications facilities are inadequate to recover the costs of the services provided and that certain types of messages transmitted free should be paid for by the carriers. We pointed out also that, as a result of these deficiencies, the agency is failing to recover at least \$440,000 of costs each year.

We recommended that FAA give consideration to establishing rates and charges for communication services that would be adequate to recover all direct and indirect costs. We recommended also that the charges established be applied to all categories of messages transmitted for carriers which are normally transmitted at their expense in the continental United States.

75. Need for upward adjustments in rates charged employees for housing, utilities, and subsistence on Pacific islands--In a report dated March 22, 1960, to the Federal Aviation Agency, we pointed out that charges to employees on certain Pacific islands for housing, utilities, and subsistence did not meet the requirements of pertinent law and regulations. We estimated that undercharges to these employees may range from \$100,000 to \$150,000 a year.

We recommended that a reexamination be made of the charges with the view of adjusting them to reasonable levels consistent with valid comparative data. We recommended also that a policy be established clearly indicating that the level of the rates should be designed so that an incentive or hidden supplement to the employees' lawful compensation would not be provided.



## REVIEW OF MOTOR VEHICLE ACTIVITIES

76. Surveys to be made to correct deficiencies in utilization of motor vehicles--Our review of the Post Office Department's motor vehicle activities at certain post offices disclosed deficiencies in the utilization of motor vehicles, such as:

1. Inadequate use of vehicles and low vehicle capacity utilization.
2. Inadequate vehicle service schedules.
3. Vehicles possibly in excess of needs.
4. Available vehicles not used to reduce the hiring of vehicles.
5. Inefficient scheduling and utilization of vehicles.

We recommended to the Regional Operations Directors of the postal regions involved that they instruct appropriate regional personnel to survey vehicle utilization with a view toward establishing adequate schedules of service which would reduce vehicle- and driver-hour requirements and provide maximum vehicle-capacity utilization.

We were informed that surveys of vehicle utilization had been started and that deficiencies in vehicle utilization would be corrected. For example, we were informed that, as a result of our findings' being made available to regional personnel during our review at one of the post offices in the Cincinnati Postal Region, corrective action was taken which will result in annual savings of about \$10,000 and that two 3/4-ton vehicles were declared excess to the needs of the post office. By letter dated August 20, 1959, we were informed that a survey of vehicle utilization at the Fort Worth post office had been made and that resultant changes had materially reduced vehicle and driver time in the performance of depot and interstation service at the post office.

77. Management controls over vehicle utilization strengthened--During our review of the acquisition and utilization of passenger motor vehicles by the National Institutes of Health, we noted that NIH did not require that the use of vehicles available for general dispatching be authorized or approved by informed officials. We noted also that, although a dispatcher issued and received the keys to these vehicles, he could not observe (from his office) the actual removal or return of vehicles.

Since the issuance of our report in March 1960, NIH has taken action to overcome these deficiencies in management controls.

78. Prospective utilization to be considered before purchasing new vehicles--We noted that the National Institutes of Health requested a net increase of five in the number of its passenger motor vehicles on October 1, 1958, without adequately considering



## REVIEW OF MOTOR VEHICLE ACTIVITIES (continued)

its needs therefor. In our report dated March 14, 1960, we expressed the belief that, considering the upward trend in the utilization of NIH vehicles, the retention of the five additional vehicles may be justified, but NIH should examine its needs more closely before requesting the purchase of any new vehicles.

By letter dated May 19, 1960, the Director of Administration, Department of Health, Education, and Welfare, informed us that in the future the purchase of vehicles will be carefully matched against prospective utilization.

79. Number of vehicles reduced--At the VA hospitals in Clarksburg, West Virginia, Chillicothe, Ohio, Phoenix, Arizona, Knoxville, Iowa, and Jefferson Barracks, Missouri, we observed that more vehicles were used than were required to meet the needs of the stations. We recommended the disposition of unneeded vehicles. VA officials, during the period July 1959 through January 1960, informed us of the following actions on our recommendations. Officials of the Clarksburg hospital reduced their planned vehicle requirements by one pickup truck. Officials of the Chillicothe hospital were making a reduction in the total number of vehicles, including those for farm and garden maintenance. The Phoenix hospital returned one pickup truck to the General Services Administration motor pool. The Knoxville hospital planned to dispose of one truck and two tractors. The Jefferson Barracks hospital planned to return two vehicles to GSA immediately and stated that more might be released after completion of a study which was being made.

80. Excess automotive repair equipment transferred to another VA station--Automotive repair equipment, valued at \$5,600, at the VA center, Bay Pines, Florida, was excess to station needs but had not been declared excess.

Prior to the establishment of the General Services Administration interagency motor pool on April 3, 1959, the center performed all minor maintenance and repair work on its vehicles. After GSA assumed the maintenance and repair responsibility, the automotive repair equipment was not required in station operations. We recommended that the center dispose of the excess automotive repair equipment.

The manager of the center informed us on September 10, 1959, that all automotive repair equipment excess to station needs was being transferred to another VA station which did not have the services of a GSA motor pool.

81. Instructions issued to reduce repetitive repairs to vehicles--We noted at seven Post Office Department maintenance facilities which we visited that repairs of a similar nature were repeated on the same vehicles within relatively short periods of time and that certain vehicles required numerous road calls to correct mechanical failures. We recommended to the Regional

## REVIEW OF MOTOR VEHICLE ACTIVITIES (continued)

Operations Directors that they instruct postmasters to have appropriate maintenance personnel review and analyze the cause of repetitive repairs. We recommended also that the Regional Vehicle Managers be instructed to give adequate technical guidance and assistance to maintenance personnel to help reduce and keep to a minimum repetitive repair work on vehicles.

We have been advised that regional maintenance personnel have been instructed to take appropriate action to reduce the frequency of road calls and repetitive repairs. Moreover, the Department on March 1, 1959, issued the Motor Vehicle Service handbook which consolidated into one handbook previously issued vehicle maintenance instructions. The procedures should provide for more efficient maintenance practices, if followed.

We recommended also that the Department establish procedures which would disclose and eliminate significant deviations from the Department's vehicle maintenance policies and procedures. We were advised by the Department in a letter dated March 25, 1960, that a method would be installed for evaluating whether its maintenance program is being conducted in accordance with the procedures and standards outlined in the maintenance handbook.

82. Need for motor vehicle utilization standards--During our review of the Post Office Department's motor vehicle activities, we noted a need for providing management at both the headquarters and the regional levels with a sound basis for measuring the over-all efficiency of vehicle use.

For the purpose of reporting vehicle utilization in its cost accounting reports, the Department established a utilization standard for common-use vehicles of 8 hours daily, exclusive of Sundays and holidays. We believe that the 8-hour daily standard is unrealistic because proper consideration was not given to various factors in establishing the standard.

We recommended that the Department establish realistic standards to provide management at both the headquarters and the regional levels with a sound basis for evaluating vehicle use and that procedures be established for determining whether utilization of vehicles is in accordance with the standards.

In a letter dated February 18, 1960, the Department agreed that the 8-hour daily standard is impractical because effective utilization in terms of hours of daily use will vary between installations. The Department also advised us subsequently that (1) under its revised utilization program, vehicle data would be compiled within individual post offices, (2) standards for measuring vehicle utilization would be established at each post office, and (3) an over-all effort would be made to upgrade the effectiveness of the utilization program on both a regional and a national basis.

REVIEW OF MOTOR VEHICLE ACTIVITIES (continued)

In this connection we believe that, in view of the large number of post offices which operate vehicles, it also should be an objective of the Department to develop realistic standards which can be used to measure vehicle utilization on a regional and a national basis.

## REVIEW OF OPERATION OF MOTOR POOLS

83. Administrative control over motor pool expenditures strengthened--Motor pools in GSA's San Francisco region were using an authorization and receipt stamp which was placed on vendors' invoices and signed by one person who was, in effect, certifying that the purchase was proper, confirming that the materials or services were received, and approving the invoices for payment. Authority to sign the stamp was vested in many different persons in the motor pools, including supply clerks and auto equipment repairmen, with no apparent dollar limitation on the amount which could be so approved.

While we are aware that it is not always practicable to maintain a separation of these duties where numerous small purchases are involved, as is often the case in motor pool operations, we believe that all significant charges to motor pool operations should be reviewed and approved for payment by the motor pool chiefs before the invoices are transmitted to the regional comptroller for scheduling and payment.

After we discussed this matter with regional officials, the Chief, Motor Equipment Division, issued a memorandum in July 1959 which provides that motor pool chiefs will review and certify expenditure documents which exceed \$50 before they are paid.

84. Instructions issued to discontinue unauthorized use and careless handling of gasoline credit cards--In GSA's San Francisco and Washington, D.C., regions, we observed a number of deviations from procedures prescribed for the use of United States Government national credit cards. Use of the cards is limited to purchases of gasoline and oil and such services as lubrication; tire and tube repairs; and emergency "road repairs" such as replacement of defective spark plugs, fan belts, windshield wipers, etc.

A motor pool in the San Francisco region was procuring normal maintenance and repair services from local service stations through the unauthorized use of these cards. At the Washington, D.C., motor pool, we reported in March 1960 that credit cards were (1) used for the purchase of normal maintenance and repair services, (2) entrusted to the custody of employees of a commercial service station servicing motor pool vehicles, and (3) retained for vehicles which had been transferred from the motor pool site.

These practices resulted in improper accounting for operating and maintenance expenses and could result in misuse of the cards by persons not authorized to have them. After we discussed these matters with appropriate regional officials, they instructed motor pool employees to discontinue these practices.

85. Vehicle drivers requested to use Government-owned service station facilities--A number of Federal agencies with vehicles assigned to them from the GSA San Francisco and Washington, D.C.,



## REVIEW OF OPERATION OF MOTOR POOLS (continued)

motor pools were purchasing gasoline and oil from privately owned service stations when these purchases could have been conveniently made at lower prices from Government-owned facilities.

After we discussed this matter with regional officials, they requested employees of customer agencies to make maximum use of Government-operated fueling services.

86. Procedures to be established to prevent unnecessary motor vehicle repairs and maintenance--In GSA's Atlanta and San Francisco regions, we reported in January 1960 that unnecessary maintenance and repairs were performed on some vehicles because of the lack of a systematic review of prior repair and maintenance records, which would have prevented such occurrences. A motor vehicle jacket file is maintained for each vehicle and contains evidence of the vehicle usage and upkeep, thus providing one central location for this information. However, GSA regulations do not specifically require the review of the jacket file before repairs or maintenance are authorized in order to determine the nature, extent, and date of prior repairs and maintenance for the purpose of preventing duplicate work. Regional officials at Atlanta and San Francisco stated that local procedures would be established to require review of jacket files before repairs or maintenance are authorized.

We recommended that GSA Central Office officials amend the Motor Pool Operations Handbook to require review of prior repair and maintenance invoices in the vehicle jacket file before current repair or maintenance work is authorized.

87. Procedures to be revised to obtain accurate and comparable cost data for motor pool operations--The law requires the Administrator of General Services to discontinue the operation of any motor pool if during any reasonable period not exceeding 2 successive fiscal years no actual savings are realized. We found that in preparing statements of savings GSA was not including costs financed through appropriations and funds other than the General Supply Fund. In a letter dated May 18, 1960, we pointed out to the GSA Comptroller the desirability of having accurate and comparable cost and operating statements for each motor pool as a basis not only for determining whether savings were being realized in operating the pools but also as a basis for more equitable management reviews and evaluations of performance on a comparable basis.

Also, we questioned whether certain of the costs relating to the operation of motor pools, which were being paid from other appropriations and funds, should not be paid from the General Supply Fund in view of the wording of the law. This would not apply to the cost of improvements to leased premises which cannot be paid from the General Supply Fund.

## REVIEW OF OPERATION OF MOTOR POOLS (continued)

In reply the GSA Comptroller informed us by letter dated August 10, 1960, that procedures were being changed so that the following costs would be paid from the General Supply Fund instead of from other appropriations or funds. The change will result in these costs' being included in the cost statements.

1. Cost of leased space procured or retained specifically for motor pool administration or operation and related costs such as those for custodial services and utilities.
2. A portion of the cost of leased space shared with other occupants and a portion of the related costs such as those for custodial services and utilities in shared space whether the space is leased or Government owned provided the total exceeds \$50 a month for any one pool.

In the same letter the Comptroller stated that, with respect to nonfunded costs, such as the estimated value of space occupied in Government-owned buildings and improvements to leased space charged to GSA appropriations available for that purpose, GSA financial and savings statements reflecting motor pool costs would be footnoted to include this information. We recommended, however, that nonfunded costs be integrated into the accounts and financial statements instead of being shown only by footnote. This would provide a more formal and better control to assure that unfunded costs are considered.

88. Supply inventory accounting procedures to be simplified-- GSA procedures require that a perpetual inventory system be maintained to control supplies and materials in motor pool stockrooms. In four of the six regions covered by our audit, we noted deficiencies and errors in the perpetual inventory records. These records generally were inaccurate and unreliable, and the value of the supplies and materials involved was rather small. In view of these considerations, it appeared to us that the cost of maintaining a perpetual inventory system was not justified by either the results or the anticipated benefits.

We suggested that GSA discontinue the perpetual inventory method of accounting for these items, except for gasoline, oil, and a limited number of other "sensitive" items, and adopt simpler procedures.

In discussions with Central Office officials in December 1959, they stated that they planned regulations to provide simpler procedures and guidelines and limitations for the use of regional employees.

89. Administrative controls recommended to assure that required safety and preventive maintenance inspections are performed--GSA operating procedures require safety and maintenance

## REVIEW OF OPERATION OF MOTOR POOLS (continued)

inspections at 60-day intervals and preventive maintenance inspections at 12-month intervals for each vehicle operating under normal conditions. The purpose of these inspections is to assure that motor pool vehicles are maintained in a safe and dependable operating condition.

Our audits in three regions disclosed that these maintenance inspections were performed at irregular intervals and with varying frequencies and that substantially fewer than the required number of inspections were performed. We noted that in one region the motor pool had failed to implement a preventive maintenance program. Officials in each region informed us that appropriate steps would be taken to perform the required inspections and to keep them current.

We believe that vehicle inspections should be performed at all motor pools on a systematic basis to provide the prescribed protection for the public and for employees using Government vehicles. Since these deficiencies were noted in four of the six regions reviewed, similar deficiencies may exist in motor pools in other regions. Accordingly, after completion of our audits in March 1960, we recommended that GSA Central Office officials initiate a review of vehicle inspection practices in all motor pools to determine the extent to which the pools are adhering to established standards and take appropriate corrective action where inspection programs are not adequate.

90. Need for vehicle rotation policy to increase vehicle utilization--During our reviews, completed in March 1960, we noted that a number of GSA motor pool vehicles in five of the six regions we reviewed were driven substantially fewer miles than the minimum annual utilization standards established by GSA for the vehicles. Low utilization of vehicles may indicate (1) inadequate rotation of vehicles or (2) an excessive number of vehicles on hand, and therefore that unnecessary costs are being incurred.

In view of our findings in the five regions, we believed that similar situations involving low utilization of individual vehicles might exist in motor pools in other regions and that instances of low utilization of vehicles could be materially reduced by the development of a specific vehicle rotation policy. We therefore recommended that Central Office officials review vehicle utilization in all regions to determine the extent and causes of low utilization of individual vehicles. We further recommended that GSA procedures be expended to provide specific instructions and guidelines for implementation of a vehicle rotation policy to increase vehicle utilization.

91. Need for revision of vehicle rental rates--Rental rates for ambulances, buses, and special-purpose vehicles are not proportionate to the costs to the GSA motor pool in Washington, D.C.,

## REVIEW OF OPERATION OF MOTOR POOLS (continued)

for furnishing these vehicles. GSA regulations provide that rental rates will reflect equitably the differentials in the operating cost of various types and classes of vehicles and of different types of vehicle transportation services.

Agencies using ambulances and buses were in effect being subsidized through rates applicable to other classes of vehicles. On the other hand, eight semitrailers, classified as special-purpose vehicles, were assigned at rates which resulted in reimbursements to the General Supply Fund substantially in excess of operating costs for these vehicles.

At the time of our review, rate schedules had been in effect since the pool was established in 1956 and we recommended that rental rates be revised as appropriate. Regional officials later informed us, in April 1960, that proposed rate changes had been submitted to their Central Office for review.



## REVIEW OF ORGANIZATION

92. Unnecessary classified postal station closed--During our review of postal activities, we noted that Station No. 8 of the Lynn, Massachusetts, post office, where only stamps and money orders were sold, was operated in a department store located about 300 yards from the Lynn post office. We believed that the Lynn post office could absorb the business of the station without requiring any additional help. As a result of our recommendation, the station was closed with net annual savings of about \$10,400.

93. District offices consolidated--Our review at the Geological Survey's West Coast Regional Office indicated that savings in administrative costs, without a corresponding loss in operating efficiency, might accrue to the Survey by consolidating the Taft and Bakersfield District Offices in California. Our review showed that consolidation of these two districts would be feasible because the most active oil fields on Government land in these districts would still be within 50 miles of the new district office, regardless of whether it was located at Taft or Bakersfield. Also, consolidation of these two offices should result in savings in rental, salary, and equipment costs.

After we had brought this matter to the attention of the Department of the Interior, the Administrative Assistant Secretary of the Interior advised us in a letter dated August 4, 1959, that the Bakersfield District Office had been abandoned and the work in this area had been assigned to personnel located at Taft.

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

Based on our review, our belief is that a substantially improved operation and immediate financial savings to the Authority would result from adoption of our recommendations that the Division of Agricultural Relations and the Office of Chemical Engineering be placed under a single administrative head, that the administrative functions of the two organizations be combined insofar as possible, and that the Division of Agricultural Relations be moved from its present location in Knoxville, Tennessee, to the site of the production operation at Muscle Shoals, Alabama.

## REVIEW OF ORGANIZATION (continued)

Although the Division of Agricultural Relations has not been moved, the TVA Board of Directors created a new Office of Agricultural and Chemical Development to include the former Office of Chemical Engineering and the Division of Agricultural Relations and, effective September 1, 1960, appointed a manager of the newly created office with administrative offices at Muscle Shoals, Alabama.

## REVIEW OF BUDGETING

95. Budget procedures strengthened--The amended budget estimate submitted by the Maritime Administration to the Bureau of the Budget in May 1958 for the fiscal year 1959 contained a request for funds for certain major repairs to facilities at the United States Merchant Marine Academy which had already been completed with previously appropriated funds. Other major repair projects were reported in the budget estimate as completed, although no work had been done on such projects. Changes in the repair program were often made by Academy officials on the basis of verbal approvals from the agency's budget office. We were unable to find any documentation of these approvals in the records of the budget office, although the office readily agreed that the approvals had been given. The failure to document the approvals may have contributed to the errors.

In our January 1960 report to the agency on the audit of the Academy, we recommended that budgeting procedures in Washington be strengthened to provide greater assurance of current and accurate information concerning the status of the Academy's major repair program. We suggested that an important step in accomplishing this goal would be to require that approvals for deviations from the budgeted program be made in writing in advance of such deviations. The agency has put this recommendation into practice, thereby improving the accuracy of budget data relating to past performance and planned programs.

96. Budgetary controls and budget estimates to be improved--During our previous review of selected activities of the Government of American Samoa, Department of the Interior, we found that the Government did not consider itself bound to follow the program presented in justifications to the Congress for grant-in-aid appropriations. Revenues received in excess of estimates were allotted by the Governor without approval from higher authority. We recommended that the Governor adhere to the budget justifications considered by the Congress in support of the amount appropriated when allotting and expending funds and that approval be obtained from the Secretary of the Interior for significant deviations. The Secretary of the Interior issued instructions on April 6, 1956, which embodied these recommendations.

Our current review showed that the Government continued its practice of deviating from budget justifications submitted to the Congress in allotting and expending grant funds and local revenues. Expenditures on 49 projects for fiscal years 1954 through 1958 exceeded the amount justified for these projects by about \$534,000, an increase of about 138 percent. Also, the estimated local revenues reported in budget justifications for the past 5 years were underestimated in amounts ranging from \$124,970 to \$292,903 each year.

## REVIEW OF BUDGETING (continued)

So that the programs approved by the Congress may be carried out, we recommended in April 1960 that the Secretary of the Interior (1) obtain compliance with Department instructions through inspections and reviews by his staff and (2) report all significant deviations from budget justifications considered by the Congress to the appropriate congressional committees. So that the Congress may be assisted in determining the amount of funds to be appropriated, we recommended also that the Government's budget justifications clearly and accurately show the estimated amounts needed to conduct all the activities and the amount to be met from local revenues and their sources.

We were informed by the Department that steps would be taken to compel strict adherence to the budget justifications considered by the Congress and to assure that additional local revenues will be expended only upon approval of appropriate higher authority. We were informed also that future budget presentations would include all Government activities.



## REVIEW OF FINANCING

97. Recommendation adopted to review interest rate paid by commercial banks on funds of the Postal Savings System--In our report on audit of the Postal Savings System for fiscal years 1956 and 1957, we commented that the 2-1/2 percent interest rate paid by commercial banks on time deposits of the Postal Savings System had remained unchanged although interest rates on time deposits in banks generally had increased in recent years. We recommended that the Board of Trustees of the Postal Savings System from time to time (1) review interest rates paid by banks on time deposits of the Postal Savings System and compare them with rates paid other time depositors and (2) determine the need for adjusting rates to be paid on deposits of the System.

Effective August 1, 1959, the Board of Trustees amended the regulations to require that each 6-months' interest be credited at the rate of 3 percent per annum. We estimate that additional interest of about \$98,000 was earned on time deposits of the System in the year ended July 31, 1960.

98. Need for Government of American Samoa to correct deficiencies in assessing and collecting revenues--Our reviews disclosed that the Government of American Samoa was not collecting revenues from all the sources authorized by the Code of American Samoa. These sources of revenues consist of (1) real property taxes, (2) taxes on leases, (3) poll taxes, (4) business licenses and taxes, and (5) penalties for failure to file tax returns on due dates. Our reviews disclosed also that the Government of American Samoa has not adequately resolved whether duties on certain imported and exported materials and products are collectible and may be losing some revenues because of inadequate collection procedures. We recommended that the Secretary of the Interior and the Governor of American Samoa establish adequate revenue policies and procedures, assess and collect all revenues which are due under the provisions of the Code of American Samoa, and explore the possibilities of collecting specific import and export duties.

The Department advised us that steps would be taken to implement the recommendations as to establishing adequate collection policies and procedures and assessing and collecting revenues due and that legal questions in connection with the application of certain import and export duties were being studied.

99. Recommendation for increasing interest earned on foreign currency deposits--Our report of June 1960 on Embassy operations in Germany, Italy, and the United Kingdom showed that United States-owned foreign currencies on deposit in these countries were not earning interest at the best possible rate, and that interest earnings could be increased by transferring funds from non-interest-bearing or low-interest-bearing bank accounts. After we brought this condition to the attention of the Embassy in London,

## REVIEW OF FINANCING (continued)

and after the Department's internal audit staff made similar observations and recommendations, sterling funds equivalent to \$16.5 million were transferred to interest-bearing accounts with American banks in the United Kingdom with resultant interest earnings of over \$166,000 during the succeeding 6-month period. We were informed that possible changes in German bank accounts were being considered jointly by the Departments of State and the Treasury, but that broad foreign policy considerations did not permit changes in Italian lira deposits. Based on our observations in the three countries, we recommended that the State and Treasury Departments make periodic reviews in all countries where the United States Government maintains substantial amounts of foreign currencies on deposit with a view to obtaining the maximum amount of interest on such funds.

## REVIEW OF ADMINISTRATIVE OPERATIONS

100. Administrative practices strengthened--During our review of the administrative operations at the Atomic Energy Commission's Pittsburgh Naval Reactors Operations Office, we noted that (1) time and attendance records were not maintained properly, (2) travel authorizations were issued without administrative approval, and (3) certain inventory records were being maintained unnecessarily. AEC advised us that action was taken which would correct these deficiencies and strengthen the related administrative practices.

## REVIEW OF THE OPERATION AND ADMINISTRATION OF PUBLIC ADVISORY COMMITTEES

101. Suggestions made for improving the administration of advisory committee activities--Our review of the operation and administration of public advisory committees of the Department of Agriculture disclosed that (1) an effective system of reviewing and reporting on committee activities had not been developed at either the departmental or the agency level and (2) minutes of advisory committee meetings prepared in accordance with the Department's regulations, although consistent with the standards established for the executive branch of the Government, did not, in our opinion, provide sufficient information to enable the Department to subsequently consider and evaluate the advice obtained from the committees.

We recommended that the departmental committee management officer require periodic, objective reviews of committee activities and the functions performed by agency committee management officers. We also suggested that the minutes of meetings could be made more useful as an aid to management by including a more comprehensive coverage of the discussions that take place, without resorting to verbatim transcripts.

The Department agreed that agency committee management officers should consult periodically with those persons in the Department utilizing advisory committees to determine the value of the advice furnished and the necessity for the continuation, change, or termination of the committee. Also, the Department stated that, in those agencies having internal audit staffs, it should be a continuing internal audit function to review committee actions to determine compliance with regulations and procedures, including the functions of the agency committee management officers. The Department stated that action to implement this position would be taken.

Contrary to our view, the Department does not regard the preservation of committee deliberations as necessary for the general purpose of aiding the Department in program administration because it believes that (1) officials who need the viewpoints of a committee attend the meetings or have access to firsthand reports from

**REVIEW OF THE OPERATION AND ADMINISTRATION**  
**OF PUBLIC ADVISORY COMMITTEES (continued)**

those who do and (2) the officials who make determinations on matters concerning which the committee is advising them are already well acquainted with the subject matter and the possible varying positions on the issues involved and are interested in the general consensus of the committee's views rather than commentaries supporting minority viewpoints.



## REVIEW OF OPERATING PROCEDURES

102. Special handling of semidomestic money orders eliminated--In reviewing operations performed at the Post Office Department Money Order Center, we noted that the special treatment given to semidomestic money orders paid in Hawaii needlessly increased the Center's workload. We called this matter to the attention of Department officials and were advised in December 1959 that action had been taken to handle these money orders in a manner consistent with the handling of other orders.

103. Various deficiencies in fiscal, supply, and administrative functions to be corrected--Our reviews during fiscal years 1959 and 1960 in four Coast Guard districts and at the Coast Guard Yard disclosed various deficiencies in the fiscal, supply, and administrative activities at these locations. Some of the more important findings were:

Uneconomical procurement of food.

Need to adjust labor force to a level commensurate with industrial workload.

Contract bid invitations not circularized sufficiently.

Need to reevaluate requirements for use of premium-grade gasoline.

Weaknesses in vehicle maintenance program.

Need to improve internal controls and procedures relating to various aspects of civilian and military payroll disbursements, accounting practices, and other related activities.

Delays in procuring material for repairing boats.

Need to strengthen inventory controls, records, and practices.

Weakness in cash collection controls.

Noncompliance with Interagency Motor Pool regulations and terminations.

These deficiencies were discussed with local Coast Guard officials, and, in most instances, appropriate corrective action was either taken or promised.

104. More efficient processing of requisitions for accountable paper to be provided--At the Philadelphia Regional Distributing Office the procedures used for analyzing and filling requisitions from post offices in the Philadelphia postal region were cumbersome and preparation of certain statistical data was duplicated by various units of the Philadelphia postal regional office. We

## REVIEW OF OPERATING PROCEDURES (continued)

discussed these matters with appropriate officials of the regional office and with the Regional Operations Director and also pointed out the possibility of mechanizing certain RDO activities. Later, we were informed that certain duplication of work had been eliminated and a proposed system incorporating the mechanical processing of requisitions for accountable paper was under consideration.

105. Improvements to be made in settling claims--In our audit report of May 26, 1960, to the Treasurer of the United States on review of selected activities of the Check Claims Division, Office of the Treasurer of the United States, we commented on the need for improved procedures and more prompt handling of check claims. Delays in handling check claims were attributable principally to a lack of complete and up-to-date written procedures for the guidance of personnel. During our review, the Administrative Office, Office of the Treasurer of the United States, began a survey of the activities of the Check Claims Division for the purpose of improving procedures for processing and settling check claims.

106. Handbook procedures to be revised--Written procedures applicable to certain Money Order Center operations had not been prepared or were obsolete. We recommended to the Post Office Department's Bureau of Finance that written procedures setting forth the approved method of handling specific activities of the Center be included in the Money Order Center Handbook and that the handbook be revised on a timely basis to incorporate authorized procedural changes. The Assistant Postmaster General, Bureau of Finance, informed us in a letter dated December 16, 1959, that these matters had received attention or would be corrected.

107. Need to improve organization and operations of regional distributing office activities in the Post Office Department--Our review, completed during the fiscal year 1960, disclosed certain inadequacies in the organization and operations of Regional Distributing Office (RDO) activities of the Post Office Department. There is a need for (1) adequately defining the functions and responsibilities of, and the authorities for, the RDO activities, (2) written operating procedures, (3) efficient processing of requisitions for accountable paper, and (4) manpower and work performance guides.

So that managerial means for the efficient and orderly conduct of RDO activities may be provided, we recommended (1) that the functions and responsibilities of, and the authorities for, the RDO activities be defined, described, and manualized, including methods for determining whether material deviations from Department instructions exist and (2) that manpower and work performance guides be established. We recommended also that the Department consider the use of electrical accounting machines in the regional controller offices for RDO activities and related managerial purposes.

## REVIEW OF OPERATING PROCEDURES (continued)

On July 14, 1960, the Assistant Postmaster General, Bureau of Finance, informed us that (1) a handbook which would provide for improved operating procedures and controls of RDO activities was being issued and (2) a system of punched card requisitions was being studied.

108. Need for written procedural manuals--In our report on review of the Department of Corrections, District of Columbia Government, September 1959, we pointed out that many operating procedures had not been reduced to writing in manual form. We recommended that the Department of Corrections prepare and issue a manual of operating procedures for the guidance of operating personnel and that new or revised manual material be distributed in a manner that will serve to maintain the manual on a current basis. We have been informed that officials of the Department of Corrections are preparing such a manual.

109. Cost of shipping postage stamps could be reduced--Regional Distributing Office shipping costs could be reduced if the Post Office Department requirement for shipment by registered mail of postage stamps with a sales value of more than \$100 were revised upward. We noted in our review completed during the fiscal year 1960 that the losses through postage stamp shipments by registered or regular mail were small in number and sales value. The Department reported for fiscal year 1959 that the average cost for free registry service was about 79 cents a piece, compared with about 4 cents a piece for regular first-class service.

We believe that the relatively small amount of the losses on postage stamp shipments and the difference in costs between registry and regular mail service warrant consideration of an upward revision of the requirement that postage stamp shipments with a value of more than \$100 be shipped by registered mail. We recommended that the value of shipments of postage stamps requiring registration be revised upward and that the amount of the upward revision be based on a study, giving due consideration to probable losses resulting from shipping postage stamps by regular mail.

By letter of July 14, 1960, the Assistant Postmaster General, Bureau of Finance, informed us that he concurred in our recommendation and that a survey would be made.

110. Need to strengthen controls over paid money orders--Our report on our review of the Post Office Department's Money Order Center, Kansas City, Missouri, issued in February 1960, included comments on the need for strengthening physical and accounting controls exercised over paid money orders at the Money Order Center and a recommendation that the Department consider substantially revising or replacing the system with one that will provide adequate physical and accounting safeguards over paid money orders. In this

**REVIEW OF OPERATING PROCEDURES (continued)**

regard, we recommended also that the Department study the feasibility and economy of joint use of Treasury Department electronic data processing facilities.

The Department informed us in December 1959 that consideration had been given to problems concerning physical and accounting controls over paid money orders, agreed that reconsideration of a change in the Money Order Center's system was justified, and stated that such a study would be undertaken.



## REVIEW OF OPERATING ACTIVITIES

111. Unwarranted investigations to determine disposition of imported chemically treated (poison) seed wheat discontinued--The Bureau of Customs, Treasury Department, was making investigations to determine whether any of the chemically treated (poison) seed wheat imported into the United States from Canada--principally in the area between the Great Lakes and the Rocky Mountains--was being used in the manufacture of products for human consumption.

Inasmuch as there is little likelihood of financial advantage in using imported treated wheat for food purposes, and considering that treated wheat is readily identifiable through its dyed color, it was our opinion that continued investigations were unwarranted. We therefore recommended to the Commissioner of Customs that these investigations, the cost of which we believe to be substantial, be discontinued.

The Commissioner of Customs informed us that he agreed with our recommendation, and appropriate instructions were issued on June 8, 1960, to discontinue the investigations.

112. Operation of nurses' nonhousekeeping quarters discontinued--The continued operation of the nurses' nonhousekeeping quarters at the VA center, Bay Pines, Florida, was not justified because of the low occupancy and the excessive operating cost of the quarters. At the date of our review, only 27 percent of the quarters were occupied and the average occupancy for the past 2-1/2 years had been less than 50 percent. The center was not in an isolated area, and there were private apartments and housing facilities available nearby. We estimated that, if the quarters were closed, annual savings of about \$5,700 would result.

Center officials agreed that continued operation of the quarters was no longer justified, and instructions were issued to discontinue their operation effective July 1, 1959.

113. Provisions made to strengthen inspections of concession operations--Personnel responsible for concessions management activities at Yellowstone National Park, administered by the National Park Service, Department of the Interior, had not made systematic inspections of concessionaires' operations or maintained appropriate records of the inspections which were made. In response to the recommendations contained in our report, the Department informed us in January 1960 that special attention had been given to securing additional personnel and establishing a procedure that would provide a suitable basis for evaluating the concession operations.

114. Need for study of aeronautical material repair program--The Coast Guard Aircraft Repair and Supply Base (AR&SB) did not have a planned or scheduled program for the repair of aviation and airborne electronics parts and equipment, generally referred to as

## REVIEW OF OPERATING ACTIVITIES (continued)

aeronautical material. As a result, there was a large backlog of inventory repair work and, in some instances, new material was purchased when like items of repairable material were in stock. At June 30, 1958, the recorded value of inventory awaiting repair amounted to \$3,521,000 and represented about 30 percent of the total aeronautical inventory recorded at AR&SB.

The Commandant of the Coast Guard stated that, because of a lack of funds, items were repaired only when a demand occurred or could be foreseen and material was not available in the regular aeronautical inventory. He agreed, however, that new material should not be purchased when similar repairable items were available and could be repaired without undue delay.

We concurred that repairable aeronautical material should not be repaired if there was no foreseeable future need for it and that the lack of funds may have precluded the acceleration of material repair work. It was our view, however, that a study of the material repair activity should be made. In our report issued in December 1959, we recommended that the Commanding Officer, AR&SB, make a critical study of the matter, giving consideration to such factors as (1) future needs for repairable material, (2) relative cost and timeliness of repair work performed by AR&SB, the Department of the Navy, and commercial firms, (3) feasibility of expanding the material repair capacity of AR&SB, and (4) possible advantages of scheduling a specific portion of AR&SB productive effort to accomplish the orderly repair of aeronautical material needed for inventory. In February 1960, the Commandant of the Coast Guard informed the Chairman, Foreign Operations and Monetary Affairs Subcommittee of the House Committee on Government Operations, that action had been taken to meet all our report recommendations concerning supply activities and that a follow-up had revealed that the recommended improvements would be obtained.

## REVIEW OF PRODUCTION PLANNING AND CONTROL

115. Instructions issued to require submission of advance information on condition of aircraft scheduled for overhaul and repair--The Coast Guard Aircraft Repair and Supply Base (AR&SB) was not receiving advance planning information on unusual work requirements or conditions affecting the scheduled overhaul and repair of aircraft.

We discussed the lack of planning information with the Commanding Officer, AR&SB, who informed Coast Guard Headquarters that advance information on aircraft scheduled for overhaul would be of material value to AR&SB in connection with overhaul work planning and requested that pertinent instructions be issued to field units. As a result, Coast Guard Headquarters issued a directive requiring field units to submit such information to AR&SB. The Commandant of the Coast Guard informed the Chairman, Foreign Operations and Monetary Affairs Subcommittee of the House Committee on Government Operations, in February 1960 that the issuance of the instruction had resulted in appreciable improvement in estimating overhaul workload and costs.

116. Recommendation for more aggressive review and evaluation of aircraft overhaul and repair activity to be implemented on a test basis--Wide deviations between estimated and actual labor hours spent on aircraft overhaul and repair projects at the Coast Guard Aircraft Repair and Supply Base were not regularly reviewed and evaluated by management. The system of estimating and recording labor hours did not provide the necessary information for management to determine whether the labor hour deviations were reasonable or whether they were the result of inefficiencies in the overhaul and repair shops requiring management action.

We recommended that the Commanding Officer, AR&SB, establish a program that would provide for (1) meaningful production work standards in the various shops, (2) preparation of detailed cost and man-hour estimates by shop for each aircraft overhaul project, (3) a system of accurate recording of actual performance by shop for each aircraft overhaul project, (4) comparison of planned costs and manpower with actual shop performance to determine deviations and their causes, and (5) timely reporting of the deviations and their causes to management for analysis and any necessary corrective action. In October 1959, the Commandant of the Coast Guard agreed that our recommendation had merit and stated that it would be implemented on a limited basis and that the results would be studied.

117. Written inspection reports to be prepared on a trial basis--The inspection unit at the Coast Guard Aircraft Repair and Supply Base was not required to prepare reports on the extent and nature of unsatisfactory work in the overhaul and repair shops.

## REVIEW OF PRODUCTION PLANNING AND CONTROL (continued)

We recommended that the Commanding Officer, AR&SB, establish a procedure requiring inspectors to submit reports showing the nature and extent of unsatisfactory shop work and an estimate of the cost of required rework. In October 1959, the Commandant of the Coast Guard agreed that written inspection reports could be of value to management and stated that inspection reports would be required during a trial period after which the results could be appraised and appropriate procedures established.



## REVIEW OF ACCOUNTING PROCEDURES

118. Reimbursement obtained for administrative costs of settling war damage claims against Italy--The Embassy in Rome had paid certain administrative costs of settling war damage claims against Italy from regular appropriated funds although special funds had been made available for that purpose by the Italian Government. We recommended that an appropriate transfer of about \$20,000 be made to the United States Treasury for deposit as miscellaneous receipts. The Department of State informed us that this transfer would be made in August 1960.

119. Procedures changed to avoid overcharges for equipment and supplies used on reimbursable projects--The Weather Bureau's practice of pricing equipment and supplies used on reimbursable projects for other agencies and foreign governments from price lists maintained by its Instrumental Engineering Division, rather than from the official cost records of its Administrative Operations Division, resulted in overcharges of about \$12,900 during fiscal year 1960. Amounts received in excess of the actual cost of equipment and supplies were credited to the Bureau's salaries and expenses appropriation for 1960. The Bureau has transferred to miscellaneous receipts of the Treasury the amount of \$12,900 recovered in excess of cost. In the future, equipment and supplies used on reimbursable projects are to be priced from the official accounting records maintained by the Administrative Operations Division.

120. Return to General Fund of miscellaneous receipts improperly credited to appropriations--Certain receipts arising from sales to the public--receipts the Coast and Geodetic Survey, Department of Commerce, credited as reimbursements to its salaries and expenses appropriation for 1959--should have been returned to the Treasury as miscellaneous receipts. We recommended that the stated policies of the agency be clarified in this respect. The agency revised its policies and procedures to provide for proper classification and disposition of miscellaneous receipts and, in December 1959, transferred \$13,267 from its salaries and expenses appropriation for fiscal year 1959 to the General Fund of the Treasury.

121. Procedures revised to correct accounting inconsistencies--Our review of Corps of Engineers' accounting procedures at district offices disclosed inconsistencies in the methods used (1) to compute interest on the Federal investment in hydroelectric power, (2) to determine the cutoff dates of project construction and the commencement dates of operating periods, (3) to correlate accounting records and project cost allocations, and (4) to capitalize preauthorization study costs. We recommended that the Chief of Engineers issue clarifying instructions to remove these inconsistencies.

## REVIEW OF ACCOUNTING PROCEDURES (continued)

On June 22, 1960, the Corps of Engineers issued revisions to its manual to provide clearer instructions for interest computations and for determination of the cutoff dates of project construction and the commencement dates of operating periods. In our audit for the fiscal year 1960, we noted that the Corps' district offices had correlated, or were in the process of correlating, accounting records and project cost allocations. As to the fourth point, the Corps stated that further instructions would be issued to the district office to clarify misunderstandings which had led to the inconsistencies in capitalizing preauthorization study costs.

122. Erroneous procedure for recording obligations corrected-- The amount of obligations recorded at June 30, 1959, for the Weather Bureau's salaries and expenses appropriation for 1959 was overstated by about \$34,800. This overstatement resulted from the Bureau's practice of using the date of the purchase requisition as the controlling date for recording an obligation rather than the date the purchase order was issued. The Bureau agreed to adjust the overstatement and to correct its procedures to preclude recurrence of this type of error in recording obligations.

123. Reconciliations to be made of general ledger accounts for postage- and non-postage-stamp accountability with postmaster's statements of account-- Our review of the Chicago Regional Distributing Office of the Post Office Department disclosed substantial differences between the general ledger accounts controlling the monetary sales value accountability of postage- and non-postage-stamp stock and the related balances reported for this stock on the Chicago postmaster's statements of account and on the perpetual inventory records. As far as we could determine, the balances on the statements of account had not been reconciled with the general ledger control accounts since they were established. Failure to follow established reconciliation procedures weakens the internal control over stamp stock activities.

We recommended that applicable general ledger accounts be reconciled periodically with the postmasters' statements of account. We were advised in August 1959 that reconciliation of all appropriate accounts was in progress.

124. Action taken to correct improper retention of working capital funds-- In our September 1959 report to the Board of Commissioners of the District of Columbia, we pointed out that a portion of the profits of the Industries Division, Department of Corrections, had been improperly retained in the working fund because the profits had not been determined in accordance with the statute establishing the fund. We recommended that the District revise its accounting procedures to conform with the requirements of the act. The accounting procedures have been changed to provide for transferring profits to the general fund of the District as required.

## REVIEW OF ACCOUNTING PROCEDURES (continued)

125. Instructions issued to correct deficiencies in control over imprest funds--Our examination at the GSA San Francisco Regional Office disclosed that a number of imprest funds were not reimbursed at least once a month as suggested by governing regulations and that the authorized amounts of certain funds were in excess of needs. The Regional Comptroller informed us that, in accordance with our recommendations of October 15, 1959, instructions would be issued to reimburse imprest funds monthly and to adjust and limit the funds to the amounts necessary to carry out their purpose.

126. Changes to be made to reduce paperwork--Our tests disclosed that the Southern Regional Business Office, Agricultural Research Service, Department of Agriculture, often issued checks for individual invoices instead of paying bills monthly. In one case, 22 checks were issued during a 3-month period, in payment of 29 invoices from 1 vendor. Agency officials concurred in our conclusion that this was uneconomical and agreed to pay monthly for purchases made under blanket purchase orders.

127. Action taken to reduce the amount of discounts lost--Our review disclosed that the GSA Seattle Regional Office lost cash discounts amounting to about \$19,700, or 13 percent of the total discounts available during fiscal year 1959. The loss of discounts continued at the rate of about \$2,800 a month for the first 3 months of fiscal year 1960.

In September 1959, we brought this matter to the attention of regional officials who attributed the loss of discounts to a backlog of unpaid invoices, increased workload, personnel turnover, and the installation of electrical accounting machines in May 1958. The Regional Comptroller later informed us that he had taken steps to expedite the processing of invoices to reduce the amount of discounts lost.

128. Handling charges for military mail to be recovered from the military departments--In our report issued during the fiscal year 1960 on our review of the International Accounts Branch, Bureau of Finance, Post Office Department, we pointed out that amounts paid by the Department to the British Postal Administration for handling United States military mail were not being recovered from the military departments. We recommended that the Deputy Postmaster General take the necessary action to negotiate with the Department of Defense to obtain reimbursement for amounts paid for handling military mail that are properly chargeable to the military departments.

On April 7, 1960, we were informed that the Post Office Department and the Department of Defense had under consideration the possible revision of settlements for these services.



## REVIEW OF ACCOUNTING PROCEDURES (continued)

129. Procedures to be corrected to avoid material overstatement of net income--Our audit of the Alaska Railroad, Department of the Interior, disclosed significant accounting deficiencies that materially distorted operating accounts and financial statements. As stated in our report of March 11, 1960, these deficiencies resulted primarily from the Railroad's use of inadequate depreciation rates and delays in commencing charges to operations for depreciation on certain new fixed assets put into use and from improper accounting treatment of losses on retirement of nondepreciable property, retroactive wage adjustments, and provision for employees' annual leave. Had these matters been properly treated, the Railroad would not have reported net income from operations for the fiscal years 1959 and 1958 of \$343,800 and \$109,000, respectively, but would have reported net deficits of \$841,800 and \$965,800, respectively.

While not agreeing in all respects with the recommendations we made to correct these deficiencies, the Department informed us that certain corrective measures would be taken.

130. Deficiencies in accounting procedures of the Buildings Management Fund to be corrected--Our examination of the accounting records of the Buildings Management Fund, General Services Administration, New York Regional Office, disclosed the following deficiencies.

1. The inventory at June 30, 1959, was overstated because of delays in transmitting stockroom invoices for the issuance of uniforms to the accounting division.
2. The coal inventory at June 30, 1959, was overstated because issues from inventory were recorded at prices that did not always include freight and demurrage charges.
3. Operating equipment shown on detailed property records could not be related to the specific equipment because of an absence of identification markings, and the records failed to show certain equipment on hand.
4. At operating sites away from the main storeroom location, there was a lack of memorandum control records or other accountability over the supply items stored at the using points.
5. Several accounts were understated or overstated at June 30, 1959, because of delays by operating personnel in furnishing the Regional Comptroller with pertinent data needed to properly close the books.

The Acting Regional Commissioner informed us in March 1960 that appropriate action would be taken to correct the procedures to provide for proper reporting of future transactions.



## REVIEW OF ACCOUNTING PROCEDURES (continued)

131. Deficiencies in accounting for money orders to be corrected--During our audit of Post Office Department Money Order Center accounts, we noted that (1) some procedures for recording money order transactions were unnecessary and incorrect, (2) several general ledger account titles did not accurately state the nature of the account balances and some account descriptions did not cover all types of transactions recorded in the accounts, (3) the Center was unable to reconcile the balances in certain general ledger accounts with amounts shown by supporting detailed records, and (4) amounts were not transferred properly from general ledger accounts.

Before the completion of our review, we noted that action was being initiated to enable the Center to reconcile the general ledger account balances and to correct the improper transfer of amounts from accounts.

We recommended to the Department's Bureau of Finance that the Money Order Center Handbook be appropriately revised to provide for the proper recording of money order transactions in the Center's accounts and that the titles and descriptions of the Center's money order accounts contained in Fiscal Handbook Series F-8 be reviewed and appropriately revised. The Assistant Postmaster General, Bureau of Finance, informed us in a letter dated December 16, 1959, that these matters had received attention or would be corrected.

132. Need for more adequate financial data and cost information--During our examination of the operations of the Foreign Service Institute, Department of State, we found that the financial data maintained by the Institute have not been adequate for the purpose of presenting accurate and complete cost information and that the Institute's financial reporting and annual budget presentations to the Congress did not fully disclose training operations and costs.

A cost distribution system which is expected to develop the required cost data was installed during the first part of fiscal year 1960. The Department also has under study various projects for carrying out, in cooperation with the Bureau of the Budget and the General Accounting Office, an agencywide program for an improved accounting and financial reporting system which should improve the financial administration of the Institute.

133. Need for adequate accounting control over equipment--In our report dated June 6, 1960, on the audit of the financial transactions and records of the Bureau of Accounts, Treasury Department, we stated that accounting records were being maintained in a manner that did not provide adequate accounting control over equipment. We recommended that written accounting procedures for

## REVIEW OF ACCOUNTING PROCEDURES (continued)

equipment be developed in accordance with principles and standards prescribed by the Comptroller General.

The Bureau advised us on July 15, 1960, that the matter had been referred to its Accounting Systems Division for development of an appropriate property accounting system and that a proposed procedure had been drafted.

134. Need for improved accounting system--In our report on the review of the Department of Corrections, District of Columbia Government, September 1959, we pointed out that the Department's accounting systems other than the budgetary and allotment system are not integrated with each other or with a District-wide accounting system. We recommended that the District's program for improving the District-wide accounting and reporting systems include the development and installation of an improved system for the Department that will be integrated with a District-wide system.

The District informed us that it will develop a program for improving its accounting and providing for the integration of the Department's system with a District-wide accounting system.

135. Need for accounting guidelines--In our report on the review of the Department of Corrections, District of Columbia Government, September 1959, we pointed out that the District's Accounting Manual does not provide the necessary guidelines--policies, statement of accounting principles and standards, records and accounts to be maintained, and procedures to be followed--essential for accumulating and recording the Department's funds, property, and costs. We recommended that the District's Accounting Manual be expanded to contain statements of accounting principles and standards, a sound capitalization policy, a complete description of the system for the Department, and detailed procedural instructions essential for the proper maintenance of the system.

The District subsequently informed us that it was developing an accounting manual to include all general policy statements and the necessary guidelines for accumulating and recording financial transactions and for controlling funds, property, and costs.

136. Need to eliminate duplicate appropriation allotment accounts--In our report on the review of the Department of Corrections, District of Columbia Government, September 1959, we pointed out that both the Department of General Administration and the Department of Corrections maintain allotment and obligation records for controlling the latter Department's appropriation allotments and funds. We recommended that the Department of Corrections discontinue its appropriation allotment records, that data relating to the status of allotments be furnished periodically to the Department of Corrections by the Department of General

## REVIEW OF ACCOUNTING PROCEDURES (continued)

Administration, and that the Department of Corrections control its operations through the use of cost records integrated with an accrual system of accounting.

Subsequent to reviewing our report, the President of the Board of Commissioners stated that steps would be taken to eliminate as much duplication of effort as was feasible.

137. Need for revision in accounting for premature retirements of depreciable property--A study made by the Alaska Railroad, Department of the Interior, disclosed that the recorded accumulated provision for depreciation at June 30, 1959, was understated by about \$5.2 million because the accumulated provision had been charged with the entire cost of certain assets which had been retired long before the end of their useful life and before the accumulated depreciation charges equaled the cost of the fixed assets.

In January 1960, the Administrative Assistant Secretary of the Interior approved the adjustment of the accumulated provision for depreciation accounts as of July 1, 1959. However, no change was made in the accounting for future unusual premature retirements of depreciable property.

In order that unusual premature retirements of depreciable properties that are significant in amount do not materially deplete the accumulated provision for depreciation, we recommended that separate accounting for such retirements be provided. Such retirements should be separately identified and reported as unusual charges in the statement of income and expenses for the year in which the property is retired. The Department has informed us that it agrees that unusual premature retirements of depreciable property of significant amounts should be given separate accounting treatment. However, the Department believes that these losses should be charged to earnings of prior years because sufficient charges for depreciation were not made in prior years.

138. Need for simplification of accounting and reporting procedures for administrative expenses--Our audit of the Public Housing Administration, Housing and Home Finance Agency, for the fiscal year ended June 30, 1959, disclosed that the accounting and reporting processes used to implement the system for controlling funds appropriated for administrative expenses result in the maintenance of certain unnecessary records and in the reporting of considerably more financial data than appear to be needed by the management to carry on its responsibilities. In a letter dated February 2, 1960, we recommended to PHA that consideration be given to adopting simplified accounting and reporting procedures providing for the maintenance of detailed financial data on an accrual basis only and for the elimination of most of the present allotment and obligation records.



## REVIEW OF ACCOUNTING PROCEDURES (continued)

PHA officials informed us that they generally agreed with the objectives of our recommendations and that action would be taken to eliminate many of the duplicate records and reports. Our audit for the fiscal year ended June 30, 1960, disclosed that PHA has simplified the reporting processes applicable to administrative funds and that some improvement has been made in the accounting for these funds, without adopting that portion of our recommendation relating to the maintenance of detailed financial data on an accrual basis only and the elimination of most of the present allotment and obligation records.

Bureau of the Budget Circular No. A-11 was revised in May 1960 to extend to administrative expense limitations generally the cost-type budget rules now applicable to appropriations. Accordingly, the PHA administrative expense budget probably will be presented on a cost basis for fiscal year 1962.

139. Needed improvements in accounting system--Our review of financial management activities of the Coast and Geodetic Survey, Department of Commerce, disclosed the need for certain improvements in the agency's accounting system to conform with the principles, standards, and related requirements prescribed by the Comptroller General under the Budget and Accounting Procedures Act of 1950. As a result of our recommendations, agency officials have agreed to consider certain revisions in the system, including (1) adoption of depreciation accounting as a cost of operations, (2) preparation of financial statements that will provide management with information essential for evaluating the results of operations of charting activities, (3) revision of methods of allocating costs incurred in service divisions and in vessel operations to eliminate distortion of total activity costs and to permit recovery of all costs incurred on reimbursable projects, and (4) modification of the system of accounting for costs of producing printing plates.

140. Need to revise cost accounting to determine most economical source of supply--Our report on review of accounting practices and procedures for activities of the Public Health Service medical supply depot pointed out that costing procedures used to allocate labor and overhead costs to items processed through the depot pharmacy laboratory were inadequate and that the depot was unable to make a fair comparison of its recorded costs with commercial prices to determine the most economical source of supply.

After reviewing our finding, the agency informed us in March 1960 that it was making a study to provide a cost accounting system that will properly and equitably allocate labor and overhead cost to items processed in the laboratory.

141. Need for more accurate determination of institutional operating costs--In our report on the Department of Corrections, District of Columbia Government, September 1959, we pointed out



## REVIEW OF ACCOUNTING PROCEDURES (continued)

that the system for accumulating penal institutional costs did not provide for determining inmate per capita costs that would result in the District's obtaining full recovery of the cost of maintaining custody over and caring for Federal prisoners. We recommended that sound bases be developed for allocating to the penal institutions the costs of the Department's service division and the cost of services provided by other departments.

142. Need to obtain proper reimbursement for costs incurred for other Federal agencies--In our report of June 1960 on the operations of the Foreign Service Institute, we reported that the Department of State had not taken all necessary actions to obtain proper reimbursement for the costs incurred in training employees of other Federal agencies. We recommended that (1) properly supported cost estimates be prepared and made the basis for negotiating reimbursement agreements, (2) estimates be periodically adjusted on the basis of best available costs, and (3) a uniform system of charging other agencies for training services be established and any deviations from the general policy of claiming reimbursement be properly authorized and justified. The Department expressed general agreement to recommendations (1) and (3) but considered it difficult, if not impossible, to follow recommendation (2) except where services are limited and costs are readily determinable. We recognize that precise yearend adjustments may cause undue administrative efforts and hence be impracticable but believe that periodic adjustments should and can be made for significant variations in tuition rates and student enrollment.

## REVIEW OF UTILIZATION OF AUTOMATIC DATA PROCESSING EQUIPMENT

143. Action taken to release automatic data processing equipment excess to needs--Based on our review of the automatic data processing (ADP) installation at the New Orleans commodity office, Commodity Stabilization Service, Department of Agriculture, our opinion was that during the period from December 5, 1957, to June 15, 1959, the commodity office had incurred estimated rental costs of about \$254,000 for items of equipment which were not necessary to meet its needs. This system was replaced in June 1959. Our report contained recommendations relative to potential annual savings of about \$97,000 which could be achieved through release of certain items of equipment in the new system.

In line with our recommendation, the agency discontinued the use of some equipment, which will result in estimated annual rental savings of about \$20,000. The Department of Agriculture has stated that the ADP installation will be reviewed periodically and that additional equipment will be released when it is possible to do so without loss of operating efficiency.

144. Utilization of electrical accounting machines to be reviewed more closely--In our report on the review of the selection and utilization of ADP equipment at the National Institutes of Health, we stated that NIH should analyze fully its anticipated workload and monthly utilization reports, realistically evaluate its needs for all electrical accounting equipment rented or scheduled for installation, and promptly release all equipment that is not needed.

Since completion of our review in September 1959, NIH has released two machines and has not rented any machines tentatively scheduled for installation. NIH officials informed us in June 1960 that an analysis of current and anticipated utilization is being made on a continual basis to obtain more effective scheduling and utilization of all equipment.

145. ADP equipment utilization reports improved--In our review of selection and utilization of ADP equipment at the National Institutes of Health, we noted that the monthly equipment utilization reports lacked certain information which, in our opinion, would be required to properly evaluate the adequacy and propriety of equipment utilization. After we completed our review in September 1959, NIH revised these reports to include some of the lacking information. Also NIH officials informed us in June 1960 that additional revisions would be made so that the reports would be even more informative.

## REVIEW OF UTILIZATION OF EMPLOYEES

146. Action taken to eliminate use of security division personnel to perform duty officer functions--Our review at the Atomic Energy Commission's Hanford Operations Office disclosed the use of security division personnel on an overtime basis to perform duty officer functions at the airport control tower when this routine function could have been performed by the airport control tower operators who man the tower 24 hours a day. We therefore suggested, on May 25, 1959, that consideration be given to using the airport control tower operators to perform the duty officer functions. AEC officials informed us on September 21, 1959, that action had been taken in accordance with our suggestion. The action will eliminate overtime payments of about \$16,500 annually.

147. Savings realized by discontinuance of commercial window-washing services--At the VA center, Kecoughtan, Va., we observed that the center proposed to award a contract to a commercial firm for fiscal year 1960 window-cleaning services. The proposed contract specified that two cleanings would be made at a cost of \$4,363 each, or an annual cost of \$8,726. We suggested to the manager of the center that a cost analysis be made to determine whether it would be more economical to have the windows washed by a VA employee.

The resulting cost analysis indicated that a VA employee could wash 25 percent more windows than specified in the contract, at a cost of only \$3,212 a year including salary and supplies. The manager, on February 24, 1960, authorized the hiring of an employee to wash the windows and did not award the proposed contract.

## REVIEW OF PAYROLL PROCEDURES

148. Payments of quarters allowances to officers occupying adequate Government-owned housing discontinued--Our review of quarters allowances paid commissioned officers stationed at Public Health Service Indian Health stations disclosed that some officers received full quarters allowances but paid only nominal rents for quarters that were obviously adequate. A survey by PHS to determine the adequacy of quarters had been in progress for several years but had not been completed. In January 1959 we urged the completion of the entire survey and suggested that allowances to individual officers be immediately suspended if their quarters were determined to be adequate.

The survey was completed in fiscal year 1960. We were informed that quarters allowances were discontinued for 21 officers occupying quarters which PHS determined to be adequate and designated as public quarters. In September 1959 collection action was initiated to recover about \$8,250 previously paid these officers. Other allowances were suspended after inadequate quarters were made adequate.

149. Savings to be made through reduction in premium pay rates--In our review of premium pay rates in effect for stand-by duty performed by fire fighters and duty officers at the Animal Disease Laboratory of the Agricultural Research Service, Department of Agriculture, located at Plum Island, New York, we noted that the agency did not compute the premium pay for fire fighters on an annual basis as authorized by Civil Service regulations. We noted also that, although duty officers were being compensated for stand-by duty at an annual rate, the agency had not obtained the required approval for the rate used. As a result of our inquiry, the agency adopted procedures which provide for the payment of premium pay to newly employed fire fighters on an annual rate basis and obtained Civil Service approval for the premium pay for duty officers at a lesser rate than that previously used. These changes will result in savings of about \$4,200 a year in premium pay plus an additional undeterminable amount applicable to newly employed fire fighters.

150. Administrative controls over payrolls strengthened--The Public Housing Administration took appropriate action during fiscal year 1960 to correct certain weaknesses in the payroll procedures and practices disclosed as a result of our review of payroll operations. Instructions have been issued requiring a comparison of travel vouchers with leave or time records to determine whether (1) per diem allowances are claimed by employees for days of annual leave, (2) leave is properly charged to employees taking leave while in travel status, and (3) leave is charged for excess or unauthorized travel time. In addition, procedures have been revised to decrease the incidence of errors in time and attendance reports and to reduce delay in processing personnel actions.



## REVIEW OF PAYROLL PROCEDURES (continued)

151. Issuance of payroll change slips to be reduced--Our review during fiscal year 1960 of payroll changes in the GSA Denver regional office disclosed that up to 72 payroll change slips were issued each pay period to make 1-cent adjustments in payroll deductions for \$25 savings bonds. In a letter dated February 29, 1960, the regional commissioner agreed that this volume of adjustments created an unnecessary work burden and established procedures to make the adjustments annually.

152. Need for revision of instructions on retirement accounting--In our review of headquarters payroll activities of the Post Office Department, we noted that the retirement accounting instructions did not adequately describe the procedures to be followed in recording employees' retirement deductions in the general ledger control accounts nor require periodic reconciliations of the accounts with subsidiary detail records. We noted also that the balances recorded in certain accounts were incorrect.

In reply to our recommendation that the retirement accounting instructions be appropriately revised, we were advised in February 1960 that corrective action would be taken.

153. Need to strengthen payroll procedures--In our report on the review of headquarters payroll activities of the Post Office Department, we commented on deficiencies which indicated that administrative controls over payrolls and internal payroll review procedures needed strengthening to be made more effective. Among these deficiencies were:

1. Written procedures had not been prepared.
2. Employees certified their own leave and attendance.
3. Employees hours of duty attendance were not reported.
4. Notifications of pay changes were not furnished employees.
5. Required payroll documents were not on file.
6. Predetermined payroll totals were not used to independently check payrolls.
7. Only those pay amounts which were affected by current payroll changes were examined in the administrative audit of payrolls.

In letters dated February 4 and 23, 1960, the Assistant Postmaster General, Bureau of Finance, informed us that he agreed with our findings dealing with the need to strengthen payroll procedures.

## REVIEW OF POLICIES AND PROCEDURES RELATING TO OFFICIAL TRAVEL

154. Deficiencies in travel policy and regulations to be corrected--In a letter dated March 10, 1960, to the Federal Aviation Agency, we called attention to instances of erroneous and otherwise questionable travel costs of students at the Aeronautical Center, Oklahoma City, Oklahoma.

We suggested that the agency reexamine its travel policy and regulations which appear to permit and perhaps encourage the claiming of excessive amounts for travel costs. The agency promptly undertook a special review of its travel policies, practices, and controls to effect necessary improvements.

155. Action taken to collect long-outstanding travel advances--Geological Survey employees assigned to foreign programs of the International Cooperation Administration (ICA) and performing periodic travel for ICA have held travel advances received from the Survey for periods ranging up to 42 months. As of June 30, 1958, 29 of these employees had travel advances, totaling about \$17,500, which ranged in amount from about \$60 to over \$1,800 each.

We expressed our belief that ICA, instead of the Survey, should advance funds to these employees for travel which they perform at their foreign stations because of ICA's greater knowledge as to the character and probable duration of the travel and, hence, the need for the advances. We were informed in reply that agreement had been reached which would permit the advances to be liquidated upon arrival at the foreign stations, after which all advances for in-country travel would be made by ICA.

156. Procedures for controlling travel advances improved--During the year we reported to the Directors of the Central and Western Area Administrative Divisions, Agricultural Marketing Service, Department of Agriculture, the failure to liquidate or reduce travel advances which had been inactive for extended periods or appeared to be excess to the travelers' needs. Corrective action was taken by the agency's central office by establishing procedures requiring monthly analysis of individual travel advances by the Area Administrative Divisions.

157. Control over travel funds improved--Deficiencies in the Weather Bureau's procedures and controls concerning employee travel resulted in (1) employees' retaining for excessive periods of time unused travel advances that were no longer required for official Government travel, (2) travel advances being made substantially in excess of reasonable estimated needs, (3) granting of additional travel advances before the liquidation of a previous advance, and (4) delays by employees of from 6 months to more than 2 years in submitting vouchers for reimbursement of travel expenses. Pursuant to our suggestions, the Bureau improved control over the granting and liquidation of travel advances and now requires prompt submission of travel vouchers.

REVIEW OF POLICIES AND PROCEDURES RELATING TO OFFICIAL TRAVEL  
(continued)

158. Need for travel advances reviewed--Our examination at the GSA Atlanta regional office disclosed that travel advances were not always liquidated in a timely manner. We recommended in September 1959 that a periodic review be made of outstanding advances in relation to the employee's travel record and that advances be recovered or reduced as appropriate. We were subsequently advised by the regional comptroller that, in accordance with our recommendation, a review was made of travel advances and adjustments were made in all cases where satisfactory explanations of continued need could not be obtained.

159. Action taken to recover improper per diem payments--Improper per diem payments were made to 51 Coast Guard military members assigned to Yorktown, Virginia, during the period March 8 to July 2, 1959, for the purpose of activating the Yorktown Reserve Training Center, formally commissioned as a Coast Guard unit on July 3, 1959. The Reserve Training Center was to become the members' permanent duty station following its formal commissioning. Military members are not entitled to per diem payments when orders designate a member's temporary duty station as his permanent station effective upon the completion of the temporary assignment; the station becomes the member's designated post of duty for per diem purposes immediately upon his arrival there.

We recommended that the Comptroller, 5th Coast Guard District, determine the amount of the improper per diem payments and take the necessary action to recover the overpayments. Action was initiated by the Coast Guard in October 1959 to recover the overpayments amounting to \$8,000.

160. Administrative examination of vouchers improved and action taken to recover overpayments--In our audits at the 8th Coast Guard District Office in New Orleans, Louisiana, we noted that travel overpayments were made as a result of the district's erroneous practice of allowing the full per diem rate for personnel on temporary duty at locations where Government quarters were available or utilized, instead of the reduced rate prescribed in the Joint Travel Regulations. Also, we noted that travel vouchers were not adequately audited and reviewed prior to certification for payment.

On several occasions we recommended that steps be taken to correct this situation. As a result, the district made changes to provide for a more effective review of vouchers prior to certification for payment and is taking action to recover overpayments amounting to \$5,198.

161. Recommendations made to avoid excessive per diem payments--We reported to the Director, Geological Survey, on August 6, 1959, that in the Eastern Region of the Topographic Division,

REVIEW OF POLICIES AND PROCEDURES RELATING TO OFFICIAL TRAVEL  
(continued)

41 cases were noted where field employees were assigned to "temporary duty" stations in a per diem status for periods ranging from 7 to 29 months. To avoid excessive per diem costs, we recommended that the Director, Geological Survey, establish procedures requiring the designation of an employee's official duty headquarters, for purposes of payment of traveling expenses and per diem, as the place where the greater portion of his duties are performed and where, normally, his residence would be established when such designation is determined to be more economical to the Government.

The Department of the Interior informed us that the Survey would revise its manual instructions to provide for the authorizing official to evaluate the merits of individual cases. The evaluation will include all factors in the individual case, comparing estimated per diem for the duration of the assignment with the estimated cost of transporting the employee, his dependents, and household effects.



## REVIEW OF DEBT COLLECTION PROCEDURES

162. Need for aggressive action to collect overpayments receivable--During our review of selected administrative operations and related financial practices at a Veterans Administration regional office, we noted that aggressive action was not being taken to collect overpayments and that accounts which the VA could not collect were not being written off and reported to the General Accounting Office for further collection action. At October 31, 1959, overpayments receivable amounted to \$30,300. Of that amount, \$25,600 represented overpayments receivable more than 90 days old; \$7,200 represented overpayments receivable more than 2 years old.

We recommended that the regional office manager instruct the finance section to periodically prepare a listing of overpayments receivable and that (1) aggressive action be taken to collect the amounts due the Government and (2) the uncollectible accounts be written off and reported to the General Accounting Office. The manager informed us on June 13, 1960, that this matter would be reviewed.

163. Action taken to provide prompt billing and collection of royalties and to reconcile accounting differences--Our review of the Geological Survey's supervision of commercial oil and gas operations and production on certain leased Government and Indian lands showed that (1) billing and collection of royalties due the Government were delayed at times for prolonged periods and (2) large unexplained differences existed between the detailed royalty receivable records and the Survey's related control records as well as the control accounts maintained by the Bureau of Land Management.

In reply to our report issued in December 1959, the Administrative Assistant Secretary of the Interior informed us that, in accordance with our recommendations, action was being taken to bring up to date the billing and collection of unpaid royalties. He stated also that certain differences between the royalty receivable records maintained by the Survey and those maintained by the Bureau of Land Management had been identified and adjusted and that the Department was studying the reasons for the difference between the Survey's detailed royalty receivable records and the control records it maintains.

164. Amounts advanced to United States air carriers to be recovered--Pursuant to section 2 of the act of August 27, 1940 (49 U.S.C. 485b), the Post Office Department advances monies to United States air carriers to cover amounts due the air carriers from foreign countries for the transportation of mail. These amounts are to be collected later by the Department from foreign countries. The act also provides that, in the event the Post Office Department is unable to collect these amounts from foreign countries within 12 months after the date of the advances, the Department

## REVIEW OF DEBT COLLECTION PROCEDURES (continued)

may deduct any uncollected amounts from monies due the air carriers. At June 30, 1959, the outstanding advances amounted to \$5,291,918, of which \$607,287 represented payments to carriers for services performed in fiscal year 1957 and prior years for which payment had not been received by the Post Office Department. To preclude the possibility of loss to the Post Office Department, we recommended that the Department take action to recover advances which have not been collected within 12 months.

In a letter dated April 7, 1960, we were informed that the Post Office Department had initiated action to recover advances to air carriers which had been outstanding for more than 2 years and that, when the settlement of the accounts involved had been placed on a current basis, consideration would be given to recovering advances which have been outstanding for 12 months.

## REVIEW OF INTERNAL CONTROLS OVER CASH AND OTHER ASSETS

165. Improvement in internal controls over cash receipts--During our review of selected activities of the Weather Bureau, Department of Commerce, in fiscal year 1960, we observed the following deficiencies in the internal control over cash receipts: (1) the mailroom did not record all cash received in the cash receipts records, (2) the mailroom records of cash receipts were not controlled, (3) reconciliations were not being made of cash received in the mailroom with cash deposited by the fiscal section, (4) there were long delays in the deposit of cash receipts, and (5) there was no separation of the functions of receiving cash and of posting cash receipts to various accounting records. Following our recommendations, the Bureau revised its procedures to correct these deficiencies.

166. Improvement in controls over remittances received by mail--Our review of insurance operations of the Veterans Administration disclosed weaknesses in controls over remittances received through the mails (about 60,000 items a day) and opened by the mail unit at the VA Philadelphia District Office and a need for VA Central Office instructions to all field insurance offices to provide uniform and adequate procedures for controlling such remittances. On July 13, 1959, the VA issued such instructions pursuant to our recommendation.

167. Need for better control over collection and recording of consular fees--Our examination of the administrative activities of selected consulates in three European countries showed that the consulates did not have adequate control over the collection of consular fees. There was no assurance that all prescribed fees had been collected and it was difficult, if not impossible, to verify that those collected had been properly recorded and deposited. Contributing to this situation was the fact that the Department of State had not prescribed a standard system for controlling fee collections.

The consular offices that we visited indicated that appropriate action would be taken, and the Department stated, in response to our report of June 1960, that it had made studies during the last 2 years to improve the fee collection system at all foreign posts. We recommended that, as soon as these studies are completed, the Department issue adequate instructions within the framework of which individual consular offices can establish the necessary controls best suited to local conditions. On October 6, 1960, the Department submitted proposed revised procedures for our review.

168. Controls over cash collections to be improved--Our reviews of controls over cash receipts at Colonial National Historical Park and at Grand Teton, Yosemite, Glacier, and Mount Rainier National Parks, administered by the National Park Service (NPS), Department of the Interior, disclosed that cash collections were not

## REVIEW OF INTERNAL CONTROLS OVER CASH AND OTHER ASSETS (continued)

always deposited and recorded promptly and that the same person was maintaining the accounts receivable and the cash receipts register. After we brought this matter to their attention, Park Service officials informed us that the NPS accounting handbook was being revised to require prompt depositing and recording of cash collections and that action had been taken to assign to separate employees the duties of maintaining the accounts receivable and the cash receipts register.

169. Internal control procedures for equipment and supplies to be strengthened--During our audit of the Bureau of Narcotics, Treasury Department, we noted that the ordering and the receiving functions of Bureau employees in the supplies and equipment section were not sufficiently segregated. Proper separation of duties is an aid to management in safeguarding assets. We recommended that a review be made with the objective of strengthening internal control through separation of duties. In reply the Commissioner of Narcotics informed us on May 3, 1960, that the responsibility for ordering supplies was being separated as such as possible from the responsibility for receiving supplies.

We also found that the property records were not under accounting control and had not been reconciled with physical inventories. We were also informed on May 3, 1960, by the Commissioner of Narcotics, that these deficiencies were being corrected.

170. Inadequacies in internal controls over assets to be corrected--During our reviews of selected operations of the Coast and Geodetic Survey, Department of Commerce, during fiscal year 1960, we called attention to a number of inadequacies in controls over agency assets. Appropriate corrective action has been taken or is proposed by the agency. Our principal observations concerned the needed strengthening of internal controls over cash receipts and disbursements, accounts receivable, and inventories of materials, finished charts, and equipment and the establishment of controls over expenditures for improvements and repairs to leased premises to prevent continued violation of the statutory limitation contained in section 322 of the Economy Act. We also made several suggestions to improve utilization of inventories of equipment and supplies and to improve planning of chart production to minimize overproduction and consequent losses through obsolescence of chart inventories.



## REVIEW OF INTERNAL AUDITING

171. Steps taken to strengthen internal audit procedures--Our review of the Atomic Energy Commission internal auditors' work at the Pittsburgh Naval Reactors Operations Office disclosed certain weaknesses in the audit procedures. The weaknesses included (1) the lack of a preliminary review of the policies and procedures of the contractor's activities audited, (2) inadequate working papers, and (3) performance of unnecessary audit work. AEC advised us that corrective action had been taken.

172. Changes made to improve application of internal audit effort--Small Business Administration (SBA) internal auditors discontinued their periodic audits of SBA's financial records in April 1958 when the agency's accounts were centralized in Washington and a punched-card system was installed. After that date, most of the internal audit effort was directed to examination of operations at field offices. Audit work in Washington was generally limited to various special assignments.

We brought this imbalance of internal audit effort to the attention of the Deputy Administrator for Administration, SBA, in December 1959. In January 1960, he informed us that the systematic audit of financial records would be reinstituted and that the audit staff was being assigned on a continuing and full-time basis to carry out the full scope of the agency's audit plan.

173. Internal review procedures strengthened--Our audit of the Bureau of Narcotics, Treasury Department, showed that internal reviews of the headquarters office and field offices were not carried out in all cases and that procedures had not been established to follow up reported deficiencies. Some district offices had not been inspected for long periods of time, and less than 60 percent of the required inspections of branch offices had been made. Also, internal audits of the headquarters office of the Bureau were not being made. In reply to our report, the Commissioner of Narcotics informed us on May 3, 1960, that the review procedures had been revised and strengthened.

174. Internal auditing policies, procedures, and practices to be improved--Our review of internal auditing activities in the Baltimore, Chicago, and Philadelphia Comptroller Districts of the Bureau of Customs, Treasury Department, disclosed various deficiencies which had the effect of reducing the effectiveness of the internal audit function as an element of management control.

The principal deficiencies concerned (1) a need for improvement in preparation of audit working papers, (2) a need for adequate documentation of audit work, (3) a need for improving supervisory reviews of audit work, and (4) a need for rotation of audit assignments and better planning of audit cycles. Officials in the comptroller offices concurred with our findings in most instances and took, or promised to take, corrective action.

## REVIEW OF INTERNAL AUDITING (continued)

175. Need for more effective use of internal audit by management--Our review of internal audit reports of the Atomic Energy Commission's San Francisco Operations Office disclosed that the Operations Office management was not obtaining the benefits that could be attained by the effective use of the internal audit reports relating to the activities of an AEC contractor. We noted long delays in taking appropriate measures to obtain corrective action on the reported findings. In some cases, the contractor's replies were unresponsive and the problems outlined in the audit findings remained unresolved for long periods of time.

We recommended on May 25, 1960, that the Operations Office take aggressive action in evaluating the adequacy of corrective action taken by all contractors on internal audit findings and that all contractors be notified of the acceptability or nonacceptability of the action taken.

## REVIEW OF ADMINISTRATION OF BENEFIT PAYMENTS

176. Practice of improperly reducing railroad retirement annuities corrected--Our review of the retirement and survivor benefit program of the Railroad Retirement Board, on which we reported to the Congress in April 1960, disclosed that in certain instances age-retirement annuities were improperly calculated. Annuities awarded on the basis of retirement before age 65 were properly reduced by application of the statutory formula until age 65 but were then erroneously calculated when the annuities subject to reduction after age 65 were different from those originally awarded.

After we brought this to attention, the Board corrected its procedures during the course of our review.

177. Action taken to assure that unemployment compensation payments to unemployed Federal claimants are made under the same conditions as payments to unemployed non-Federal claimants--Our report on the policies and practices regarding unemployment compensation payments to retired Federal employees disclosed that at least eight States reduced unemployment benefits for annuities paid to private industry retirees but did not reduce such benefits for annuities paid to Federal retirees.

We recommended that the Department of Labor maintain closer surveillance over interpretations of State unemployment compensation laws where they affect payments to Federal employees. After reviewing our draft report the Department of Labor issued a letter on December 22, 1959, reminding all State employment security agencies that Federal law requires Federal claimants to be paid benefits as if they were covered under State laws. Through June 30, 1960, three of the eight States answered that they would reduce benefits for annuities paid to Federal retirees in the same manner as they reduce benefits for annuities paid to private industry retirees. We estimate the savings to the Federal Government in the three States to be about \$130,000 a year. The Department is still considering this matter in regard to the other five States.

178. Procedures to be instituted to preclude erroneous continuation of total disability compensation payments--In our current review of the compensation and pension program of the Veterans Administration, we found that the VA had failed to consider evidence of record or to give physical examinations before the completion of the 20-year period of total disability after which entitlement to compensation becomes permanent. This may have resulted in erroneous permanent protection of entitlement for some veterans who no longer are totally disabled. Such veterans could erroneously receive payments, generally \$225 a month, for the rest of their lives.

To assist in preventing such possible erroneous protection, we recommended that the VA amend its procedures to require a

REVIEW OF ADMINISTRATION OF BENEFIT PAYMENTS (continued)

complete medical examination of each veteran and a review of his claims folder to verify the propriety of payments, on the 18th consecutive anniversary of his total disability rating, unless evidence in the file establishes conclusively that such disabilities are in fact totally and permanently disabling.

The Deputy Administrator stated in a letter dated June 1, 1960, that the necessary procedures and controls to accomplish the recommended review would be instituted.



## REVIEW OF GRANT-IN-AID PROGRAMS

179. Action taken to eliminate improper transfer of unexpended grant balances from one appropriation year to another--In our review of grant-in-aid programs administered by the National Institutes of Health, we noted that NIH instructed grantee institutions to transfer unexpended funds of discontinued grants to active grants without regard to the fiscal year for which the funds were appropriated. We pointed out that this practice resulted in circumventing the annual appropriation limitations and was, in our opinion, in violation of both section 1311(d) of Public Law 663, Eighty-third Congress, and 31 U.S.C. 628. As a result, NIH adopted a policy, effective September 1959, which provides for the refund of unexpended balances of discontinued grants to the Government and for their restoration to the appropriations from which they were paid, which appropriations generally would no longer be available for obligation.

180. Action taken to avoid excessive accumulation of Government funds by grantee institutions--Our review of the grant-in-aid programs administered by the National Institutes of Health indicated that the NIH grant payment procedure resulted in accumulation of funds at grantee institutions in excess of practical operating requirements. This accumulation contributes to the incurrence of unnecessary interest expense to the Government. We recommended in November 1959 that NIH determine cash balances in the hands of grantee institutions at specified focal dates, and, if found to be in excess of practical operating requirements, change its policy so that future payments will be commensurate with such requirements.

NIH confirmed the existence of excessive funds at grantee institutions and informed us that it would inaugurate a revised procedure on July 1, 1960, providing for the payment of grants in four installments rather than two installments as heretofore.

181. Changes made to disclose and safeguard funds used to pay administrative expenses of certain advisory groups--In our report issued in November 1959 on the grant-in-aid programs administered by NIH, we commented on the awarding of research grants to chairmen of NIH study sections and training committees to pay consultant fees, travel, subsistence, and other expenses of the group. We believe that these expenses should be budgeted as administrative expenses rather than as grant-in-aid expenses and that difficulties in recovering unexpended funds might be encountered in the event of death or incapacity of a chairman where grant funds are being deposited in the name of the chairman in commercial banks. Because of the practical advantages, NIH believes that it is desirable to continue to make these advances from grant-in-aid funds. To accurately disclose the extent of these administrative expenses, however, NIH included in its fiscal year 1961 budget a separate item to show the amount of grant funds to be used for chairmen's

## REVIEW OF GRANT-IN-AID PROGRAMS (continued)

grants. In April 1960, NIH made arrangements to have the funds deposited in commercial banks in the name of the study section or training committee to avoid any possible difficulties in recovering unexpended balances.

182. Action initiated to improve NIH audit of grants--Our review of the grant-in-aid programs of the National Institutes of Health disclosed that NIH auditors did not inspect equipment purchased with grant funds to determine its existence and use and did not prepare narrative reports commenting on accounting controls and records of grantee institutions. We also noted a need to improve the quality of audit work performed and to provide closer supervision of site audits.

Since the issuance of our report in November 1959, the NIH audits have been expanded to include the physical inspection of equipment and the preparation of narrative reports. Moreover, we were informed in June 1960 that a study was being made of grant audit procedures with a view toward developing a more comprehensive audit program.

183. Action needed to improve control over equipment purchased with grant funds--In our report on the National Institutes of Health grant programs issued in November 1959, we recommended that NIH review its present policy with respect to purchases of equipment from grant funds and establish procedures to review purchases of equipment materially different in kind or amount from that described in the grant application. NIH believes that prior approvals of changes would not be in the best interest of research progress. We also recommended that grantee institutions be required to keep permanent inventory records for equipment purchased from grant funds as a basis for periodically determining whether such equipment is being used for research purposes. NIH believes that any records maintained for equipment purchased with grant funds should be consistent with the institution's established practice.

Although no action has been taken on either recommendation, we were informed in June 1960 that NIH would restudy these matters.

## REVIEW OF CONSERVATION RESERVE PROGRAM

184. Reductions made in future expenditures under conservation reserve contracts--During our review of the 1959 conservation reserve program administered by the Commodity Stabilization Service, Department of Agriculture, we found instances where conservation reserve contracts contained annual rental rates, and provided for annual rental payments, in excess of those authorized in the applicable program regulations. These instances involved ineligible land placed under contract, excessive annual payments on part-farm contracts due to use of incorrect soil bank bases, annual payment rates in excess of the limitation of 20 percent of the estimated value of the land placed under contract, and payments in excess of the \$5,000 annual payment limitation.

We recommended that the Commodity Stabilization Service review these and certain other contracts to determine the propriety of the payments being made thereunder. Action subsequently taken by the Service will result in reducing future expenditures under the contracts by about \$124,000. In addition, about \$9,500 was refunded for improper payments for soil conservation practices under certain contracts.

In its report on the Department of Agriculture and Farm Credit Administration Appropriation Bill, 1961, the Committee on Appropriations of the House of Representatives stated that, in view of the findings of the Comptroller General contained in our report on the review of the 1959 conservation reserve program, the Committee expected the Department of Agriculture to review all contracts now in force and to use every means available to recover payments erroneously made. Accordingly, on September 8, 1960, the Commodity Stabilization Service instructed the Agricultural Stabilization and Conservation State and county committees, which operate the conservation reserve program in the field, to review all conservation reserve contracts to determine that only eligible land is designated in the contracts and that annual payments on the contracts are not excessive and to take action to recover payments erroneously made.

185. Refund of improper payments under acreage reserve contracts--During our review of operations of the Agricultural Stabilization and Conservation State and county offices in Texas for fiscal year 1958, we found instances where tenants who were shown as participating producers on acreage reserve contracts assigned their entire acreage reserve payments to their landlords. As a result, the landlords received payments that were in excess of the annual acreage reserve payment limitation of \$3,000.

We recommended to the Administrator, Commodity Stabilization Service, that these cases be investigated to determine the propriety of the transactions. In a letter dated April 26, 1960, the agency informed us that the total amount paid under the acreage reserve agreements, \$38,314, had been refunded by the landlords and the cases had been referred to the Department of Justice for action.

REVIEW OF CONTROLS OVER PRICES CHARGED BY EXPORTERS  
FOR COMMODITIES EXPORTED UNDER PUBLIC LAW 480

186. Price review procedures on cotton exports strengthened--  
In our report to the Congress on our audit of Commodity Credit Corporation (CCC) activities at the New Orleans commodity office, we commented on the inadequacies of CCC's review of prices charged by exporters for commodities exported under Public Law 480. The purpose of the review is to limit Government financing to prices which are within the prevailing range of export market prices or to such other maximum level as may be specified in the exporter's purchase authorization.

It was our opinion that CCC's price review was inadequate because contract prices were not questioned unless they exceeded the domestic market price--which was as much as \$30 to \$35 a bale higher than the purchase price of export cotton--and because the quality of cotton being financed was not determined. The Administrator of Commodity Stabilization Service informed us that the agency had taken action to strengthen its price review procedures for cotton exports.



## REVIEW OF GRAIN STORAGE OPERATIONS

187. Storage costs under the Uniform Grain Storage Agreement reduced--In a report dated May 10, 1960, to the Special Agriculture Investigating Subcommittee of the Senate Committee on Agriculture and Forestry, we presented the results of our examination, completed in December 1959, of the records of 57 commercial warehouses relating to the costs of storing grain for the Commodity Credit Corporation. Our findings at the warehouses examined indicated that, based on the average volume of grain stored and the quantity handled by the warehousemen during the latest fiscal year completed at the time of our examination, the Uniform Grain Storage Agreement rates provided, in most cases, rates of net profit greatly in excess of the profit allowances that we have noted generally in our audits of fixed-priced contracts negotiated by the Government.

On May 5, 1960, the Department of Agriculture, after considering a grain storage cost study which it had made, announced storage rates under a revised Uniform Grain Storage Agreement, to be effective for the year beginning July 1, 1960. Under the new agreement, as finally established, the storage rates were reduced an average of about 3 cents a bushel on an annual basis, representing an average reduction of about 19 percent. The Department estimated that the lower storage rates would result in reduced costs to CCC of about \$75 million in the 1961 fiscal year.

188. Refund obtained from supplier because of rusting of grain bins--During our audit of the Commodity Credit Corporation for the fiscal year 1958, we noted that, within about a year after purchase and erection of certain galvanized metal grain bins, corrosion and rust spots developed. Rehabilitation of the bins was undertaken by CCC at its own expense even though it appeared that CCC could have had recourse under the supplier's warranty. We advised CCC that we believed CCC should seriously consider taking recourse to the suppliers.

CCC obtained the services of a metallurgical engineer to examine some of the affected bins and to advise CCC as to the conditions found. After further consideration, CCC collected \$71,542 during fiscal year 1960 from the supplier in full settlement for the defects.

## REVIEW OF ADMINISTRATION OF LOAN PROGRAMS

189. Weaknesses in the administration of financial assistance activities by the Small Business Administration to be corrected--In our report on review of financial assistance activities of the Small Business Administration, submitted to the Congress in January 1960, we commented on certain weaknesses in the administration of financial assistance activities. We observed instances of the agency's (1) granting financial assistance without adequately considering available personal resources, (2) granting catastrophe loans without requiring the applicants to substantiate the losses claimed, (3) not enforcing conditions of loan agreements, (4) not adequately controlling exchangeable collateral, (5) not adequately considering the ability of borrowers to repay their loans from future earnings, and (6) not maintaining adequate liaison with institutions servicing participation loans. To achieve more efficient administration of the financial assistance program, we recommended to the Administrator, SBA, that action be taken to provide for more intensive supervision of regional office activities, especially with regard to the foregoing matters. The Administrator informed us that he was in general agreement with the recommendation, that some corrective action had been taken since completion of our audit work in the regions, and that further corrective action would be taken.

190. Weaknesses in loan operations to be corrected--In a report on our review of activities at State and county offices in Arkansas, North Carolina, Texas, and Wisconsin, we brought to the attention of the Administrator, Farmers Home Administration (FHA), Department of Agriculture, certain weaknesses noted in the loan operations at these locations. Our review disclosed the need for development of a plan for systematic servicing of accounts when borrowers have defaulted and there is no remaining collateral securing the loan. We disclosed also that county officials were not always advising borrowers to refinance their FHA indebtedness when it appeared that the borrowers had acquired sufficient equity in their property to enable them to obtain the required credit from other available sources. Other matters set forth in our report were that chattel mortgages on livestock had not been obtained in many instances, required inspections of loan security had not always been made or documented, and the maintenance of records on loan servicing and other activities was inadequate at a number of county offices.

Since many of these conditions were similar to those mentioned in our previous audit reports on activities of FHA State and county offices, we suggested that further attention to these matters on an agencywide basis might be warranted. FHA has informed us that necessary corrective actions on these matters have either been completed or are receiving appropriate administrative attention.

## REVIEW OF ADMINISTRATION OF LOAN PROGRAMS (continued)

191. Inadequate provision for losses on loans corrected--We had recommended that the Small Business Administration study the adequacy of its provision for losses on loans. An understatement of the provision results in a corresponding understatement of the agency's operating deficit. On the basis of our review of the study made by SBA, we estimated that there was an understatement of about \$2,800,000 or more on business loans but concluded that the agency may not have had sufficient experience to permit a firm opinion as to the reasonableness of the provision for losses on disaster loans. We recommended a further study as a basis for adjusting the provision for losses on business loans. We also recommended that periodic analyses of loss experience on both business and disaster loans be made and that the provisions for losses be adjusted accordingly.

On May 24, 1960, the agency approved an increase of \$2.5 million in the provision for losses on business loans and a decrease of \$1 million in the provision for losses on disaster loans. The agency also changed its rates, effective July 1, 1959, for providing for losses on loans and adopted a policy providing for periodic reviews of the adequacy of the rates and the reserves.

192. Recommendation to require prospective borrowers to furnish independently audited financial statements under study by SBA--In our January 1960 report on our review of financial assistance activities of the Small Business Administration, we recommended that SBA regulations be amended to require independently audited financial statements as a prerequisite to obtaining loans of \$100,000 or more (unless waived by the regional manager) thus subjecting proposed loans to the same requirement as outstanding loans. SBA officials were of the opinion that borrowers might be subjected to some hardship by being required to submit audited statements prior to obtaining loans, but the Administrator informed us that he had directed that a study of the matter be made.

REVIEW OF FEES CHARGED FOR GRAZING LIVESTOCK  
ON PUBLIC LANDS

193. Need for study of fees charged for grazing livestock--  
Because Forest Service grazing fees are considerably lower than fees charged for grazing livestock on comparable State and private range lands, we recommended in our audit reports prior to fiscal year 1960 that the Service reexamine its policies and practices with the objective of obtaining fair compensation for the use of its lands. In view of the wide variations in charges made by the Forest Service and other Federal land managing agencies, we recommended in our report submitted to the Congress in fiscal year 1960 that a joint study be undertaken by these Federal agencies with the objective of arriving at a uniform basis for establishing grazing fees.

On June 16, 1960, we were advised that the Departments of Agriculture, the Interior, and Defense had appointed representatives to consider, on an exploratory basis, broad guidelines for making the study and to estimate its probable cost.



REVIEW OF POLICIES AND PRACTICES  
RELATING TO WATER RESOURCES DEVELOPMENT  
AND FLOOD CONTROL PROJECTS

194. Amounts payable into the Treasury increased through correction of errors in accounting procedures--In following up on recommendations made in connection with our prior years' audits of the Columbia River Power System, we ascertained that the Corps of Engineers had revised its accounting procedures relating to interest computations for certain projects in the Pacific Northwest area of the United States and had adjusted previous interest computations.

Errors totaling \$880,000 had been made in computing the amount of the Government's investment in power facilities and the amounts payable into the Treasury as interest on the power investment. The resulting adjustments will increase the amounts ultimately payable into the Treasury by this amount plus interest thereon.

195. Need for review of appraisal reports prepared by private firms for use in acquiring mineral rights--During our review of the activities at the Bureau of Reclamation's Washita Basin project, Oklahoma, we noted that appraisals of mineral rights on lands to be acquired for project use were obtained from private firms and that such appraisals were not reviewed by qualified employees of the Department of the Interior. For the cases we reviewed, the project office had comparable sales data which indicated that the oil and gas interest on lands to be acquired were valued at about one third of the private appraisals.

We recommended that the Commissioner of Reclamation issue instructions that would result in a review by qualified Department of the Interior employees of the mineral rights appraisals made by the private firms. On April 5, 1960, the Administrative Assistant Secretary of the Interior advised us that changes in Reclamation instructions to implement our recommendation were being considered.

196. Need for corrective action in determining compensation for relocation and alteration of facilities for water resources development projects--In our report issued on December 31, 1959, on our review of the relocation and alteration of facilities for water resources development projects, we pointed out that (1) the Corps of Engineers and the Bureau of Reclamation have followed different policies and practices on depreciation allowances in determining compensation for relocation of utility facilities, (2) the flood frequency principle is not used by the Corps in the determination of facilities to be relocated, and (3) actual costs or revised estimates of costs prepared by the Bureau and the Corps for facility relocations and alterations were significantly higher than initial estimates.

We recommended that (1) the Chief of Engineers enforce adherence to Corps regulations which require inclusion of a depreciation

REVIEW OF POLICIES AND PRACTICES  
RELATING TO WATER RESOURCES DEVELOPMENT  
AND FLOOD CONTROL PROJECTS (continued)

credit in determining just compensation for relocation of utility facilities and that the Secretary of the Interior issue instructions which will require that the Bureau of Reclamation also take into account a depreciation credit in its calculations of just compensation for relocation of utility facilities, (2) the Chief of Engineers consider establishing a policy for relocations which would take into account specific flood frequencies in determining areas from and to which relocations are made, and (3) the Chief of Engineers and the Commissioner of Reclamation seek to improve the accuracy and reliability of relocation cost estimates included in design memoranda and definite plan reports as part of the feasibility data for projects.

In response to our request for comments on matters covered in our report, the Corps of Engineers and the Department of the Interior expressed agreement in principle with the objectives of the recommendations. The Department of the Interior furnished us with detailed comments, but the Corps of Engineers stated that it would be in a better position to comment on the recommendations after further consideration and implementation of the recommendations on a trial basis. At the 1961 hearings before the Subcommittee on Public Works (Army Civil Functions), House Committee on Appropriations, the Corps advised the subcommittee that it does not fully agree with our recommendation that the Corps consider establishing specific flood frequencies for determining facilities to be relocated.

197. Possible loss of interest income due to lack of provision for adjustment of repayment contracts--Our review of the repayment contract for the Bureau of Reclamation's Ventura River project, California, disclosed that the project served two purposes--irrigation and municipal and industrial water supply. Under the repayment contract, the portion of project construction costs allocated to irrigation is to be repaid without interest, whereas the portion of construction costs allocated to municipal and industrial water supply is to be repaid with interest. The percentage allocation of construction costs between the two purposes was based in part on estimates of future peak use of project water. Information obtained during our review showed that, although there were significant differences of opinion as to estimates of future peak use of project water, the Bureau of Reclamation entered into a repayment contract which provides fixed percentage construction cost allocations that are not subject to re-determination. As a result, interest payable to the Government will not be increased if the actual peak use of project water for municipal and industrial water supply is greater than estimated at the time the contract was signed.

REVIEW OF POLICIES AND PRACTICES  
RELATING TO WATER RESOURCES DEVELOPMENT  
AND FLOOD CONTROL PROJECTS (continued)

We recommended that the Commissioner of Reclamation require that future repayment contracts for projects involving both in interest-bearing and non-interest-bearing purposes include a provision that will require periodic or automatic reallocations of costs between project purposes based on significant changes in project purposes or use of project water. On April 5, 1960, the Administrative Assistant Secretary of the Interior advised us that the problem of providing for periodic reallocations of costs between project purposes in future contracts had been reviewed and that some progress was being made toward this end.

198. Need for protective measures to help prevent damage to flood control works caused by ground surface subsidence--In our report issued in May 1960 to the Chief of Engineers on our review of selected administrative operations and related financial transactions, we stated that ground surface subsidence had caused serious damage to flood control projects located in northeastern Pennsylvania. Levees, structures, and project areas subsided because of illegal mining of underlying coal and inadequately considered mining underneath and adjacent to project locations. We recommended that the Chief of Engineers obtain information as to the existence of unmined coal under existing or proposed flood control projects and that its existence be verified periodically. We recommended also that the Chief of Engineers obtain the aid and cooperation of the United States Bureau of Mines for appropriate explorations of subsurface conditions when new projects are planned in mining regions so that any potential subsidence problems can be fully disclosed to the Congress when it is considering project authorization.

In commenting on our report, the Chief of Engineers stated that action would be taken to implement our recommendations. He stated that, even though it is standard practice of the Corps to obtain the advice and assistance of other Federal agencies, specific instructions on subsidence would be added to the Corps' manual.



## REVIEW OF ADMINISTRATION OF INDIAN IRRIGATION AND POWER PROJECTS

199. Follow-up action needed to collect delinquent operation and maintenance assessments--Our review during the fiscal year 1960 of the administration and operation of selected irrigation projects of the Bureau of Indian Affairs, Department of the Interior, disclosed that the Blackfeet, Flathead, and Wind River Irrigation Projects did not have an aggressive follow-up program for the collection of delinquent operation and maintenance assessments which amounted to \$262,531 at June 30, 1959. No action had been taken to effect collection of these amounts by follow-up letters or by offset against lease revenues, per capita payments, or individual Indian money (IIM) accounts. The Bureau proposed to cancel \$110,427 of delinquent operation and maintenance assessments on the Blackfeet Irrigation Project. The accumulation of this amount can be attributed in part to inadequate collection efforts over the years. Prompt collection of operation and maintenance assessments is essential to provide adequate funds for project operations and to obviate the need for appropriated funds for this purpose. We recommended that the Area Director establish an aggressive follow-up program for collection of delinquent assessments, which would include determination of the financial ability of the Indians to repay. We further recommended that collection of delinquent assessments be made by offsets from lease revenues, per capita payments, and IIM accounts when authorized and appropriate.

Area officials stated that a review would be made to determine what action could be taken to effect collections. These officials also advised that a manual release would be prepared to prescribe the action to be taken to increase follow-up collection efforts on all projects.

200. Need for increase in operation and maintenance assessment rate to cover operation and maintenance costs--Actual operation and maintenance costs for the Blackfeet Irrigation Project of the Bureau of Indian Affairs, Department of the Interior, during the 3 fiscal years ended June 30, 1958, exceeded assessments by \$51,500. Appropriated funds were used to pay this deficit. The operation and maintenance assessment rate of \$1.80 an acre has been in effect since 1951. During the 1956 and 1957 irrigation seasons, assessments were made on only those lands for which water was requested. Beginning with the 1958 irrigation season, assessments were made on all irrigable acreage regardless of whether water was received. Although this action increased total assessments, costs in fiscal year 1958 exceeded total assessments by \$1,277. Moreover, because of inadequate assessments, some operation and maintenance work has been deferred. Bureau officials estimated that \$417,069 will be required to eliminate the present backlog of deferred maintenance work on this project, which emphasizes the need for a more realistic assessment rate.



REVIEW OF ADMINISTRATION OF INDIAN IRRIGATION  
AND POWER PROJECTS (continued)

Area officials agreed that the present assessment rate of \$1.80 an acre is too low to finance an adequate operation and maintenance program. They stated that this fact is further substantiated by the use of construction funds for deferred operation and maintenance work beginning in fiscal year 1959.

We recommended in our report issued June 29, 1960, that, in order to provide adequate funds for financing operation and maintenance costs and to eliminate the need for appropriated funds for this purpose, the Area Director review and adjust the operation and maintenance assessment rate of the Blackfeet Irrigation Project.

## REVIEW OF NATIONAL DEFENSE RESERVE FLEET ACTIVITIES

201. Annual budget presentation and other reports to Congress not sufficiently informative with respect to vessel preservation-- In our November 1959 report on the review of the National Defense Reserve Fleet, we pointed out that the Maritime Administration's annual budget presentation and the quarterly report to the Congress under the Merchant Ship Sales Act of 1946, deal with vessel preservation accomplished and the backlog of preservation only in terms of the reserve fleet as a whole. This over-all treatment does not convey information as to the status of preservation of the components of the fleet by types of ships which by reason of their characteristics and condition are of varying importance as to potential value. In view of the sizable cost of the program, the importance of the reserve fleet in the event of an emergency, and the varying potential service value of the different types of vessels in the fleet, we believe that information on program operations by types of ship would be of valuable assistance to the responsible congressional committees.

We recommended that the Maritime Administrator consider such changes in the annual budget and other reports as would furnish more informative data on the preservation program. In particular, we recommended breakdown of information by types of vessels, disclosure as to what types of ships had or had not been fully preserved, and the effect of delayed preservation upon the components of the vessels and on the defense capability of the reserve fleet in terms of readiness to meet mobilization requirements. The agency informed us that a more meaningful presentation of preservation data would be adopted in the order of the vessels' priority.

202. Possible deactivation of reserve fleet sites--During our review of the administration of National Defense Reserve Fleet sites, we noted that plans were being made for the disposal of a large number of vessels in the fleet. Since reserve fleet expenses exclusive of preservation materials have averaged about \$750,000 annually at each fleet site, a reduction in the number of fleet sites would result in significant recurring savings.

We recommended, in our report issued in November 1959, that the Maritime Administrator make an early determination of the fleet sites needed for future operations and plan subsequent activities, as far as practical, to accelerate deactivation of those sites not needed. We have been informed by the agency that it is planning the deactivation of certain sites as a long-range goal and that overhead costs, in the interim, have been reduced to the minimum.

203. Information regarding the condition of vessels in the National Defense Reserve Fleet to be improved--Our examination disclosed that the condition of about 320 vessels in the National Defense Reserve Fleet maintained by the Maritime Administration was either not known or not readily ascertainable because of the

## REVIEW OF NATIONAL DEFENSE RESERVE FLEET ACTIVITIES (continued)

agency's scattered and noncoordinated records. The value of the reserve fleet is contingent upon the ability of the Maritime Administration to activate the vessels in time to perform their missions. An important requisite for such activation is advance knowledge of the condition of each ship in specific terms. The Maritime Administration acknowledged that the status of many vessels in the reserve fleet was not known or readily ascertainable.

In our report issued in November 1959, we recommended that the Maritime Administrator consolidate all pertinent information contained in the agency's ship condition records into a central source and that, to the extent such information may not provide adequate knowledge about the repair status of particular vessels, consideration be given to the most expeditious and economical means by which such information could be obtained. In line with our recommendation, the agency undertook the consolidation of data pertinent to the repair status.

## ADMINISTRATION OF FOREIGN ECONOMIC AND TECHNICAL ASSISTANCE PROGRAMS

204. Continuing need for better administration of programs in individual countries--Our examination of selected major assistance programs brought out the continuing need for improved administration of such programs. While the International Cooperation Administration has emphasized the effect of adverse local conditions and the dependence on the cooperation of the foreign countries to eliminate delays and other deficiencies, we pointed out a number of corrective measures which we believe are within the capacity of the agency to take promptly and effectively. Such measures require, on the part of the Washington office of ICA, leadership in making decisions, guiding the overseas missions, and providing qualified field staff and, on the part of the overseas missions, negotiating with the host governments for needed internal reforms; adequate planning and continuous supervision of ICA-financed projects and expediting their completion; and taking all necessary actions for the procurement, shipment, storage, and prompt use of ICA-financed commodities and equipment. We noted that the agency had made efforts to carry out more effective end-use investigations and field audits, an area which we previously found required strengthening.

The need for better administration was brought out in particular by our report of May 1960 on the assistance program for Bolivia which had not achieved its basic economic objectives. We found that the agency's efforts to cope with the major obstacles and deficiencies in this program were not adequate, due in large part to failure of the Washington office of ICA to exercise the necessary leadership. We expressed our belief that continued assistance to Bolivia could be expected to make a worthwhile contribution to the country's economy only if the necessary internal reforms were undertaken and the agency applied to the program an alert, decisive, and competent administration. In commenting on our observations, ICA advised that plans for reform had been formulated and that intensified administrative efforts are continually pressing for improvements expected to contribute to Bolivia's economic advancement.

Our examination of the assistance program for Guatemala showed that most of the major development projects financed by ICA were behind schedule, due in part to delays by the foreign government in taking necessary actions but also because the projects had received inadequate or hasty planning. The agency's planning and administrative efforts were handicapped by delays in recruiting sufficient field staff. It should be noted that these projects were started prior to the enactment of legislation which now requires the completion of plans and cost estimates before funds can be validly obligated for major project assistance. ICA has emphasized the special political situation in Guatemala which has affected these projects but informed us of subsequent corrective action taken or contemplated.



ADMINISTRATION OF FOREIGN ECONOMIC  
AND TECHNICAL ASSISTANCE PROGRAMS (continued)

205. Improvements needed in negotiation and administration of technical service contracts--Our examination of selected major contracts for construction, engineering, and other technical services to countries receiving ICA assistance showed several areas in the negotiation and administration of such contracts which needed improvement. We found inadequate planning, absence of competition in the selection of contractors, use of cost-plus-fixed-fee contracts without incentives to economize, and need for additional standards and guidelines for contracting officers in negotiating contractors' fee compensation. We recommended that the agency use fixed-price contracts for construction projects wherever practicable and, if cost-plus-fixed-fee contracts are deemed necessary, provide adequate incentive and penalty provisions in order not to leave the agency defenseless against cost increases and delays in completion. We are satisfied that the agency has overcome certain shortcomings in overhead provisions in cost-type contracts, which previously led to payments in excess of actual costs, and has taken steps to formalize procedures for a more effective administration of contracts, especially for an adequate supervision of contractor performance and for the postaudit of expenditures.

206. Need for better program presentation to the Congress--We recommended that future annual program presentations to the Congress clearly disclose the amount and nature of economic development aid furnished for each country and for principal projects, including the activities of both the International Cooperation Administration and the Development Loan Fund. The Managing Director of the Fund expressed general agreement with this recommendation, and the presentation to the Congress for the fiscal year 1961 showed improvement in this area.

207. Limitation placed on advance commitment of loan funds--We reported to the Congress in February 1960 that we believed that certain policies and practices followed by the Development Loan Fund in allocating and committing loan funds to foreign countries were not in consonance with the operating methods contemplated at the time the Fund was created. In particular, we reported instances of advance commitments before loan applications had been received from the borrowers, resulting in several adverse conditions, such as inadequate evaluation of the loan proposals which were subsequently approved pursuant to the earlier commitments, and noncompliance with the requirement for notification of the Office of Small Business which is designed to provide opportunities to American business concerns for participation in procurement financed by the United States.

After issuance of our report and following congressional hearings on this matter, an amendment was enacted in the 1960 mutual security legislation (Public Law 86-472, approved May 14, 1960)

ADMINISTRATION OF FOREIGN ECONOMIC  
AND TECHNICAL ASSISTANCE PROGRAMS (continued)

limiting the authority of the Development Loan Fund to make advance commitments of funds in excess of \$50,000 for use in any foreign country.

208. Recommendations to minimize outflow of dollars under mutual security loan agreements--We recommended in February 1960 that the Development Loan Fund include in loan agreements, whenever possible, its optional provision for making disbursements either in dollars or in the currency actually disbursed by the borrower and that the Fund make appropriate arrangements with the Treasury Department and the Bureau of the Budget for maximum use of United States-owned foreign currencies. The Fund subsequently made arrangements with the Treasury Department, as recommended by us, and informed us that procedures were being worked out to extend the use of the optional disbursement provision.

We also directed attention to the frequent use of dollar loan funds for financing local costs in the borrowing country, by purchase of the needed local currency rather than by generation through financing imports procured in the United States and to be resold in the borrowing country. The Fund informed us in February 1960 that it does not consider the import financing method appropriate for a banking institution of its nature but that it had devised a procedure, used in some recent loans, which provides that the loan dollars applied to the purchase of local currency are eventually used for the procurement of capital equipment from the United States.

REVIEW OF ENTITLEMENTS OF SCHOOL DISTRICTS IN  
FEDERALLY AFFECTED AREAS TO FEDERAL PAYMENTS

209. Action taken to provide accurate entitlement data for computing Federal assistance payments--Our review of the Atomic Energy Commission's Hanford Operations Office disclosed a lack of current information regarding pupil enrollment for computing AEC's assistance payments to the Richland School District. A review of the school district's records disclosed a number of instances where the eligibility of pupils for education at Federal expense was not changed upon termination of their parents' employment on Federal property. In order that accurate entitlement data may be used in computing assistance payments, we recommended on May 25, 1959, that AEC (1) give consideration to providing the school district periodically with a list of AEC and contractor terminated and newly hired employees, (2) discuss with the school district officials the desirability of performing an additional formal survey each May to ascertain the changes occurring in employment or residence of parents, and (3) emphasize to school district officials the necessity for reclassifying pupils promptly when parents' employment on Federal property is terminated. AEC informed us on July 24, 1959, that the measures recommended had been adopted.

210. Improvements made in administration of entitlements of school districts for current expenditures--As a result of recommendations made in our report in fiscal year 1959 on the review of entitlements of school districts for current expenditures under Public Law 874, Eighty-first Congress, the Office of Education revised and clarified its instructions to the applicant school districts, required better documentation of claims, revised and simplified the application form, permitted a less complicated way of determining average daily attendance, and expanded the coverage and review of the applications by the field representatives of the Office of Education. These changes were applicable beginning with the school year commencing in fiscal year 1960.

REVIEW OF THE DISTRICT OF COLUMBIA MEDICAL CHARITIES  
AND FREEDMEN'S HOSPITAL PROGRAMS FOR CARE OF INDIGENT  
DISTRICT RESIDENTS

In our report of December 21, 1959, we pointed out the following deficiencies in the administration of these programs which could result in increased cost to the District.

211. Changes made to ascertain that hospitals' billings are reduced for collections from part-pay patients--The District's payments to some hospitals have exceeded the amounts actually payable because the hospitals did not reduce their monthly billings for collections from part-pay patients. We recommended that the hospitals be required to report and deduct all collections from their billings to the District and that the District establish an effective follow-up procedure.

In September 1959 the Commissioners informed us that they had assigned the responsibility of periodically reviewing the hospitals' collection activities to the District's Internal Audit Office.

212. Changes made to determine propriety of hospitals' billings--The District's review of hospitals' billings for outpatient services to determine their propriety for payment was inadequate because the data submitted in support of the billings were not sufficient to permit the making of proper determinations. As a result, the District had not detected improper determinations by the hospitals of eligibility of patients for outpatient care at District expense. We recommended that the District develop a form to be used by the hospitals that would provide for obtaining and recording data necessary for determining a patient's eligibility for outpatient care at District expense and require the hospitals to submit the necessary data.

The District, during fiscal year 1960, developed such a form and is requiring the hospitals to submit the necessary data for determining the propriety of their billings.

213. District to audit collection practices of participating hospitals--The failure of the private hospitals and the Freedmen's Hospital to make reasonable efforts to collect part-pay patients' accounts and to cooperate with the District in its collection program has probably resulted in some loss of revenue to the District. We recommended that the District require all hospitals to comply with contractual and other agreements regarding the collection of inpatient accounts receivable.

The District agreed that a site audit of the hospitals would be the most effective way of enforcing the contractual agreements and in September 1959 assigned the responsibility of making periodic site audits to the District's Internal Audit Office.



REVIEW OF THE DISTRICT OF COLUMBIA MEDICAL CHARITIES  
AND FREEDMEN'S HOSPITAL PROGRAMS FOR CARE OF INDIGENT  
DISTRICT RESIDENTS (continued)

214. Uniform schedule of rates to be charged by the hospitals established by the District--Our review disclosed that the hospitals were collecting varying fees for the same type of outpatient service from part-pay patients having similar incomes primarily because the District had not prescribed a uniform schedule of charges. We recommended that the District establish uniform charges for the various services by all hospitals providing medical and hospital care at District expense and that the adopted schedule of charges be specified in future contracts or agreements with the hospitals.

The District has issued a new manual effective May 1, 1960, on the administration of hospital services, which includes a uniform schedule of charges for outpatient service at all participating hospitals.

215. District Internal Audit Office to make periodic management reviews at the various hospitals--The District had made no evaluations in recent years of the hospitals' financial activities pertaining to the medical charities program to determine whether the hospitals were carrying out the financial activities in accordance with the requirements of their contracts. We recommended that the District require the Department of Public Health and the Internal Audit Office to make periodic reviews of the operations at the various participating hospitals for the purpose of evaluating the operations, assisting hospital personnel, and resolving problems and informing management of any deficiencies.

The District, in September 1959, assigned to its Internal Audit Office the responsibility of making periodic audits both of the various hospitals and the Medical Assistance Division and of evaluating the effectiveness of the administrative controls and reporting any problems, weaknesses, or deficiencies.

216. Need for consistency in recording program collections--The District does not record collections from part-pay patients in a consistent manner. Collections are recorded as general revenues when collected by the District but as a reduction of the costs of the Medical Charities and Freedmen's Hospital programs if collected by the hospitals. As a result, the District's financial records and reports do not disclose the full cost of the programs. We recommended in our December 1959 report that all collections from part-pay patients, regardless of whether collected by the District or by the hospitals, be treated consistently as reimbursements to the appropriations and that both the program accounting records and the budget requests show separately the gross payments to the hospitals for services provided and the amounts of such payments that are recovered from part-pay patients.

REVIEW OF THE DISTRICT OF COLUMBIA MEDICAL CHARITIES  
AND FREEDMEN'S HOSPITAL PROGRAMS FOR CARE OF INDIGENT  
DISTRICT RESIDENTS (continued)

217. Need for change in contract definition of services constituting an outpatient visit--The contracts with private hospitals furnishing medical and hospital care to indigent residents of the District did not clearly define the types of services to be furnished and paid for as part of an outpatient visit. As a result, the District has paid for many special services that possibly should have been furnished by the hospitals as part of an outpatient visit. We recommended in our report of December 1959 that a clear definition of the term "outpatient visit" be included in each contract with a private hospital.

The District has issued an administrative directive clarifying the term "outpatient visit."

## REVIEW OF FEDERAL HIGHWAY PROGRAM

218. Restrictive feature in State contracting procedures eliminated--Our review of Maryland contract specifications, approved by the Bureau of Public Roads, disclosed an unnecessarily restrictive feature in the State's specifications which required the rejection of bid proposals containing minor omissions or errors. It was our view that this restriction could result in unnecessarily increasing construction costs both for the State and for the Federal Government. We recommended that the Bureau encourage the State of Maryland to revise its contract specifications to permit the State highway department to exercise discretion in such matters and waive technicalities in bids that do not substantively affect competitive bidding or that cause inequities among contractors. Subsequently, the Bureau advised us that the State of Maryland had revised its specifications to permit the waiver of technicalities in bid proposals.

219. Changes made to provide contractors better opportunity to bid on Federal-aid highway contracts--During our review of Federal-aid highway construction contracts in West Virginia, we noted that newspaper advertising for bids did not extend over a full 2-week period prior to bid openings, as required by the Federal-Aid Regulations. Also, West Virginia's contract specifications required that applications for prequalification be filed at least 15 days prior to the bid-opening date. Because the time requirement for prequalification exceeded the period of newspaper advertisement, contractors not already prequalified were precluded from bidding on Federal-aid highway contracts. The relatively short period for advertising also could have served to eliminate bidding by out-of-State contractors who were not prequalified. After discussing this matter with Bureau of Public Roads officials, we were informed that the State would be required to comply with the Federal-Aid Regulations. Later we were informed that West Virginia increased the period of advertisement for bids on Federal-aid highway contracts to 3 weeks.

220. Improvement made in instructional manual for compiling revised estimate of cost of completing the Interstate Highway System--Section 104(b)5 of title 23, United States Code, requires that a revised estimate of the cost of completing the Interstate System be submitted to the Congress in January 1961. A preliminary draft of a manual of instructions for the preparation and submission of the revised estimate was submitted to us by the Bureau of Public Roads, Department of Commerce, during the fiscal year for our review and comment. We called the attention of the Bureau to the statement in our report to the Subcommittee on Public Roads, United States Senate, dated May 16, 1958, on review of the cost estimates prepared by 11 States, that the approved geometric design standards for the Interstate System are not conducive to being applied uniformly throughout the States, as the word "uniform" is commonly understood. We expressed our disagreement with the basic premise implied in the Bureau's instruction manual

## REVIEW OF FEDERAL HIGHWAY PROGRAM (continued)

that reference to the approved design standards will assure uniformity of design among the States.

The Bureau adopted several of our suggestions for clarification of various sections of the manual and for obtaining additional information that we considered essential to support the State estimates. The Bureau also adopted our suggestion that its project examination division review the cost estimates of several States, after they had been completed by the States but before the consolidated report of State estimates is submitted to the Congress.

221. Guidelines issued for the preparation of appraisal reports for right-of-way purposes--In the acquisition of rights-of-way for Federal-aid highways, the States have the responsibility for making adequate appraisals of property within such rights-of-way as the basis for negotiation with property owners. Reimbursement to the States by the Bureau of Public Roads for the Federal share of the costs of rights-of-way is made pursuant to a showing by the States of actual costs incurred, supported by acceptable appraisal reports. In July 1959, we reported to the Bureau that its right-of-way policies did not provide sufficient criteria or guidelines as to the type or content of right-of-way appraisals which are acceptable in support of State claims for Federal reimbursement. Based on our reviews of State appraisal reports, we suggested to the Bureau that the varied and often inadequate information contained in such reports indicated the need for Bureau policies to specify minimum standards for acceptable appraisal reporting. In January 1960, the Bureau issued instructions setting forth the specific criteria it considered essential for the preparation of adequate appraisal reports.

222. Procedures strengthened for collecting amounts due the Government for excess equipment transferred to States--Our review of operations at the Bureau of Public Roads regional office in Hagerstown, Maryland, disclosed that amounts receivable from States for transferred excess equipment were understated by about \$201,000 on the records of the regional office, including \$6,000 for which the region did not intend to request payment by the States because the transferring Government agencies had not billed the Bureau for this equipment. After we brought this matter to the Bureau's attention, the Bureau directed all division and regional engineers to review their records to make certain that all transfers of excess property to the States are billed.



REVIEW OF ACTIVITIES UNDER THE SLUM CLEARANCE  
AND URBAN RENEWAL PROGRAM

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

223. Noncash grant-in-aid credit to be disallowed--Local communities provide noncash grants-in-aid as a portion of their share of the cost of slum clearance and urban renewal projects. The amount of noncash grant-in-aid credit allowed by the Urban Renewal Administration becomes part of the cost of the project, two thirds of which is borne by the Federal Government. We observed that URA tentatively allowed credit for some noncash local grants-in-aid in connection with two San Francisco projects although on the basis of our review we believe (1) that the improvements were in excess to the needs of the project, (2) that the amount of the credit was not properly determined, (3) that credit was allowed for an ineligible facility, (4) that a project would not receive the required minimum benefit from the facility for which credit was allowed, and (5) that an improper method was used in computing grant-in-aid credit. As a result of our recommendation, the Commissioner, URA, in replies dated June 3 and August 31, 1960, agreed to disallow grant-in-aid credit totaling about \$275,000.

224. Action to be taken to reduce possibility of unsatisfactory relocations of project families--We found that a number of families displaced by the San Francisco Western Addition Project had relocated into substandard housing although the local public agency had reported that these families had self-relocated into standard housing. The Urban Renewal Administration requires the LPA's to offer assistance in finding standard living accommodations to families who have self-relocated into substandard dwellings. The San Francisco HHFA regional office agreed with our conclusion and made arrangements for the LPA to immediately reinspect some 500 relocation dwellings and to offer standard accommodations to those families which are found to have relocated in substandard dwellings. We believe that the unsatisfactory relocations resulted chiefly from lack of review of relocation activities by the URA and the failure of the LPA to properly supervise and discharge its relocation functions.

REVIEW OF ACTIVITIES UNDER THE SLUM CLEARANCE  
AND URBAN RENEWAL PROGRAM (continued)

We recommended that the Urban Renewal Commissioner require the San Francisco HHFA Regional Administrator to more thoroughly review the relocation plans submitted by the LPA's to determine whether they contain a feasible method for the relocation of families displaced in the future so as to reduce the possibility of unsatisfactory relocations. On June 3, 1960, the Commissioner informed us that he would take the recommended action.

225. Need to prevent payment of inflated prices for slum properties--During our review in the fiscal year 1960, we found that inflated prices had been paid by the San Francisco local public agency for certain residential slum properties. Since the Federal Government generally pays two thirds of the cost of the slum clearance and urban renewal program, it is bearing a large part of the excessive cost. We recommended that the Commissioner, Urban Renewal Administration, make a study to determine the most feasible means of minimizing the payment of inflated prices for slum properties converted to unlawful uses and that he revise existing policies and regulations, or if necessary request appropriate changes in legislation, to minimize such payments. In reply, the Commissioner stated that URA had made and was continuing to make studies of the best methods of preventing LPA's from making excessive payments for slum properties acquired without court action. He stated also that policies and procedures had been and were being established to prevent payment of inflated prices.

While the action taken and planned by URA may help in solving the problem, we advised the Commissioner, URA, that we believe that URA could attempt to obtain the cooperation of State legislatures to amend State laws relating to eminent domain proceedings to preclude recognition of increments in value arising from use of property under illegal conditions. URA could then require also that appraisers not recognize such increments in value. The Commissioner acknowledged that legislation might be of some aid, but expressed the belief that exclusion from the determination of fair market value (just compensation) of any increment of value due to illegal use or condition of the property depends upon the efforts of the LPA through its trial counsel to raise the issue.

226. Need for audit of costs of noncash grants-in-aid--During our review, completed in fiscal year 1960, we found that the cost of noncash grants-in-aid, the second largest item of gross project cost of slum clearance projects, was not being audited by the Urban Renewal Administration. We recommended the establishment of a policy providing for an audit of the cost of noncash grants-in-aid.

In reply, the Administrator, Housing and Home Finance Agency, informed us that HHFA was planning to require local public agencies to submit a certification or verification of the cost of completed noncash grants-in-aid by the State, city, or independent

REVIEW OF ACTIVITIES UNDER THE SLUM CLEARANCE  
AND URBAN RENEWAL PROGRAM (continued)

auditors who ordinarily audit the accounts of the city or other agency which is providing the grant-in-aid. We will evaluate the effectiveness of the proposed procedures after we have had an opportunity to observe the results.

REVIEW OF FEDERAL HOUSING ADMINISTRATION ACTIVITIES  
IN THE ADMINISTRATION OF THE CAPEHART HOUSING PROGRAM

227. Action taken to require timely commencement of principal payments on Capehart housing mortgages--Federal Housing Administration (FHA) procedures did not require that principal payments of Capehart housing mortgages commence within a reasonable period after completion of construction and final endorsement of the mortgage note. As this action has effectively extended the mortgage amortization period, we estimate that unnecessary interest ultimately will be paid by the military services, the mortgagors, on mortgages finally endorsed for insurance at the time of our review.

We brought this matter to the attention of FHA on July 24, 1959, and as a result FHA (1) amended its rules and regulations on August 19, 1959, to require that, in future cases, principal payments commence promptly after final endorsement and (2) obtained earlier starting dates for commencement of principal amortization, where applicable, on mortgages finally endorsed after August 19, 1959. This action will result in interest savings.

228. Need for developing more reliable replacement cost estimates--FHA's estimates of replacement costs of Capehart housing are intended to serve as an evaluation of the reasonableness of bids received as well as a ceiling for the amount of the insurable mortgage. We noted significant deficiencies in the procedures and practices used in developing these estimates, and we believe that the estimates generally have not accomplished their intended purposes.

In our report dated June 30, 1960, we recommended that the FHA Commissioner reexamine the method of cost estimating currently used in processing Capehart housing with the objective of expanding the present basis for developing cost information. Although the Commissioner agreed that the method of cost estimation was based on the development of local costs, he stated that travel or effort to secure wider cost information was considered unwarranted.

229. Need for restoring limitations on construction change orders--Contrary to the original memorandum of agreement between FHA and the Department of Defense that change orders would not be used to provide higher cost housing, FHA approved certain change orders proposed by the military services which resulted in higher cost housing or unnecessary costs to the Government. In a new memorandum of agreement, FHA and the military removed this restriction on change order use.

We believe that change orders should not be used for the primary purpose of providing higher cost housing or extras, because change order procedures do not provide the protection of competitive bidding or cost certification to FHA's interest as the insurer. We further believe that the restrictions imposed on change orders by the original memorandum of agreement were sound and, if properly administered, would foster the purposes of title VIII of the National Housing Act.



REVIEW OF FEDERAL HOUSING ADMINISTRATION ACTIVITIES  
IN THE ADMINISTRATION OF THE CAPEHART HOUSING PROGRAM (continued)

In our report dated June 30, 1960, we recommended that the FHA Commissioner initiate action to (1) restore the limitations on the use of change orders as provided by the original memorandum of agreement and (2) require rejection of change orders which are beyond the scope of these restored limitations.

230. Need to strengthen controls over approvals of Capehart housing--In several instances an FHA headquarters official, without apparent justification, approved Capehart units in excess of the number recommended by FHA insuring office directors. We believe that such actions do not provide reasonable administrative control or assurance that FHA's insurance interest in other housing will not be adversely affected.

In our report dated June 30, 1960, we recommended that FHA headquarters decisions approving Capehart housing be clearly documented and the information upon which the Central Office decisions are based be a matter of record, particularly where such decisions are not supported by field study and conclusions of the responsible insuring office director.

## REVIEW OF LOW-RENT HOUSING OPERATIONS

231. Federal contributions could be reduced by elimination of deficiencies in project plans and specifications--Costs of about \$265,000 were incurred by a local housing authority to correct certain deficiencies in project plans and specifications not recognized at the time the projects were planned, and an undetermined amount of additional expense will be incurred in the future because of these deficiencies. In addition, substantial rental revenues were not realized due to vacancy problems resulting primarily from deficiencies in project design. The deficiencies included (1) inadequate corrosion protection to water piping which necessitated extensive replacement and repairs, (2) improper site grading which caused eroded slopes, undermined walks and stoops, and caused an undetermined amount of damage to project buildings, and (3) yard hydrants used for project sprinkling systems which proved to be unsatisfactory shortly after their installation and created excessive maintenance problems.

Because the correction of design deficiencies after completion of the 37,000 additional low-rent housing dwelling units authorized by the Housing Act of 1959 could materially increase the Federal contribution for these units, we brought this matter to the attention of the Public Housing Administration (PHA) and suggested that PHA (1) review the plans and specifications for all future project developments to ascertain whether any of the proposed features could result in unnecessary future maintenance, repair, or replacement costs and (2) disapprove any such features where the immediate monetary advantage would be less than the probable additional costs over the life of the annual contributions contract. On May 19, 1960, PHA informed us that it agreed with us in principle and that, in reviewing plans and specifications, it could only continue to exercise its best judgment as to the desirability of a particular design feature, recognizing that on occasion an error in judgment would be made.

232. Steps taken to establish appropriate charges for excessive utility consumption--Potential revenue was lost to several local housing authorities because tenants occupying low-rent dwelling units were not charged for excessive utility consumption. In each instance the Public Housing Administration is attempting to work out local arrangements for establishing appropriate charges. PHA informed us that its regional offices were aware of this problem and were initiating remedial action where necessary.

233. Control over appraisal fees strengthened--We observed that, in the development of low-rent projects, the Public Housing Administration regional offices in some cases approved appraisal fees for amounts substantially higher than the maximum fees suggested by PHA, without adequate support of the reasons for the excesses. Also, the PHA land advisors were not required to record or support their determinations of fees in excess of PHA's maximums. In two regions, appraisal contracts were executed after the appraisers' reports were issued.

## REVIEW OF LOW-RENT HOUSING OPERATIONS (continued)

We recommended that PHA instruct the local housing authorities not to proceed with appraisals until contracts for stipulated fees have been executed and that the PHA land advisors be advised to document their determinations of appropriate appraisal fees. PHA concurred and informed us that the PHA staff and the LHA's were instructed to have appraisal contracts executed at stipulated fees prior to the appraisals and that the land advisors would be instructed to document their determinations as to appropriate appraisal fees.

234. Action taken to reduce excessive reserve for technical services and rates billed for construction inspections--Our 1959 report of audit of Public Housing Administration disclosed that the reserve for reimbursable technical services was excessive. We recommended that PHA (1) reduce the reserve to the amount needed to defray any probable excess costs of construction inspections in future periods and informally suggested that this be done by depositing most of the balance of the reserve into the miscellaneous receipts of the Treasury and (2) make periodic adjustments of the rates billed local housing authorities for construction inspections as necessary to help avoid future accumulations of excess reserves.

The Independent Offices Appropriation Act, 1959 (72 Stat. 1081), and prior year appropriation acts provide that the necessary expenses for PHA representatives at construction sites of low-rent projects shall be compensated for by the LHA's by the payment of fixed fees to PHA. The fixed fees received by PHA may be used only for the payment of the costs of performing such technical services. At March 31, 1960, cumulative technical service fees charged LHA's for construction inspections totaled about \$3.3 million in excess of related expenses.

In line with a budget request by PHA, the Supplemental Appropriation Act, 1961 (Public Law 86-651, approved July 14, 1960), authorized an additional amount of \$12 million for the payment of annual contributions and provided that \$3 million of this amount would be derived from the funds collected as fixed fees from the LHA's. Also, PHA reduced the rates for billing the LHA's for construction inspections effective July 1, 1960.

REVIEW OF FEDERAL NATIONAL MORTGAGE ASSOCIATION'S BORROWINGS  
UNDER ITS MANAGEMENT AND LIQUIDATING FUNCTIONS

235. Increased interest expense to the United States Government due to Federal National Mortgage Association's borrowing from private investors--At June 30, 1959, the Federal National Mortgage Association (FNMA) had under its Management and Liquidating Functions, notes payable to private investors in the amount of \$797,344,000. If FNMA had borrowed the funds from the Treasury, the interest rate would probably have been about seven eighths of 1 percent less. Because of the difference in interest rates, the additional interest cost over the life of the issue will amount to about \$18 million, all of which the Government will bear because the benefits and burdens of the Management and Liquidating Functions inure solely to the Secretary of the Treasury. In our report dated January 29, 1960, we expressed the view that inasmuch as FNMA cannot borrow money from the public as advantageously as can the Treasury, considerable savings to the United States Government could be achieved by a different method of financing.



## DEPARTMENT OF DEFENSE

### AND DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

#### REVIEW OF ORGANIZATION

236. Annual savings of \$2 million to result from closing of primary flying training school--Our review of current and projected requirements of the Air Force for facilities to provide primary pilot training disclosed that, whereas the Air Training Command maintained six schools to provide such training, the capacity of only five of the schools was adequate to meet requirements and that about \$6 million worth of construction work had been programed to accommodate jet trainer aircraft at three of the schools. We indicated to the Under Secretary of the Air Force that one of the six schools should be closed and that an early decision on the matter might well avoid unnecessary construction costs. The Air Force concurred and as of June 30, 1960, closed the primary pilot training school at the Malden Air Force Base, Malden, Missouri, one of the three schools for which construction had been programed. This action resulted in a direct saving in operating costs of about \$2 million annually and avoided the expenditure of a substantial but not readily determinable amount for construction or modification of facilities.

237. Operating costs reduced by change in status of naval auxiliary station--At the time of our initial review in 1957 of operations at the Navy's Henry C. Mustin Airfield in Philadelphia, Pennsylvania, we found that the airfield was used only to a limited extent in connection with the mission of its parent organization, the Naval Air Material Center, Philadelphia, Pennsylvania. It was apparent that other Navy airfields in the Philadelphia area could absorb the flight operations then being performed at Mustin Airfield without significant additional costs. We therefore suggested to the Department of the Navy that a reappraisal be made of the usefulness of Mustin Airfield. The Navy later reduced the status of the Airfield from a naval auxiliary station to an auxiliary landing field. Our follow-up review disclosed that the action taken by the Navy had resulted in cost reductions totaling over \$600,000 during the fiscal year 1959 and would result in comparable annual cost reductions in the fiscal year 1960 and future years. We found also that plans for improving the facility, which were under consideration in 1957, had been canceled, thus averting the contemplated expenditure of about \$2 million.

238. Supply personnel at Army base reduced by consolidation of supply operations--Our review of supply functions at the Presidio of San Francisco, San Francisco, California, disclosed the feasibility of reducing the number of personnel performing these functions by consolidating the separate supply operations and related activities of the Corps of Engineers and the Signal, Quartermaster, and Ordnance Corps. The Commanding Officer concurred

## REVIEW OF ORGANIZATION (continued)

in our finding and agreed to take appropriate action. Our follow-up review in July 1960 disclosed that the consolidation had been made and was resulting in annual savings of about \$200,000.

239. Duplicate service functions at arsenal consolidated--We found at the Rock Island Arsenal, Rock Island, Illinois, that two mail and record centers were maintained which performed substantially similar functions--one for the Arsenal and the other for the Ordnance Weapons Command, a tenant organization. We recommended that the two centers be consolidated in order to avoid duplication of supervisory personnel and of certain equipment and to promote more effective utilization of clerical effort. In a follow-up review in fiscal year 1960, we found that the consolidation had been made and was resulting in annual savings of about \$39,000.

240. Reduction made in staffing of inactive Government-owned installations--Our review of Government-owned, contractor-operated installations administered by the Ordnance Ammunition Command, Department of the Army, disclosed that 134 persons were assigned to 15 inactive installations. We questioned the need for certain of the clerical functions performed at the inactive installations and recommended that the personnel be reduced. Our recommendation was adopted during fiscal year 1960, and our follow-up review disclosed that 86 positions had been eliminated at an estimated annual saving of \$508,000.

241. Need for the Air Force to develop in-house capability to provide systems engineering and technical direction for its ballistic missile program--In our report of May 19, 1960, on our review of the administrative management of the development programs of the THOR, ATLAS, and TITAN missiles, we stated that the Air Force had, since inception of the programs in 1954, relied on a private contractor for the systems engineering and technical direction of the programs without taking steps to develop its own staff to perform these functions. We pointed out the disadvantages of delegating to a private contractor the management of programs so vital to the welfare of the Nation.

We recommended that the Secretary of Defense take appropriate steps to develop capability within the Air Force to provide systems engineering and technical direction. The Air Force subsequently made a study of the problem and, pursuant to the recommendation of the study group, a private nonprofit corporation was established to provide certain technical support for future ballistic missile programs. However, the contractor who is providing systems engineering and technical direction for the current missile programs will continue to serve in that capacity for those programs.

## REVIEW OF ORGANIZATION (continued)

242. Need for consolidation of electronic supply management functions and organizations--Uneconomical and inefficient operations in the Department of Defense were resulting from duplication and overlapping of electronic supply management functions and organizations among the military departments. Unnecessary administrative costs were being incurred because there were six independent organizations performing the same or similar stock-management functions. Consolidation of these organizations, whose administration costs exceed \$25 million annually, would effect significant reductions in costs. Also, failures in supply support were occurring and unnecessary costs were being incurred as a result of independent determinations of the types and quantities of spare parts needed initially to support the same electronic items used by two or more services; unnecessary electronic systems were being brought into the supply systems because of failure to combine or relate similar operational requirements; and unnecessary costs were being incurred because of duplication or overlapping of storage and distribution functions.

Another consequence of the lack of centralized management was the failure of individual military departments to consider maintenance facilities and personnel not fully utilized in the other military departments to overcome their backlogs of repair and overhaul jobs. Also, items were being repaired in small quantities in one department while the same items were concurrently being repaired in larger quantities in other departments. The combining of all repair work for a particular item would result in savings through the use of the more economical production-line technique.

We recommended to the Secretary of Defense that consideration be given to assigning the management of electronic supplies to an organization within the Department of Defense that will be given the necessary authority and responsibility to centrally manage all electronic equipment and supplies. In a reply dated April 29, 1960, we were advised that the Department had initiated a study of the management of electrical/electronic materiel and that our recommendation would be considered in the light of the results of the study.

243. Need for consolidation of separate ocean terminal facilities in the San Francisco Bay area--Our review of the utilization of ocean terminal facilities by the military departments in the San Francisco Bay area disclosed that three separate ocean terminals are operated by the Army and the Navy for passengers and general cargo, although the combined volume of present and foreseeable future operations, based on peak volume during the Korean emergency, is within the operating capacity of one of the installations. The Naval Supply Center, Oakland, California, appears to be the one location having sufficient facilities to serve as a consolidated terminal. We estimate that consolidation of terminal operations at the Naval Supply Center would result in recurring

## REVIEW OF ORGANIZATION (continued)

annual savings of at least \$4.6 million and would also eliminate the necessity for nonrecurring capital expenditures for reconstruction of water-front facilities at the Oakland Army Terminal. An engineering firm engaged by the Department of the Army to survey the facilities at the Oakland Army Terminal has estimated that the cost of reconstruction may be as much as \$10 million.

We presented our findings, conclusions, and recommendations to the Department of Defense for comment. In response, we were advised on May 5, 1960, that the Department had not yet reached a final conclusion on the feasibility or desirability of the recommended consolidation and that the Department would initiate an interdepartmental survey of terminal operations in the San Francisco area.



## REVIEW OF PROCEDURES FOR DETERMINING REQUIREMENTS FOR SUPPLIES AND SERVICES

244. Changes made to correct uneconomical practices in determining quantities of materials to be procured--In our review of supply activities in the Marine Corps we found that certain uneconomical practices were being followed in determining the quantities of materials to be procured for the supply system. As a result, items were procured in quantities excess to the planned stock-level objectives. These uneconomical practices included:

1. Lack of prompt and aggressive action to adjust procurement programs in response to policy decisions affecting requirements. At the time of our review, about \$6.6 million in open contracts or planned procurements was excess to the stock-level objectives prescribed by Marine Corps directives.
2. Introduction of new end items into the supply system without adequate consideration of spare-parts support already available in the system. A limited test disclosed 23 instances of spare-parts procurement, totaling about \$11,000, to support new end items of equipment although excess quantities of these spare parts were already available in the system.
3. Overstatement of spare-parts requirements for new items of equipment because of incorrect factors used in requirements computations. Our tests of spare-parts requirement computations for but two new items of equipment revealed <sup>x</sup> overstatements which resulted in overprocurement valued at more than \$290,000.

The Commandant of the Marine Corps concurred with our recommendations to correct these deficiencies and informed us on April 5, 1960, that appropriate action had been taken to implement them. The direct results of the Marine Corps' action included termination of procurement contracts or reduction of quantities to be delivered under the contracts, thereby avoiding the unnecessary purchase of \$2.2 million worth of supplies, and cancellation of planned purchases of about \$1.1 million worth of supplies.

245. Improved procedures adopted to coordinate requirements for transportation services of the Military Sea Transportation Service--Our review of selected activities of the Military Sea Transportation Service (MSTS) disclosed that the lack of a firm Department of Defense policy as to the transportation of troops via air or sea and the frequent failure of the military departments to promptly notify MSTS of changes in their space requirements resulted in poor utilization of ships and unnecessary costs. We noted that over 870,000 troop berths had been unoccupied, out of a total of 1,600,000 berths available during voyages made in fiscal years 1957 and 1958. Poor utilization of ships was previously

## REVIEW OF PROCEDURES FOR DETERMINING REQUIREMENTS FOR SUPPLIES AND SERVICES (continued)

pointed out in our report dated September 5, 1957. No significant improvement in the utilization of troop space had been made since we issued that report. Also, failure of the military departments to notify MSTs of changes in space requirements resulted in poor utilization in cargo ships. After commenting on this situation again in our report of September 17, 1959, we were advised by the Department of Defense on February 24, 1960, that a new policy for air and sea transportation had been approved by the Secretary of Defense and that the new policy, together with improved procedures for reporting changes in space requirements, should result in better utilization of ships.

246. Action taken by the Navy to meet a portion of its butter requirements by use of available surplus butter of the Commodity Credit Corporation--In our report issued October 13, 1959, to the Commanding Officer of the Navy Subsistence Office (NSO) on our review of selected activities of the NSO, we pointed out that excess costs were being incurred because certain of the requirements for butter which should have been met by use of available surplus butter of the Commodity Credit Corporation (CCC) were being met by procurement from commercial sources. Navy policy provided that butter requirements in excess of 1.2 ounces per man per day were to be met from available stocks acquired by CCC under its price-support operations. We found, however, that most Navy installations and ships were using commercial butter, procured at about 63 cents a pound, under circumstances which required the use of CCC butter at a cost of only 4 cents a pound to cover packaging. The Commanding Officer, NSO, in a letter dated October 30, 1959, concurred with our finding and stated that procedures had been adopted to assure maximum use of CCC butter to meet the Navy's requirements. We estimated that this action is resulting in annual savings of about \$232,000.

247. Need for the development of firm requirements and adequate criteria for the selection and use of automatic data processing equipment--In our review of the procurement of automatic data processing (ADP) equipment for installation at Fort Meade, Maryland, we found that the procedures followed by the Department of the Army in determining its requirements and in soliciting and evaluating contractors' proposals for such equipment were deficient in significant respects.

The Army did not determine that it actually needed all the records and reports that were included in the workload for the ADP system. There was, therefore, no assurance that the equipment selected would most effectively serve the Army or that there was actually a need for the equipment. The Army did not prepare an accurate and complete definition of its requirements. Equipment manufacturers were, therefore, left to their own initiative in developing a satisfactory understanding of the Army's needs, and this

REVIEW OF PROCEDURES FOR DETERMINING REQUIREMENTS  
FOR SUPPLIES AND SERVICES (continued)

resulted in varied proposals. In evaluating these proposals the Army did not show that the characteristics of the equipment which influenced its selection were related to or fulfilled the needs at Fort Meade. The Army also disregarded advice from technical sources that procurement was inopportune at the time. Furthermore, the Army did not comply with the conditions imposed by the Assistant Secretary of Defense (Comptroller) as precedent to the acquisition of ADP equipment.

Delivery of the equipment was begun in December 1958 and, after certain operational difficulties had been overcome, was considered operational on October 1, 1959. However, there was no productive ADP workload ready for the equipment at that time. It was roughly estimated that about one half of the contemplated workload would be ready for machine processing by June 30, 1960.

Because of these significant deficiencies, we concluded that there was no reasonable justification for proceeding with the currently planned procurement of ADP equipment at Fort Meade. In our report dated January 29, 1960, we recommended to the Secretary of the Army that effort at Fort Meade be redirected toward the development of firm operational requirements and adequate criteria for the selection and use of ADP equipment in order that the Fort Meade installation can serve, as intended, as a prototype installation. The Army concurred. The Assistant Secretary of the Army (Financial Management) informed us by letters of February 18 and August 23, 1960, of the steps taken and the progress made toward the objectives of our recommendation.

248. Failure to adjust procurement programs in response to changes in requirements--In our review of the procedures for determining requirements for the procurement of aircraft parts and ammunition by the Ogden Air Materiel Area we found that the Area supply officials did not have adequate controls to enable them to adjust procurement programs promptly to current requirements and that about \$675,500 worth of materiel on order was excess at the time of our review because of reduced requirements. When we brought this condition to the attention of agency officials, the Air Force canceled the remaining undelivered quantities, at estimated savings of about \$362,500, and took steps to correct the procedural deficiencies disclosed by our review.



## REVIEW OF CONTRACTING POLICIES AND PRACTICES

249. Need for reconsideration of policy of allowing fees to contractors for financing costs in lieu of direct financing by Government at lesser cost--Under the policy established by Department of Defense Directive No. 7800.6, effective November 1, 1957, contractors are required to obtain private financing for a portion of their predelivery costs under certain cost-reimbursement contracts. Under this directive, the contractors may not be paid more than 80 percent of their allowable costs until delivery of the contract items, whereas previously they were reimbursed for the entire amount of their allowable costs as costs were incurred regardless of when the items were delivered. Pursuant to the new policy, under 26 contracts which we examined, the Department of the Air Force allowed contractors additional fixed fees of about \$17,600,000 to cover their estimated costs of financing the estimated amounts of costs to be withheld from reimbursement prior to deliveries. The cost to the Government of contractor financing under these 26 Air Force contracts will be about \$8,700,000 higher than the estimated cost of direct financing by the Government. Although we were unable to obtain an estimate of the total amount of additional fees for contractor financing which have been negotiated under Department of the Navy and Department of the Army contracts, the records indicate that application of this policy to such contracts has resulted in increased costs without any significant benefit to the Government.

After we brought this matter to its attention, the Department of Defense stated in a letter to us dated March 4, 1960, that the practice of requiring contractors to finance a portion of their predelivery costs provides an incentive for contractors to reduce their costs. We have seen no evidence to support this contention. In view of the high cost to the Government of contractor financing compared with the estimated cost of direct Government financing and in view of the remote and intangible nature of any possible benefits to the Government from contractor financing, we recommended to the Secretary of Defense that the advisability of continuing the policy established by Directive No. 7800.6 be reconsidered. We recommended also that the policy not be followed in any case where there is a significant increase in financing cost to the Government unless it can be shown for the specific contract that there are identifiable compensating benefits to the Government.

250. Sole-source procurement because of unavailability of drawings essential to solicitation of competitive bids--Our review of selected procurements by the Department of the Navy disclosed serious deficiencies in the receipt, control, and use of drawings furnished by contractors at Government expense. Although Navy procurement contracts contain provisions, where applicable, for the submission by contractors of drawings and technical data for use by the Government in subsequent procurement, the Navy in many cases has negotiated contracts on a sole-source basis because



## REVIEW OF CONTRACTING POLICIES AND PRACTICES (continued)

adequate contractor-furnished drawings were not available for use of other prospective suppliers. Our findings included, more specifically, (1) lack of adequate control to insure receipt of all drawings due from contractors, (2) failure to use available drawings for advertised procurement, (3) lack of centralized control of drawings, and (4) misuse of authority by the Aviation Supply Office in contracting by negotiation rather than under competitive bidding procedures because of poor control over, or failure to ascertain, the availability of contractor-furnished drawings.

We recommended to the Secretary of the Navy that a study be made of these findings to determine the extent to which policies and procedures of the various Bureaus and Offices of the Department could be improved to assure maximum use of contractor-furnished drawings in subsequent procurement. Subsequently, the Navy made a study of this problem and developed certain recommendations for improving control over and use of contractor-furnished drawings. The Assistant Secretary of the Navy (Material) informed us on September 1, 1960, that appropriate organizational units had been instructed to implement the recommendations of the study group and that the Navy would continue to review and evaluate the effectiveness of its procedures and practices in this area of operations.

## REVIEW OF CONTRACT PRICES ESTABLISHED THROUGH NEGOTIATION

In our examinations during the fiscal year 1960 of the pricing of major negotiated contracts awarded by the military departments, we found that excessive costs were incurred because of ineffective negotiation of contract prices. Cost proposals of contractors and subcontractors, which were unreasonably high in relation to the latest available cost experience, were accepted as a basis for negotiation of prices, in many instances, without adequate review of the cost proposals or consideration of the latest available cost experience. In other instances, firm fixed prices were negotiated under circumstances which precluded determination of an equitable firm price in relation to the contractors' costs, because the scope of the work to be performed had not yet been clearly defined. In still other instances, contract prices were negotiated without excluding exempted taxes included in cost proposals or taking into account all other known or readily determinable factors which would have established a basis for lower prices.

The Department of Defense and the military departments took certain steps in response to our recommendations for improvement of procedures and practices in negotiation of contract prices. The Armed Services Procurement Regulation was revised to provide that, in negotiating contract prices, negotiating officials make a thorough analysis of contractors' proposals, that they be in possession of current, complete, and correct cost or pricing data, and that they require contractors to certify that all available cost data pertinent to the evaluation of the proposed prices has been disclosed. The Department of Defense also strengthened or revised other provisions of the Armed Services Procurement Regulation relating to negotiation of prices. The military departments have issued instructions and guidance directives to implement these revisions. We consider these steps important, but we believe there is a need to further strengthen management controls over the pricing of contracts and subcontracts.

Excessive costs incurred as a consequence of ineffective negotiation of contract prices are illustrated in the following examples.

251. Excessive costs incurred because of acceptance of cost proposals without adequate review--Excessive costs of about \$18 million were incurred in 32 of the cases we reviewed. Of this amount, about \$6 million was subsequently recovered by direct refund or by adjustment of amounts due under the contracts; certain of the cases were referred by us to the Department of Justice for such action as the Attorney General deemed appropriate; and in other instances the military departments were exploring the feasibility of effecting additional recoveries.

252. Excessive costs incurred because of use of inappropriate type of contract--In four of the cases we reviewed, excessive costs

REVIEW OF CONTRACT PRICES ESTABLISHED THROUGH NEGOTIATION  
(continued)

of about \$1 million were incurred under firm fixed-price contracts because at the time of award of the contracts there was no basis for determining prices that would be equitable in relation to the contractors' costs and the negotiated prices therefore included allowances for contingencies to cover unknown factors affecting production costs. The contingencies either did not materialize or did not materialize to the extent contemplated at the time the contracts were awarded, and costs actually incurred by the contractors were therefore substantially lower. Subsequent to our review, two of the contractors voluntarily refunded about \$634,000 to the Government.

253. Excessive costs incurred because of inclusion of exempted taxes in offshore procurement prices--We found that the military services had failed in many cases to exclude from offshore procurement contract prices certain foreign taxes from which the United States was exempt. Erroneous tax payments in the amount of about \$825,000 have since been recovered, and potential claims have been established against contractors in amounts considered significant but not readily determinable for additional erroneous tax payments.

254. Excessive costs incurred because of failure to consider other factors bearing on the prices negotiated--Excessive costs were incurred in some instances because contract prices were negotiated without taking into account known or readily determinable factors which, if considered, would have established a basis for lower prices. These instances included payments, as part of the contract price, of about (1) \$96,000 for royalties in excess of the amounts the contractor was obligated to pay to his licensor, (2) \$140,000 for procurement of shipping containers which were not procured or needed by the contractor, and (3) \$30,000 as a fee for the procurement of certain facilities, in connection with a production contract, which should have been procured under a then existing no-fee facilities contract. Subsequent to our review, the Government recovered the \$236,000 of excessive costs related to royalties and shipping containers and the Department of the Army took action to negotiate a contract revision with respect to the excessive fee for procurement of facilities.

## REVIEW OF CONTRACT ADMINISTRATION

Our reviews, during the fiscal year 1960, of contract administration by the military departments during contract performance disclosed the following instances of excessive or unnecessary costs to the Government because of inadequate or lax administration on the part of the military departments.

255. Excessive costs incurred because of indirect procurement--Certain major components of a weapons system included in a production contract with the prime contractor were subcontracted to a first-tier subcontractor which in turn subcontracted the work to other manufacturers which produced the equipment and shipped it directly to the Government. This procedure resulted in additional cost to the Government of about \$4 million for administration and profit allowed the prime contractor and its first-tier subcontractor although neither of them took part in the design, manufacture, or manufacturing control of the components. The \$4 million could have been saved if the Army had procured the components directly from the manufacturers.

256. Failure to award subcontract to lower cost producer--The Army permitted award of a subcontract for certain components to a high-cost producer when another source of supply was qualified and capable of producing the required quantity for about \$595,000 less than the price of the subcontract awarded.

257. Interest-free use of Government funds for extended periods--Contractors and subcontractors enjoyed interest-free use of Government funds because the military departments failed to limit provisional payments to the amounts of incurred costs plus contemplated profit. These funds, which had accumulated to a total of about \$7 million in the cases we reviewed, were subsequently returned to the Government.

258. Changes made in scope of work without appropriate reduction in contract prices--The Air Force negotiated a fixed-price contract on the basis that substantially all the work would be subcontracted. The contractor subsequently decided to perform the work in its own plant at significantly lower cost than the cost estimates upon which the contract price was established. We brought this matter to the attention of the contractor which voluntarily refunded \$105,872 to the Air Force. In another instance, the Air Force reduced the scope of work to be performed, which resulted in a reduction of about \$4.7 million in the estimated cost of the related cost-plus-a-fixed-fee contract, but the fixed fee was not reduced. We estimated that the fee should have been reduced by about \$285,000 and so reported to the contractor and to the Air Force. The contractor subsequently agreed to adjust the fee.



REVIEW OF DEVELOPMENT AND PROCUREMENT  
OF MAJOR WEAPONS SYSTEMS AND RELATED EQUIPMENT

259. Need for improvement in procedures to avoid large-scale procurement of deficient combat and tactical vehicles by the Army-- Our review, completed during the fiscal year 1960, of the development and procurement of new combat and tactical vehicles by the Army disclosed nine series of vehicles which were seriously deficient in operational performance--particularly in the areas of engine, transmission, and track and suspension systems--despite extensive and extremely costly modification programs to correct the deficiencies. Numerous failures of major components of the vehicles were experienced under field operating conditions after only short periods of operation and despite the fact that most of the operations were conducted under limited conditions and thus did not make full demand on the durability of the equipment.

The nine series of vehicles involved about 19,000 individual vehicles priced by the Army at about \$1.6 billion, exclusive of spare parts and modification costs. Procurement of these deficient vehicles resulted from contracting for volume production prior to adequate assurance that identified defects could be corrected either during production or by subsequent modification. Further, large-scale production of these vehicles was undertaken even though the Army had no adequate means of evaluating the performance of earlier vehicles produced under similar circumstances. Although such information was available in basic operating records, the Army had no systematic method for accumulating or analyzing the performance data. This information could have been used for more effective management of the vehicle programs.

We made a number of recommendations to the Secretary of the Army to correct the conditions which we believe have caused the procurement of defective vehicles. The Secretary of the Army commented on our findings by letter dated May 13, 1960, and took issue with our report. On June 13, 1960, we submitted to the Chairman of the Special Subcommittee on the Development and Procurement of New Combat and Tactical Vehicles by the Department of the Army, House Committee on Armed Services, a report on our analysis and evaluation of the comments of the Secretary for use in connection with hearings then being conducted by that Subcommittee. The report on the hearings, issued by the Subcommittee on November 16, 1960, generally supports our position and includes certain recommendations to the Army for corrective action.

260. Need for improvement in procedures to avoid large-scale procurement of deficient aircraft by the Navy--In our review of aircraft procurement programs in the Department of the Navy, we found that decisions were made by the Navy to proceed with the production of aircraft and equipment on a volume basis notwithstanding the unfavorable prospects for obtaining an acceptable product. Moreover, we found no evidence of a realistic expectation of overcoming the difficulties or that consideration was given to these problems in relation to the cost.

REVIEW OF DEVELOPMENT AND PROCUREMENT  
OF MAJOR WEAPONS SYSTEMS AND RELATED EQUIPMENT (continued)

Successive orders for production of aircraft and equipment in volume quantities were placed despite known serious deficiencies which indicated their inadequacy to accomplish the mission intended or before testing and evaluating the initial pilot models to determine performance capabilities. There were repeated indications at successive stages of production that serious deficiencies existed which were not being corrected and that other significant deficiencies were continuing to come to light. These deficiencies, however, were not recognized or considered by the Navy to be of sufficient importance to terminate, suspend, or reduce volume production; instead, additional quantities were ordered. As a result, over \$600 million was spent for aircraft and equipment which were incapable of performing the mission for which they were procured.

The Navy, while conceding that our findings were factually accurate and fairly presented in our report of February 29, 1960, disagreed with our conclusions and recommendations in many important aspects. After careful consideration of the Navy's comments, we concluded that the Navy's aircraft procurement practices did not provide effective management control of such procurement programs. Accordingly, we recommended to the Secretary of the Navy that the final selection of an aircraft design to meet an operational requirement be made as a result of a course of action intended to better enable the Navy to discriminate among the various designs submitted. This course of action would be in the form of limited development of the most promising designs to gain more information in order to improve the Navy's ability to make a good choice. We believe that this method would provide greater assurance of the aircraft's meeting the operational requirement and also would minimize the occurrence of problems during production. We also recommended that (1) responsibilities for surveillance of programs be more clearly fixed, (2) a focal point be established with respect to each program for accumulating, consolidating, and digesting all pertinent information bearing on the management of the program, and (3) each aircraft and equipment program be evaluated periodically as a whole.

261. Need for clearly defining responsibilities for decisions to "make or buy"--In our review of the development and procurement of air-conditioning carts for ground support of the B-58 tactical airplane program, completed during the fiscal year 1960, we found that the contractor had decided, under its authority as B-58 weapon system manager, to design, develop, and fabricate special carts to meet program requirements, rather than to adapt existing carts, and to perform the work in its own plant on a cost-as-incurred basis without inviting competition from experienced outside manufacturers of similar equipment. This decision was made by the contractor even though it had no previous experience in the design, development, and fabrication of such equipment. After the

REVIEW OF DEVELOPMENT AND PROCUREMENT  
OF MAJOR WEAPONS SYSTEMS AND RELATED EQUIPMENT (continued)

contractor had incurred substantial costs in developing a special cart, the Air Force decided to adapt the existing carts. We estimated that the contractor's action in developing and fabricating the special carts, rather than adapting the carts already available, would result in unnecessary cost to the Government of about \$2,660,500.

The contractor justified his decision and obtained approval of local Air Force officials mainly on the basis of the short lead-time available. However, it does not appear to us that a manufacturer, inexperienced in producing air-conditioning equipment, could be expected to develop and fabricate special equipment as economically or in as short a time as a manufacturer who had development and fabrication experience, available tooling, and established sources of supply for materials and component parts for such equipment. At the time of the decision (June 1958) the contractor estimated that about 29,750 engineering and manufacturing man-hours would be required to perform the work. This estimate was subsequently raised to 97,040 hours in October 1958 and to 308,473 hours in May 1959. The revisions represented an increase of 278,723 hours or about 935 percent over the initial estimate of 29,750 man-hours.

We recommended to the Secretary of Defense that the respective responsibilities of the Air Force and of weapon system managers be clearly defined with respect to "make or buy" decisions and that specific instructions be issued to Air Force contracting and administrative officials directing them to maintain such surveillance of significant and important actions of weapon system managers as to assure that the Government's interests are protected and procurement is made in the most expeditious and economical manner.

262. Recommendation that uneconomical procurement of air-conditioning carts for ground support of B-58 tactical airplanes be terminated--The Air Force decided as early as August 1959 to replace the specially designed air-conditioning carts for ground support of B-58 tactical airplanes with modified standard Air Force carts which could be procured at lesser cost. However, the Air Force did not authorize procurement of any modified carts until December 1959. Timely action by the Air Force in authorizing procurement of the modified carts would have permitted termination of the procurement of the specially designed carts and would have resulted in estimated savings to the Government of about \$400,000.

We recommended on January 28, 1960, that the Air Force take prompt action to modify a sufficient quantity of its standard air-conditioning carts for tactical ground support of the B-58 airplane and to terminate procurement of these specially designed carts. However, procurement of the specially designed carts had

REVIEW OF DEVELOPMENT AND PROCUREMENT  
OF MAJOR WEAPONS SYSTEMS AND RELATED EQUIPMENT (continued)

not been terminated at March 18, 1960. In our report of April 27, 1960, we recommended to the Secretary of Defense that an evaluation be made of the current status of the specially designed carts still on order to determine the feasibility of terminating procurement of these parts and to determine whether termination at that point in time would still be beneficial to the Government.



## REVIEW OF INTERSERVICE SUPPLY

263. Need for immediate action to preclude unnecessary purchases by use of available stocks in other military departments-- The failure of the individual military departments to utilize supplies available in the other military departments resulted in unnecessary expenditures and precluded maximum supply efficiency. In our review completed during the fiscal year 1960, we identified major electronic equipment and components, valued at about \$20 million, which were required by individual services to satisfy current needs and were available for transfer from the other services. We apprised appropriate officials of these conditions, and, as a result, transfers worth over \$16 million were initiated or completed and the remaining \$4 million worth of potential transfers were under consideration at the time of our report. The transfers resulted in the cancellation or suspension of procurement actions valued in excess of \$3 million. The results of our selective review, when contrasted with the fact that only \$4.7 million worth of transfers of both major and minor electronic items were made under the Department of Defense interservice supply support program during the entire year ended December 31, 1959, demonstrate the need for improving the defensewide utilization of supplies on hand and increasing the efficiency and effectiveness of supply operations.

We found, also, that electronic items were repaired unnecessarily because of the failure to utilize serviceable items available in the other services. Our review disclosed that electronic equipment valued at over \$2.5 million was being, or was programmed to be, repaired or overhauled at an estimated cost exceeding \$680,000 when serviceable items were in long supply in the other services and available for transfer.

We recommended to the Secretary of Defense that consideration be given to assigning the management of electronic supplies to an organization within the Department of Defense that would be given the necessary authority and responsibility to centrally manage all electronic equipment and supplies. In reply, we were advised that the Department had initiated a study of the management of electrical/electronic materiel and that our recommendation would be considered in the light of the results of the study. However, in view of the significant potential for increasing the utilization of electronic supplies and equipment on hand and the time which will elapse before completion of the study which the Department of Defense stated it had undertaken, we suggested that immediate interim measures be taken to obtain maximum utilization of electronic materials under existing conditions.

264. Action taken to preclude uneconomical disposal of excess stocks--Our review of supply activities of the Marine Corps, completed during the fiscal year 1960, disclosed that in some instances excess stocks in the Marine Corps supply system were not

## REVIEW OF INTERSERVICE SUPPLY (continued)

being disposed of on the most advantageous or economical basis because of failure to consider all the available means of disposal. For example, the Marine Corps earmarked 41 gun carriages, valued at about \$4.1 million, for disposal by scrapping because of reduced requirements. We found that both the Army and the Air Force had requirements for this type of carriage. When this matter was brought to the attention of the Marine Corps, the instruction for disposal by scrapping was rescinded and 31 of the carriages were transferred to the Army and the Air Force. The other 10 carriages had already been demilitarized to the extent that they were no longer usable.

We made recommendations designed to avoid uneconomical disposal of stocks and to eliminate unnecessary delays in disposal of excess stocks. The Commandant of the Marine Corps concurred with our recommendations and informed us that procedures had been implemented to assure prompt and economical disposal of excess stocks.

265. Action taken to improve interservice supply support in Ryukyu Islands--We found in our review of selected supply management activities of the United States Army, Ryukyu Islands (USARYIS), and related activities of the Marine Corps in the Ryukyu Islands that there was inadequate coordination of supply matters among the military services in the Ryukyus. The Marines were ordering items from the continental United States (CONUS) which USARYIS either had on hand or was requisitioning or rebuilding specifically for the Marines. We brought several of these instances to the attention of the Marines, and, as a result, orders for equipment valued at over \$100,000 were canceled. Procedures for dissemination of stockage information and review of supply actions were not effective to assure that the Marines would screen the items that USARYIS had on hand and on order before ordering supplies from CONUS. The Assistant Secretary of the Army, in a letter dated September 23, 1959, concurred with our findings and informed us that corrective action had been taken to improve coordination in supply matters.

## REVIEW OF STOCK CONTROLS

266. Action taken to avoid losses, unnecessary costs, and disruption of operations because of unreliable information on status of stocks in supply system--In our review of supply activities of the Marine Corps, we found that the stock records of the Marine Corps and the reports prepared from them for management use were unreliable. Inaccurate and misleading information caused unnecessary or inappropriate action in some instances and failure to take necessary or appropriate action in other instances. These errors resulted in avoidable losses, unnecessary costs, and avoidable disruption of operations. Our limited tests in the fiscal year 1960 revealed (1) that quantities of materials, valued at \$443,000, were unnecessarily procured because of inaccuracies in the records and (2) that there were unrecorded stocks valued at over \$6.5 million.

We made recommendations designed to correct these conditions and to improve the reliability of information on the status of stocks in the supply system. The Commandant of the Marine Corps concurred with our recommendations and informed us that corrective action was being taken to implement them.

267. Action to be taken to reduce excessive inventory of costly aircraft components--In our review of air-item supply operations at the Army's Transportation Materiel Command (TCMAC), we found that the inventory of spare parts for 27 high-dollar-value line items was approximately \$11.9 million in excess of an economical level of supply. The total inventory for these items amounted to \$22.2 million. The excesses stemmed, in part, from unnecessarily prolonged rebuild cycles for the spare parts and the resultant unnecessary procurement of quantities needed to compensate for the delays in restoring unserviceable items to a ready-for-issue condition. We found unnecessary delays both in the processing of rebuild contracts and in the shipment of reparable parts to rebuild contractors.

In order to reduce the quantities of parts in the rebuild cycle, we recommended that TCMAC (1) establish procedures for assuring that rebuild programs are not disrupted because of delay in contract processing, (2) issue instructions to the depots requiring them to report to TCMAC those reparable parts which have been at the depot in excess of 60 days, and (3) establish procedures for assuring that the parts are sent to rebuild contractors on a timely basis. The Army concurred in our findings and informed us on February 12, 1960, that corrective action had been or was being taken.

268. Action taken to correct weaknesses in programs for overhaul and repair of stocks in supply system--Our review of overhaul and repair operations of the Marine Corps supply system, completed during the fiscal year 1960, disclosed important weaknesses in



## REVIEW OF STOCK CONTROLS (continued)

basic principles of management control generally recognized as needed to assure that operations are conducted economically and efficiently and that they are coordinated properly with the support objectives of the supply system. These weaknesses, which resulted in excess costs of hundreds of thousands of dollars, were evident in the following areas.

1. Ineffective advance planning and scheduling of programs. We found instances where programs essential to providing uninterrupted supply support were omitted from the plans and schedules, while nonessential programs or programs of low priority were included, and instances where programs for items in critical supply were not given appropriate priority and were not completed within a reasonable period.
2. Inadequate coordination of overhaul and repair operations with supply support operations. We found that bills of material were not revised in response to changes in repair programs, materials excess to repair jobs were not returned to the supply system promptly, and deliveries of repair parts into the supply system were not coordinated with deliveries of related end items of equipment.
3. Little control over overhaul and repair costs. Costs of completed jobs were not compared with the cost estimates for the jobs; variances between actual and estimated costs and variances in actual costs as between periods and as between the two supply centers were not determined and were not analyzed and investigated to determine cause. Furthermore, job cost estimates in many instances were not reliable and could not serve as an effective basis for measurement of actual costs or for evaluation of efficiency of the jobs performed.

We made recommendations designed to (1) improve the procedures for advance planning of overhaul and repair programs and the scheduling of jobs to carry out the programs, (2) achieve greater coordination between overhaul and repair operations and related supply-support operations, and (3) provide a basis for control of costs and evaluation of efficiency of operations. The Commandant of the Marine Corps concurred with our recommendations and informed us that action had been taken to implement them.

269. Action taken to reduce unnecessary costs resulting from repetitive requisitioning practices--Preparing, receiving, and processing a large number of repetitive high-priority requisitions and numerous repetitive requisitions for small quantities of low-value items unnecessarily cost substantial amounts to the San Bernardino Air Materiel Area, San Bernardino, California, and to



## REVIEW OF STOCK CONTROLS (continued)

the organizations it supports. These practices were not in accordance with prescribed procedures for requisitioning and distributing material. We estimated that the cost to process repetitive high-priority requisitions could be over \$500,000 a year because of the special attention they must receive. Although we were unable to develop a basis to determine the unnecessary cost of processing repetitive low-value requisitions, we estimated that it cost over \$2,200 during one 45-day period to process 415 repetitive low-value requisitions received from only seven of the more than 350 Air Force bases.

The Assistant Secretary of the Air Force (Materiel) stated in a letter dated November 17, 1959, that the impact of repetitive requisitioning on the Air Force supply system was recognized and that corrective actions had been taken substantially in accordance with our recommendations to reduce the volume of such requisitions.

270. Action taken to reduce unnecessary costs incurred through failure to make direct shipments or to ship nearest stocks--Additional freight costs of about \$20,000 per month were incurred unnecessarily by the Air Force because the San Bernardino Air Materiel Area, San Bernardino, California (SBAMA), shipped from its local inventory instead of from stocks at zonal depots located closer to the using activities. We found also that SBAMA did not give sufficient consideration to the possibilities for substantial savings in freight and handling costs or for more prompt service to using organizations, which could have been realized in many instances by direct shipment from suppliers to the using organizations. We recommended that SBAMA take aggressive action to reduce current freight costs by filling requisitions from depots nearest the using organizations and by arranging for direct shipment from suppliers to using organizations where it is advantageous to do so.

The Assistant Secretary of the Air Force (Materiel), in a letter dated November 17, 1959, agreed with our recommendations and stated that action would be taken to make maximum use of off-base stocks to fill requisitions and that all depots would be directed to determine the relative advantages and disadvantages of direct shipment from suppliers to using organizations.

271. Unnecessary redistribution of supplies avoided--A premature and unauthorized bulk movement of \$9.4 million worth of Air Force supplies from Mobile, Alabama, to San Bernardino, California, would have been made if we had not brought the matter to the attention of management officials. The movement was planned by the San Bernardino Air Materiel Area in connection with the Air Force's reorganization of its stock distribution system. However, SBAMA failed to consider that unnecessary redistribution of stock under the reorganization program was to be avoided to the extent possible by deferring redistribution until the stocks had been

## REVIEW OF STOCK CONTROLS (continued)

substantially reduced in regular course through issues and disposal actions.

After we brought this to the attention of area officials, bulk shipments were discontinued, which resulted in estimated savings of \$500,000 in freight and handling costs. The Assistant Secretary of the Air Force (Materiel), by letter dated November 17, 1959, informed us that aggressive corrective action, in accordance with our recommendations, had been taken by Headquarters, Air Materiel Command, to preclude recurrence of similar situations.

272. Changes to be made to halt excessive grounding of aircraft because of ineffective administration of modification program--In our review of selected supply operations at the Army's Transportation Materiel Command, we found that Army aircraft, which were in short supply, were grounded for excessive periods of time because TCMAC failed to take effective measures in the administration of its configuration and modification program for the aircraft. The program involved contractor-performed modifications and repairs to older model aircraft in order to incorporate improvements and advanced-design features developed subsequent to the production of the aircraft. We found that TCMAC (1) did not furnish planes and parts in a timely manner to the contractors' plants, (2) did not assure itself that its inspectors had the proper training and ability, and (3) failed to prescribe uniform inspection standards. The Assistant Secretary of the Army (Logistics) advised us by letter dated February 12, 1960, of his concurrence with our findings and stated that action had been taken to provide for prompt shipment of planes and parts to contractors and to improve the effectiveness of the Army's inspection of contractors' work.

273. Need for Air Force to reduce delay in repair of aircraft radomes to avoid unnecessary procurement of new radomes--The prolonged delay of the Air Force in providing for electrical testing and repair of damaged aircraft radomes resulted in unnecessary purchasing of new spare radomes and in the continuance of maintenance problems. After 4 years of study, the Air Force had not provided either sufficient Air Force test facilities or contractual services to meet its radome repair requirements. As a result, the Air Force had to spend about \$600,000 a year for the purchase of new radomes which otherwise would not have been needed. Although the Ogden Air Materiel Area, for example, spent over \$110,000 for new radomes in fiscal years 1957 and 1958, there was still a critical shortage of serviceable spare radomes at the end of fiscal year 1959, and there was no capability of restoring the ample stocks of reparable to serviceable condition. In our report dated January 29, 1960, we recommended to the Secretary of the Air Force that a decision be made on the most effective combination of Air Force and contractor test facilities to accomplish the necessary repair and testing of radomes and that this decision be implemented as soon as possible.

## REVIEW OF CAPEHART HOUSING PROGRAM

274. Need for reappraisal of projects because of construction or programing in excess of needs--In our review of the Capehart housing program of the Department of Defense we found that, at 15 of the 40 installations we reviewed, about 5,900 houses estimated to cost over \$147 million were being built or programed in excess of actual or apparent needs. Our findings with respect to the excess houses were based on actual needs determined by the proper or reasonable application of the military departments' requirements criteria existing at the time the construction contracts were awarded or the housing projects were approved by the Congress. However, a substantially larger number of houses in the local communities could have been considered as available had more realistic criteria been used.

One of the primary reasons for the overbuilding was the failure of the departments to recognize that many members of the service prefer to live in personally owned or rented homes. In most cases, also, the departments restricted their surveys of available housing solely to that currently occupied by military personnel and, as a result, failed to determine the number of other vacant and adequate houses in the local communities.

The impact on the local economy of the overbuilding of Capehart housing could not be fully evaluated because the projects either were completed fairly recently or were under construction. However, in the several months prior to June 30, 1960, Federal Housing Administration (FHA) insuring offices reported that mortgage loans were in default on a total of 300 housing units because of the completion of Capehart housing projects. Based on FHA experience for losses on similar property acquired by them, our opinion is that losses on these properties may range from \$540,000 to \$1.2 million.

In our report issued July 29, 1960, we recommended to the Secretary of Defense that the Department of Defense and the military departments reappraise the need for Capehart projects approved for construction, giving full recognition to the deficiencies we identified, and that they take appropriate steps to reduce or terminate projects which cannot be reasonably justified. We recommended further that the determinations made in this respect be reported to the Congress.

275. Need for coordination among military services in planning of housing projects--Our review of the Capehart housing program disclosed a lack of coordination among the military services in the planning of housing projects. On the island of Oahu, Hawaii, where we found that about 1,700 units of Capehart housing estimated to cost about \$42 million had been or were being built in excess of needs, military housing in the area was considered as separate problems of the individual military services rather than as a single problem to be resolved by coordinated and consistent



## REVIEW OF CAPEHART HOUSING PROGRAM (continued)

planning and execution on an area-wide basis. On the basis of the similar general pattern which we found in other geographical areas, there is reason to believe that the situation encountered in Hawaii could exist in any locality where Capehart housing is constructed for more than one military department.

To assure the coordination and uniform administration of military housing in Hawaii and to preclude the construction of further unnecessary housing, we recommended to the Secretary of Defense that a central authority be established on Oahu to control military family-housing operations with responsibility for (1) conducting surveys of existing and potential community support, (2) reviewing over-all requirements for family housing, (3) coordinating the allocation of existing military family housing among the services, and (4) establishing closer working relationship between the Navy's Bureau of Yards and Docks and the Army's Corps of Engineers. We recommended further that the Secretary of Defense exercise similar control in any other geographical area where the military impact is heavy and where there are two or more military installations.

276. Need for strengthening of administrative control over construction contracts--Our review disclosed that the Air Force and the Navy failed to adjust contract prices when substituted materials were used in construction of Capehart housing. In most cases the material was substituted over the objection of either the Federal Housing Administration, the architect-engineer, or the installation engineers. Also, the departments, the Air Force in particular, were lax in proceeding against architect-engineers and/or construction contractors to seek recovery of costs incurred in correcting project deficiencies even though it was apparent that a probable cause for action existed. At eight of the projects we reviewed, the Government will bear estimated costs of \$2 million to correct numerous deficiencies. In our report issued July 29, 1960, we made a number of recommendations to the Secretary of Defense which, if implemented, should result in correcting the inefficient and uneconomical practices identified in our review.

277. Legislation enacted to place cost limitation on individual units of Capehart housing--We found that, because the cost limitation under the Capehart program was stated in terms of average cost with no limitation on the cost of individual units, the costs of housing for Air Force officers under the Capehart program ranged up to \$38,000. This is in contrast with the maximum cost limitation of \$20,000 imposed on housing constructed with military construction funds and in effect at the time the Capehart units were put under contract. This matter was referred to the Senate Committee on Armed Services, at its request, and provisions have been included in the Military Construction Authorization of 1960, Public Law 86-500, section 507(a), which place a \$19,800 maximum limitation on the cost of individual units of Capehart housing.



## REVIEW OF OTHER HOUSING PROGRAMS

278. Steps taken to reconsider proposed disposition of Lanham Act housing--In connection with our review of the Capehart housing program, we noted that, with minor exceptions, family housing units constructed under the Lanham Act were classified by the military departments as inadequate for quarters. Plans were under way to demolish or otherwise dispose of these units without regard to factors which would make their continued retention desirable.

The Congress and the Department of Defense have recognized that the construction of Capehart and other public housing was not intended to provide family housing to all eligible military personnel. Therefore, a substantial number of military personnel who are entitled to military housing, as well as those who are not entitled to military housing, must obtain housing in the local community. In many areas the rental costs are well in excess of the quarters allowances. In such areas, military personnel who live in the community either pay rent in an amount in excess of their allowances or, in order to stay within their allowances, live in substandard housing. Likewise, personnel not entitled to military housing pay high rental rates for substandard housing. We believe that the departments should consider repairing or rehabilitating their Lanham Act housing units to extend their useful economic life in those localities where continued retention would help to alleviate these conditions.

Our views on the proposed disposition of Lanham Act housing were brought to the attention of the Senate Committee on Armed Services by letter dated March 30, 1960, as part of our comments submitted at the request of the chairman of that committee on Senate bill 3006 entitled "A bill to authorize certain construction at military installations, and for other purposes." The bill was subsequently enacted as Public Law 86-500, the fiscal year 1961 Military Construction Authorization Act. Section 508 of the act provides for extension of the terminal date, from July 1, 1961, to July 1, 1962, for disposition of certain inadequate public quarters. The House and Senate conferees agreed on extension of the terminal date with the expectation that Lanham Act housing would be closely studied by the Department of Defense in the ensuing year. On July 12, 1960, the Department of Defense issued to the military departments instructions and criteria for the reevaluation of the adequacy of Lanham Act housing.

279. Steps taken to preclude recurrences of violation of legislative limitation on cost of family housing--In our review of family housing construction activities at the Granite City Engineer Depot, Granite City, Illinois, we found that a congressional cost limitation of \$642,000, established under section 608 of the Department of Defense Appropriations Act, 1956, for the construction of 50 family housing units at the depot, was violated through the arbitrary transfer of approximately \$250,000 of housing costs to other items not subject to the limitation.

## REVIEW OF OTHER HOUSING PROGRAMS (continued)

All the initial bids for construction of the housing units were substantially in excess of the statutory cost limitation and were therefore rejected. The Army subsequently requested proposals for negotiated procurement and awarded the construction contract on that basis. The contract as awarded had the appearance of being within the statutory cost limitation despite the fact that it was higher in total than the low bid previously rejected as being substantially in excess of the cost limitation. We found that this effect was achieved by the expedient of arbitrarily decreasing quoted prices for items subject to the limitation and increasing quoted prices for items not subject to the limitation. On February 10, 1960, the contracting regulations of the Corps of Engineers were revised to provide that, prior to award, contracts having the appearance of avoiding the intent of the Congress as to limitations be submitted to the Chief of Engineers for review and approval.

Subsequent to the issuance of our report to the Congress on the family housing construction activities at the depot, the House Committee on Government Operations held hearings to explore fully all aspects of this violation. As suggested in the committee report on the hearings, we have disallowed payments in the accounts of the cognizant disbursing officers for the amounts found to be in excess of the congressional cost limitation.

## REVIEW OF MILITARY ASSISTANCE PROGRAM

280. Deficiencies in programing and delivery of equipment in excess of country requirements--During fiscal year 1960 we continued our review of various aspects of the military assistance program. Our reviews continued to disclose instances of programing and delivery of equipment which, on the basis of approved programing criteria, were in excess of country requirements. Programing deficiencies included failure to properly consider material already in possession of the recipient country in determining the requirements of that country, overstatement and erroneous computation of gross requirements, programing of equipment in advance of the recipient country's capability to utilize it, programing of equipment which could not be adequately supported or maintained by the recipient country, and programing of equipment for installation on vehicles on which identical equipment had been installed prior to shipment.

We have recommended to the Department of Defense during the past several years the desirability and necessity of developing plans for military assistance on a long-range basis. The Department has since adopted the recommendation of the President's Committee to Study the Military Assistance Program (Draper Committee) which advocated the establishment of a long-range, time-phased schedule of actions by areas and countries to assure that military assistance directly supports United States military and foreign policy objectives. Beginning in fiscal year 1960, the Department of Defense required that, in the formulation of area and country programs, long-range plans, based on a 5-year projection, be developed for establishing feasible objectives, summarizing the courses of action planned during the period, and identifying those actions not feasible of accomplishment during the planning period. The deficiencies in programing and delivery as enumerated above reflect actions taken prior to adoption of the recommendation of the Draper Committee.

Our reviews disclosed also instances of delivery of material pursuant to overstated requisitions because of a lack of coordination between the United States supply centers and the local Military Assistance Advisory Groups, inaccurate stock records and requirement computations, and failure to consider indigenous production. As a result of our review in one country, requisitions totaling \$7.9 million were canceled, and programs which had been reviewed previously at Washington, at unified command, and at country levels by the Department of Defense personnel were reduced an additional \$4.8 million. In another country requisitions totaling \$369,000 were canceled.

281. Failure to seek collection of reimbursable costs of administering the military assistance program--The United States military agencies which administer the military assistance program in Europe did not charge the Federal Republic of Germany for all the administrative expenses which, under the existing agreement with



## REVIEW OF MILITARY ASSISTANCE PROGRAM (continued)

that country, were to be assumed by Germany. We advised the Department of Defense that Germany should be charged for all eligible administrative expenses incurred since entering into the agreement with the United States in December 1955. Further, we recommended that the Department of Defense establish procedures which will assure that all host countries are charged for all administrative expenses which they have agreed to assume. Subsequent to the issuance of our report, the Assistant Secretary of Defense for International Security Affairs informed us on October 19, 1960, that (1) an instruction to be issued by the Department of Defense will incorporate the substance of our recommendation and (2) action had been taken to effect collection of all reimbursable expenses of prior periods. This action resulted in collection, through June 30, 1960, of about \$1,813,000 from the Federal Republic of Germany and \$262,000 from other host countries.

282. Excessive charges by the military departments for material delivered to the military assistance program--The military departments received, from funds appropriated for military assistance, excessive reimbursements for the material they delivered to the military assistance program. Such reimbursements included charges for material which should have been delivered without charge because it was excess to the requirements of the military departments and, for material which was subject to reimbursement, charges at higher prices than those contemplated in the pricing formula provided in the Mutual Security Act. With respect to deliveries of material which was subject to reimbursement, (1) older types of equipment were frequently priced at original cost without reduction to reflect current condition and value, (2) certain assemblies and spare parts were priced at replacement costs which were higher than the original acquisition costs, and (3) other items were priced on the basis of pricing information which was not current or reliable.

The Department of Defense took certain steps to provide guidance to the military departments in improving their pricing policies and practices. However, we recommended in our report dated February 29, 1960, that the Department of Defense aggressively monitor the pricing policies and practices of the military departments to assure that charges for material delivered to the military assistance program are in accordance with the intent of the legislation. We advised the Department of Defense also that the military departments should either make appropriate adjustments for the improper charges for material previously delivered or obtain from the Congress specific relief from the provisions of the Mutual Security Act pertaining to the pricing of such material.



## REVIEW OF LEASING OF COMMERCIAL COMMUNICATION FACILITIES

283. Steps taken to improve leasing and administration of private line telephone circuits--The Government has been incurring excessive costs amounting to possibly more than a million dollars annually in the leasing of private line telephone facilities. These excesses resulted from the erroneous application of certain rates and inefficient administrative practices on the part of the Government departments and agencies.

The Government's management of leased private line circuits has failed to keep pace with the tremendously increased requirements of each department and agency. We found an almost total lack of coordination among departments and agencies and, in the case of the military agencies, even within the departments; a lack of adequate controls within all the departments and agencies we reviewed; and a failure in internal audit programs to recognize and deal with the problems in this area. We recommended to the Secretary of Defense and to the Administrator, General Services Administration, that they take action to establish a central control over the management of leased private line communications in the military departments and civil agencies, respectively.

Following the issuance of our report on November 24, 1959, the Department of Defense and the General Services Administration took steps toward corrective action. Claims for refund of excessive payments were being prepared by the General Services Administration on a Government-wide basis for submission to the Federal Communications Commission (FCC). The decision to place the matter before the FCC was reached as the result of rejection by the public utility company of the claims for refund submitted by the military departments and by the Federal Aviation Agency.

In addition, the Department of Defense and the General Services Administration took certain steps toward improving the administrative practices followed. A Defense Communications Agency has been established by the Secretary of Defense for centralizing operational responsibility for long-distance communications in the military departments; and a central office, consolidating the operations of 16 separate offices, has been established by the Air Force to conduct those of its communication operations which relate to procurement and payment. Among other steps taken, the General Services Administration has instituted a program for improving procurement and use of communication services by Federal agencies and consolidating requirements or billing procedures where applicable; internal audit staffs of the military departments have been directed by the Department of Defense to develop audit programs and to initiate reviews of the procurement and administration of communication services; and joint planning sessions have been held by representatives of the Department of Defense, the General Services Administration, and the telephone companies to discuss communication problems.

## REVIEW OF TRANSPORTATION OF HOUSEHOLD GOODS

284. Legislation enacted to reduce uneconomical transportation of household goods--In our review of selected commercial shipments of household goods, we found that unnecessary costs were incurred as a result of shipping household goods of transferred military personnel to and from overseas points by commercial air transportation when adequate surface transportation was available at much lower cost. A review of 13 shipments of household goods by commercial air, at a total cost of \$125,470, disclosed that shipment by surface transportation was not only feasible but would have cost only about \$23,000, or about \$102,000 less than the cost of shipment by commercial air. For example, household goods were shipped by commercial air from Texas to Pakistan at a cost of \$14,830, whereas they could have been shipped by surface transportation for only about \$1,750. Furthermore, in this instance they would have arrived in Pakistan by ship 1 week earlier than by air. Also, we noted that certain of the air shipments included items obviously not essential to the health or well-being of the transferred personnel or for the prevention of undue hardship. We expressed the opinion that, where items are considered desirable rather than essential, shipment should be by surface transportation unless there are cogent reasons justifying air shipment.

As a result of our report, hearings were conducted by a congressional committee and the Congress subsequently enacted an amendment--Public Law 86-637, approved July 12, 1960--to section 303(c) of the Career Compensation Act of 1949, imposing certain limitations on the transportation of household effects.

## REVIEW OF OPERATIONS AT MILITARY INSTALLATIONS, BASES, AND STATIONS

285. Recommendations for improving operations at military installations, bases, and stations--Our reviews at various installations, bases, and stations during the fiscal year 1960 disclosed many deficiencies in local policies, procedures, and practices which adversely affected efficiency and economy of local operations and the operations of other dependent or interdependent military organizations. We reported these deficiencies to local management together with our recommendations for corrective action, and the recommended corrective measures were either taken or promised. Individually, the findings and the resultant improvements relate primarily to local operations of the installations affected. Collectively, they represent an important contribution to the general improvement in the operations of the three military departments and of the Department of Defense. Examples of the types of deficiencies most frequently disclosed in our reviews are summarized under the following areas of operations.

### Maintaining stock at desired levels of supply

1. Failure to establish stock-level objectives.
2. Failure to review established stock-level objectives and to adjust them in response to changing requirements.
3. Failure to adhere to established stock-level objectives.
4. Inaccurately computed stock-level objectives.
5. Failure to anticipate nonrecurring but foreseeable future demands for stock.
6. Failure to expedite the repair and the return to the supply system of critically needed items of supply.
7. Failure to cancel reservations of stock set aside for specific projects when the requirements under the projects cease to exist.

### Requisitioning and issuing stock

1. Excessive frequency of high-priority requisitions.
2. Failure to control and expedite processing of high-priority requisitions.
3. Unnecessary requisitioning of major assemblies when only subassemblies, components, or parts are actually needed.
4. Duplicated requisitioning, unnecessary requisitioning, and requisitioning far in advance of actual need.

REVIEW OF OPERATIONS AT MILITARY INSTALLATIONS,  
BASES, AND STATIONS (continued)

5. Inaccurate or incomplete identification of requisitioned stock.
6. Inadequate control over back-ordered requisitions.
7. Excessive volume of requisitions for small quantities of stocks of nominal unit value.

Stock recording and reporting

1. Inaccurate records and unreliable reports as to status of stocks.
2. Delayed and inaccurate recording of documents relating to stock receipts and issues.
3. Inadequate procedures for physical count of stocks and verification of recorded stock balances.
4. Inaccurate or incomplete information as to physical location of stocks.

Planning and controlling industrial-type operations

1. Ineffective planning and scheduling of work to be performed.
2. Acceptance of work assignments beyond the capacity or capability of the installation to perform.
3. Lack of reliable cost estimates and cost records for effective control of production costs.
4. Inadequate inspections of quality of work performed in some instances; unnecessary inspections in other instances.

Civilian pay

1. Promotion of employees prior to completion of required periods of service.
2. Credits for leave at rates inconsistent with length of employees' service.
3. Inadequate support for absences attributed to military leave or to court leave.



**REVIEW OF OPERATIONS AT MILITARY INSTALLATIONS,  
BASES, AND STATIONS (continued)**

**Military pay and allowances**

1. Overpayments of lump-sum leave, of reenlistment bonus, and of allowances for travel, dislocation, and subsistence.
2. Omitted or inadequate charges for leave taken.
3. Inadequate control over advanced pay.

**Dependents' medical care**

1. Failure to notify appropriate organizations when eligibility of dependents for medical care has ceased.
2. Inconsistencies in application of criteria as to extent of medical care to be provided eligible dependents.

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