REPORT TO

THE CONGRESS OF THE UNITED STATES

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

FISCAL YEAR 1966

BY

THE COMPTROLLER GENERAL
OF THE UNITED STATES

AUGUST 1967

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

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To the President of the Senate and the
Speaker of the House of Representatives

The accompanying report presents, for the information of the Congress, a compilation of General Accounting Office findings and recommendations for improving Government operations. This compilation relates for the most part to the fiscal year 1966.

The purpose of this report is to provide the Congress with a convenient summary showing the nature, extent, and variety of matters examined by the General Accounting Office in carrying out its audit responsibilities. These responsibilities are derived from the Budget and Accounting Act, 1921, and other laws which require us to independently examine, for the Congress, the manner in which Government departments and agencies are discharging their financial responsibilities.

In addition to findings and recommendations, the report also summarizes the actions taken by the departments and agencies on our recommendations. Certain of these actions involve changes in policies and procedures promulgated through the issuance of revised directives and instructions. Such actions, while desirable and necessary, do not in themselves ensure correction of the deficiencies. Their effectiveness is dependent on the manner in which they are implemented and on the adequacy of the supervision and internal reviews of the operations. For this reason, it is our policy to review and evaluate the effectiveness of corrective actions taken by the departments and agencies to the extent deemed appropriate.

The financial savings attributable to our work cannot always be fully measured. However, our records show that collections and other measurable savings identified during the fiscal year 1966, which were attributable to the work of the General Accounting Office, amounted to $130,637,000. Of this amount, $17,192,000 consisted of collections and $113,445,000 represented other measurable savings. A summary of financial savings appears on page 142 of this report.

For the convenience of the committees of the Congress and others, the report contains an index of the departments and agencies to which the findings and recommendations relate.

A copy of this report is being sent to the Director of the Bureau of the Budget.

Comptroller General
of the United States

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ADMINISTRATION OF PAY, ALLOWANCES, AND BENEFITS--GENERAL

1. Action taken by the District of Columbia Government to improve administration of payroll activities--In a report issued in July 1965, we reported that inadequate supervision of payroll activities by the Departments of Highways and Traffic, Public Welfare, and Sanitary Engineering of the District of Columbia Government resulted in some employees' receiving more pay and more leave than they were entitled to under existing laws and regulations and in the need for recovering the overpayments and adjusting the leave records.

The President of the Board of Commissioners, District of Columbia, informed us that, in accordance with our proposals, measures have been taken to improve payroll systems and procedures, to place more emphasis on supervision of payroll and leave matters, and to initiate better internal audit procedures for evaluating the effectiveness with which all departments and agencies discharge their responsibilities for pay and leave matters.

2. Action to be taken by the District of Columbia Government to strengthen enforcement of taxicab regulations--Our review of investigations made and actions taken by the Post Office Department, the District of Columbia Government, the General Services Administration, and the Veterans Administration as a result of our December 1963 report to the Congress on the lack of effective supervisory controls over Federal and District of Columbia Government employees licensed to drive taxicabs in the District of Columbia confirmed our tentative findings that many Federal employees drove taxicabs while not on authorized leave or on days when sick leave was used.

Many of the cases investigated could not be proved or disproved because the manifests which taxicab drivers were required to keep, under regulations of the Public Service Commission, were not complete and accurate.

As an outgrowth of this situation, the Commission prescribed a standard form of manifest to be used by every taxicab driver in the District of Columbia. In response to our proposal that periodic checks of manifests be made and that the prescribed penalties be levied for failure to properly maintain the manifests, the President, Board of Commissioners, advised us that the Metropolitan Police Department was planning to give more attention to enforcement of taxicab regulations.

3. Administrative audit procedures strengthened by the Army for detection of improper accrued-leave payments to reenlistees--In December 1965 we reported that, as a result of our findings and proposals for corrective action, the Army Finance Center had improved its techniques for administrative audit of amounts paid for unused leave to enlisted personnel who were discharged and were immediately reenlisted.

The improved techniques provide for (a) comparing the number of days charged against accrued leave, as shown on the individual leave records, with the periods for which members were paid in lieu of rations in kind as shown on the military pay vouchers and (b) checking the mathematical accuracy of the entries on the leave records dating back to previous settlements for accrued leave. These techniques had previously been used by the Finance Center but were discontinued in September 1963 when the scope of audit was reduced. We estimated that overpayments which were undetected as the result of the reduced scope of the administrative audit amounted to about $520,000 in the period from September 1963 to April 1965.

4. Need for greater attention to foreign and domestic payroll activities by internal audit staff of Department of State--Our review of selected Foreign Service payrolls for the period December 9, 1962, through December 19, 1964, and domestic payrolls for the period December 9, 1962, through December 7, 1963, disclosed two basic, although of relatively minor dollar significance, deficiencies in payroll operations: (a) there was a widespread failure on the part of payroll personnel to properly interpret and apply applicable regulations governing post differential and charge pay, resulting in numerous overpayments totaling about $8,739 and (b) proper controls were not maintained over salary payments to reemployed civil service annuitants, resulting in overpayments totaling $3,569.

In our report we stated that the State Department should (a) require strict compliance with prescribed regulations to ensure that further salary overpayments are not made, (b) assign specific responsibility for determining, prior to appointment or reinstatement, whether the nominee is receiving, or has applied for, a civil service annuity which is required to be deducted from his salary, and (c) review pay data on all reemployed annuitants on Department payrolls to ensure that their pay has been properly computed in accordance with applicable laws and regulations. We also suggested that the overpayments and errors disclosed by our review could and should have been discovered earlier had the Internal Audit Staff devoted sufficient efforts to payroll activities.

The Department advised us that corrective action would be taken on the deficiencies disclosed in our report. We were also advised that the Internal Audit Staff was progressing in the development of an internal audit program for payroll activities and that additional auditor positions had been authorized to complete and implement audit guidelines for payroll activities. Subsequently, personnel of the Internal Audit Staff were assigned to review the payroll operation at the Regional Finance and Data Processing Center in Paris; but the Department has not yet developed an audit program for the systematic review of payroll activities on a worldwide basis.

GOVERNMENT-FURNISHED HOUSING, LODGING, AND MEALS

5. Action to be taken by the Forest Service to appraise and adjust rental rates for Government-owned housing on a more timely basis--Pursuant to the requirements of Bureau of the Budget Circular No. A-45 and the Forest Service Handbook, rental rates for housing furnished to employees of Region 8, Forest Service, Department of Agriculture, should have been reappraised and adjusted as necessary by April 1964. Our review disclosed, however, that the reappraisal was not completed until July 1964 and that the revised rates, which were higher than those previously in effect, were not placed into effect until August 31, 1964.

The delay in appraising and putting the higher rentals into effect resulted in a loss of revenue totaling about $12,600. We found no documentary evidence that the delay was unavoidable or fully justifiable. Regional officials stated that the delay was caused primarily by the concentration of effort on placing the Accelerated Public Works Program into effect.

We therefore recommended in a report to the Chief of the Forest Service in October 1965 that, in those cases where it appeared that the reappraisals and the adjustment of rental rates could not be accomplished within the specified time limits, regional officials be required to provide documentary evidence in support of their position that a delay should be authorized.

In addition, we recommended that this evidence be reviewed at a level of management capable of weighing the relative importance of the tasks to be performed and capable of deciding whether to (a) establish work priorities or (b) authorize additional manpower or overtime to accomplish the tasks within the specified time limits. We expressed the opinion that this level of management should consider the need to correct possible weaknesses in the advance planning and in the execution of the workload.

The Chief of the Forest Service informed us in March 1966 that he concurred with our recommendations and indicated that they would be implemented.

6. Action taken by the Congress to authorize United States Coast Guard to lease Government-owned quarters will result in savings--In December 1965, we reported to the Congress that annual savings of about $244,000 could be realized if the United States Coast Guard, Treasury Department, were granted authority for leasing Government-owned houses for use as quarters for Coast Guard members in lieu of paying basic allowances for quarters. In response to our recommendation to the Congress, a provision was included in the Act of March 30, 1966 (Public Law 89-381), granting authority to the Coast Guard to lease such quarters. On June 27, 1966, the Coast Guard issued instructions which provided information and procedures for implementing its leased-housing program.

7. Savings in quarters allowances to result from more effective use of family housing at Army installations--In a report issued in March 1966, we pointed out that available family housing at Army installations remained

vacant or was used for other than its intended purpose while military personnel were being paid quarters allowances to provide their own housing. This increased the annual expenditures for quarters allowances by about $3 million. We found that officials did not (a) control the time taken to prepare housing for reoccupancy, (b) maintain complete listings of eligible personnel, (c) direct eligible personnel to occupy available housing, and (d) redesignate excess officer housing to meet the needs of enlisted men.

The Deputy Assistant Secretary of Defense (Family Housing) generally concurred with our proposals for corrective action and outlined to us a series of corrective actions.

8. Savings to result from more effective use of hotel facilities leased by the Air Force for military personnel on duty in London, England--We stated, in a report issued in August 1965, that billeting facilities in two hotels leased by the Air Force in downtown London could, in our opinion, be used to a greater extent by military personnel on official duty. Such use would result in significant savings of allowances otherwise payable. Upon arrival in or before departure from the London area, personnel without dependents under permanent-change-of-station orders were paid basic allowances for quarters and temporary lodging allowances. If they had resided in these hotels, such payments would have been avoided.

Personnel on official temporary duty received per diem of $17; residence in the hotels would have reduced this amount to $8.50. We estimated that annual payments of allowances to personnel who could be occupying the facilities in the two hotels could be reduced by as much as $159,000.

In response to our findings, the Department of Defense stated that, in the future, these facilities would be used to the fullest extent practicable by personnel on official duty in the London area. The Department stated further that a policy change had been effected requiring all unaccompanied personnel to reside in these facilities during their periods of temporary duty if space was available.

9. Need to bring meal prices at Department of Justice penal institutions more in line with prices charged by other Government agencies--Meals were being furnished to employees and visitors at the Bureau of Prisons, Department of Justice, penal institutions at prices lower than those charged at certain other Government agencies where reasonably comparable meals were served. On the basis of our comparisons, we concluded that the prices charged by the Bureau were below the reasonable value of the meals. We estimated that, unless the meal prices were brought more in line with those of certain other Government agencies, Bureau of Prisons' employees and visitors would continue to pay annually up to $100,000 less than employees of certain other Government agencies.

The Bureau did not agree with our contention that its meals could be equated to those of other Government agencies. Although certain differences exist between the meals served by the Bureau and those served by other Government agencies, we believe that the differences are not

sufficiently significant to justify the relatively low price charged by the Bureau. We therefore recommended, in a report issued in May 1966, that the Director, Bureau of Prisons, increase the 55-cent meal price. then in effect, to a price more in line with the prices charged by other Government agencies. In July 1966, the Bureau increased the price of meals to 60 cents. Bureau officials have informed us that they will continually study the charges for meals and adjust them from time to time.

SICK LEAVE

10. Action taken by the District of Columbia Government to strengthen controls over use of sick leave by employees of the District Unemployment Compensation Board--In a report issued in March 1966, we pointed out that the average number of days of sick leave used by employees of the District Unemployment Compensation Board during leave year 1964 was considerably higher than the average number of days of sick leave used by Federal Government employees, as shown by a Civil Service Commission study report entitled "Government-wide Sick Leave Study--1961," and that the extent of sick leave taken by employees during leave-year 1964 and the patterns of sick leave taken by certain employees indicated a need for strengthening the controls over sick leave usage.

The President of the Board of Commissioners, District of Columbia, informed us that, in accordance with our recommendations, the Unemployment Compensation Board had issued revised leave policies and regulations which delineate supervisors' and employees' responsibilities regarding sick leave, had held meetings with its employees emphasizing the importance of sick leave to the employee and the employee's responsibility for the proper use of sick leave, and had adopted procedures providing for periodic reviews of sick leave records to ensure that supervisors were taking proper steps to guard against the improper use of sick leave.

11. Action taken by the Civil Service Commission to assist agencies in controlling the abuse of sick leave--We reported to the Congress in December 1965 that, in many cases where employees of the Post Office Department, the District of Columbia Government, the General Services Administration, and the Veterans Administration engaged in outside employment while on sick leave and there was doubt as to whether they could perform their Government duties, no disciplinary action had been taken because neither the Annual and Sick Leave Act of 1951, as amended, nor the supplementary Civil Service regulations specifically prohibited such a practice. We proposed that the Civil Service Commission consider favorably a regulation which would prohibit an employee from engaging in nongovernmental employment, including self-employment, while he was on sick leave with pay from his Government position.

The Commission advised us that the most effective control of the abuse of sick leave was with the individual agencies and that a change in the regulations was not the best solution to the problem, but agreed to issue guidelines on the matter of sick leave abuse. Accordingly, in June 1965, the Commission issued a Federal Personnel Manual System Letter to all agencies pointing out that normally the standards upon which the granting of sick leave was based would also be expected to prevent an employee from working elsewhere; that the agencies had a special obligation to review carefully all of the evidence submitted in support of requests for sick leave; and that each agency was urged to require its employees to notify it whenever they engaged in outside employment on a day for which sick leave had been granted. The letter also noted rare instances, generally involving extended periods of illness, when there is acceptable justification for outside employment while on sick leave.

12. Need for the Post Office Department to strengthen controls over sick leave--In our review of the administration of sick leave in eight post offices in four postal regions, we noted the following: (a) lack of information to enable supervisors to determine whether outside employment was causing abuse of sick leave, (b) need to improve control over sick leave absences, (c) lack of consideration of patterns of sick leave in determining whether sick leave advances and periodic pay increases should be approved, and (d) insufficient reviews by postal inspectors, internal auditors, and finance examiners at post offices with high sick leave usage.

In fiscal year 1963, the ratio of sick leave used at these eight post offices ranged from 4.3 hours to 5.5 hours for each 100 hours worked; whereas, during this same period the ratio for all other postal employees was 3.5 hours for each 100 hours worked. We estimated that the cost of sick leave used in fiscal year 1963 by employees in the eight post offices, over and above the average for all other post offices, amounted to about $3 million. At four of these post offices, there were indications of abuse of sick leave by some employees who had outside employment.

We turned over to the Department the information developed by us on the discrepancies between the time and attendance records at the post offices and the records of time spent on outside employment by these employees. Records made available to us by the Department in May 1965 showed that disciplinary action which consisted of suspension, refunds of postal pay, or letters of warning had been taken against some employees. In some instances the Department's investigations had not been completed, and in other instances the Department had determined that the employees' explanations of the apparent discrepancies were acceptable.

In our report to the Congress in October 1965, we recommended that the Postmaster General require postal employees with sick leave records indicating possible abuse to furnish the Department with information on their outside employment. We recommended also that this information be made available to the appropriate supervisors and that investigations be made to determine whether outside employment results in sick leave abuse by these employees. We recommended further that the Postmaster General require postmasters and other officials to consider and examine into abuses of sick leave in determining whether to grant sick leave advances and periodic salary increases.

The Department has since informed us that it is considering our recommendations.

TRAINING COSTS

13. Action taken by the Internal Revenue Service to reduce training costs--The Internal Revenue Service, Treasury Department, conducts various types of training courses for its employees, which are generally conducted in classrooms located in Government buildings. Management and supervisory courses, however, are usually held at non-Government sites, such as hotels, motels, and other leased accommodations, and the participants normally live at the site during the period of the courses.

In a report issued in April 1966, we pointed out that, for 32 training courses and conferences, the Service could have reduced per diem, travel, and space-rental costs by about $65,000 had these courses and conferences been conducted in space available in Government buildings located within the area of the official duty station of 572 of a total of 1,203 participants rather than at outlying hotels and other leased accommodations. Since similar courses and conferences costing about $800,000 were held by the Service in non-Government space during the period covered by our review, additional cost reductions may have been possible for other training courses.

On the basis of the results of our review, the agency issued guidelines in February 1966 which would assist Service officials to follow a policy of using non-Government facilities for management and supervisory training courses only when they afforded maximum advantages to the Service.

TRAVEL ADVANCES AND ALLOWANCES

14. Action taken by the Forest Service to justify use of first-class air transportation--In our October 1965 report, we stated that, we reviewed travel vouchers covering a total of 170 air trips by personnel of Region 8 of the Forest Service, Department of Agriculture. We found that, in 53 instances, first-class service was used by travelers between points for which tourist-class service was offered by the airlines and that, in 37 of these 53 instances, the travel vouchers contained no justification for the use of the more costly first-class accommodations.

Regional officials stated that they were unaware that Forest Service instructions regarding this matter had not been observed. In March 1966, the Chief of the Forest Service informed us that this deficiency was corrected immediately after we had brought it to the attention of regional officials.

15. Action taken by the Internal Revenue Service to improve control over travel allowances--In our report issued in July 1965 on an examination of transactions associated with selected travel advances by the National Office, Internal Revenue Service, Treasury Department, we stated that responsible officials had not adequately carried out the requirements of agency regulations and the provisions of the Standardized Government Travel Regulations and that this resulted in travel advances in excess of the traveler's requirements and extended delays in recovery of unused and dormant advances no longer needed for authorized travel. We suggested corrective action.

We were later informed by an agency official that, effective October 1, 1965, new procedures were instituted which were designed to ensure compliance by all travelers with regulations regarding travel advances and ensure that future advances would be consistent with the travelers' needs. In addition, the Internal Audit Division will review the effectiveness of the adopted procedures during its periodic examination of fiscal operations and procedures.

16. Action taken by Region III, Department of Health, Education, and Welfare, to provide greater control over the preparation, review, and payment of travel vouchers--Our review of about 600 selected travel vouchers for employees of Region III, Department of Health, Education, and Welfare (HEW), disclosed numerous instances in which travel had been authorized and performed at a cost greater than the minimum cost at which, we believed, it could have been accomplished effectively, without appropriate explanation to justify the increased costs. Our findings pointed up the need for better management of travel activities and for improvement in the preparation, review, and audit of employees' travel claims. As stated in our report to the Secretary of HEW in December 1965, we were advised that Region III had instituted measures which would provide greater control over the preparation, review, and payment of vouchers and which, the Department believed, would ensure compliance with regulations and manual instructions regarding travel.

17. Action taken by Veterans Administration to correct weakness in administration of employee travel--In a report issued in September 1965, we disclosed that, in accordance with Veterans Administration (VA) policy, employees traveling on official business in privately owned vehicles for their own convenience were allowed actual driving time rather than constructive common carrier travel time; as a result, excess travel time performed on workdays was charged to official duty rather than to annual leave. We expressed the belief that there was no valid basis for granting employees, who were authorized to use privately owned vehicles for their own convenience, travel time in excess of that based on the air or surface common carrier service which would most nearly meet duty requirements. We proposed that the agency revise its policy to require that absences on workdays because of such excess travel time be charged to leave.

In July 1965, VA revised its travel policy in line with our proposal.

18. Action taken by the military departments to reduce incidence of erroneous reimbursements for travel of military personnel and their dependents--We found numerous errors made by Army and Air Force finance personnel in computing mileage distances for reimbursable travel of military personnel and their dependents. Our review did not include mileage reimbursement payments by the Navy. In a report issued in October 1965, we stated that, on the basis of our tests of payments made in fiscal year 1963, overpayments of about $800,000 and underpayments of about $300,000 had been made in that year as the result of erroneous distance computations. These erroneous payments resulted from the failure of finance office personnel at the bases to (a) compute distances on the basis of the shortest, usually traveled route (generally because of incorrect interpretation or improper application of instructions in the Official Table of Distances), (b) use the correct mode of transportation as a basis for computing distances, and (c) use the correct distances instead of the incorrect, locally prepared files of distances.

The Department of Defense agreed with our proposals for strengthening of internal review procedures in this area of operations and advised us that each of the three military departments had taken appropriate action.

19. Action taken by the Army to strengthen procedures for collecting from military personnel the costs of transporting household goods in excess of allowable weights--Military personnel are entitled to have their household goods shipped at Government expense, subject to certain conditions and weight limitations, when they are transferred from one duty station to another. Regulations require the Government to pay to carriers the full amount of the bill for transportation of household goods and to recover, from the military personnel involved, that portion of the cost which applies to weight in excess of prescribed limits.

We found that the Army Finance Center, which had responsibility for billing and collecting excess-weight costs incurred by Army and Air Force personnel, was not making proper collections. In our report issued in August 1965, we pointed out that, with respect to about 4,100 shipments of

household goods in calendar year 1962, excess-weight charges of about $266,000 were not collected and overcharges of about $41,000 were erroneously collected from military personnel. We found that procedures for identifying overweight shipments were ineffective; controls over collections for identified excess-weight shipments were inadequate; clerical errors remained undetected as there was no provision for verifying accuracy of computations; and supervisory review was inadequate.

In response to our proposals for corrective action, the Army instituted a review of this area of operations and provided more detailed instructions to its examiners and strengthened supervision of their work. The Army also stated that it would continue to monitor excess-weight determination and collection operations and would take such further remedial action as might be needed.

20. Action being taken by the Soil Conservation Service to correct deficiencies in travel administration--Our review at the Florida State Office of the Soil Conservation Service (SCS), Department of Agriculture, disclosed various deficiencies relating to travel. We noted that:

a. The per diem rate of $12 was in excess of the average lodging and subsistence costs actually incurred by State Office employees, contrary to SCS travel policy.

b. The Florida State Office had not issued guidelines nor established a policy prescribing the circumstances under which employees might be reimbursed for toll charges incurred in traveling over roads and bridges, with the result that charges for the use of toll roads were reimbursed to SCS personnel in cases where, in our opinion, such use in lieu of alternate toll-free routes was not essential to the transaction of official business.

c. There was a need to enforce monthly cut-off dates for submission of travel vouchers.

d. SCS administrative personnel were not considering unused travel-advance balances in determining the amount of advances to be made, with the result that, in some cases, the total amount of outstanding travel advances to individual employees exceeded the estimated cost of travel for specific trips.

These matters were reported to the Administrator, SCS, in June 1966.

SCS advised us in August 1966 that corrective action was being taken with respect to these deficiencies.

21. Need for clarification of Government-wide policy on reemployment leave travel benefits granted to certain civil service employees--The Government pays the expenses of round trip travel of certain employees and the transportation of their families from their posts of duty in Alaska or Hawaii to their designated residences, at time of appointment or transfer, for

the purpose of taking leave between tours of duty. In a report issued in April 1966, we pointed out that many employees were obtaining these benefits although they had lived for many years in, had registered to vote in, and had bought homes in, Alaska or Hawaii. Under existing law, nonresidents at the time of appointment or transfer are permanently entitled to reemployment leave travel benefits.

We recommended that the Bureau of the Budget specify criteria for determining "actual residence at time of appointment or transfer" and determining entitlement to reemployment leave travel benefits. We also suggested that the Congress may wish to consider legislation providing for discontinuing such benefits when no longer appropriate.

22. Need for further improvement in the administration of transfers of Coast Guard members between permanent duty stations--In a report issued in June 1966, we stated that (a) many enlisted members of the United States Coast Guard, Treasury Department, transferred into and within certain Coast Guard districts under permanent change of station orders, were circuitously routed through district offices en route to ultimate duty stations and (b) members transferring to and from the San Juan, Puerto Rico, area were paid temporary lodging allowances even though quarters of the other military services were available and could usually have been used. We estimated that corrective action in the administration of transfers under permanent change of station orders would result in annual savings of about $74,000.

During our review, the Coast Guard took certain corrective action which should reduce temporary lodging allowance costs. The corrective action taken, regarding the indirect transferring of members between permanent stations, however, did not provide specific procedures for assuring that all members would be transferred direct to new duty stations. Therefore, we recommended that the procedures be appropriately amended so that transfers would be direct to the greatest extent possible.

23. Need for the United States Tariff Commission to improve the administration of general travel--In a report issued to the United States Tariff Commission in February 1966, we pointed out that about 35 percent of $13,000 in per diem payments made by the Commission for the first 6 months of 1965 could have been saved by using sliding scale payments rather than fixed-rate per diem payments to travelers. We recommended that the Commissioners establish sliding-scale per diem rates that would compensate the employees for necessary travel expenses, as justified by the circumstances affecting the travel. We recommended also that formal guidelines be established to assist responsible officials in evaluating the need for and in approving travel to achieve the most effective use of travel funds.

The Chairman of the Commission informed us that our proposals would be reviewed and evaluated together with the observations and recommendations of a management consulting firm.

UNIFORM ALLOWANCES

24. Action taken by the Department of Defense to improve administration of allowances paid for uniforms of cadets in the Reserve Officers' Training Corps--The Secretary of each of the military departments is authoized either to pay participating schools a clothing allowance (generally known as commutation) for uniforms worn by cadets enrolled in the basic course of the Reserve Officers' Training Corps (ROTC) or to issue them uniforms-in-kind. The Air Force encouraged the schools to accept commutation and most schools agreed. The Army permitted the schools to make the choice and most schools elected to receive uniforms-in-kind for basic-course cadets. The Navy issued uniforms-in-kind for all ROTC students and did not pay commutation.

We found that the allowances paid by the Army and the Air Force were in excess of the cost of furnishing uniforms from military stocks. We estimated that, in fiscal year 1963 alone, the difference in cost was about $365,000. We found significant differences in the policies of the Army and the Air Force with respect to the latitude allowed the schools in their use of and administration of commutation payments made to them. These differences among the services appeared to be unnecessary and were confusing, particularly since many schools had RCTC programs for two, or all three, of the services.

Our report on these findings and the related recommendations for corrective action was issued in September 1965. In response, the Department of Defense reduced the commutation rate, beginning with the 1966-67 school year, to the approximate cost of furnishing uniforms-in-kind and provided guidelines to avoid differences in policies among the military departments.

ADMINISTRATION OF ACTIVITIES, SERVICES, AND BENEFITS UNDER FEDERAL PROGRAMS

ADMINISTRATION OF THE ECONOMIC, TECHNICAL, AND MILITARY ASSISTANCE PROGRAMS

25. Action taken by the Agency for International Development to prevent payment of ineligible dollar commissions to non-United States agents--During our preliminary review of Agency for International Development (AID)-financed commodities for Turkey under a partially disbursed $80 million loan, we found evidence that commissions totaling about $18,000 had been paid to non-United States agents.

Under the terms of the contractual arrangement between AID and the Government of Turkey, commissions would be eligible for payment only so long as the regular place of business of such agents and the services performed by such agents were in the United States. Similar type provisions are found in contractual arrangements for AID-financed commodities throughout the Near East and South Asia region, and, starting in May 1966, these provisions have been extended to commodity import programs in Far East countries. The rationale for such a provision is to prevent an outflow of dollars for expenditures which do not involve foreign exchange costs for the recipient country. Also the United States lacks control over the use of such dollars in the hands of foreign supplier agents.

On February 8, 1966, we brought the above-described matter to the attention of AID's Price Analysis Branch Chief, Office of the Controller. We made available to him our listing of the vouchers involving the payments of $18,000 in ineligible commissions and suggested that corrective action be taken to recover ineligible commissions paid under the $80 million loan and that procedural controls be initiated to prevent recurrence of such payments of ineligible commissions.

In a letter dated May 31, 1966, AID's Chief, Financial Review Division, Office of the Controller, stated that, in addition to the ineligible commissions totaling about $18,000 shown in the tabulation that we furnished them on February 8, 1966, other ineligible commissions had been identified by AID staff and that claims totaling $51,276.66 against the Government of Turkey had been, or would be, prepared.

AID's Chief, Financial Review Division, further described procedural changes that had been made to ensure that, in future transactions of AID-financed commodities, suppliers would be advised of requirements regarding AID financing of suppliers' commissions.

He reported that AID's Voucher Examination Branch had been making a 100-percent audit for ineligible commissions in transactions under the Turkey loan, in place of the usual audit on a sample basis. As an additional precaution, the Supplier's Certificates which come into the Price Analysis Branch for filing are being checked for any transactions in which a dollar commission may have been paid to a non-United States agent.

26. Action taken by the Department of Defense to correct deficiencies in the military assistance training program for Iran--Our review of the military assistance program for training military personnel in Iran showed that an estimated $650,000 of jet pilot training programmed during fiscal years 1962 and 1963 could have been saved if (a) in-country pilot training programs have been developed, (b) a sufficient number of qualified personnel had been available for the training program, (c) proper and full utilization of the trained personnel had been accomplished, and (d) the most economical means of transportation for students to the United States had been employed.

We submitted our findings to the Department of Defense (B-133134 of December 10, 1965) and recommended that the Chief, Military Assistance Advisory Group, Iran:

a. Concentrate on the establishment and further development of in-country training programs within the Iranian armed forces.

b. Establish a sound basis for determining realistic and essential training requirements for the Iranian armed forces.

c. Institute effective procedures for ensuring that qualified candidates are available to fill the programmed training spaces.

d. Obtain and verify, to the extent reasonable and necessary to keep apprised of the current situation, information on the qualifications, specific duties, and movements of skilled personnel within the Iranian armed forces.

e. Take action to provide for the use of military air transport service flights for the segment of the trip between the United States and Germany when students are transported between the United States and Iran.

The Deputy Director of Military Assistance, Office of the Secretary of Defense, in a letter dated January 5, 1965, advised us that action had been taken to correct the deficiencies cited in our report. He noted, however, that our fifth proposal was no longer applicable because commercial air rates had been reduced subsequent to our review. The Deputy Director of Military Assistance subsequently advised us on September 2, 1965, that a review had been made by the Department of Defense to determine the feasibility of applying norms respecting the utilization of foreign personnel trained under the military assistance program for application to those countries where prescribed time periods were not in force.

On the basis of this review, the military assistance manual of the Department of Defense was revised to incorporate a requirement that, wherever politically feasible, an agreement should be obtained from responsible host-country authorities as to the length of time foreign personnel trained under the military assistance program should be retained in

a job or a position appropriate to the training received. As an example, a formal agreement between the Joint United States Military Aid Group, Greece, and the Greek armed forces provides for a utilization period of 2 years upon completion of training.

We believe that the actions taken by the Department of Defense should effect significant savings in the military assistance training program.

27. Action taken by the Department of Defense to improve aircraft supply support in a Far East country--Our review of the adequacy of supply support provided by the Air Force of a Far East country under the military assistance program showed that the defense capability of the country's Air Force was impaired because a high percentage of F-104 aircraft was deadlined for excessive periods for lack of essential operating parts. Over a 6-month period during calendar year 1964, the monthly average of inoperable F-104 aircraft was as high as 32 percent of the available aircraft and represented nonfunctioning aircraft valued at $21.5 million. Also, we noted evidence of decreased operational effectiveness with respect to the F-100 aircraft because of the lack of workable jet engines.

When we brought our findings to the attention of the Secretary of Defense in June 1965 (B-125087 of February 23, 1966), we recommended the establishment of (a) effective procedures designed to coordinate supply activities within the recipient country's Air Force and (b) closer liaison with United States Air Materiel Areas. We recommended also that the Department of Defense strengthen controls over stock levels, expedite the processing of priority requisitions, and provide continuous review and evaluation of depot activities to ensure availability of priority items.

The Department of the Air Force, in response to a draft of our report, advised the Assistant Secretary of Defense, International Security Affairs, that recipient country stock levels had been adjusted, in-country jet engine maintenance and field/depot overhaul capabilities had been improved, an effective reparable return program had been instituted, spare parts of a wider range were being stocked at United States Air Force depots, and shipments from contractors' plants direct to the recipient country were being made in order to expedite delivery of critical items.

The Department of Defense advised us that a complete stock level review had been accomplished by the recipient country's Air Force and that country repair capability had been increased by extended field maintenance of jet engines.

These actions should minimize the possibility of recurrence of the deficiencies described in our report.

28. Assistance furnished to Liberia by the Agency for International Development indicates that the benefits derived fell short of those that could have been reasonably expected--In our opinion, the results of United States assistance furnished to Liberia for educational and highway

development purposes by the Agency for International Development indicate that the benefits derived from the United States expenditures fell short of those which could have been reasonably expected, because Liberia's self-help efforts had been inadequate and disappointing and because the country had not improved its development capabilities to the degree necessary to obtain the benefits intended from the resources contributed by the United States.

The purpose of the United States assistance in these areas was to provide a relatively small part of the total long-range human and material resources needed for development. The Agency has continued in recent years, both financially and administratively, to provide a part of the human and material resources required for these programs. However, the rates at which these United States resources have been provided have been adjusted from time to time because of the host country's inability to perform its complementary undertaking.

It is our view that the Agency's objective of encouraging Liberia's economic and social development will have better prospects for success if the Agency for International Development, as a means of stimulating development of Liberia's self-help capabilities, more fully relates its educational and highway development programs to the specific actions that Liberia must take to make meaningful progress in improving those capabilities.

In commenting on the matters presented in this report, the Agency for International Development did not wholly agree with our above-described conclusions. The Agency advised us, however, that the report contains a considerable amount of information with which it is in general agreement and that it anticipates will prove useful to the Agency in its continuing efforts to improve the management of the Liberian program.

We recommended that the Administrator, Agency for International Development, (a) ascertain the specific objectives that Liberia may be expected to attain to make reasonable progress in its educational development program and to improve its capabilities to maintain its highways and (b) on the basis of considerations of its future assistance programs, obtain from the Government of Liberia specific commitments relative to increasing Liberia's capabilities and accomplishments in the education area and to improving Liberia's ability to maintain its highway system.

29. Development projects in Pakistan in which the Agency for International Development had invested substantial amounts failed to produce the benefits intended--Our review of projects in which the Agency for International Development (AID) had invested the equivalent of about $100 million in dollars and rupees for the Karachi water and sewer system, coastal embankments, highway development, and Ganges-Kobadak irrigation indicated such limited accomplishments that, in our opinion, these projects had substantially failed to produce the benefits intended.

We believe the facts demonstrated that (a) there had not been sufficient advance planning to reasonably ensure that existing technical, economic, and practical obstacles to accomplishment of the projects would be solved and that (b) after the projects had been approved, the AID/MISSION did not have reasonable surveillance over the implementation of the projects or controls over the release and utilization of funds provided for the projects to the degree necessary either to overcome these obstacles or to retain a freedom of choice as to the continued advance of funds beyond the likelihood of practical accomplishment of project purposes.

In the draft of our proposed report transmitted to the Agency for comment, we included the proposal that the Administrator, AID (a) directly relate any release of additional funds for the projects discussed in the report to effective action to correct the conditions preventing the timely completion and effective implementation of the projects, (b) withhold approval of financing for future projects until assured beyond reasonable doubt that such projects are technically and economically feasible, compatible with stated objectives, and that the recipient country will be willing and able to fulfill its obligations to the project, and (c) require that future releases of funds for all projects be directly related to the progress of such projects.

In commenting on these matters, the Assistant Administrator for Administration, in a memorandum dated June 23, 1965, stated that:

> "This Agency has moved to insure improved performance in project activities and correct problems that have been identified. It should be noted that as a part of improved management procedures, present AID practice requires that releases of all funds for all projects (ongoing and new) be directly related to specific implementation plans including procurement, construction, and other applicable control schedules."

Because of the changes in prevailing conditions and the uncertainties which have occurred in relation to the assistance and programs for Pakistan, we are not making any recommendations but are reporting these matters to you at this time for consideration in the light of current conditions.

We believe, however, that the situations reported continue to have current significance to the extent that there are problems of performance by the recipient country in relation to performance by the United States and that the underlying causes of the problems reported will therefore continue to warrant consideration in continuation of an economic assistance program for Pakistan.

30. Effects of foreign currency sales on commercial sales of wheat to the United Arab Republic--This report, which was sent to the Congress in March 1966, shows that commercial wheat imports of the United Arab Republic (UAR) declined significantly while United States Government-financed

wheat sales for foreign currency expanded. We believe that the actions taken, primarily by the Department of State, had the following adverse effects:

a. Potential dollar sales in the UAR were not made, and, as a result, efforts to improve the critical balance-of-payments problem were impaired.

b. The reductions and waivers of requirements for the UAR to purchase specified quantities of wheat with dollars or other hard currencies permitted that country to conserve a substantial amount of its foreign exchange, which is another form of economic assistance. However, unlike economic assistance, this action had not been approved by the Congress and it gave the UAR substantial resources with which to support programs not sanctioned by the United States.

The chronology of events discussed in the report, together with reasons for the actions taken, are classified as confidential.

31. Expedited signing of certain agreements by the Agency for International Development under title I of Public Law 480--In April 1966, we reported to the Congress that the Department of State and the Agency for International Development had made special efforts to ensure that agreements for the sale of surplus agricultural commodities to the Republic of Korea and the Republic of China were signed on or before December 31, 1964. This enabled these countries to avoid the effect of newly enacted legislation which required recipient countries to pay foreign exchange costs of ocean freight, starting with agreements signed after that date.

We estimate that, by signing agreements with the two countries by December 31, 1964, the United States will pay several million dollars in additional dollar costs for ocean freight charges over what would have been paid had the agreements been signed on the following day--January 1, 1965--or thereafter. In the case of Korea, it is theoretically possible that additional economic assistance might have been needed in subsequent years to help meet these ocean freight costs. The Republic of China no longer receives economic assistance from the United States.

Moreover, so as not to delay negotiations and thus jeopardize the conclusion of the agreement with the Republic of China by December 31, 1964, the Department of State and the Agency for International Development made a concession which resulted in a reduction of as much as $2 million of commercial United States sales of wheat to the Republic of China during 1965.

In transmitting our report to responsible Government agencies for comment, we made several proposals which we believed would assist the agencies in evaluating more precisely the financial implications of actions taken primarily for reasons of foreign policy. The agencies, in commenting on these matters, advised us, in general, that they believed their actions

had been in consonance with the spirit of the new legislative change and that current management concepts provided adequately for consideration of the financial implications of such actions. Our evaluation of these comments is included in the text of the report.

This matter was reported to the Congress because we believed that the actions of the State Department and the Agency for International Development were inconsistent with the reason given for establishing December 31, 1964, as the effective date of the new ocean freight provisions and that, as a result, the Government incurred additional costs and did not take advantage of an opportunity to improve the United States balance-of-payments position.

32. Management of donated food programs for Mexico--In a report issued to the Congress in June 1966, we noted that relief programs carried out with food donated under the provisions of title III, Public Law 480, had expanded in Mexico nearly 500 percent between fiscal years 1961 and 1964. During this period, Mexico experienced a steady growth in its economy and greatly increased its agricultural production. In fact, Mexico exported the same kinds of commodities that were being donated under the title III program.

Our review, together with those performed by the Agency for International Development, showed areas in which the program was being administered in a manner contrary to agency regulations and to agreements between the United States and voluntary relief agencies.

In our opinion, those conditions are attributable largely to limitations in staffing and financial support by distributing agencies, as well as to insufficient support and recognition of title III programs by the Mexican Government. There is considerable evidence that the Mexican Government interposed a number of obstacles which lessened the effectiveness of one of the programs to which it was not favorably disposed. Also, the Mexican Government did not permit publicity of another program so that recipients would realize that the food distributed was furnished by the people of the United States, as required by law. United States Government officials were aware of the attitudes of the Mexican Government but permitted the program to be carried on in the hope that these attitudes would eventually change.

We believe that there was only a limited surveillance of program operations by United States Government agencies having responsibilities for administering the program. Such reviews as were made do not seem to have been given much consideration in the review and approval of requests for additional food from voluntary relief agencies. Thus, ever-increasing amounts of food were made available, largely on the basis of the amounts requested by voluntary relief agencies, without any real assurance that program deficiencies had been corrected.

Our review showed also that claims had not been established against voluntary relief agencies, as required, for violations of Government regulations; that donated commodities costing about $700,000 annually had been substituted for quantities previously imported on a commercial basis by Mexico, principally from the United States, or had contributed directly or indirectly toward Mexican exports; and that program costs had been increased more than $726,000 because of the donation of cornmeal rather than whole kernel corn, which was preferred by recipients.

Our review led us to make several recommendations to responsible Government agencies for the improvement of the management of food donation programs. In commenting on our report, appropriate United States agencies, although recognizing that there had been some problems in implementation of the program in Mexico, stressed that the overall objectives of the United States had been well served, millions of needy people had been assisted, goodwill had been generated, permanently established welfare programs had been set up, and effective use had been made of surplus agricultural commodities. Nevertheless, the agencies generally agreed that there was a need to take action in line with our recommendations.

Finally, the agencies advised us that, principally, for the reasons noted in our report, Mexico had attained a high degree of economic self-sufficiency and had been exporting agricultural commodities similar to those donated by the United States and that food donation programs to Mexico had been terminated as of June 30, 1965.

Our findings were reported to the Congress because we believe that they illustrate the need for the executive branch to develop definitive management policies and procedures and to increase surveillance of program operations.

33. Need for more effective surveillance effort by audit and inspection organizations having responsibilities in Viet Nam--In a report to the Congress in July 1966 on our survey of internal audits and inspections by the Department of State, the Agency for International Development, and the Department of Defense, relating to United States activities in Viet Nam, we pointed out that the circumstances under which the economic and military assistance and military construction programs are conducted and the scope, complexity, and uniqueness of the activities in Viet Nam suggest a greater than ordinary need for a continuing plan of top management surveillance.

We found that the most significant problem areas in terms of magnitude, vulnerability to operational and management deficiencies were (a) in regard to economic assistance, the Agency for International Development's commercial import program and rural construction program and (b) in regard to military activities, the large and varied construction program.

Our survey showed that substantive-type audit coverage of the commercial import program and the rural construction program amounted to

about $67 million in the period July 1, 1964, to March 1966, compared with the coverage of other programs which totaled approximately $800 million for fiscal years 1965 and 1966. We stated in the report that we believed there was a particular need for increased surveillance of the operations involved in the receipt, distribution, and end use of the huge quantities of commodities being imported into Viet Nam under the economic assistance programs inasmuch as these operations by their nature and circumstances are conducive to manipulation and irregularity.

In respect to the military construction program totaling nearly $600 million up to March 1966, our survey showed that audits by the defense agencies having responsibility had been limited mostly to examinations of the contractors' cost representations as shown on vouchers presented for payment and had not covered the broader aspects of contract performance. We stated that, because many of the management controls which are applied in a normal construction operation are precluded by the circumstances in Viet Nam, there was an urgent need for a counterbalance in the form of a searching management review and inspection function on a continuing basis to reduce avoidable waste without hindering the program. It was our view that there was a particular need for audits and inspections concerning the adequacy and timeliness of delivery, the end use, and the propriety of costs of the large amounts of equipment, spare parts, and supplies that were being provided under the program.

In commenting on our report, most of the agencies informed us of plans to increase their audit, inspection, and management review effort in Viet Nam. The Department of Defense advised us, however, that:

> "The general practice is to curtail normal audit activities in combat areas due to the hazards involved and to minimize the disruption of forces engaged in conducting or supporting combat operations."

This practice has, in essence, excluded the regularly constituted audit arms of the military services from performance of audits of logistical and administrative support activities in Viet Nam, except for minor work relating primarily to nonappropriated fund activities. We stated in the report that the Department of Defense practice should be reconsidered to permit its regularly constituted audit and review agencies to perform needed functions in relation to these support activities in areas where these functions would not interfere with combat operations nor obstruct United States purposes.

34. Significant dollar savings available in financing foreign sales agents' commissions with local currencies of the importing countries--In July 1965, we reported to the Congress that the Commodity Credit Corporation had been expending dollars to finance commissions paid by United States exporters to their foreign sales agents for services performed in connection with sales of surplus agricultural commodities under title I, Public Law 480. These commissions in most instances could have been paid

by the exporters from proceeds of the title I sales in the local currencies of the importing countries and need not have been financed by the Corporation.

In line with our proposal, the Department of Agriculture, in January 1966, instituted new procedures which require foreign sales agents, having a place of business in the importing country, to be paid sales commissions in the currency of the importing country, rather than in dollars.

We estimate that the Department should achieve savings in dollar expenditures of about $1.2 million annually if the new procedures are properly implemented and if sales and sales commissions continue at about the same levels as those in fiscal years 1963 and 1964.

CIVIL DEFENSE MEDICAL STOCKPILE PROGRAM

35. Action being taken by the Public Health Service to improve management of vaccines stored for the civil defense medical stockpile--Our review of the management by the Public Health Service (PHS), Department of Health, Education, and Welfare, of vaccines stored in the civil defense medical stockpile indicated that the storage methods employed by PHS were deficient to the point of impairing the effectiveness of the emergency health service program.

We noted that, in the event of an emergency, it would have been highly improbable for the vaccines to be distributed in a timely manner because additional processing to put the vaccines in a usable form would have been required after their removal from the stockpile. Also, this processing might have been delayed considerably because there was no assurance that the required packaging material or refrigeration could be made available in a timely manner. We noted further, that most of the vaccines were not adequately deployed to prevent the total loss of one or more types of vaccines in the event of damage to or destruction of a storage depot and that the storage depots were not located in areas which, on the basis of available criteria, would provide the greatest margin of safety in the event of enemy attack.

In response to a proposal contained in our July 1965 report to the Congress, the Department advised us that quantities of four types of vaccines (among the 17 types contained in the medical stockpile) had been converted from bulk stock form to finished products and that a target date of 1970 had been established for having a 30-day supply of all vaccines converted--the accomplishment of which would depend on the availability of funds--with the exception of the stocks of four vaccines, valued at about $527,000, which would remain in bulk form until they deteriorated because they were no longer considered to be required in a national emergency.

In addition, we were informed that the converted vaccines had been strategically stored at three medical depots. Pursuant to a recommendation to make unneeded vaccines available for use by other Government agencies, PHS transferred the entire stock of three of the vaccines to the Department of Defense.

36. Actions being taken by the Public Health Service to achieve greater utilization of limited-life and long-supply items in the civil defense medical stockpile--In a report to the Congress in February 1966 on our review of the civil defense medical stockpile managed by the Public Health Service (PHS), Department of Health, Education, and Welfare, we stated that opportunities existed for savings without impairing civil defense medical stockpile objectives, if limited-life or long-supply items in excess of currently authorized requirements could be transferred to the Department of Defense (DOD), the Veterans Administration (VA), and PHS hospitals and clinics for current use in the conduct of the medical programs of these agencies.

PHS estimated that medical supplies in the stockpile, valued at about $62 million in fiscal year 1965, were subject to deterioration within the

next several years or were already of questionable usability. It is of greater importance, however, that, when limited-life items in the stockpile are replaced, the new items would likewise be subject to deterioration. We pointed out that losses from deterioration amounting to many millions of dollars would continue indefinitely unless an effective program was established for rotation of limited-life items.

We had previously reported to the Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, the nature of our findings relative to our review of the management of the medical stockpile. On the basis of a recommendation made by the Subcommittee, officials of PHS, DOD, VA, and the General Services Administration established an Interagency Coordinating Committee to develop a firm routine for maximum utilization of limited-life and excess items in the medical stockpile. In January 1966, PHS and the VA entered into an interagency agreement on the rotation of items in the medical stockpile. A similar agreement was executed with DOD during February 1966. From January 1965 through June 1966 about $8.7 million worth of medical supply items were transferred to other Federal agencies.

37. Corrective measures being taken by the Public Health Service to limit procurements and to use available excess stocks within the approved program plans applicable to Packaged Disaster Hospitals--Our review of the procurement of equipment and supplies by the Public Health Service (PHS), Department of Health, Education, and Welfare (HEW), for the Packaged Disaster Hospitals included in the civil defense medical stockpile disclosed that PHS made procurements of many items in quantities greater than necessary to meet the established requirements for the 2,680 Packaged Disaster Hospitals for which funds had been authorized by the Congress. For the items we reviewed, the excessive procurements totaled about $2 million.

PHS officials informed us that the excessive procurement of one item, surgical adhesive plaster costing about $664,000 which is subject to relatively fast deterioration, was made to prevent the loss of funds before the appropriation expired on June 30, 1962, and that the excess was to be made part of a reserve backup supply to be maintained at civil defense medical depots.

Since the Congress had not specifically authorized a reserve backup supply or disaster hospitals in excess of 2,680 and since PHS had no assurance that such authorization would be obtained in the near future, we proposed in a report to the Congress in August 1965 that PHS limit procurements for disaster hospitals to the quantities needed to stock and maintain the existing disaster hospitals until such time as the Congress expressly approved procurement for additional disaster hospitals and reserves. In February 1965, the Department informed us that corrective measures had been taken in line with our proposals.

We recommended that the Secretary, HEW, determine whether the equipment and supplies excess to the needs of the medical stockpile could be

effectively utilized in other PHS activities and that any item not so utilized be made available for use by other Government agencies or for sale or donation in accordance with the Federal Property Management Regulations.

Subsequent to our review, a task force was established under the chairmanship of the Office of Emergency Planning to study emergency health activities including the medical stockpile program. We were informed by PHS that, since the recommendations of the task force would most likely affect its medical stockpile objectives, disposal of the excess stock under current policy guides prior to issuance of the task force report would not be in consonance with its responsibilities to manage the stockpile in the most economical manner possible. Also, we were informed that improvements were made in disposing of certain of the items cited in our report.

CIVIL SERVICE RETIREMENT BENEFITS

38. Improved procedures adopted by Civil Service Commission for removing annuitants from retirement roll after their recovery from disability or upon the restoration of their earning capacity--In our review of the United States Civil Service Commission's administration of certain aspects of the Civil Service Retirement System, we observed certain inadequacies in the procedures which were designed to institute discontinuance of the disability retirement annuities for those annuitants who were found to have recovered from disability or whose earnings exceeded the allowable statutory limitation. As a result, some annuitants remained on the retirement roll beyond the scheduled date on which their annuities should have been discontinued. This matter was brought to the attention of officials of the Commission during our review.

In a letter dated May 27, 1966, the Chairman of the Commission stated that, on the basis of discussions with our auditors, the Commission had initiated improved procedures for terminating disability annuities and, if necessary, would initiate further refinements. The new procedures placed into effect, in our opinion, should result in the more timely removal from the retirement roll of those annuitants not entitled to annuities because of recovery from disability or because of restoration of earning capacity.

We estimate that potential savings of more than $400,000 may result from removal from the retirement roll of those annuitants who our reviews disclosed were no longer entitled to disability annuities.

39. Need for more frequent case reviews and/or medical examinations of disabled annuitants under Civil Service Retirement System--In our review of certain aspects of the Civil Service Retirement System administered by the United States Civil Service Commission, we observed long periods of time elapsing between case reviews and/or medical examinations of disabled annuitants, which may have resulted in some annuitants remaining on the retirement roll after their recovery from disability. We noted many cases where from 2 to 10 years elapsed between reviews of the case files by medical officers.

To help reduce the possibility of annuitants' remaining on the retirement roll beyond the date of their recovery from disability, we proposed to the Chairman of the Commission that the existing procedures be revised to provide for annual reviews of the disability case files and for the scheduling of medical examinations of disability annuitants at more frequent intervals, particularly for those annuitants who have been employed during much of the time that they were receiving disability annuities.

The Chairman of the Commission, in a letter dated May 27, 1966, acknowledged that there was a need for keeping the disability retirement program under constant review but said that he had certain reservations, involving the use of money and available medical manpower, about stepping the program up to the level of having each annuitant subject to review take a medical examination each year.

Our proposal to the Commission for more frequent reviews of the cases of disability annuitants did not contemplate that each annuitant whose case was subject to review be medically (physically) examined each year. Our suggestion was based on section 7 (c) of the Civil Service Retirement Act which requires that each annuitant, unless his disability is permanent in character, shall be examined annually until reaching age 60. In our opinion, a review should be made of each annuitant's case annually in accordance with the above provision in the Civil Service Retirement Act.

Therefore, in our report to the Congress issued in October 1966, we recommended that the existing procedures of the Commission be revised to require, to the fullest extent practicable, annual case reviews by medical officers and the scheduling of medical examinations of annuitants in those instances where the case reviews indicate that the annuitants may have recovered from disability.

COLUMBIA RIVER FISHERY DEVELOPMENT PROGRAM

40. Action being taken by the United States Fish and Wildlife Service to effect greater cost participation by the State of Oregon in the operation and maintenance of fish hatcheries--In a report issued to the Congress in February 1966, we stated that our review showed that, since fiscal year 1953, the Federal Government had borne all increases in the operation and maintenance costs incurred under arrangements entered into by the Bureau of Commercial Fisheries, United States Fish and Wildlife Service, Department of the Interior, and the State of Oregon for the joint financing of operations at four State fish hatcheries which were expanded and modernized with Federal funds under the Columbia River Fishery Development Program.

We expressed our belief that, on the basis of the operating costs experienced at the hatcheries immediately preceding and following expansion, Federal participation in the operating costs of the hatcheries exceeded its proportionate share by about $720,000 through fiscal year 1965 and that, unless the cost-sharing agreements were revised to provide for increased State financial participation, additional costs of $316,000 would be incurred through fiscal year 1968.

In May 1966 the Department informed us that a proposal had been endorsed by the Oregon Fish Commission whereby the State would assume one third of the operating costs in future fiscal years for those fish hatcheries included in our review. Final resolution of the matter is dependent upon action by the State to appropriate the necessary funds.

41. Action taken by Agricultural Stabilization and Conservation Service to extend agricultural program to additional farmers without use of additional funds--In a report issued in April 1966 on our survey of the 1964-65 Cropland Conversion Program administered by the Agricultural Stabilization and Conservation Service, Department of Agriculture, we pointed out that a farmer entering into a 5-year Cropland Conversion Program agreement could elect to receive either annual payments during the period of the agreement or a one-time lump-sum payment at the time the agreement was approved. We noted, however, that, if a farmer elected to receive a lump-sum payment, the payment was not subject to a discount.

In contrast, under a somewhat similar program, the Cropland Adjustment Program, payments made in advance of performance must be discounted at the rate of 5 percent a year pursuant to the enabling legislation. Therefore, we concluded that, if similar discounts were to be required under the Cropland Conversion Program, funds would be available for extending the program to additional farmers.

Following our discussion of this matter with officials of the Department, operating procedures were issued in January 1966 with a specific provision for reducing by 5 percent a year all payments made in advance of performance. We estimated that the inclusion of the 5-percent discount provision in the 1966 Cropland Conversion Program would result in making about $200,000 available for extending the program to additional eligible farmers.

FEDERAL-AID AIRPORTS PROGRAM

42. Action taken by the Federal Aviation Agency to strengthen Federal-aid to airports grant procedures--In a report issued in December 1965 on our review of a grant made by the Federal Aviation Agency to the city of Los Angeles, California, for the Federal share of the cost of land acquired for the Los Angeles International Airport, we found that FAA made an ineligible contribution of $154,411 to the city for the cost of temporary nonairport improvements. The contribution was ineligible because rental income received from the nonairport improvements was not offset against the cost of the improvements, although such offset was required by FAA policies. We proposed that the Agency reappraise and, where necessary, clarify the policies and procedures for the administration of the Federal-aid airports program to provide for proper compliance with such policies. We proposed also that FAA seek reimbursement from the city of Los Angeles for the ineligible contribution of $154,411.

FAA agreed with our proposals and stated that it had initiated action to recover $154,411 from the city of Los Angeles. FAA stated also that Agency directives had been issued to further clarify procedures concerning rental credits related to nonairport improvements.

FEDERAL-AID HIGHWAY PROGRAM

43. Action taken by the Bureau of Public Roads which should reduce Federal costs applicable to design drawings suitable for repetitive use--Our review of participation in costs of standard-type plans by the Bureau of Public Roads, Department of Commerce, disclosed that the Bureau's determination of eligibility for Federal participation in the cost of preparing typical design drawings for commonly used items--such as speed limit, stop, and yield signs and sign panels and structures--was not based on a meaningful analysis of the work to be done to determine whether such drawings could actually be used generally and repetitively but was based on the State's identification of the work as preparation of standard plans.

For one State, the Bureau concluded that engineering costs for typical design drawings, identified as standard plans for more than one project, were in the nature of administrative expenses not eligible for Federal participation under Bureau regulations; for another State, the cost of similar design drawings, prepared under consultant contracts and not identified as standard plans, were allowed for Federal participation. In the interest of providing for consistent adherence with the applicable regulation, we proposed that the Bureau establish a policy which would prohibit Federal participation in the costs of preparing all drawings suitable for use as standard plans.

In response to our proposal, the Bureau stated that the matter would be studied further and a determination would be made as to whether additional instructions or regulations would be necessary. In view of the Bureau's intention to examine the need for policy revisions, we made no specific recommendations in our March 1966 report to the Congress; but we urged the Bureau, in its analysis of this situation, to consider also the means whereby the resources available to the States and the Bureau, including engineering talent, could be utilized for work of an original rather than duplicative nature.

In a May 1966 memorandum to all field offices, the Bureau emphasized the pertinent regulation governing Federal participation in engineering costs and directed that available plans should be examined for possible adaptation as standard plans for repetitive use. In addition, the Bureau provided a copy of our report to each field office.

44. Action taken by the Bureau of Public Roads to improve the effectiveness of quality-control programs established by States for highway construction--Our review of the manner in which the Bureau of Public Roads, Department of Commerce, formulated and administered a program for evaluating the effectiveness of controls over construction on Federal-aid highway projects, generally called the record-sampling program, disclosed that the lack of effective direction and leadership at the policymaking level of the Bureau resulted in serious shortcomings in some States during the early years of the program and that problems of varying magnitude continued to exist and tended to impair the effectiveness of the program.

In view of the need for more effective Bureau guidance in this program, we recommended in a report issued in May 1965 that the Bureau

require the States to formulate and submit statements of their materials-testing and construction-inspecting organizations, policies, and procedures for Bureau review and approval.

In response to our recommendation, the Bureau in September 1965 directed its regional and division engineers to collaborate with State highway departments in improving and updating State manuals and instructions regarding the control of construction operations on Federal-aid projects. In addition, regional and division engineers were directed to encourage the States to include in the appropriate State manuals pertinent sections on job control, progress record and final record sampling and testing, and a guide schedule for the minimum frequency of such sampling and testing.

Subsequently, in October 1965, the Federal Highway Administrator rescinded the September 1965 directive and advised the Bureau's regional and division engineers that the development of a construction manual would be completed by the American Association of State Highway Officials (AASHO). According to the Administrator, AASHO had already taken initial action to collect copies of the States' current construction manuals and review such data in deciding the items to be included in the AASHO manual which, if the States responded promptly to AASHO's request, would be distributed to the State highway departments during 1966.

45. Action being taken by Bureau of Public Roads to review right-of-way acquisition activities--We found that, although reviews made by the Bureau of Public Roads, Department of Commerce, in 1960 had indicated deficiencies in the right-of-way appraisal practices of the State of Utah, it was not until 1962 that the Bureau recognized the prevalence of inadequately supported right-of-way values.

A retrospective appraisal program, paid for entirely by the Bureau, was inauguarated thereafter as a means of determining the acceptability of claims for right-of-way costs for acquisitions before August 1, 1962. The retrospective program, completed at a cost of about $31,000, indicated that generally the property acquired before July 1962 had been significantly overvalued.

However, because the Bureau and the State had made no prior agreement that the results of this program would be a basis for settlement of claims, a common ground for settlement was not established. As of February 1966, State of Utah claims for Federal participation amounting to $11 million for rights-of-way acquired before August 1962 remained unsettled.

During our review, we found that inadequately supported appraisals were continuing, and we made several suggestions to the Bureau to assist in solving the problems in Utah by encouraging the preparation by the State of better appraisals initially. The suggestions included a proposal to limit Federal participation in State costs of obtaining documentation for right-of-way values to either the cost of preparing the initial appraisals or the cost of retrospectively determining the values involved, but not both.

While the Bureau concurred in some of our suggestions, it did not agree with this proposal. Therefore, in our July 1966 report to the Congress, we recommended that the Bureau establish a policy which would limit Federal participation in State costs of preparing appraisals to the amounts that would be required to obtain acceptable appraisals initially.

In January 1966, the Bureau's Office of Audits and Investigations began an extensive review of right-of-way activities in the State of Utah, which was to cover current appraisal and appraisal review procedures, to ascertain what actions were needed to correct existing problems, and to examine data being prepared by the State relating to the pre-August 1962 acquisitions. We noted also that the Bureau had taken other actions in recent months, which, in the aggregate, should provide a general evaluation of the manner in which the right-of-way program was being administered nationwide.

In our July 1966 report, we expressed the belief that these actions were necessary and commendable, particularly since the inadequately documented appraisals were not confined to the State of Utah and such conditions continued to persist even though it was over 9 years since the start of the Federal-aid highway program. We therefore recommended that the Bureau, as part of the current and planned general evaluation of the administration of the right-of-way acquisition activities, consider our findings in arriving at decisions on corrective actions that might be required to strengthen the program. The Bureau agreed with this recommendation.

46. Need for an effective review of justifications for access control features such as frontage roads in Federal-aid highway program--As a result of questions raised by our Office regarding the need for the construction of an interstate highway frontage road near Billings, Montana, now estimated to cost about $1 million, the Bureau of Public Roads, Department of Commerce, gave further consideration to the project and determined that the frontage road was no longer justified as originally approved. The Bureau made several alternative proposals to the State of Montana for lesser projects under which the estimated Federal participation would not exceed $300,000; but, as of August 1966, the State still desired to construct the frontage road as initially planned and a final solution had not been reached, principally because of disagreements relating to access rights involving railroad company property.

The Bureau had approved Federal participation in the cost of constructing a frontage road, estimated at $720,000 in 1962, primarily on the basis of justifications made by the State about 4 years earlier. The Bureau had not adequately evaluated the effect of changes in local conditions upon the need for the road and had not requested the State to prepare analyses or cost studies, as required by Bureau policy, to show whether construction of the road was the most economically feasible means of controlling access to the adjacent interstate highway.

Other cases of this type involving access rights to railroad properties are pending settlement in other Western States, and the consideration

of the use of frontage roads as a means of controlling access to interstate highways is fairly common. We therefore recommended, in our November 1966 report to the Congress, that the circumstances in this case be brought to the attention of appropriate Bureau officials to emphasize the importance of an effective review of justifications for access control features, such as frontage roads, to ensure approval of Federal financial participation on a basis consistent with applicable Bureau policy.

47. Need for thorough economic and engineering analyses in construction of Federal-aid highways prior to the use of stage construction--The Bureau of Public Roads, Department of Commerce, approved construction in stages for a portion of an interstate highway, without requiring the State to prepare an analysis comparing the benefits to be derived with the anticipated additional costs involved. For the most part, six lanes were provided in the initial construction and two additional lanes were to be provided at a later date. Additional Federal costs resulting from stage construction were estimated at $1.3 million. Neither the Bureau nor the State agreed that the use of stage construction in this instance was inappropriate. Although Bureau comments indicated recognition of the need for economic analyses, the Bureau stated that attention to overall public benefits was also important.

Even though Bureau policy directives set forth the general conditions under which stage construction should be undertaken, Bureau instructions did not prescribe the method which should be used to justify the use of stage construction. In our December 1965 report to the Congress, we recommended, therefore, that the Federal Highway Administrator require that decisions as to whether the use of stage construction is in the overall public interest be based on thorough economic and engineering analyses of the anticipated and directly applicable benefits and the expected additional construction costs and problems resulting from the use of stage construction.

48. Action taken by General Services Administration to strengthen controls over telephone equipment and facilities--In July 1965 we reported to the General Services Administration (GSA) that effective controls to disclose the placing of orders for telephone equipment and facilities by the civil executive agencies did not exist within GSA. We noted that civil agencies placed orders with telephone companies for major changes in communications facilities and new telephone equipment prior to submitting the proposed changes to GSA for review and approval, although GSA's approval was required by regulations and that, without knowledge and control over the telephone equipment the agencies were ordering, GSA could not effectively develop and coordinate plans governing the management and utilization of telephone services in accordance with its statutory authority and responsibility.

As a result of our proposals, GSA called to the attention of several communications carriers and equipment manufacturers the requirement that Federal agencies need GSA's prior authorization for major changes and new installations. GSA also informed us that it was planning to revise the Federal Property Management Regulations to strengthen the requirements regarding the submission of information on proposed major changes and new installations of communications equipment for GSA's prior review.

49. Consideration being given by the Federal Communications Commission to the feasibility of adopting less complex criteria for determining when the Federal Aviation Agency must be notified of the proposed construction or alteration of antenna towers--The Federal Communications Commission processes annually about 28,000 applications for permits for the construction or alteration of radio and television antenna towers to determine whether the proposed construction or alteration constitutes a potential hazard to aviation safety under Federal Aviation Agency-prescribed criteria and, if so, whether the applicants have notified the FAA so that it may determine the effects of the proposed construction or alteration upon the safe and efficient use of the navigable airspace.

In a report issued in September 1966, we stated that our review of the processing of applications for permits for the construction or alteration of antenna towers by the FCC showed that, under the prescribed notification criteria, very detailed and complex engineering determinations were necessary to determine whether the FAA must be notified of the proposed construction or alteration of an antenna tower. We expressed the belief that the adoption by the FAA of less complex notification criteria was feasible and that it would enable an applicant for a permit for the construction or alteration of an antenna tower to more readily determine whether the FAA must be notified of the porposed construction or alteration and the FCC to more readily determine whether the required notification had been filed with the FAA. We expressed the belief also that the reduction in the FCC's processing work would result in annual savings of about $75,000 in personnel and other costs.

FEDERAL COMMUNICATIONS SERVICES (continued)

In order that the FCC's processing of applications for permits for the construction or alteration of antenna towers may be reduced to a less complex and more routine procedure, we suggested to the FCC and the FAA that consideration be given to adopting notification criteria under which applicants would be required to notify FAA of the proposed construction or alteration of antenna towers of more than a specified height above ground level and of antenna towers within a specified distance of all nearby airports.

The FCC and the FAA have advised us that consideration was being given to the feasibility of adopting our suggestion.

FEDERAL REGULATION OF COMMODITY FUTURES MARKETS

50. Action taken by the Commodity Exchange Authority to increase the number of trade-practice investigations on certain commodity futures markets--Our review disclosed that the number of trade-practice investigations made by the Commodity Exchange Authority (CEA), Department of Agriculture, was not sufficient to disclose and discourage abusive trading practices by individuals trading on certain commodity futures markets. We found that 21 of the 36 regulated futures markets had not been subjected to trade-practice investigations during the 5-year period ended June 30, 1964. These 21 futures markets had transactions averaging about $33.7 billion annually and representing 76 percent of the average annual value of all futures contracts. Of the 21 futures markets, three having transactions averaging $26.5 billion annually had never been subjected to a trade-practice investigation.

We recommended in a report issued to the Congress in July 1965 that CEA establish and implement a policy requiring more frequent trade-practice investigations on a planned basis, giving due consideration to the volume of transactions in a particular futures market and the frequency of violations. In its fiscal year 1967 budget submission to the Congress, the Department of Agriculture requested an increase of $146,700 in its appropriation to provide for additional trade-practice investigations. The Congress approved the request, and the additional funds for this purpose were included in the Department of Agriculture and Related Agencies Appropriation Act, 1967.

51. Action taken by the Forest Service to adjust fees charged for summer-home sites on national forest lands--In a report to the Congress in March 1963 on our review of recreation and other selected land use activities of the Forest Service, Department of Agriculture, we pointed out that the Forest Service fees for permits for summer-home sites were in some cases less than the fees would have been if computed, in accordance with Forest Service instructions, on the basis of the estimated values of comparable privately owned lands used for the same purpose in the same areas. We recommended that the Forest Service reemphasize to the regional foresters the need to determine the reasonableness of summer-home-site permit fees charged in their respective regions and, where warranted, to adjust the fees as soon as possible under the provisions of the permits.

In our follow-up report in January 1966, we stated that, through May 1965, the agency had reviewed most of the special-use permit fees for summer-home sites and recalculated the permit fees. As a result, it was expected that revenues to the Government would increase by about $1.5 million for the 5-year periods from the effective dates of the fee increases to the next applicable fee adjustment dates. On the basis of our examination of fee adjustment activities at certain Forest Service field locations, we believe that the redetermined special-use permit fees were generally established in accordance with Forest Service instructions, although certain minor discrepancies were noted.

52. Action taken by the Forest Service to improve criteria for determining logging cost allowances in timber appraisals--Our review of selected timber appraisal activities in the Southern Region (Region 8) of the Forest Service, Department of Agriculture, disclosed that appraisal guidelines furnished Region 8 timber appraisers for use at two national forests did not contain sufficient information (1) to guide the appraisers in establishing logging cost allowances which reasonably reflected the variable logging conditions existing in each sale area and (2) to provide Forest Service reviewers of appraisals with an adequate basis for evaluating the reasonableness of the allowances computed by timber appraisers. As a result, timber appraisers were generally establishing the logging cost allowance in appraisals, without varying the allowance to reflect variations in logging conditions.

In July 1966, in response to recommendations contained in our November 1964 report, the forests in Region 8 were instructed to consider all variables in the components of logging cost in order to obtain an equitable logging cost allowance. In October 1966, we reviewed selected, recent Region 8 timber appraisals and noted that the cost allowances for the logging functions varied from sale to sale, indicating that criteria for logging cost allowances had been improved.

53. Action being taken by Forest Service will increase amount of timber available for sale--In our August 1965 report, we stated that the timber management plans for 42 of the 62 working circles in the California Region (Region 5), Forest Service, Department of Agriculture, were based

on the assumption that the growth and mortality (death or destruction of forest trees) within mature and overmature timber stands were in balance and offset each other, although there was considerable evidence that this was not correct. For the remaining 20 working circles, the imbalance between growth and mortality had been taken into consideration.

We pointed out that actual measurements in two national forests had the effect of increasing the annual allowable cut included in the approved timber management plans for these working circles by a total of about 5.8 million board feet, or 7.1 percent over the annual allowable cut volume that would have been calculated had growth and mortality on mature and overmature timber stands been assumed to be in balance. Region 5 initiated a program in 1964 to obtain growth and mortality data for use in timber management planning. The deficiencies noted in our report should be corrected when this information is incorporated in the timber management plans. However, because of the evident significance of this growth and mortality increment, we expressed the belief that regional officials should consider amending the current timber management plans as this information becomes available instead of, as was planned, deferring correction until the next regularly scheduled revision date of each plan--an interval of as much as 10 years.

The Chief of the Forest Service informed us in October 1965 that interim revisions would be made for working circle where old-growth increment data was not available at the time of plan preparation, using the best currently available growth information. He said that these interim revisions would be made as rapidly as practical and that it was hoped all would be completed within a year.

54. Action to be taken by the Forest Service to obtain accurate measurements of national forest timber--Although the Forest Service, Department of Agriculture, generally relies, for payment purposes, on its own personnel to measure the timber cut and removed by purchasers from the national forests, arrangements have been made to have private organizations, known as scaling bureaus, perform this function in certain areas within the Pacific Northwest Region. These scaling bureaus, which draw their membership from buyers and sellers of timber, were established for the primary purpose of measuring and grading timber.

Our review showed that, under procedures used by the scaling bureaus, certain partially defective logs over 40 feet in length were measured as one log rather than as two segments which would have resulted in increasing the volume of timber with a consequent increase in timber sale revenues of as much as $550,000. According to the Forest Service, measuring these defective logs as two segments is the appropriate measuring procedure. Also, the scaling bureaus measured the volume of certain logs as though the logs were 16-, 34-, and 42-feet long, when the volume should have been measured on the basis of lengths of 17-, 35-, and 43-feet.

Because the Forest Service was unable to obtain timely corrections of undesirable scaling bureau procedures, we recommended in our report to the Congress in March 1966 that, in the future, if Forest Service action was unsuccessful in achieving necessary changes in procedures for the measuring of national forest timber or there were unreasonable delays in achieving such changes, the Forest Service discontinue, as soon as practicable, the use of the services of any scaling bureau that does not implement the necessary changes. The Department of Agriculture expressed its agreement with this recommendation and stated that the instances cited in our report were indicative that more responsive action must be obtained from the bureaus on similar problems arising in the future.

55. Action proposed by the Forest Service to accomplish timber harvest and sale objectives--Our review showed that the volume of national forest sawtimber harvested during fiscal years 1960 through 1964 in nine of the 34 forest management areas (working circles) in the Northern Region (Region 1) of the Forest Service, Department of Agriculture, was 637 million board feet (53 percent) less than the total of the annual allowable cuts established by the Forest Service for these areas for this period. In addition, the volume of sawtimber proposed for sale during fiscal year 1965 through 1967 in seven of these nine working circles was 172 million board feet (27 percent) less than the total of the annual allowable cuts for these areas for that period.

In our August 1965 report, we stated that the annual allowable cut was not being achieved in the above working circles, in large part, either because regional officials had not obtained the necessary additional rights-of-way for development of adequate access roads to areas of merchantable timber or because there had been a lack of mill capacity or demand for timber in certain areas. We estimated that the 809 million board feet of timber discussed above (637 plus 172 million board feet) would have a minimum sales value of about $3 million.

The Chief of the Forest Service informed us in October 1965 that the basic factors preventing achievement of the allowable cuts in the working circles mentioned involved more than right-of-way problems and that the economics of road construction and operating feasibility were also involved. He said that Region 1 had taken steps to resolve some of these problems and would continue to do so. In addition, he proposed to initiate in the Washington headquarters office a review of forests having an established forest-industry capacity less than the allowable cut. He stated that, through conferences with regions and forests as appropriate, the headquarter office planned to reach forest-by-forest decisions on the urgency, suitability, and kind of action needed to maintain existing industrial bases or to provide for industry expansion.

56. Analysis of bidding patterns for national forest timber--In our October 1965 report prepared for Senator Wayne Morse and made available at his request to the public generally, we reported on the results of our analysis of certain statistical data concerning various aspects of bidding, by both sealed bids and oral auction, for national forest timber in

Forest Service Regions 1 and 5 for calendar years 1962 and 1963. Our analysis covered the relationship of bidding method and sale-size category to bidder response, the relationship of the location factor to bidder participation and results, and the proportion of national forest timber obtained by certain firms.

Some of the findings disclosed by our analysis were that (1) the oral auction bid method produced proportionately more single-bid sales of national forest timber than did the sealed-bid method, (2) 94 percent of the single-bid oral auction sales were made at appraised value while the corresponding figure for single-sealed-bid sales was 42 percent, (3) 26 percent of the oral auction bid sales and nine percent of the sealed-bid sales were made at the appraised value, and (4) for all sale-size categories combined, the majority of the oral auction timber offerings were sold at low or high extremes--at appraised value, within 10 percent above appraised value, or in excess of 200 percent above appraised value--while the successful bids for the sealed-bid offerings appeared to be more evenly distributed throughout the various percentages by which the successful bids exceeded appraised values.

57. Criteria established by the Forest Service for determining when chip by-product values should be included in timber appraisals--Our review of selected timber appraisal activities in the Southern Region (Region 8) of the Forest Service, Department of Agriculture, disclosed that Federal timber offered for sale at certain locations in the Ouachita National Forest in Region 8 was underappraised by about $260,000 during fiscal year 1962 and the first quarter of fiscal year 1963 because, in computing the appraised value of the timber, appropriate consideration was not given to the value of wood chips, a by-product of lumber production. We brought this matter to the attention of the Regional Forester, Region 8, and the value of wood chips was subsequently included in timber appraisals at the locations where our review showed such action was appropriate.

The appraisal guidelines, however, were not revised to provide adequate criteria for determining when a market area should be considered as one where chipping facilities represent a strong competitive factor and warrant recognition in appraising national forest timber. We recommended in a report issued in November 1964 that the Regional Forester, Region 8, develop appropriate criteria for determining the circumstances under which the production and sale of lumber by-products constitute a generally established local industry practice.

The Department informed us in December 1964 that a countrywide review of regional procedures was being made by the Forest Service to determine the best procedures to use for reflecting the value of by-products, such as wood chips, and that the procedures used in Region 8 would be improved and clarified as a part of that review. In August 1966, the Forest Service manual was revised to include appropriate instructions as to when chip values are to be included in timber appraisals.

58. Forest Service to avoid use of incorrect measurement data that results in understated appraised values--In our May 1966 report, we estimated that Douglas-fir timber sold by the Forest Service, Department of Agriculture, in the Six Rivers National Forest in the California Region (Region 5) was underappraised by about $266,000 during calendar year 1962 because the Forest Service did not utilize certain available mill study information in a timely manner. Under the analytical method used by the Forest Service in appraising timber, the amount of lumber considered recoverable from a given quantity of timber directly affects the timber end-product sales realization value and, consequently, has a material bearing on the appraised value of the sale timber.

Information as to the volume and quality (grades) of lumber considered recoverable from the logs of a particular timber species is developed from data provided by mill studies. We expressed the belief that the losses described in the report could have been avoided in Region 5 if timber management officials had used available information and that this matter should be brought to the attention of regional officials to illustrate the need for evaluating the implications of newly developed information and, where necessary, for adjusting existing practices and procedures as such information becomes available.

In June 1966, the Chief of the Forest Service stated that our analysis of this situation was helpful in calling attention to the need for utilization of new data, as soon as it can be assembled, as the best available data regardless of whether it may be a part of a more elaborate study which is still in process of analysis.

59. Forest Service is taking action to update timber inventories and management plans--In our August 1965 report, we stated that the Southern Region (Region 8) of the Forest Service, Department of Agriculture, in many instances, had been managing its timber resources on the basis of obsolete timber inventories and outdated or interim management plans with the result that there had been no reasonable assurance that the volumes of timber sold by the Region and cut by timber purchasers were consistent with the volumes which would ultimately provide for achieving a sustained yield of timber projects from the national forests. Many of the annual allowable timber cut volumes established by the Region 8 management plans were subsequently shown to be significantly overstated or understated.

We stated that, although progress had been made in Region 8 in the past several years in bringing timber management plans up to date, as of June 30, 1964, a significant amount of timber resources in the Region were still being managed on the basis of outdated or interim plans (some form of temporary plan or plan extension). Forest Service procedures provide that revisions of management plans and reinventories are to be programmed at approximately 10-year intervals.

In October 1965, the Chief of the Forest Service expressed his agreement with our recommendation for the earliest practical revision of interim plans more than 10 years old. He also stated that, in line with our

proposal, increased emphasis would be given in general and limited functional inspections to the timeliness of timber management planning by all regions and that, where unsatisfactory progress was found, action would be taken to correct it.

60. Action taken by Farmers Home Administration to strengthen procedures for determining whether loan applicants are unable to obtain financing from private or cooperative credit sources--Our examination of 222 loans totaling about $2,262,000 made by the Farmers Home Administration (FHA), Department of Agriculture, during fiscal years 1962, 1963, and 1964 disclosed that 45 loans totaling about $379,000 were made to applicants who may have been able to obtain their financing from other sources. The approval of loans without adequately determining whether the applicants were unable to obtain financing from private or cooperative lenders was not in accordance with FHA policy and instructions which were promulgated to implement the intent of applicable laws that loan programs be administered in such a manner that they will not supplant or compete with credit available from other sources.

Although the Acting Administrator, FHA, did not agree with our findings, FHA issued new detailed procedures in September 1965 to be followed in making required credit availability determinations for rural housing loan applicants. These procedures substantially included the actions we had proposed, and their proper implementation should correct the weaknesses we found in the rural housing loan program, except the need for closer liaison with Federal Housing Administration (FHA) and Veterans Administration (VA) officials.

Subsequent to the issuance of our report to the Congress in January 1966, FHA issued revised instructions in line with our recommendation to the Secretary of Agriculture that he direct the Administrator, FHA, to (1) formulate procedures for credit availability determinations, comparable to those issued in September 1965 for the rural housing program, to cover other loan programs where such determinations are required, and (2) require county supervisors to meet periodically with officials of FHA and VA to ascertain whether the housing credit needs in rural areas located near urban areas can be met through the insured or guaranty loan programs of these agencies.

61. Action taken by the Farmers Home Administration to preclude the making of loans to rural water districts which benefit seemingly speculative residential subdivisions and residents or areas apparently not qualified for loan assistance--In a report issued to the Farmers Home Administration (FHA), Department of Agriculture, in June 1966, we stated that our review of selected soil and water loans made by FHA to rural water districts for the development of rural water systems indicated that, contrary to FHA policy, certain loans had been made or were contemplated to assist in the development of residential subdivisions which appeared to be speculative. We stated also that we had found instances where, contrary to FHA instructions in effect at the time of loan approval, loans were made to water districts serving (1) residents who did not derive their income from employment in the surrounding rural area and (2) residential subdivisions adjacent to urban areas.

FHA informed us that instructions which more clearly define the eligibility requirements for soil and water loans were issued after our

examination was completed. Our review of these instructions indicated that, if properly implemented, adequate determinations concerning future loan eligibility should be possible. In addition, in reply to our report, FHA advised us that the agency's policy regarding the avoidance of loans which assist speculative residential subdivisions was reemphasized to operating personnel.

62. Action taken by the Farmers Home Administration to strengthen efforts for refinancing Government loans when private or cooperative credit becomes available--On the basis of our examination into the refinancing potential of 306 loans, having outstanding principal balances totaling about $2.4 million, made by the Farmers Home Administration (FHA), Department of Agriculture, it appeared that 74 of these loans, having outstanding principal balances totaling about $500,000, could have been refinanced at rates and terms which were generally available to farmers and rural residents in their respective areas. The retention of loans of borrowers who are eligible for refinancing by private or cooperative lenders is not in accordance with FHA policy and instructions that have been promulgated to implement the intent of applicable laws which provide that loan programs will not supplant or compete with suitable credit available to borrowers from other reliable credit sources.

After these loans were brought to the attention of FHA officials, they took action which, as of January 1966, had resulted in 39 of the loans, with outstanding principal balances amounting to about $180,000, being refinanced or repaid by the borrowers. Also at that time, refinancing arrangements were pending on an additional 23 loans having balances totaling about $186,000. FHA informed us that the agency agreed with our finding and noted that all its State directors had been advised of the need for greater administrative emphasis to achieve full compliance with the agency's refinancing policies. In June 1966 the agency issued revised refinancing instructions which, in our opinion, incorporate the substance of our proposals for corrective action and which should result in a strengthening of administrative controls over refinancing operations. Our report to the Congress on this matter was issued in May 1966.

63. Need for Department of Commerce to take action in accordance with recommendations of agencies delegated to function as experts under its loan programs--In a report to the Congress issued in October 1965, we pointed out that the Area Redevelopment Administration (ARA), Department of Commerce, had approved loans totaling $1.1 million for the construction of three motels against the recommendations of the Small Business Administration (SBA) and without, in our opinion, having reasonable assurance of repayment. As one of the motels had not been constructed at the time of our review, we proposed that the loan commitment be reexamined; and, as a result, the agency initiated certain revisions in the project which substantially reduced its size and cost.

Inasmuch as section 202 (b) of the Public Works and Economic Development Act of 1965 authorized a commercial and industrial loan program similar to that authorized by the Area Redevelopment Act which terminated

August 31, 1965, we recommended that the Secretary of Commerce require the administering agency of the current program to take action in accordance with the recommendations of agencies delegated by the Secretary to function under the act as experts, unless the administering agency had clearly convincing information that would render such action inappropriate.

The Economic Development Administration, the administering agency of the Public Works and Economic Development Act of 1965, informed the Bureau of the Budget that our recommendation would be considered in the formulation of policies for the administration of the Public Works and Economic Development Act of 1965.

LOW-RENT HOUSING PROGRAM

64. Action to be taken by the Housing Assistance Administration (formerly Public Housing Administration) to establish adequate criteria for purchases of office furnishings by local housing authorities--When the New York City Housing Authority (NYCHA) moved its central office from 299 Broadway to 250 Broadway, the lease entered into for the new office building allowed NYCHA a concession of approximately $373,900 in services, credit, cash, or a combination thereof. NYCHA elected to use part of the concession moneys to furnish and improve the executive quarters, and a proportionate part of the cost was to be charged to the federally aided housing program.

In discussions with regional officials of the Housing Assistance Administration (HAA), Department of Housing and Urban Development (HUD), we expressed our opinion that certain of the furnishings appeared to be costly and we questioned whether the cost of such furnishings should be charged to the federally aided, low-rent public housing program. The furnishings included such items as a cabinet with natural lacquer teak top and doors ($867), a double pedestal desk with antique hardware and ferrules ($1,008), four smoking chairs with blue torridon leather ($1,003), and a mahogany credenza ($630).

Although corrective action was subsequently taken by NYCHA in this instance, we pointed out in a report issued to the agency in April 1966 that consideration should be given to establishing appropriate criteria as to the type and cost of office and executive furnishings that HAA would consider eligible for Federal participation. We pointed out that such criteria should provide for a uniform implementation of HAA policy by regional officials in their reviews of local housing authority (LHA) budget requests for furnishings.

HAA informed us in May 1966 that, for various reasons, it did not think it practicable to establish such criteria.

In a report to the Secretary of HUD in July 1966, we stated that we continued to believe there was a need for the establishment of criteria as to the type and cost of furnishings that would be considered appropriate for purchase by LHAs and, therefore, eligible for Federal participation. We stated that, the wider the variation in LHAs' needs for office furniture and equipment, the greater the need for criteria to provide for more consistent and uniform determinations by regional officials with respect to the type and cost of allowable office and executive furnishings for LHAs.

HUD advised us in October 1966 that the only action contemplated regarding this matter was the issuance of instructions emphasizing existing procedures for prior HAA approval of LHA purchases of office and executive furnishings.

In a letter to the Secretary in October 1966, we again stated our opinion that there was a need for the establishment of appropriate criteria, and we suggested that one method of establishing reasonably effective criteria would be to include appropriate office furnishings for LHAs in

HAA's consolidated supply program catalogs so that the catalog prices could serve as reasonable dollar guidelines for LHA purchases. HAA supply catalogs are somewhat similar to the General Services Administration's Federal Supply Schedules and are provided to assist LHAs in making economical purchases of various items needed for project operations.

In December 1966, HUD advised us that our views had been reconsidered and that further steps would be taken to provide adequate controls over LHA purchases of office furnishings, including use by the HUD regional offices of the Federal Property Management Regulations and the Federal Supply Schedules as guides in reviewing proposed purchases of furniture by LHAs.

MANAGEMENT OF INDIAN TRIBAL FUNDS

65. Need for effective guidance of Navajo Tribe of Indians in the management of tribal funds by the Bureau of Indian Affairs--Our review of the management of trust funds advanced to the Navajo Tribe of Indians by the Bureau of Indian Affairs, Department of the Interior, showed that in recent years a significant amount of tribal funds had been dissipated through (1) the unauthorized expenditure of funds for the expansion and continued operation of a heavy equipment pool which was operating at a deficit, (2) the unauthorized expenditure of funds for the establishment and liquidation of a commissary which was never opened for business, and (3) unsound purchasing practices. We concluded that the Bureau had not provided the type of guidance needed. Accordingly, in our report issued to the Congress in June 1966, we recommended that (1) the programs for which tribal funds were currently being expended be reviewed, (2) the adequacy of the financial controls and practices for the expenditure of the funds be reviewed and evaluated, (3) a comprehensive plan for the effective utilization of tribal assets be formulated and implemented, (4) the guidelines used by the Bureau for carrying out the Government's responsibilities for guidance of tribal officials in the management of tribal funds be improved and periodically reviewed, and (5) the actions necessary to correct the deficiencies in the management of tribal funds be discussed with the Joint Committee on Navajo-Hopi Indian Administration.

MORTGAGE ASSISTANCE AND INSURANCE ACTIVITIES

66. Action taken by the Federal Housing Administration to strengthen its administration of prescribed policies and procedures in reviewing applications for mortgage insurance--The Federal Housing Administration (FHA), Department of Housing and Urban Development, insured a $4.5 million mortgage for a high-rent multifamily project in Newark, New Jersey, although agency surveys and reviews available at the time indicated, in our opinion, that only a limited demand existed in Newark for the type of apartment units at the range of rents proposed and that the market was unable to readily absorb other newly completed, FHA-insured, high-rise structures which were being offered at similar rental levels.

Also, in computing the value of the project land for mortgage insurance purposes, FHA used methods and procedures which differed from those normally followed and which resulted in a higher land valuation than would have been obtained had the agency's normal method been followed. Further, FHA analysts, in reviewing the application for mortgage insurance, deviated from agency procedures, contributing to overly optimistic estimates of project rental income and real estate tax expense.

In a report to the Congress in March 1966, we recommended that FHA bring our report to the attention of agency officials to stress the importance of (1) requiring adherence to prescribed underwriting procedures and (2) carefully evaluating future proposals for projects to ensure their being in line with current and forecast area rental conditions and markets. FHA subsequently informed us that copies of the report had been distributed to all insuring office directors and other responsible agency officials.

67. Action taken by the Federal Housing Administration to strengthen its administration of procedures for mortgage insurance on housing projects for the elderly--Our review indicated that the approval of insurance for a $4.7 million mortgage on a housing project for the elderly by the Federal Housing Administration (FHA), Department of Housing and Urban Development, was contrary to the agency's prescribed policy because the project did not have the long-term support of a sponsoring organization having demonstrated reliability, substance, and ability to give reasonable assurance of the successful continuity of the project throughout the term of the mortgage.

We believe that the FHA officials' action in establishing a land valuation for insuring purposes, which was substantially higher than the valuation determined by the FHA technical staff appraisers, was questionable and that their action in increasing estimated project rental income over the rental income anticipated by the mortgagor was not adequately supported. These actions resulted in a larger insured mortgage and thereby increased the risk of loss to the Government in the event the project was not successful.

In our report to the Congress in February 1966, we recommended that FHA stress the importance to agency officials of close adherence to existing procedures and requirements and that it impress upon these officials

the need to guard against the assumption of unnecessary risks when insuring such mortgages. FHA subsequently informed us that copies of the report had been distributed to all insuring office directors and other responsible agency officials.

68. Action taken by the Federal Housing Administration to provide for more timely repairs on acquired properties--In June 1965, we reported that the failure of the Federal Housing Administration (FHA), Department of Housing and Urban Development, to make timely repairs on about 870 properties, which had been acquired through foreclosure or assignment in Wichita, Kansas, and had been held for an average of 3 years, had adversely affected the sale of the houses and had reduced the opportunity for savings in the cost of holding these properties. In view of the increasing number of properties being acquired by FHA and the agency's responsibility for promoting improvement in housing conditions and standards, we recommended that the FHA establish effective control procedures requiring aggressive action to repair acquired properties in accordance with FHA's basic repair policies.

In a June 1966 report, which supplemented our June 1965 report, we stated that many single-family properties owned by FHA in the State of Georgia were in deteriorated condition and had not been repaired in a timely manner, contrary to required FHA procedures. We expressed the opinion that the timely repair of acquired properties would improve sales potential and decrease the costs of holding these properties in inventory. We also expressed our belief that the condition of some of these properties contributed to neighborhood blight and that the delay in repairing these properties may, in some cases, result in higher repair costs. Further, the follow-up action by officials in Washington and the field on the findings in internal audit reports with respect to this problem in Georgia did not appear to be effective.

After we brought these weaknesses to its attention, the agency revised its property management instructions to provide that, without fail, all properties acquired be repaired immediately after acquisition. In addition, steps were taken to increase the effectiveness of follow-up action on internal audit reports.

69. Action taken by Federal Housing Administration to minimize rental delinquencies on acquired properties--Our review of delinquent rentals on properties owned by the Federal Housing Administration (FHA), Department of Housing and Urban Development, disclosed that the agency's actual and potential losses of rental income were sizable and had been increasing, partially, in our opinion, as a result of insufficient agency effort toward minimizing rental delinquencies of tenants occupying FHA-owned housing. During fiscal year 1964, about $248,000 in delinquent rents, nationwide, were written off by FHA as uncollectible; and, on June 30, 1964, remaining delinquent rents totaled about $762,000, of which about $480,000 was owed by persons no longer living in the housing.

In our report to the Congress in January 1966, we stated that, in our opinion, the increasing problem of rental delinquencies was attributable, in part, to insufficient supervision of brokers' activities by the insuring offices, weaknesses in central office management controls, and insufficient follow-up on agency internal audit reports.

FHA advised us of various corrective measures which had been adopted in Washington and the insuring offices which, in our opinion, should help to minimize losses and improve control over delinquent rental accounts.

70. Action taken by the Department of Housing and Urban Development to eliminate purchase of accrued interest on bonds purchased from private borrowers--Under the college housing and public facility loan programs of the Department of Housing and Urban Development (HUD) (formerly Housing and Home Finance Agency), loans are made for college housing and public facilities through HUD purchases of bonds issued by the borrowers. The terms of each bond provide for the payment of a specific amount of interest at specified semiannual interest dates.

In our review we noted that, when HUD purchased a bond between the specified interest dates, it paid, in addition to the face value of the bond, accrued interest to the date of purchase although no interest had accrued because the bond did not become outstanding until the date of purchase by HUD. The amount of funds representing accrued interest was held by the borrower, interest free, until returned to HUD as part of the first semiannual interest payment by the borrower on the bond. During fiscal year 1965, HUD disbursed about $2.4 million for the purchase of accrued interest which we estimated cost the Federal Government about $23,000 in interest.

Our report on this matter was issued in February 1966, and in May 1966 HUD procedures were revised to eliminate the purchase of accrued interest from private borrowers under these programs. We estimated that the Government would save about $10,000 annually as a result of the procedural changes.

71. Federal Housing Administration to give consideration to strengthening procedures with respect to project sponsors--In a report issued in February 1966, we expressed the opinion that, in approving mortgage insurance equal to 100 percent of the costs of a housing project for the elderly near Fort Worth, Texas, the Federal Housing Administration (FHA), Department of Housing and Urban Development, did not take reasonable precautions to assure itself that the project's sponsors had the ability, or were aware of their responsibility, to fully subsidize the operations of the project which the agency recognized might incur large operating deficits.

We expressed the belief that FHA placed undue reliance on the national religious organization to which the sponsors belonged for ensuring the financial success of the project. Further, the agency unrealistically

assumed that endorsement by the national organization alone would induce elderly people to move to the project from other parts of the country.

Inasmuch as the mortgagor corporation, formed by the sponsors to build and manage the project, did not make required interest payments on the construction loan and was unwilling or unable to raise the funds necessary to effect final closing of the mortgage, the agency took action to acquire the property and it was being managed by a court-appointed receiver at the time our report was issued. The agency informed us that it was considering a disposal plan which it estimated would recoup about $3.6 million of the Government's initial investment of about $4.5 million in the project.

FHA revised its procedures with respect to projects which would need operating subsidies and now requires agreements binding sponsors to underwrite the estimated operating deficits. However, in our report we stated that, in our opinion, these procedures did not go far enough and we proposed that FHA's procedures be revised (1) to require reasonably firm assurance of responsibility from central or national organizations of sponsoring groups before permitting insuring offices to consider as prospective tenants persons who are not residents of the locality in which the project is to be constructed and (2) to require nonprofit sponsors to raise necessary funds from persons or organizations which do not stand to profit from the approval of mortgage insurance for the project.

The Commissioner, FHA, informed us that these matters were being considered by the agency.

72. Need for the Federal Housing Administration to require lenders to submit acceptable credit reports--During fiscal years 1963 and 1964, Federal Housing Administration (FHA), Department of Housing and Urban Development, costs were increased unnecessarily by an estimated $400,000 because FHA, rather than lenders, obtained and paid for supplemental credit reports on applicants for mortgage insurance. The reports were purchased by FHA because lenders had failed to submit acceptable credit reports initially, contrary to FHA requirements. Although the number of credit reports purchased by the agency declined significantly in calendar year 1964, we estimated that between $40,000 and $50,000 was spent unnecessarily to purchase credit reports during fiscal year 1965.

In response to our proposal that FHA change its policy to one of requiring the submission of adequate reports by mortgagees before approval is given to applications for insurance, the Commissioner, FHA, stated his belief that its adoption would create serious practical problems and additional costs for an extensive credit bureau qualification review system or would require FHA to accept reports from only a small group of approved credit reporting sources. We stated that we did not believe significant problems and costs would be involved in adopting our proposal because the Commissioner had informed us that the great majority of mortgagees were submitting adequate credit reports.

Subsequent to the issuance of our report in July 1965, the Commissioner instructed insuring office directors to being to the attention of mortgagees involved the accumulated evidence of the deficiencies in the credit reports they were submitting.

73. Need for Veterans Administration to discontinue the purchase of title binders on properties acquired in the State of Florida under the loan guaranty program--In a report issued to the Congress in June 1966, we pointed out that savings of about $255,000 a year could be realized if the St. Petersburg, Florida, Veterans Administration (VA) regional office discontinued the practice of purchasing title insurance on properties acquired in Florida. Our review of over 300 cases showed that title insurance companies reported only 15 cases with title defects and these were easily cured by the mortgage holders' attorneys. We expressed the belief that the practice of purchasing title insurance was a departure from the general policy of the Federal Government to be self-insured by assuming its own risk of loss.

In response to our proposals, the VA informed us that procedures had been revised to eliminate the purchase of title insurance on properties acquired in Florida and that the purchasing of title insurance had been discontinued in all States but one. Under the revised procedures, VA accepts or rejects titles to properties tendered by mortgage holders in Florida on the basis of title binders (commitments to insure title) issued by title insurance companies at substantially less cost than title insurance. We estimated that the new procedures will result in savings of about $180,000 a year on properties acquired in Florida. However, we believe that an opportunity exists to realize additional savings in Florida by not purchasing title binders. It was our view that the title binders were unnecessary for the same reasons that the title insurance was unnecessary. We therefore recommended that the purchase of title binders be discontinued.

74. Action by the Post Office Department to accomplish better utilization of mail-flo equipment--Our review of the utilization of the mail-flo system equipment installed at the Chicago Post Office between 1959 and 1961 disclosed that several large segments of the system, costing about $558,000, were never used or were used for only a few days after installation. In addition, we observed that segments of the mail-flo system equipment at the Washington, D.C., and Denver Post Offices were not being used. The mail-flo system is comprised of a network of conveyers which transport mail to, through, and from the various mail processing centers in a post office.

We proposed that the Postmaster General direct a reevaluation of the unused segments at the Chicago Post Office to determine whether they could be modified or used at other post offices or whether disposal action would be the most practicable and economical solution. We proposed also that the Department determine the extent to which mail-flo equipment was unused at other postal facilities and apply the same procedures with respect to such equipment.

After the matter was brought to its attention, the Post Office Department established an intradepartmental committee to study all mail-flo installations to determine the precise nature and extent of any corrective action needed. Subsequent to the issuance of our report in February 1965, the Department informed us that the reevaluations of the mail-flo systems resulted in removal of equipment from certain locations and in proposed modifications and improvements to the systems at the other locations. In many cases, the equipment removed was retained for spare parts or to be used in the proposed modifications at other locations. These actions should result in more efficient and economical utilization of the mail-flo equipment.

75. Action taken by the Post Office Department to achieve savings through greater utilization of United States air carriers rather than foreign air carriers--In a report issued to the Congress in October 1965, we stated that the Post Office Department was incurring additional costs by using foreign air carriers for transporting United States letter class international airmail when United States air carriers would have provided generally the same mail delivery service.

Most of the additional costs were incurred as a result of requirements of reciprocal agreements between the Department and the postal authorities of several foreign countries. Under these agreements, the Department transported specified quantities of mail by foreign countries' carriers at rates in excess of those which would have been payable to United States carriers and the foreign countries transported like quantities of their mail by United States carriers. The balance of the additional costs were incurred because the Department, in determining whether less costly United States carriers could have been used, did not give adequate consideration to the required arrival time of mail at foreign airports to meet delivery schedules in certain foreign countries.

During our review, the Department canceled the reciprocal agreements with some of the foreign countries, which we estimated would result in savings in operating costs of about $600,000 annually. We made several suggestions to the Department, which were designed to eliminate the additional costs disclosed in our review.

After our review was completed, the Department informed us that it was reconsidering the still-existing agreement with the Scandinavian countries which had resulted in additional costs. Also, the Department discontinued the use of foreign carriers not covered by reciprocal agreements, except when needed to provide adequate service.

76. Action taken by the Post Office Department to discontinue the program of advancing funds to United States air carriers for mail transportation services rendered to foreign countries--Our review showed that certain conditions, which existed in 1940 when the Congress enacted legislation (39 U.S.C. 2402) giving the Postmaster General the discretionary authority to advance funds to United States air carriers for transporting mail of foreign countries, had been alleviated or eliminated over the past 25 years and that the continuation of the program was not justified. We estimated that, for services performed by the carriers in fiscal year 1963, the interest cost to the Government on advanced funds amounted to about $95,000.

We therefore proposed to the Postmaster General in March 1965 that the Department discontinue advancing funds to United States air carriers for mail transportation services rendered foreign countries. We proposed also that the Department seek legislation to eliminate the revolving fund established to make advances to the carriers and the Department's authority to make such advances.

The Postmaster General agreed that there was no longer a justification for advancing funds. He informed us in April 1965 that the Department would discontinue the program and would return the $7 million revolving fund to the Treasury Department. The Postmaster General stated, however, that, in the event of changed conditions or an unforeseen emergency, it might be advantageous for the Department to retain the right to restore the fund and the authority to advance funds to these carriers. We reported to the Congress on this matter in July 1965.

77. Cost reductions available by the substitution of "driveout" agreements for travel by public transportation for certain Post Office Department employees--Our observations at selected delivery units of post offices in Atlanta, Cleveland, Denver, and Detroit disclosed that many of the carriers scheduled to use public transportation in traveling to and from their routes used private vehicles. In a report to the Post Office Department in March 1966, we commented that, if the carriers who were using private vehicles without authorization had driveout agreements, their allowance for travel time could be reduced substantially and such time could be used to increase the size of city delivery routes and reduce manpower costs.

We stated that our review had indicated an average gain to the post office of 27 minutes per day per carrier if all such carriers accepted driveout agreements. We expressed the opinion that, even though the costs of compensating carriers under driveout agreements exceeded the cost of providing public transportation, the overall effect to the Government would be a net savings because of the reduction in manpower costs.

The Postmaster General advised us that instructions had been issued reminding local post office officials to enforce the prohibition against carriers, without driveout agreements, using their privately owned vehicles in traveling to and from their routes. The instructions also directed supervisors to compute the relative travel costs involved to determine which would be more economical--public transportation or privately owned vehicles under driveout agreements. We were advised also that the Department planned to initiate a survey of all public transportation arrangements, including carfare agreements. The action taken or planned was generally in line with our recommendations.

78. Need for the Post Office Department to further strengthen supervision over city delivery carriers--Our review of selected city delivery routes at seven post offices disclosed that many carriers had routes which could be completed in considerably less time than that assigned and that the carriers were using the excess time for their own purposes. We believe that these conditions existed primarily because (1) the Department's regulations placed unreasonable restrictions on the supervision of city delivery carriers during the major part of their workday and (2) the Department had not set forth realistic work measurement standards for use in establishing the size of city delivery routes and in evaluating carriers' performance.

We estimated that the time used by carriers for their own purposes was costing the Department several million dollars annually in these seven post offices alone. Since the causes were Department-wide in scope, it appeared reasonable to assume that similar conditions existed in varying degrees at many other post offices throughout the country.

Pursuant to our suggestions, the Department issued revised instructions on supervision of city delivery carriers' activities, agreed to study the feasibility of establishing standards for city delivery carriers, and stated that a program had been initiated for identifying the post offices where the average number of minutes per delivery on city carrier routes was highest so that postal officials could concentrate their efforts on these offices.

While the actions taken by the Department were constructive and should result in some improvement in conditions disclosed by our review, we were of the opinion that further action was necessary. Consequently, in a report issued in February 1966, we recommended that the Department issue instructions which clearly delineate the responsibilities of supervisors for controlling the time and attendance of carriers and for supervising their street performance, with no restriction on unannounced visits by

supervisors to carriers' routes other than that the supervisors make such visits openly. We recommended further that the Department initiate a study in depth of the factors affecting the time requirements for delivery with a view to establishing work measurement standards for carrier street time.

79. Need for reevaluation of Post Office Department's accelerated business collection and delivery program--The objectives of the accelerated business collection and delivery (ABCD) program of the Post Office Department are to expedite the dispatch of out-of-town mail and to deliver local first-class mail deposited by 11 a.m., in specially identified collection boxes within the central business district, to business and lockbox patrons within the same city by 3 p.m. At the time of our review, the program was in effect in 271 post offices.

In a report issued to the Congress in May 1966, we stated that estimated annual operating costs of about $214,000 at the Baltimore, Boston, and Washington, D.C., Post Offices could be attributed to the additional collection routes established, the additional dispatches scheduled, and the changes in the normal mail-processing procedures made by these post offices for accomplishing the objectives of the program. Because the program as operated at these three post offices resulted in costs which would not have been incurred if the mail had been afforded normal first-class-mail delivery service and which, in our opinion, were not commensurate with the quantity of mail delivered earlier as a result of the program, we questioned whether continuing operation of the program, in its present form, at these post offices was justified.

We recommended that the Department reevaluate the need for the ABCD program operations at the Baltimore, Boston, and Washington, D.C., Post Offices and at other post offices where a significant cost was being incurred for the operations of the ABCD program.

Although the Department disagreed with our conclusion, the Postmaster General advised us that the Department had scheduled a special review of the ABCD program operations at the Baltimore, Boston, and Washington, D.C., Post Offices.

80. Opportunity for savings through more extensive use by the Post Office Department of contract vehicle service and of certain mail handling equipment--In a report issued to the Congress in November 1965, we stated that savings of about $200,000 annually could be realized by the Post Office Department by making certain changes in the methods employed in transporting mail between post offices and postal stations and to and from railroad depots and airports in two postal regions. Most of these potential savings related to possible cost reductions which would result from contracting for transportation service and using more efficient mail-handling equipment.

The Department is precluded from using contract service at some locations because the law prohibits the use of contract service between an airport and a post office if Government-owned motor vehicle service is

available and the distance to the airport is not more than 35 miles. We found also that, in one postal region, letter trays and wheeled hampers were used in moving mail between stations by Government vehicle service but were not used in moving mail by contract service. The region had not adopted the more economical practice of using the open trays and hampers because of security considerations. The practice had been adopted in other postal regions, however, where mail was transported by contractors.

The Department informed us that it was considering our suggestions for effecting these savings and for strengthening the Department's procedures in considering possible future changes in means of transporting mail in all postal regions. Also, the Department agreed to consider submitting to the Congress a proposal for repeal of the law prohibiting the use of contract service between certain airports and post offices.

81. Action taken by Department of Agriculture to limit new bin-site leases at increased rentals when current leases contain renewal option at no increase in rent--In September 1965 we reported that our review of the practices employed by the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, in obtaining Commodity Credit Corporation (CCC) leases for bin sites showed that the Government would incur additional costs because ASCS had entered into new leases for bin sites at increased rentals, although ASCS had the option in existing leases to extend the lease period at no increase in rent.

We expressed the opinion that the practices employed in two States in renewing bin-site leases containing renewal options illustrated a need for reemphasis and clarification of the leasing policies and procedures by the ASCS headquarters office, in order to minimize expenditures. We also stated that, when available renewal options were not exercised--and there was no adequate justification for this practice--CCC was giving up Government rights without obtaining adequate compensation.

We therefore recommended that the Administrator, ASCS, reemphasize to ASCS officials in State and county offices that renewal options in lease agreements be exercised in accordance with existing instructions and that new leases not be negotiated at increased rentals so long as lower rentals are available under existing leases, unless the increases are adequately justified. We recommended also that the Administrator provide for periodic reviews of the manner in which all ASCS offices carry out the agency's policies and procedures for the renewal of bin-site leases with the objective of correcting any deficient practices disclosed by such reviews.

ASCS informed us in November 1965 that our recommendations were being adopted in the interest of achieving economy in Government and of obtaining more uniformity in the application of bin-site lease procedures.

82. Savings realized by Commodity Credit Corporation by reducing rates paid for farm storage of grain to conform with rates paid for commercial warehouse storage of grain--Our review showed that, contrary to established policy, the Commodity Credit Corporation (CCC), Department of Agriculture, established grain storage rates to be paid for the 1964-65 storage year under the reseal loan program prior to the announcement of the revised rates to be paid commercial warehousemen under the Uniform Grain Storage Agreement (UGSA). The storage rates so established for the resealed grain were about 1 cent a bushel higher than the revised UGSA rates. We estimated that this 1-cent difference in the rates, which resulted because the commercial storage rates were reduced while reseal storage rates continued unchanged, would result in additional storage costs of about $4.7 million or $5.6 million for the year, depending on whether the reseal rates would otherwise have been the same as the UGSA rates or the UGSA rates rounded to the nearest cent.

We proposed that, so long as the policy of the Corporation's Board of Directors was to establish storage rates for the reseal program in line with the UGSA rates, the Board should establish reseal rates only after

the related UGSA rates had been established. We proposed also that, before approving such rates, the Board give consideration to whether proposed changes in policies or deviations from policies would unnecessarily increase program costs.

As stated in our August 1965 report to the Congress, in May 1965 the Department announced new storage rates under the UGSA, and the new rates applied also to grain in farm storage under the reseal program. We estimated that the reduced rates would result in savings of approximately $9.2 million under the 1965 reseal program.

83. Storage contracts revised by the Commodity Credit Corporation to provide for payment of storage charges only for the time commodities are actually stored--In a report issued in February 1966, we pointed out that, under contracts entered into with warehousemen for storing processed commodities, the Commodity Credit Corporation (CCC), Department of Agriculture, was paying a full month's storage charge for the month in which the commodity was loaded out even though the commodity might not have been stored for the entire month. We expressed the opinion that a significant portion of the total storage costs incurred by CCC during the period we reviewed could be ascribed to periods when the commodities were no longer in storage. In some instances, the payment of storage charged on a month-to-month basis resulted in the warehousemen's receiving the equivalent of double revenue and in CCC's paying for overlapping periods of storage on the same commodity.

In May 1966, the Corporation's Board of Directors approved a revised storage contract for processed commodities, which provided for payment of storage charges for only the time CCC-owned commodities are actually stored.

84. Department of Health, Education, and Welfare to encourage the use of less expensive nonproprietary name drugs for welfare recipients whenever practicable and consistent with the recipients' welfare--Our review of Federal financial participation in the costs of prescribed drugs for welfare recipients in the State of Pennsylvania indicated that Federal savings of from $354,000 to as much as $705,000 could have been realized during fiscal year 1964 through the maximum use of less expensive nonproprietary (generic) name drugs. Subsequent to our review, HEW enunciated as its policy that nonproprietary or generic name drugs should be used by both constituent operating agencies and grantees whenever it is practicable and economical.

In a report issued to the Congress in February 1966, we recommended that, in implementing the Department's policy, the Commissioner, Welfare Administration, issue a policy specifically recommending that State agencies administering federally aided public assistance programs adopt policies and procedures designed to encourage physicians to prescribe, and pharmacists to dispense, for the use of welfare recipients, less expensive nonproprietary name drugs, whenever practicable, consistent with the recipient's welfare. Subsequent to our recommendation, the Department, in May 1966, stated that a policy statement along the lines recommended would be developed.

85. Need for the Welfare Administration, Department of Health, Education, and Welfare, to encourage the increased use of hospital pharmacies for dispensing prescription drugs to hospital outpatient welfare recipients under federally aided public welfare programs--In a report issued to the Secretary of Health, Education, and Welfare in June 1966, we stated that the State of Pennsylvania had a payment policy which tended to discourage the filling of drug prescriptions written by hospital outpatient clinic physicians for outpatient welfare recipients with the result that most of these prescriptions were filled by retail pharmacies at prices higher than those at which the drugs could have been made available at hospital clinic pharmacies.

A projection of the results of our examination of 340 prescriptions, written by hospital outpatient clinics for welfare recipients and paid by the State welfare agency in March 1964, indicated that savings of about $169,000 could possibly have been realized during fiscal year 1964 if a State-proposed payment policy revision had been adopted to increase the amount of reimbursement to hospital clinic pharmacies. The Federal share of such savings would have been about $83,000.

We recommended that the Commissioner of Welfare encourage, with due consideration to all pertinent factors, the increased use of hospital pharmacies for dispensing prescription drugs to hospital outpatient welfare recipients in federally aided programs. We recommended also that instructions be issued to regional representatives to include in their future administrative reviews an examination into whether the policies of the respective States tend to promote the filling of prescriptions at prices higher than those which might otherwise be available.

RESEARCH AND DEVELOPMENT PROGRAMS

86. Action taken by the Federal Aviation Agency to discontinue a duplicative long-term medical research project and to establish formal procedures for coordinating new research projects with the National Institutes of Health--In a report issued in April 1966, we stated that the Federal Aviation Agency (FAA) and the National Institutes of Health (NIH), Department of Health, Education, and Welfare, had been supporting long-term medical research projects initiated in 1961 to develop methods for measuring the physiologic age, as distinguished from the chronologic age, of aviation personnel. The two projects would have cost the Government $9.7 million ($5 million for FAA's 25-year project and $4.7 million for NIH's 30-year project) if they had been financed to completion. We questioned the need for the FAA project because (a) the general objectives of each project were similar and (b) the information being developed under the NIH-supported project could, it seemed, have been adapted to meet the objectives of the FAA project. We concluded that, upon being advised of the intent of the Lovelace Foundation to apply to NIH for a grant to conduct long-term research on the aging of pilots, FAA should have formally communicated with NIH and the Foundation to determine whether one long-term project could be devised to meet the needs of both agencies.

In April 1966, subsequent to the issuance of our report, FAA discontinued its long-term project on the aging of aviation personnel, which will result in an estimated total savings of $3.8 million. FAA also established formal procedures for coordinating new medical research projects with NIH. These procedures, if properly implemented, should assist in accomplishing the Government's medical research objectives in a more economical manner.

SLUM CLEARANCE AND URBAN RENEWAL ACTIVITIES

87. Action being taken by the Department of Housing and Urban Development to further strengthen review procedures for making more critical evaluations of representations by local public agencies in support of claims for noncash grant-in-aid credits--In reports issued to the Congress in August 1965 and February 1966, we pointed out cases in which the Department of Housing and Urban Development (HUD) (formerly Housing and Home Finance Agency) had approved tentative and final noncash grant-in-aid credits for public facilities--five schools, a park, a flood control project, a storm drain, and a sewer line--which, in our opinion, were excessive by about $4.6 million.

The Federal Government's share of the cost of these allowances would have been about $3.1 million. The approvals, in our opinion, were based on incomplete or inaccurate data and on unrealistic methods of determining relative benefits, and, as a result, the costs of the facilities were not being allocated as required by section 110(d) of the Housing Act of 1949, as amended, between the project areas and areas outside the project on the basis of relative benefits to be provided. We expressed our belief that the excessive credits resulted because HUD had made inadequate reviews and evaluations of the claims for noncash grant-in-aid credits submitted by the local public agencies.

Subsequent to our recommendations that the credits be disallowed for reduced to amounts more representative of the benefits derived by the urban renewal projects, HUD agreed to disallow or reduce noncash grant-in-aid credits which we believed to be excessive by about $650,000 but disagreed with our recommendations insofar as they applied to other credits which we believed were excessive by about $3.9 million. Agency officials also took action, in accordance with our recommendation, to further strengthen procedures in the regional offices for reviewing claims for noncash grant-in-aid credits.

SOCIAL SECURITY BENEFITS

88. Action taken by the Social Security Administration, Department of Health, Education, and Welfare, to strengthen procedures and reduce costs under the Medicare program--In May 1966, we reported to the Senate Committee on Finance, at its request, on our review of the principles of cost reimbursement to hospitals and nursing homes proposed by the Social Security Administration (SSA) for use in implementing the Medicare program. During our review, we identified certain questions and problem areas which we believed, from a standpoint of policy and administration, were deserving of further consideration in the determination of whether the proposed principles should be promulgated in their existing form.

As a result of our review, a number of changes were made in the proposed principles, the most significant of which was a revision in the planned procedure for payments to providers of Medicare services from advance payments to reimbursements for costs as services are rendered. The change will result in the insurance trust fund's receiving additional interest earnings on delayed disbursements. Among the other revisions made by SSA to the cost reimbursement formula in line with our suggestions were:

a. The exclusion of interest on current indebtedness from allowable cost where payments have been made to finance costs as they are incurred.

b. The reduction of allowable interest expense to adjust for offsets not made in prior years for earnings on funded depreciation, where funded depreciation is used for purposes not related to patient care.

c. The allowance of only one change in the method of depreciation used by a provider with respect to a particular asset.

d. The inclusion of gains and losses realized from disposal of depreciable assets in the determination of allowable cost.

The Chairman of the Senate Committee on Finance subsequently stated that revisions in the procedures would save the Government $95 million during the first 10 years of the program and that many millions of dollars might also be saved through application of the formula to payments made under welfare and other programs.

SUBSIDIES

89. Potential savings in construction-differential subsidies might be realized by the reduction of bonding requirements on certain Maritime Administration ship construction contracts--We estimated that savings of about $316,000 annually in construction-differential subsidies might be realized if the Maritime Administration, Department of Commerce, would not require shipbuilding contractors to furnish performance and payment bonds on certain ship construction contracts entered into under section 504 of the Merchant Marine Act, 1936. There is no statutory requirement that such bonds be furnished on contracts entered into pursuant to section 504, and the Department of the Navy does not generally require such bonds on its large ship construction contracts. Further, there has never been a default on a Maritime section 504 ship construction contract requiring payment by a bonding company.

After we discussed our findings with Maritime Administration officials, the Maritime Subsidy Board approved a policy which provided for the waiver of the requirements for performance and payment bonds under certain circumstances. Under this revised policy, however, the initiative for the waiver rests with the bidder who must request it, and, because there is a possibility that the request will not be made, the opportunity for savings might be overlooked.

In a report to the Congress in November 1966, we therefore recommended that the Maritime Administration, after sufficient experience is gained under this revised policy, determine whether additional savings are possible, without undue risk, by further reducing its requirements for performance and payment bonds. We recommended also that procedures be established to provide for periodic, systematic comparisons of Maritime Administration's contract administration activities with those of the Department of the Navy so that, when differences in the respective activities are disclosed, they can be analyzed in relation to the beneficial changes that either agency might adopt.

90. Savings realized by Department of Agriculture by requiring foreign governments to bear their proper share of ocean transportation costs--We reported in July 1965 that the United States Government had failed, or would fail, to claim and recover, with respect to shipments of surplus agricultural commodities made, or to be made, under Public Law 480 sales agreements entered into through December 31, 1964, the equivalent of about $5.5 million in foreign currencies under title I agreements and about $175,000 under title IV agreements including interest. Foreign governments purchasing surplus agricultural commodities under titles I and IV of Public Law 480 were generally required, in accordance with the Cargo Preference Act, to ship at least 50 percent of the tonnage of the commodities on United States-flag vessels.

The Commodity Credit Corporation (CCC), Department of Agriculture, was authorized to finance a United States-flag vessel's ocean freight charges only to the extent that such charges exceed those of a foreign-flag vessel. The balance, representing the charges that would have been incurred had the shipment been made on a foreign-flag vessel, was to be

paid in dollars by the importing country to the ocean carrier under title I and to CCC under title IV.

Our review showed that the procedure followed by the Department for determining amounts due from foreign governments resulted in foreign governments paying less than their proper share. We proposed that the Secretary of Agriculture require responsible Department officials to revise the existing procedure for computing amounts to be paid by foreign governments for ocean transportation costs on United States-flag vessels, to ensure that those governments were required to bear their proper share of such costs.

The Department subsequently adopted new procedures which, if properly implemented, should generally achieve the results contemplated by our proposal. We estimated that the changes instituted by the Department would save the United States Government about $1 million annually. In addition, to the extent that foreign governments are required to pay additional dollars to United States-flag carriers under title I, or to the United States Government under title IV, for increased amounts of ocean transportation costs, the United States balance-of-payments position will be improved.

TAXES

91. Changes made in Internal Revenue Code to require self-employed individuals to pay estimated taxes on a pay-as-you-go basis--Self-employment taxes are a part of a system to provide individuals who work for themselves with coverage under social security programs. Our review showed that, if the Internal Revenue Code (26 U.S.C. 1) were amended to require self-employment taxes to be paid on a pay-as-you-go basis throughout the tax year, the Internal Revenue Service, Treasury Department, could improve its administration of the billing and collection of unpaid taxes and that the Government could save annually interest on borrowings estimated to be, at a minimum, about $5 million. In addition, many self-employed individuals would not be faced with the burden of paying the entire tax at year-end.

According to the latest estimates available in the Service at the time of our report, about one-half million tax returns of self-employed persons had amounts due after the year-end filing date and were billable, and about 50 percent of such accounts would become delinquent. During our review, we proposed to the Secretary of the Treasury that a recommendation be made to the Congress that the code be amended to provide that self-employed individuals make an estimate of self-employment taxes payable for the current year at the time the taxpayer is required to file a declaration of estimated income tax and pay the tax in installments during the year. Our proposal was subsequently made a part of the Administration's 1966 tax recommendations to the Congress, and the Congress, subsequent to issuance of our report on this matter in March 1966, included a provision in Public Law 89-368 requiring the payment of self-employment taxes in installments during taxable years beginning after December 31, 1966.

TRAINING ACTIVITIES

92. Need for Departments of Labor and of Health, Education, and Welfare to issue guidelines regarding attendance requirements of trainees enrolled in institutional training programs--In a report issued in April 1966 we stated that, in the absence of Federal guidelines as to trainee attendance requirements or any definition of "satisfactory attendance," local training organizations were reporting attendance as satisfactory, and trainees, under the Manpower Development and Training Act of 1962, were receiving full weekly training allowances even though they had records of excessive absenteeism. In many instances, absenteeism was in excess of 25 percent of the total course time. We estimated that, from the time of inception of the program through fiscal year 1964, the Department of Labor had paid, nationwide, about $3.1 million of a total of $36.9 million for training allowances for days on which the trainees were absent from classes.

After we brought this matter to its attention, the Department of Labor issued instructions, in September 1964, providing for reduction of training allowances to eliminate payment for unexcused absences. We recommended that, to determine the effectiveness of these instructions, the Secretary of Health, Education, and Welfare make periodic reviews and analyses of attendance and that, in the event of continuation of excessive absenteeism, he provide, with the concurrence of the Secretary of Labor, guidelines for the use of State agencies in determining the number of absences, excused and unexcused, permissible for satisfactory attendance. We recommended also that, in the interest of orderly and uniform administration of the payment of training allowances, the Department of Labor establish guideline criteria as to the number of excused absences for which training allowances may be paid.

93. Need for Departments of Labor and of Health, Education, and Welfare to strengthen requirements to utilize existing training facilities for institutional training programs--In a report issued in June 1966, we stated that about $125,000 in additional costs were incurred because the Department of Health, Education, and Welfare (HEW) had approved:

a. The use of private training facilities in Chicago, Illinois, for carrying out institutional training programs under the Manpower Development and Training Act of 1962, without, in our opinion, giving adequate consideration to the use of less expensive and available public school facilities.

b. The cost of equipping and remodeling a new central location for clerical training although public facilities with training equipment were already available.

After our inquiry into the use of private facilities for training, HEW issued revised procedures to its field representatives authorizing them to approve training projects proposed by State authorities only upon receipt of documented evidence showing that both public and private educational facilities had been considered for training and showing the basis for the selection made. We recommended that, with regard to future expenditures

for equipping and remodeling new facilities, HEW, with the concurrence of the Department of Labor, issue instructions to State agencies requiring that they verify and document that existing facilities are not adequate before approving proposals to equip and remodel additional facilities for training.

UNEMPLOYMENT SERVICES

94. Action taken by Department of Labor to reduce the number of positions in Chicago employment offices--The Bureau of Employment Security, Department of Labor, had urged the Illinois State Employment Service to proceed with the reorganization and expansion of the Chicago employment offices without obtaining reasonable assurance that the work would be accomplished economically and at an orderly pace. The reorganization was carried out, including the hiring of additional personnel, at the same rate that the funds became available.

We estimated that several hundred thousand dollars of Federal funds had been ineffectively spent on the improvement program, principally in fiscal years 1962 and 1963, because the Federal Government was prematurely committed to the financing of this undertaking. In commenting on our findings, the Department stated that the reorganization program in Chicago, as well as programs in other metropolitan areas, had been placed under careful scrutiny and that the number of positions allocated to the Chicago offices had been reduced by about 70. We estimate that annual savings of about $420,700 will result from the Department's action.

In a report issued in July 1965, we recommended that the Department (a) make a review of the Chicago area employment service with the objective of further reducing the staff of the Chicago offices to levels consistent with realistic estimates of workloads pertaining to essential public services and (b) approve future reorganizations and expansions of State employment service programs only on the basis of realistic goals and detailed working plans. We recommended also that the Department reconsider its plans to eliminate work measurement standards and, because of their usefulness in measuring staff needs and performance, seek to establish more realistic standards.

95. Action taken by the State of Alabama legislature to provide equal unemployment benefits to Federal military and civilian retirees--In a report issued in April 1965 on our review of the policies and practices of the Department of Labor and of employment security agencies in various States regarding payments of unemployment compensation to Federal civilian and military retirees, we stated that the State of Alabama had been following the practice of paying unemployment benefits to Federal military retirees without reducing such benefits by the amount of their retirement pay, although under similar circumstances unemployment benefits payable to Federal civilian retirees and private industry retirees were so reduced. This difference in treatment arose from the provisions of the unemployment compensation law of the State of Alabama, which provided generally that unemployment benefits of retired Federal civilian employees, but not military retirees, shall be reduced by the amount of retirement payments.

In commenting on our finding, the Alabama State Employment Security Agency informed us that it favored corrective action to secure equal treatment of Federal civilian and military retirees and that it intended to recommend such action to the State legislature at its next session.

In November 1965 the Director of the Alabama State agency informed us that the Alabama Legislature in the 1965 regular session amended the State law to provide for reduction of unemployment benefits to military retirees by the amount of their retirement pay. We estimate that annual savings of about $138,365 will result from the change.

96. Need for clarification of the nature and scope of activities to be financed by Federal appropriations made from the Unemployment Trust Fund to the Department of Labor--In a report issued in May 1966 on our review of selected practices relating to the administration of certain employment service activities by the Wisconsin State Employment Service, we pointed out opportunities for savings and for improvements in the operating efficiency of employment services through changes in organization and in the scope of activities associated with teacher placement which, in our opinion, could have been discontinued in view of the abundance of available teaching positions.

In addition, we pointed out certain disadvantages associated with service agreements entered into by the State agency with employers, which resulted in expenses related to the employers' normal personnel activities being financed with Federal funds. These activities, under the guidance of the Bureau of Employment Security, Department of Labor, are financed by Federal appropriations made from the Unemployment Trust Fund to the Department of Labor.

The State subsequently agreed to consider a reorganization of its activities but not a curtailment, because it considered all of its activities necessary. Also, the Department did not agree that the employment service activities cited in the report were not appropriate for the expenditure of Federal funds. In view of the questions raised and the Department's disagreement, we brought these matters to the attention of the Congress in case it might wish to express its views on the appropriateness of using Federal funds to finance the activities.

97. Action taken by the Veterans Administration to strengthen management controls to obtain compliance with the eligibility requirements for disability insurance--In a report issued to the Congress in June 1966, we pointed out the need for more effective management controls to attain compliance with Veterans Administration (VA) regulations and instructions regarding the eligibility requirements for participation by veterans in the VA's total disability insurance programs. We expressed the belief that, in 26 percent of the cases examined by us, the agency regulations and instructions were not adhered to and that, as a result, evaluations of insureds' health were not properly made prior to issuance of the insurance, or action was not promptly taken to investigate evidence which strongly suggested that the insurance had been fraudulently obtained.

It is necessary that proper evaluation of eligibility be made because provisions of law incorporated in the insurance contracts do not permit canceling any insurance issued through administrative error. Therefore, after applications for insurance are approved, the VA is legally obligated to make payments for as long as the insureds remain totally disabled. Insurance policies may be canceled for fraud; but, on the basis of an opinion of the VA Assistant General Counsel, the agency decided that it had waived its rights to such cancellation if no action had been taken within a reasonable time after receipt of evidence suggestive of fraud. It is important that the agency have adequate review procedures because the VA considers itself obligated to continue making payments in these cases for as long as the insureds remain totally disabled.

The agency agreed that the evidence regarding eligibility for total disability insurance had not been adequately reviewed in most of the cases questioned by us and advised us that action had been or was being taken to substantially correct the deficiencies disclosed by our review.

98. Action taken by the Veterans Administration to improve procedures for terminating total disability insurance benefits--In March 1966 we reported to the Congress on Veterans Administration (VA) procedures for terminating total disability benefits under National Service Life Insurance policies. We stated that, if the findings disclosed by our review of selected cases were representative of VA's actions, additional benefits of about $750,000 had been awarded by the VA during fiscal years 1962 and 1963 because of delays in terminating disability benefits on insurance policies after the insureds had apparently recovered their abilities to follow substantially gainful occupations. For the most part, these additional benefits were financed from trust funds derived from veterans' premiums and held by VA for the benefit of all policyholders and were not a cost to the Government. Some of the additional benefits, however, were financed from Government funds. Our review showed that the VA insurance offices had continued disability benefits to insureds beyond what appeared to be the dates that the insured were no longer totally disabled, primarily, because:

a. Information justifying termination was not properly evaluated during reviews of cases.

b. Cases were not properly scheduled for review, although there was information which indicated the expected recovery date of insureds.

c. Methods of obtaining information concerning insureds' continued entitlement to disability benefits were not effective.

We expressed the belief that the VA Central Office did not provide sufficiently specific instructions to the insurance centers and did not adequately review their operation. We stated also that, although the VA Central Office had, for a number of years, been aware that insureds were being granted benefits for extended periods after they were no longer totally disabled, no effective action had been taken.

After bringing these matters to the attention of the agency, we were informed that corrective action had been or was being taken which, we believe, will substantially correct the deficiencies disclosed in our review.

WAGE RATE DETERMINATIONS

99. Action taken by the Department of Labor reduced labor costs in contracts for construction of federally assisted housing projects--In a report issued in August 1964 on our review of determinations by the Department of Labor of the minimum wage rates to be paid laborers and mechanics employed on certain federally financed and assisted housing projects in the Atlanta, Georgia, area, we pointed out that the minimum hourly rates were established at the higher negotiated rates normally paid on construction of commercial-type buildings instead of the lower wage rates prevailing on similar private housing construction projects in the area. We concluded that the Department's position that federally financed and assisted housing construction is of a character different from private housing and walk-up apartment construction was not realistic and did not conform to the intent of the law that rates be based on those paid for similar construction in private industry.

After our findings were brought to its attention, the Department conducted a survey of wage rates paid on private residential housing construction in the Atlanta area; and, after issuance of our report to the Congress, all subsequent wage determinations issued by the Department for Public Housing Authority (PHA) and Federal Housing Authority (FHA) residential housing in the Atlanta area contained the lower open-shop wage rates as shown by the survey to be prevailing for housing construction. We estimate that the change in the type and level of minimum wage rates issued by the Department for housing construction lowered, by about $563,000, the cost of three PHA low-rent housing projects on which construction was started in the Atlanta area in fiscal years 1965 and 1966 and should likewise lessen the cost of other low-rent housing projects to be constructed in the area in the future. The change also reduced the risk of loss to the Government in subsequent housing construction started in the Atlanta area under the FHA mortgage insurance program by approximately $995,000 and should result in the lessening of the Government's risk in mortgage insurance on future similar housing projects in the Atlanta area.

FINANCIAL ADMINISTRATION

ACCOUNTING AND FISCAL MATTERS

100. Action taken by the Bureau of Indian Affairs to improve the management of moneys held in trust for Indians--Our review disclosed that the Bureau of Indian Affairs, Department of the Interior, could have earned substantial additional interest income for Indian peoples by investing Indian money held in trust, which was excess to current disbursement needs. Uninvested cash deposited with the Treasury Department exceeded $11.1 million at the end of each month during fiscal year 1964. In addition, the Bureau improperly withheld funds from certain depositors to avoid recording overdrafts after erroneous payments had been made to other persons. We also found that income from investments was inequitably distributed, interest income was not properly recorded, and not all interest earned on investments was collected.

After we brought these matters to their attention, Department and Bureau officials advised us in June 1965 that a centralized investment program would be initiated within the next 2 years, when the Bureau's accounting system would be centralized. As an interim measure, however, the Bureau initiated an intensive review program of month-end balances and encouraged area offices to review the present method of determining the disbursing needs so that excess cash could be invested. The Bureau stated that, as a result of these actions, the uninvested cash balances were reduced from $11,223,000 to $6,271,000 and it was expected that this sum would be further reduced. In regard to the other findings noted above, the Department stated that the Bureau had taken actions to correct the deficiencies noted.

We believed that our review indicated a need to direct special attention to internal audits of trust fund activities. Therefore in our report issued in March 1966, we recommended that internal audits of trust fund activities be broader in scope. In May 1966, the Department advised the Bureau of the Budget that departmental audit effort would give special emphasis to trust fund accounting in the Bureau.

101. Action taken to preclude improper use of appropriated funds by the United States Fish and Wildlife Service--In a report issued to the Congress in June 1966, we stated that the Bureau of Commercial Fisheries, United States Fish and Wildlife Service, Department of the Interior, had improperly used funds appropriated for management and investigations of resources to finance expenses of executive direction and general administration even though the Congress had specifically provided a separate appropriation for such expenses. We estimated that the improper assessments totaled about $1.4 million during fiscal years 1962 through 1965.

The Bureau's action constituted a violation of 31 U.S.C. 628, which requires that funds be expended solely for the objects for which appropriated, and also a violation of the Anti-Deficiency Act, as amended (31 U.S.C. 665), which provides that obligations shall not be created under any appropriation in excess of the amount available therein. We proposed that the Secretary report all pertinent facts relating to this

violation of the Anti-Deficiency Act to the President and the Congress and that he require the Director of the Bureau to finance all future expenses relating to executive direction and general administration from the general administrative expenses appropriation or obtain specific congressional approval for using the appropriation for management and investigations of resources to finance such expenses.

In March 1966 the Department informed us that it agreed with our findings and that our proposals were being implemented. In September 1966 the Department reported the violation in accordance with the provisions of the Anti-Deficiency Act.

102. Action being taken by the Bureau of Public Roads to further develop its cost accounting and financial reporting procedures--Our review of the accounting system of the Bureau of Public Roads, Department of Commerce, disclosed that the system was, with the exception of certain specific items, generally in accord with the objectives and requirements of the Budget and Accounting Procedures Act of 1950 and the related principles and standards prescribed by the Comptroller General. We found, however, that the system did not produce adequate breakdowns of costs to provide management with the kind of financial information which in our opinion, would be helpful in controlling costs and evaluating financial performance. Also, the Bureau did not prepare integrated overall financial statements for use by management in reporting to the public on the custody and application of financial resources for which it is responsible.

As stated in our June 1966 report to the Congress, the Bureau concurred in our suggestions for improvement and shortly thereafter initiated the actions necessary to further develop its cost accounting and financial reporting procedures; however, we have not approved the system pending completion of the Bureau's actions.

103. Actions to be taken by the Department of the Interior to improve the budget presentation of major capital expenditures proposed by The Alaska Railroad--In a report issued in June 1966, we stated that our review of the budget justifications of The Alaska Railroad, Department of the Interior, disclosed that the Railroad had not adequately informed the Congress of the proposed acquisition of two river barges, although the Congress had specifically instructed the Railroad to furnish details of the proposal for congressional consideration. Furthermore, the nondisclosure of the proposed acquisitions was contrary to the Senate Appropriations Committee's directive that no major capital improvement was to be made by the Railroad until it was presented to and approved by the Appropriations Committees. We stated also that, from our review, we concluded that the Railroad had not adequately prepared its budget justifications and the Department had not adequately reviewed Railroad budgetary matters.

After we brought our findings to the attention of the Department, the Department advised us that it agreed with our findings. We were advised that guidelines had been issued requiring the Railroad to include narrative explanations and justifications for major capital improvements in

budget submissions and that further instructions would be issued. The Department advised us also that instructions would be issued defining the nature and purpose of the nonprogrammed reserve from which the acquisition of one of the barges was financed.

104. Consideration being given to changing the method of financing the Office of the Government Comptroller of the Virgin Islands--Since 1959, the activities of the Office of the Government Comptroller of the Virgin Islands have been financed by appropriations made by the Federal Government. In view of the substantial increases in net revenues collected by the United States Treasury on Virgin Islands products transported to the United States, which are paid to the Government of the Virgin Islands as Federal grants, and because the Government Comptroller's operations primarily benefit the insular government, we concluded that the Congress might wish to consider financing the Office of the Government Comptroller from the funds which are otherwise transferable to the insular government as Federal grants.

The revenues of the Virgin Islands Government increased by $20.1 million from fiscal year 1959 to fiscal year 1965. This increase in revenues included an increase of 4.4 million in net revenues collected by the United States Treasury on Virgin Islands products and paid to the insular government as Federal grants.

The Department of the Interior advised us in July 1965 that, as long as the Government Comptroller is a Federal official appointed and supervised by the Secretary of the Interior, the Department could not agree that the Office of the Government Comptroller should be financed from internal revenue collections which are otherwise transferable to the insular government as Federal grants. However, the Congress, in establishing the Office of the Government Comptroller, initially provided that activities of his office be financed by the Government of the Virgin Islands even though he was to be appointed and supervised by the Secretary of the Interior. Consequently, in a report to the Congress in April 1966, we recommended that the Congress consider requiring future operations of the Office of the Government Comptroller to be financed from revenues which are otherwise transferable to the insular government as Federal grants.

Representatives of the General Accounting Office met with Staff members of the Senate Committee on Interior and Insular Affairs and representatives of the Department of the Interior in October 1966 to draft proposed language that would amend the Revised Organic Act of the Virgin Islands to provide for financing future operations of the Office of the Government Comptroller of the Virgin Islands from funds which are otherwise transferable to the Insular Government as Federal grants.

105. Improvements needed in the Department of State financial management procedures and training relating to the proper interpretation and application of certain travel regulations--As a follow-up to a previous examination, we have examined into the effectiveness and timeliness of efforts of the Department of State to recover excess costs incurred by

Foreign Service employees, pursuant to their overseas assignments, in shipping and/or storing their household effects, unaccompanied baggage, excess baggage, and privately owned motor vehicles. After the examination made about 18 months prior to this review, we reported to the Chief, Financial Services Division (formerly Director, Office of Finance), that

1. Excess costs incurred by employees were not being ascertained and billed in a timely manner.

2. Effective action was not being taken to collect amounts due from employees.

Our subsequent examination disclosed that satisfactory corrective action had not been taken as promised on the matters previously reported.

During our follow-up examination, we found uncollected accounts receivable that dated back to the time of our previous examination. A number of these receivables had been on the records for 3 years or more, with little evidence of any intensive collection efforts.

During our initial examination, we found a backlog of 4,000 unaudited travel authorization case folders, and, at the time of our follow-up review, the backlog continued to be about 4,000 case folders. Each backlog represented about 9 months of travel activity; and, since, in many cases, about 18 months elapse from the time a travel authorization is issued until substantially all transportation and storage costs incurred thereunder have been billed by carriers and storage companies, these backlogged case folders related to costs incurred more than 18 months before the time of our audits.

In our report we suggested that (1) appropriate steps be taken to establish proper controls over accounts receivable due from employees and adequate procedures for collection of the amounts due and (2) sufficient staff be assigned to eliminate the present backlog of unaudited cases.

Also our review raised some doubt that the administrative audits were adequate. We found a number of instances, in the cases we examined, where the correct amount of excess costs had not been properly identified. On the basis of our findings, we suggested that a program be developed to (1) properly train the staff charged with the responsibility for examining expenditures for transportation and storage, (2) provide for continuing supervisory reviews of the work performed by this staff, and (3) provide for periodic internal audits of this activity.

In February 1966, the Deputy Assistant Secretary for Budget, Department of State, informed us that the following measures had been taken to correct the reported deficiencies:

1. A group is presently reviewing the entire accounts receivable operation with a view toward improvement and mechanization which will produce reports showing the age of the accounts receivable together with amounts due.

2. Instructions for procedures relative to the audit of household effects cases are being rewritten and will be distributed.

3. Three additional internal auditor positions have been authorized which, when the manpower becomes available, will enable the Department to broaden its audit coverage as pertains to the Financial Services Division's activities.

A recent inquiry disclosed that, as of September 1, 1966, the mechanization of the accounts receivable was in the process, however, it had not been finalized, the audit procedures relating to household effects had not been finalized, and no internal audits had been performed.

106. Need for improvement of the accounting and financial management system of the Agency for International Development--The Agency for International Development (AID) financial statements, in our opinion, do not present fairly the financial condition of the loan program at June 30, 1964, or the results of operations of the program for the fiscal years 1962, 1963, and 1964. Certain financial statement balances have been materially overstated and others understated because of accounting practices that, we believe, are not sound.

Net income for each of the 3 fiscal years and the accumulated net income shown in the June 30, 1964, Statement of Financial Condition are materially overstated because of exclusion of administrative expenses. Although fiscal year 1964 is the latest period covered by the statements presented in our report, the basic deficiencies and underlying causes to which we direct our recommendations continue into the current fiscal year.

It is to be recognized that the loan program has unique aspects which do not lend themselves to conventional evaluation processes and which significantly affect the financial position of the program. The program assets are shown in the June 30, 1964, Statement of Financial Condition at their full face value at that date. No allowance has been made for future losses which may be sustained on loans and interest receivable, although a substantial part of the assets consists of foreign currency cash balances, loans, and interest receivable which are repayable in foreign currency without maintenance-of-value provisions and which are not freely convertible to United States dollars. Because of the many indeterminable factors which may affect these loans and the related interest receivable, we do not believe that future losses can be estimated with the degree of reliability necessary to arrive at a meaningful allowance for such losses.

The Agency's accounting and financial management system has a number of significant weaknesses and does not fully comply with the accounting principles and standards prescribed by the Comptroller General. The system does not, in our opinion, provide an adequate foundation for the Agency's current and prospective financial management needs for planning, programming, budgeting, accounting, and reporting in respect to both the Agency's internal management responsibilities and its responsibilities to the Congress.

AID recently has prepared a statement of basic accounting policy which is intended to provide a sound foundation for a revision of its over-all accounting manual. Further, the Agency has initiated plans for review and revision of its loan program accounting system and has agreed to our proposal that internal audits be instituted. We plan to continue to work with the Agency in these developments. We recommended that the Agency's system of accounts and reports provide for the allocation of applicable administrative expenses to the loan program in order to provide more meaningful information on the over-all costs and results of loan program operations; to this the Agency had not agreed.

The Agency's recent actions are encouraging to the extent that they disclose an awareness of its financial management needs and the initiation of a plan of action. However, we do not believe that the Agency will be able to fully discharge its responsibility for accounting and reporting under the law (Foreign Assistance Act of 1961 and the Budget and Accounting Procedures Act of 1950) unless it makes the kind of improvements in its accounting, internal controls, and reporting, which we have recommended.

107. Need to improve and strengthen accounting and fiscal practices and procedures of the Government of American Samoa, Office of Territories, Department of the Interior--Our review of selected financial management activities of the Government of American Samoa, Office of Territories, Department of the Interior, showed that the Territorial Government withdrew from the United States Treasury and retained in its possession grant-in-aid funds which were substantially in excess of amounts needed to finance current operations. We estimated that the United States Treasury in fiscal year 1963 may have incurred interest costs of as much as $154,000 because of additional borrowings necessary as a result of the premature withdrawal of funds.

We noted that at June 30, 1963, the Territorial Government had accumulated grant-in-aid funds which were about $8 million in excess of amounts needed to liquidate its current obligations. We believe that this situation occurred because the Governor followed the practice of withdrawing grant-in-aid funds as the funds became available rather than as needed to finance current operations and because the Territorial Government, in its annual budget justification, did not recognize that prior years' unused funds would be available to meet current needs, overstated the prior year's obligations, and continually underestimated local revenues which would be available to reduce the amount of grant-in-aid funds needed to finance current operations.

After we brought these matters to the attention of the Department, we were advised that an effective method had been established whereby grant-in-aid funds would be withdrawn from the Treasury only as needed to finance current operations. In our report issued in June 1966, we recommended that the Department undertake a review of the financial management system of the Territorial Government with a view toward providing for the systematic accomplishing and reporting of realistic and accurate financial data for management purposes.

108. Need to improve financial management of the United States Tariff Commission--In April 1966 in a report to the United States Tariff Commission, we pointed out that, although the Commission's accounting system provided for controlling specific items of expenditure--such as salaries, travel, supplies, and equipment--in terms of funds available to the Commission, it did not provide for accumulating or reporting data to show the costs of programs and activities. Thus, management could not readily determine whether the planned programs and activities were being economically carried out.

We proposed that the Commission institute cost-based budgetary practices for planning and controlling operations, revise the accounting system to provide financial data to support activities in conformity with the revised budget plan requiring control by assignment of responsibility, and establish a financial reporting system to provide appropriate levels of management with meaningful cost data to aid in the conduct of operations.

The Commission informed us that it was in basic agreement with the principles contained in our proposals and that our proposals would be reviewed and evaluated together with observations and recommendations of a management consulting firm and the Bureau of the Budget. In August 1966, the Commission employed an individual who is to study the financial management operations and work with the General Accounting Office and the Bureau of the Budget in developing and improving the Commission's financial system.

109. "M" account of Agricultural Research Service adjusted to remove balances erroneously retained as unliquidated obligations--In September 1965, we reported to the Administrator of the Agricultural Research Service (ARS), Department of Agriculture, that obligated balances had been retained in the "M" account beyond the time when they should have been withdrawn. Pursuant to the act of July 25, 1956 (31 U.S.C. 701-708), "M" accounts were to be established for the payment of obligations chargeable to fiscal year appropriations which have lapsed.

Our detailed review of supporting documents for $130,209 (about 17 percent) of the $757,192 of unliquidated obligations recorded in the "M" account of the Washington Finance Office as of June 30, 1964, showed that $45,548 no longer met the criteria of unliquidated obligations in that these obligations had been liquidated before June 30, 1964, but had not been removed from the accounting records. In addition, the status of the remaining $84,661 had remained unchanged for such extensive periods of time as to create a reasonable doubt as to whether an obligation did in fact still exist.

Subsequent to our review, ARS reviewed the "M" account and, as a result, $366,000 of "M" account obligations existing at June 30, 1964, were written off in addition to the $45,548 removed in response to our inquiries, a total of $411,548. This action resulted in the withdrawal and the restoration to the general fund of the Treasury of an equivalent amount at June 30, 1965.

110. Procedures of the United States Information Agency revised to prevent invalid obligation of appropriated funds--On the basis of a partial review of the United States Information Agency's numerous year-end transactions, we found (1) a number of year-end transactions which did not meet the requirements of Section 1311 of the Supplemental Appropriations Act of 1955 and (2) indications that at least some transactions were cases of accelerated procurements at the end of the year and appeared to be contrary to the intent of Congress with respect to year-end buying or to the purpose for which a single-year appropriation is to be used.

In a draft report to the Agency, we recommended that the Director of the Agency initiate an Agency-wide review of year-end obligations charged to the fiscal year 1964 Salaries and Expenses Appropriation, and require that appropriate adjustments be made. The Agency did initiate such a review and subsequently deobligated and returned to the Treasury about $185,000 of fiscal year 1964 funds for obligations determined to be invalid as of June 30, 1964, because orders were not firm and complete or because orders did not represent a bonifide need.

The Agency also revised its procedures relating to the recording, control, and obligation of funds. We believe that, if the procedures now established are appropriately implemented, the circumstances referred to in our report will not recur.

AUDITING PROCEDURES

111. Action being taken by the Rural Electrification Administration to broaden the scope of its audits of the activities of its borrowers--Our review of the records of selected telephone companies obtaining loan funds from the Rural Electrification Administration (REA), Department of Agriculture, disclosed that REA had improperly advanced about $83,500 for items for which REA had previously advanced loan funds or which were ineligible for REA financing. Our review disclosed also that certain borrowers had improperly accounted for proceeds amounting to $16,150 from sales of REA-financed property. We discussed these improper uses of loan funds and proceeds from sales of property with agency officials, and, as a result, action was taken to recover these amounts from the borrowers involved.

Our examination of pertinent REA loan fund audit reports for the 15 borrowers which we visited disclosed only four cases where loan fund audits had been performed for the periods covered by our review. We also noted that none of the findings disclosed by our review, which related to these four borrowers, had been reported by the loan fund auditors even though these deficiencies occurred during periods covered by the auditors' review.

In a report to the Administrator, REA, in May 1966, we stated that the results of our review indicated a need for more intensive reviews of borrowers' accounting records and practices and recommended that he acquaint the field accountants with the findings disclosed by our review and emphasize to them the need for making intensive reviews of borrowers' accounting records and practices.

In August 1966, we were advised that two REA staff instructions covering loan fund and accounting reviews, which are intended to broaden considerably the scope of the examination to be made by REA field accountants, were being prepared. We were advised also that the need for alertness, judgment, good auditing techniques, and improved audit workpapers was emphasized to the field accountants in a memorandum and during a field conference held in August 1966.

COLLECTION ACTIVITIES

112. Action taken by Civil Service Commission to strengthen procedures relating to the depositing of cash receipts--In our examination of the procedures and practices of the Civil Service Commission for collecting and depositing cash receipts, we observed that certain daily receipts were being held beyond a reasonable period--from 4 to 15 working days--before being deposited in the appropriate account in the Treasury. In response to our report of March 1966, the Commission informed us in April 1966 that instructions had been issued to provide for deposit of funds within 2 days of receipt.

We observed also that the certification on the Daily Report of Collections, which generally indicated a lapse of only 1 working day between the receipt and the deposit of cash items, applied only to the mail opened and processed and did not include cash receipts of prior days contained in mail not opened and processed. In line with our recommendation, the Commission revised its procedures to provide that collection reports include the volume of unprocessed items and the dates received so that Commission officials would have specific knowledge of delays in depositing cash receipts and thus be able to take appropriate action to effect prompt processing of receipts.

113. Actions taken or promised by the District of Columbia Government to collect supplemental hospital and surgical-medical insurance benefits and additional basic insurance benefits--In a report issued in January 1966, we stated that the District of Columbia Government had not collected substantial amounts of Blue Cross-Blue Shield supplemental benefits that had been paid to or were available to policyholders under the Government-wide Service Benefit Plan for hospital and surgical-medical services provided to insured District residents at the District of Columbia General Hospital, Glenn Dale Hospital, and Saint Elizabeths Hospital during the period from July 1960 through September 1963. As of December 1, 1964, the uncollected supplemental benefits amounted to about $119,500.

The President of the Board of Commissioners, District of Columbia, agreed to our proposal that the Department of Public Health and the Office of the Corporation Counsel determine the action necessary to collect the supplemental benefits in those cases where the policyholders had received benefits but had not remitted them to the District or where policyholders had not claimed available benefits. Later we were informed by the Department of Public H t, as of June 30, 1966, about $85,500 of the supplemental benef en collected.

Our report also pointed out that the District could have received additional basic benefits for hospital and surgical-medical services provided at the District of Columbia General Hospital to patients insured under various Blue Cross-Blue Shield plans if the hospital had been a member hospital under the plans and had maintained its accounting system in accordance with the system prescribed for a member hospital under such plans and if the hospital had submitted billings for the hospital services

on the basis of the applicable per diem charges and for the surgical-medical services on the basis of the amounts normally for such services.

The President of the Board of Commissioners informed us that the feasibility of installing and maintaining a detailed billing system would be considered as plans advanced for the expansion of automatic data processing applications in the Department of Public Health.

114. Change made in Treasury Department collection practices--In a report issued in April 1966 on our examination of certain accounts receivable at the Bureau of Customs, Treasury Department, totaling over $6.2 million at June 30, 1965, we expressed our opinion that the management and collection of receivables, resulting from assessments under the enforcement provision of the Tariff Act, were less than adequate. The inadequacies resulted principally because of non-adherence by responsible district personnel to Customs control procedures and inadequate control over penalty receivables subject to the statute of limitations.

A Customs official later informed us that the Bureau was making changes in the accounting system to include certain administrative controls for strengthening the management and control over the collection of receivables and to provide management an opportunity to review the adherence to the regulations and procedures governing the management of receivables.

115. Procedures adopted by Commodity Credit Corporation to overcome delays in the collection and deposit of sales proceeds--In a report issued to the Commodity Credit Corporation (CCC), Department of Agriculture, in February 1966, we commented on delays in the collection and deposit of proceeds from sales of CCC commodities to foreign governments and to United States firms for export. The delays resulted primarily because CCC did not:

1. Obtain in a timely manner documents evidencing delivery of commodities to foreign governments at ports of export.

2. Process collection documents expeditiously.

3. Provide for prompt remittance of funds from banks located in New York City and San Francisco to a Federal Reserve bank for the account of CCC.

We estimated that these delays resulted in additional interest costs to the Government of about $73,000 during fiscal year 1965. We suggested that procedural changes be made to expedite collection and deposit of sales proceeds and that consideration be given to effecting collection from foreign governments upon transfer of the commodities.

During our review, agency officials advised us that corrective action would be taken to expedite the processing of collection documents. In addition, CCC later informed us that future contracts on sales to foreign governments would provide for cash advances prior to delivery of commodities.

116. Need for improved procedures by the Department of Public Health, District of Columbia Government, for determining ability of patients and responsible relatives to pay for care at Saint Elizabeths Hospital--In a report issued in March 1966, we stated that our review of the determinations made by the Department of Public Health concerning the ability of District voluntary and involuntary patients at Saint Elizabeths Hospital, and of their legally responsible relatives, to pay for hospital care indicated that initial determinations had been made without sufficient investigation to obtain complete and accurate information as to the financial resources of the patients and their relatives. Generally, no periodic investigations of involuntary patients were made, subsequent to the commitment of the patients, to determine whether changes in the financial status of the patients and their responsible relatives had resulted in an increased ability to pay for hospital care.

We expressed the belief that, as a result of these procedural weaknesses, some patients and/or their responsible relatives may not be paying to the District amounts commensurate with their ability to pay.

To achieve closer compliance with the statutory requirement that District residents, and/or their legally responsible relatives, reimburse the District for the cost of hospital care in such amounts as they are reasonably able to pay, we proposed to the Board of Commissioners, District of Columbia, that:

1. Arrangements be made for an ability-to-pay determination to be made subsequent to the hearing on the commitment of a patient when the investigation cannot be completed prior to the hearing.

2. Procedures be established to provide for the identification of those long-term involuntary patient cases where a redetermination of the ability of the patient and/or his responsible relatives to pay for the cost of hospital care is warranted and to provide for the periodic review of such cases.

3. Guidelines be established for determining the ability to pay of a patient's legally responsible relatives, who live outside the District and surrounding area or who are in the United States Armed Forces and for determining the amounts to be allowed for certain expenses in making ability-to-pay decisions.

The President of the Board of Commissioners, District of Columbia, informed us that, in general, they agreed with our proposals and that efforts would be made to carry them out within existing resources but that a larger staff would be necessary before the proposals could be fully implemented.

MANAGEMENT OF AUTOMATIC DATA PROCESSING EQUIPMENT

ACQUISITION OF AUTOMATIC DATA PROCESSING EQUIPMENT

117. Actions designed by the Federal Aviation Agency to provide for more timely studies of the methods of acquiring automatic data processing equipment and the use of purchase options where appropriate--In a report issued to the Congress in July 1965, we stated that additional costs of about $147,000 were incurred in the procurement of certain automatic data processing equipment at the New York Air Route Traffic Control Center, Federal Aviation Agency (FAA), because FAA did not provide for purchase options in its equipment rental contracts.

We found that FAA officials responsible for the procurement of the equipment did not make a timely determination of the savings in costs that could have been realized by the use of purchase options. We expressed our opinion that a more timely determination by FAA of the best method of acquiring the automatic data processing equipment would have shown that the lease-with-option-to-purchase method was most advantageous to the Government.

The Agency agreed that it should have made a more timely study of the methods of acquiring the equipment and should have provided for appropriate purchase options. The Agency advised us that it had taken, or was in the process of taking, certain actions designed to provide for timely studies and the use of purchase options where appropriate.

UTILIZATION OF AUTOMATIC DATA PROCESSING EQUIPMENT

118. Action taken by Federal Aviation Agency to strengthen controls over automatic data processing equipment--We found that the National Aviation Facilities Experimental Center, Federal Aviation Agency (FAA), Atlantic City, New Jersey, between January 1962 and June 1963, did not utilize a rented computer system for substantial periods of time, with the result that the Agency did not receive benefits commensurate with about $259,000 of rental payments. The Agency also incurred about $14,000 of additional maintenance and rental charges for Government-owned and rented computer equipment, which either was in storage or was not available for use because of modifications being made to the equipment.

The inadequate utilization and additional costs occurred because FAA did not (1) coordinate the use of the computer system at the Experimental Center with the use of similar systems at other FAA installations nor consider the feasibility of greater use of manufacturer's computer facilities, (2) provide adequate physical and accounting control of owned equipment, and (3) take action to recover rental payments for a period when the computer system was not available for use. In a report issued in August 1965, we proposed corrective action to be taken on each of these matters.

Since the date of our report, FAA has issued several directives which, if properly implemented, should prevent the recurrence of situations similar to those discussed in our report. In addition, the Administrator, FAA, informed us that controls over Government-owned automatic data processing equipment at the Experimental Center had been strengthened and that refunds had been negotiated for the additional maintenance and rental charges identified by us.

119. Action taken by National Aeronautics and Space Administration for more efficient utilization of automatic data processing equipment--In a report to the Congress in May 1966, we stated that the Ames Research Center of the National Aeronautics and Space Administration had, in recent years, leased computers which had been significantly underutilized and, as a result, had incurred relatively high computer processing costs.

We expressed our belief that the situation could be attributed to Ames' permitting its various organizational units to pursue separate courses of action with respect to automatic data processing activities and not requiring thorough analytical studies to serve as a basis for the evaluation and selection of the optimum equipment configuration needed to meet Center-wide processing requirements. We believed that another contributing factor had been that NASA Headquarters had not fully evaluated the effectiveness of Ames' practices relating to its planning for, and acquisition and utilization of, automatic data processing equipment.

We stated that the excess computer capacity acquired by Ames and the fragmented approach, repeatedly taken in determining its automatic data processing equipment requirements, strongly suggested the need for centralized direction of the planning for, and the acquisition and operation of, all its computer systems.

UTILIZATION OF AUTOMATIC DATA PROCESSING EQUIPMENT (continued)

Our review revealed that, during the 3-year period ended April 1964, Ames paid basic monthly equipment rentals of about $784,000 for operational use time that was not used. Also, the estimated in-service hours of Ames' two major computers for fiscal year 1965 were substantially less than the average of the estimated in-service hours of the same types of computers used by all Government agencies for that period. We stated that, in our opinion, this low utilization experience should have prompted the Space Administration and Ames to determine whether two major computers were needed or whether Ames' requirements could have been met by the use of one computer.

The Space Administration advised us that, in line with our proposals, responsibilities had been assigned at NASA Headquarters for the central management of automatic data processing, instructions were being formulated which would require management evaluation of installation effectiveness, and a review board had been established at Ames to consider all automatic data processing resources and needs on a Center-wide basis.

MANAGEMENT OF UNITED STATES-OWNED FOREIGN CURRENCIES

INTEREST ON UNITED STATES-OWNED FOREIGN CURRENCIES

120. Additional income possible by obtaining more equitable rates of interest on United States-owned foreign currencies--In a report submitted to the Congress in September 1965, we pointed out that large balances of United States-owned foreign currencies were being held in non-interest-bearing accounts in Korea and thus were not earning interest income. This income could have been used to offset United States dollar expenditures for purchases of goods and services in Korea, which averaged about $34 million annually during fiscal years 1963 and 1964. We estimate that, from November 1962 to October 1964, the equivalent of as much as $1.8 million in interest was not realized; substantial additional amounts of interest could have been realized in prior and subsequent periods.

At the conclusion of our review, we proposed that, in the course of subsequent negotiations of agreements generating foreign currencies in Korea, the question of interest payments be considered with a view toward obtaining an advance agreement that all United States-owned foreign currencies generated under such agreements will be deposited in interest-bearing accounts.

We found that the Treasury Department's procedures for managing United States-owned foreign currency did not ensure that equitable interest rates were always obtained on these funds. In two countries covered in our review, we found that substantially lower interest rates were being sought, or had been obtained, than were being paid on commercial deposits. In our opinion, a major reason for this situation was the Treasury Department's dependence on Department of State personnel to manage these funds.

We therefore suggested to the Treasury Department, at the conclusion of our review, that there was a need for the Department to amplify existing procedures so that the Department could assure itself that adequate effort would be made to negotiate more appropriate interest rates. We further suggested that it would be desirable to make arrangements with the Department of State which would permit Treasury Department representatives to participate in country-to-country discussions or to obtain more specific information on the efforts of the State Department in negotiating more equitable interest rates.

The Treasury Department and the Agency for International Development accepted our proposals with regard to Korean funds and advised us that United States negotiators had been instructed to seek more equitable interest rates on United States-owned Korean currency. The Treasury Department advised us that it had no objection to considering the question of interest during the course of subsequent negotiations of agreements generating these currencies in Korea. The Treasury Department also advised us that an amplification of its existing procedures may be necessary since the situation disclosed by our review may not be an isolated one.

Since these matters are currently under study by the Department, we will follow-up on the Department's actions at a future date.

UTILIZATION OF UNITED STATES-OWNED FOREIGN CURRENCIES IN LIEU OF DOLLARS

121. Action taken to maximize the use of United States-owned Colombian currency instead of dollars--In our review, we found that the United States could have avoided dollar expenditures of about $162,000 annually if available United States-owned Colombian currency (pesos) had been used instead of dollars to pay rental expenses of officials and employees in Colombia. The United States could have realized additional dollar receipts of about $116,000 annually if accommodation exchange service had been provided to eligible employees located at the consular cities in Colombia and if action had been taken to ensure that all eligible employees had used such service for their peso needs.

Dollars were used in lieu of foreign currency for United States administrative expenses and full benefits were not being derived from accommodation exchange activities principally because, in our opinion, responsible officials of the agencies concerned in Colombia had not adhered to administrative regulations requiring the use of foreign currency for such purposes when available. The Department of State advised us that it was initiating measures to ensure field adherence to Washington policy requiring maximum use of excess and near-excess currencies unless unusual circumstances justify or require exception.

With respect to dollar payment of agency rental expenses, we proposed (1) that the American Ambassador and the Agency for International Development Mission Director undertake to renegotiate six leases so that pesos can be used instead of dollars for payment and that, if this effort were not successful, the leases be revised when they are renewed, (2) that all future leases be made payable in pesos, and (3) that the Ambassador take appropriate action to prevent the further payment of dollars on the existing lease that is payable in pesos.

The Department of State stated that every effort would be made to make all future leases and renewals of existing leases payable in pesos and that action would be taken to ensure that obligations payable in pesos would be paid with pesos rather than dollars. The Department of State advised us that it would be inappropriate to undertake the renegotiation of dollar leases which were not yet renewable.

Subsequent to the time of our review, the situation in Colombia has changed and thus the available supply of United States-owned pesos is not above immediate needs. This does not alter the fact, however, that, during the period covered by our review, sufficient pesos were available but were not being used to the maximum extent possible.

122. Action taken to encourage United States personnel in Brazil to purchase Brazilian currency from the United States Treasury--Our review showed that the United States had failed to realize an estimated $3.5 million in dollar receipts because of what we considered (1) an unnecessary 16-month suspension of competitive rate accommodation exchange service for United States Government personnel in Brazil and (2) an unnecessary delay

in reinstating such service at the American consulate in Recife, Brazil, despite instructions to do so from the Embassy in Rio de Janeiro, Brazil.

Because this service was not provided, United States Government personnel in Brazil spent dollars to buy Brazilian currency (cruzeiros) for their personal expenses from Brazilian exchange houses (cambios) rather than from the United States Treasury, thereby adding to the United States balance-of-payments problem. If these personnel had purchased cruzeiros from the Treasury, not only would the unfavorable effect on United States balance of payments have been eliminated but also the United States Treasury would have realized dollar receipts and these would have acted to reduce the United States budget deficit. Also, the loss in value of United States-owned cruzeiros resulting from the severe inflation in Brazil would have been reduced.

The suspension of competitive rate accommodation exchange service from March 1962 through June 1963, which was the direct cause of the failure to realize dollar receipts estimated to totaled about $3.2 million, was occasioned by the manner in which the Department of State and the Treasury Department carried out the provisions of section 101(f) of Public Law 480 (75 Stat. 306), generally referred to as the Ellender amendment.

Also contributing to this situation was an apparent failure to give adequate consideration to (1) the availability of United States-owned cruzeiros which could have been used for accommodation exchange purposes and (2) the effect of the severe inflation in Brazil on the value of United States cruzeiro holdings. On July 1, 1963, competitive rate accommodation exchange service was reinstated in Brazil.

The remaining estimated dollar receipts of about $300,000, discussed in this report, were not realized because of the continued failure of the American consulate located at Recife to provide accommodation exchange facilities for about 1 year after the reinstatement of the competitive rate accommodation exchange service, despite instructions from the Embassy to do so. Even after competitive rate accommodation exchange service was reinstated in Recife, adequate measures were not taken to ensure that the United States would realize all possible dollar receipts therefrom.

During our review, we made certain proposals for increasing these receipts. These proposals have been adopted, and we expect that, as a result, United States Treasury receipts will increase by about $115,000 annually.

123. Possible dollar savings through expanded use of foreign currencies to transport personal effects abroad--We reported to the Congress in August 1966 that several hundred thousand dollars could be saved annually if United States-owned foreign currencies, rather than dollars, were used to pay surface freight costs for transporting personal effects of individuals traveling on United States Government business to and/or from foreign

countries where the United States owns substantially more of the local currency than is needed for its normal operating requirements.

United States Government agencies were unable to take full advantage of this potential to increase their use of foreign currencies principally because of (1) the reluctance of some American carriers to accept foreign currencies without guaranteed rights to convert unneeded foreign currency receipts into dollars and (2) the reluctance of the Department of State to negotiate arrangements with foreign countries for making these conversions if called upon to do so.

The Department of State advised us that foreign countries resist expanded United States use of foreign currency balances because of their own economic problems. The Department advised, nevertheless, that it had negotiated and would continue to negotiate arrangements favorable to the use of foreign currency balances, taking into account such factors as foreign policy and the carriers' willingness to accept the currencies.

The Department argued generally from the thesis that, if United States-owned foreign currencies accumulated under the food-for-peace program were to be convertible to dollars, commodities would in effect be sold for dollars to that extent and the value of meaningful additional food aid to the country would be reduced. The Department commented that such an approach would run counter to the basic reasons for making foreign currency sales of agricultural commodities.

Although the executive branch has been given wide latitude in its administration of foreign currency sales under Public Law 480, the Congress has expressed considerable interest in making use of available foreign currency to reduce the deficit in the United States balance of payments to the maximum extent possible. The payment of surface freight costs for transporting personal effects abroad appears to be one such productive use.

In view of the State Department position on foreign economic and political policies, we brought these matters to the attention of the Congress so that it might consider the basis of the judgmental decisions made by the Department of State and their consistency with congressional purposes.

124. Savings realized by Commodity Credit Corporation by discontinuing financing of certain foreign sales agents' commissions--In a report issued to the Congress in July 1965, we commented that the Commodity Credit Corporation (CCC), Department of Agriculture, had been expending dollars to finance commissions paid by United States exporters to their foreign sales agents for services performed in connection with sales of surplus agricultural commodities under title I, Public Law 480. These commissions, in most instances, could reasonably have been paid by the exporters from proceeds of the title I sales in the local currencies of the importing countries and need not have been financed by CCC.

We estimated that CCC disbursed about $2.7 million during fiscal years 1963 and 1964 to finance sales agents' commissions on certain commodities. Of this amount, about $1.2 million in each year was disbursed to finance commissions paid in dollars to sales agents who, according to their addresses, were located in the foreign countries receiving the commodities.

Because of monetary controls, the dollars expended for commissions to foreign sales agents often had to be surrendered by the agents to the governments of the importing countries and the agents were reimbursed in equivalent amounts of local currencies. This practice permitted the foreign governments, in effect, to use title I financing as a means of obtaining United States dollars in exchange for their local currencies--a situation which, in our opinion, was not contemplated by the Congress when enacting Public Law 480 and one which we believed generally could be avoided. As a result, the practice adversely affected the United States balance-of-payments position and may have contributed to an undesirable outflow of gold from the United States.

In line with our proposal, the Department, in January 1966, instituted new procedures which require that foreign sales agents having a place of business in the importing country receiving a particular title I commodity be paid for sales commissions in the currency of the importing country rather than in dollars. We estimated that, if the new procedures were properly implemented and if sales commissions and title I, Public Law 480, sales continue at about the same levels as experienced in fiscal years 1963 and 1964, the Department should achieve savings in dollar expenditures of about $1.2 million annually with a corresponding improvement in the United States balance-of-payments position.

125. Use of dollars rather than foreign currencies to pay United States expenses in the Republic of Korea--In a report submitted to the Congress in October 1965, we pointed out that the Agency for International Development had continued to obtain relatively small amounts of Korean currency to meet United States needs in Korea despite evidence of congressional intent, leading up to and including the enactment of the Foreign Assistance Act of 1961, that the collection of such amounts be increased.

Had the collection of this currency been increased during the period February 1961 through October 1964, we estimate that an additional $25 million in Korean currency would have been available for use, in lieu of dollars, to meet United States obligations in that country and that significant balance-of-payment benefits could have accrued to the United States. During fiscal years 1962 through 1964, United States dollar expenditures for the purchase of goods and services in Korea averaged over $39 million annually.

The Agency for International Development advised us that its policy of not obtaining additional amounts of Korean currency was within the

framework of the overall objective of the assistance program for Korea and that the Agency opposed any change in its policy at this time.

We suggested that the President consider delegating broader and more specific responsibilities to the Secretary of the Treasury to ensure that the financial implications of foreign policy decisions affecting the United States balance of payments will be given increased, but not necessarily overriding, consideration in the formulation and implementation of such decisions.

We recommended that the Secretary of State and the Administrator, Agency for International Development, (1) establish appropriate intradepartmental procedures providing for the documentation of decisions affecting the use of foreign currencies abroad to ensure that financial and statutory considerations would be brought to bear on policy formulation and that applicable policies would be made subject to review on a continuing basis in the light of changing financial and statutory considerations and (2) direct compliance with the intent of the Congress as to the amount of foreign currency to be obtained from the Government of Korea for United States use.

The Agency for International Development subsequently advised us that it would review the problem of documentation with the Department of State to see if any improvement in documentation procedures would be necessary.

In September 1966, the Agency for International Development reached an agreement with the Government of Korea to increase the amount of Korean currency made available for United States uses from less than 1 percent to 5 percent of all counterpart currency generated from supporting assistance.

MANPOWER UTILIZATION

PLANNING

126. Action taken or promised by the District of Columbia Government to reappraise refuse collection task system assignments--In a report issued in December 1965, we stated that the Department of Sanitary Engineering, District of Columbia Government, had not provided adequate policies and procedures for administering the refuse collection task system, nor had it included a requirement for periodic reviews to determine the appropriateness of tasks assigned to the employees. We found that, under the task system, the employees were paid on the basis of an 8-hour workday but that they generally worked significantly less than 8 hours a day. We estimated that, during fiscal year 1964, the employees were paid for about 117,000 hours in excess of those worked; thus a need for an appraisal of the task system assignments was indicated.

While the task system was intended to offer a strong incentive for the employees to accomplish their daily assigned tasks expeditiously by allowing them to end their workday when their tasks were completed, we believed that, over an extended period, the average time taken to complete a normal day's work should more nearly approximate 8 hours.

The President of the Board of Commissioners, District of Columbia, advised us that, in accordance with our proposals, action would be taken, as rapidly as staff capabilities permitted, to develop written policies, procedures, and guidelines for determining the refuse collection tasks for a normal 8-hour workday, for reviewing task assignments periodically to ascertain whether they are appropriate, and for making necessary adjustments when task assignments are at variance with established criteria. Subsequently the Director of the Department of Sanitary Engineering reported that a review had been made of the refuse collection operation, action had been taken toward rescheduling the refuse collection routes, and an adequate timekeeping system had been installed for the employees engaged in refuse collection.

127. Savings could be realized by reducing overtime on revetment construction and maintenance work performed by the Corps of Engineers (Civil Functions) on the Lower Mississippi River--On the basis of our review of regularly scheduled overtime on revetment construction and maintenance work performed by the Corps of Engineers (Civil Functions), Department of the Army, on the Lower Mississippi River, we believe that, in most cases, the Corps could accomplish planned revetment work by extending the construction period and using a 40-hour workweek instead of scheduling overtime work and accelerating revetment operations. Revetment construction involves the laying of concrete mattresses at selected bank locations to protect vulnerable bank areas from erosion caused by the river currents.

We estimated that the Corps of Engineers could have saved about $521,000 during fiscal years 1962 through 1965 by eliminating scheduled overtime in revetment construction activities performed by the Memphis District of the Corps of Engineers on the Lower Mississippi River. We therefore recommended, in a report issued to the Congress in April 1966,

that the Chief of Engineers direct the Lower Mississippi Valley Division to use a 40-hour workweek in programming revetment construction by the Memphis District and that overtime be limited to that required after it becomes apparent that necessary work cannot be accomplished on a 40-hour workweek basis.

In August 1966, we were informed that the Chief of Engineers had carefully considered our report and had found that no change in the existing procedures was required. The Chief of Engineers stated, however, that the program would be continuously reviewed and examined to determine whether any changes should be made.

SUPERVISION

128. Action taken by the District of Columbia Government to strengthen supervisory controls over the work attendance of employees who were also employed part time by the District of Columbia Armory Board--In a report issued in February 1966 on our review of attendance records of full-time District employees who were also employed part time by the District of Columbia Armory Board, we pointed out that (1) some employees overlapped their tours of duty and, in most cases, collected dual payments for the same hours of work, (2) some employees worked consecutive tours of duty for unreasonably extended periods, and (3) some employees apparently understated travel time between jobsites.

The President of the Board of Commissioners, District of Columbia, advised us that, in accordance with our recommendation, the District Government, with the cooperation and assistance of the District of Columbia Armory Board, had made a thorough investigation of the matters presented in our report and that action had been taken to recover overpayments to the employees and, where warranted, disciplinary action had been taken. We were also informed that the Armory Board and the various District departments had taken action to strengthen the supervisory control over their employees and timekeeping activities.

PROCUREMENT

CONTRACT ADMINISTRATION

129. Action taken by the Atomic Energy Commission to strengthen controls over contractor utilization and procurement of photographic equipment--In a report issued to the Congress in January 1966, we stated that, because of inadequate management controls over the procurement, utilization, and retention of cameras at the Sandia Laboratory, Albuquerque, New Mexico, certain organizational units had retained cameras, costing about $274,000, which were excess to their needs and that certain organizational units had purchased new cameras costing $62,000 although it appeared that the requirements could have been met by reassigning excess cameras on hand. In addition, Sandia did not realize the benefits that might have been obtained through competitive procurement because cameras had been requisitioned and procured by brand name and model without adequate consideration as to whether other brands or models would meet the requirements.

The organizational units, included in our review, subsequently reported 140 cameras as excess to their requirements and reassigned 33 of the cameras, costing about $40,000, to other Sandia organizations in need of cameras and thereby obviated the necessity for procurement of similar equipment. Sandia also took action to strengthen its procedures for assuring proper utilization and assignment of cameras and for assuring proper authorization and adequate justification in future procurement of new cameras. Also, the Atomic Energy Commission directed its field offices to make reviews of operating contractors' equipment-acquisition-and-use controls and of the practices and procedures for determining when equipment is excess, particularly in reprogrammed areas or areas of reduced activity.

130. Action taken by the Atomic Energy Commission to strengthen its procurement regulations--In a report issued to the Atomic Energy Commission (AEC) in November 1965 covering our review of certain fixed-price purchase orders awarded by a prime contractor of AEC, to a sole-source supplier, for thermal switches at a total cost of about $1,960,000, we expressed our belief that, had the prime contractor obtained and adequately analyzed the supplier's most recent cost and production data, the contractor would have been in a sound position to negotiate a reduction of at least $153,000 in the purchase cost of the switches. Moreover, the contractor would have been in a position to negotiate additional price reductions if he had given consideration to the economies that the supplier could have expected to achieve because of the greatly increased production rate that would be necessary to meet the delivery terms under the fixed-price purchase orders.

Subsequent to our review, AEC revised its procurement regulations in line with the October 1964 revisions in the Federal Procurement Regulations, as they relate to negotiated fixed-price contracts, and directed its contractor to amend its procurement practices and procedures as soon as possible to incorporate the requirements of the revised procurement regulations.

The revised regulations, if effectively carried out by AEC's contractors, should tend to promote greater assurance of the reasonableness of prices obtained in negotiated procurements. AEC advised us that assurance of compliance with the regulations would be achieved through exercise of the contractual requirement for review and approval of contractor procurements by AEC and through appraisal and audit of AEC and contractor procurement activities.

131. Action taken by the Federal Aviation Agency to improve contract administration relating to the payment of subsistence allowances for contractor-furnished employees--In a report issued to the Congress in April 1966, we stated that the Federal Aviation Agency (FAA) incurred additional costs because it paid relocation allowances rather than subsistence allowances for certain contractor-furnished employees assigned to work at its National Aviation Facilities Experimental Center. Although the precise amount of savings was not readily determinable, we found that the cost of relocating contractor-furnished employees who worked at the Center for periods ranging from 12 to 5 months would have been significantly less than the $245,420 cost of subsistence allowances paid to the contractors.

The additional costs were incurred because of the absence of specific guidelines for use by the Agency's contracting personnel in evaluating the allowability and reasonableness of subsistence and relocation allowances when negotiating and administering contracts providing for contractor-furnished employees. We therefore proposed that the FAA Administrator require that precise policies and procedures relative to the allowability and reasonableness of subsistence and relocation allowances for contractor furnished employees be established. FAA subsequently issued guidelines in accordance with our proposal.

132. Action taken by the National Aeronautics and Space Administration to improve definitization and communication of decisions affecting contractor's work--In our report issued to the National Aeronautics and Space Administration (NASA) in February 1966, we pointed out that there were conflicting opinions among officials at the Manned Spacecraft Center regarding the contractor's authority to perform development work on radiation-cooled thrusters and to charge the related estimated costs of about $191,000 to the contract.

Under the provisions of the contract, the contractor agreed to cooperate and coordinate its efforts with the Gemini Project Manager with respect to projects and project approaches, redirection of technical efforts and programs, engineering changes, and other technical matters within the scope of work to be performed by the contractor. Although we were unable to determine conclusively what direction was given to the contractor in this regard, there was some evidence that the Center specifically directed the contractor not to develop radiation-cooled thrusters for the Gemini project.

We recommended that, in order to adequately protect the Government's financial interest, the center resolve the conflict in opinions and, if warranted, take appropriate action to recover payments made to the contractor for this work. We recommended also that adequate measures be taken to ensure that future management decisions that affect the work to be performed by NASA contractors be clearly defined and communicated.

133. Actions taken to eliminate deficiencies in motor vehicle maintenance, use, and replacement practices at contractor-operated facilities of the Atomic Energy Commission--In a report to the Congress in July 1966, we stated that our review of selected motor vehicle activities at 12 Atomic Energy Commission contractor-operated facilities showed that:

a. At two facilities, excessive motor vehicle maintenance costs had resulted because repairs had been made to vehicles, in some instances, without regard to their age, condition, or imminence of removal from the fleet or to the cost of replacement vehicles.

b. At two facilities, unnecessary costs had been incurred because, in many instances, motor vehicles had been replaced without an adequate evaluation being made of the economic feasibility of continued use of the vehicles.

c. At three facilities, many vehicles had been used far less than reasonable, and, as a result there was a possibility that a number of vehicles in the fleet were in excess of actual needs.

d. At four facilities passenger vehicles had been retained in operation after replacement vehicles had been acquired and put into operation--a practice which was inconsistent with the intent of existing legislation.

After the above matters were brought to its attention, the Commission informed us that a number of corrective actions had been or would be initiated which were generally in accordance with our proposals.

134. Action taken by the District of Columbia Government to improve contracting practices for clearing of rights-of-way for street and highway construction projects--In a report issued in April 1966 on our review of the contracting practices of the District of Columbia Government for clearing of rights-of-way for street and highway construction projects, we stated that the Real Estate Division's method of soliciting bids for demolition contracts did not provide for obtaining adequate competition for the award of the contracts and that the Real Estate Division had awarded demolition contracts without considering whether it would be financially advantageous to dispose of the improvements on the rights-of-way by sale and to contract only for the clearing of the rights-of-way.

We stated also that certain of the demolition contracts had been awarded to foreign firms, i.e., firms organized under laws other than the laws of the District of Columbia, that were not authorized to transact

business in the District. We recommended that the Real Estate Division adopt (a) detailed procedures for complying with the District's procurement regulations which require that procurement be made generally on the basis of competitive bids obtained in a manner that assures adequate competition and (b) contracting policies and procedures requiring that the method of disposing of buildings and structures on rights-of-way be determined on the basis of an analysis of the economic factors involved. We recommended also that the Real Estate Division adopt procedures requiring its contracting officers to notify the District agencies responsible for enforcing foreign firms' compliance with District laws of the award of contracts to such firms.

The Director of General Administration, District of Columbia Government, informed us that action was being taken to fully comply with our recommendations.

135. Steps taken by the Atomic Energy Commission resulting in savings through reduction in fire department and guard force staffing at contractor-operated installations--In a report to the Congress in April 1966, we pointed out that savings of about $185,000 annually were available to the Atomic Energy Commission through reductions in fire department and guard management staffs at contractor-operated installations under the supervision of the Oak Ridge Operations Office. Information about these potential economy measures was available to the Commission officials at Oak Ridge from annual fire loss, protection, and prevention cost reports and from quarterly wage and salary reports submitted by the operating contractors.

We recommended that the Commission's General Manager (a) require a review of fire protection and prevention and guard force activities at its other contractor-operated installations for the purpose of ascertaining whether adequate and effective levels of these activities were being conducted in the most economical manner and (b) direct the attention of Commission employees to the importance of thorough reviews and analyses of cost and staffing reports regularly submitted by operating contractors.

The Commission's General Manager and the contractors explained why personnel reductions could not have been made earlier, but they indicated that steps were being taken to realize the potential economies. As of August 31, 1966, partial implementation of our recommendation had resulted in reductions which will achieve annual savings estimated at $106,000.

136. Steps to be taken by the Atomic Energy Commission to reduce inequitable wage costs resulting from preferential allowances paid to certain contractor employees--In a report to the Congress in May 1966, we pointed out that, under a wage realignment adopted in 1948, certain employees at the Atomic Energy Commission Hanford Works, Richland, Washington, were paid a preferential allowance because the contractor considered it inadvisable to reduce the total wages of about 3,400 employees receiving wages at rates higher than the rates established under the wage realignment. Our review showed that, within 3 years after the new wage

structure became effective, the basic wage rates for most affected job classifications had, through general wage increases, equaled or exceeded the previous basic wage rates. Not only was the preferential allowance retained after the new basic rates were raised above the previous rates, but it was also increased as the basic wage rates were increased. As of February 1, 1966, 146 employees were still receiving the allowance which totaled about $55,000 annually.

A new general contractor commenced operations at the Hanford Works on March 1, 1966, and initiated negotiations with the employees' union with a view toward ultimate resolution of the problem. We proposed that the Commission consider reviewing the wage structure at its other contractor-operated installations and adopt a policy applicable to all its installations, which will provide that a specific or determinable time limit be placed on any similar allowances in the future. Regarding our proposals, the General Manager informed us that the Commission was taking steps to accomplish the intent of our proposals.

The agency informed us in June 1966 that it had reviewed the events, documentation, and statements pertaining to the payments made to the contractor and had found that the payments made were proper under the terms of the contract. The agency concurred in our views that management decisions should be clearly defined and communicated and advised us that the Center had recently issued a directive that will help to ensure attainment of this objective.

137. Action taken by the Corps of Engineers (Civil Functions) to improve procedures for evaluating the need for fixed-price contracts for the relocation of facilities--Our review of the relocation of railroad facilities, necessitated by the construction of the Walter F. George Lock and Dam near Fort Gaines, Georgia, by the Corps of Engineers (Civil Functions), Department of the Army, indicated that the Corps had paid the railroad about $770,000 more than it cost the railroad to have the relocation work performed.

Although it was the general policy of the Corps to use cost-reimbursable-type contracts for major relocations, the Corps entered into a firm fixed-price contract with the railroad because it believed that the use of the fixed-price contract would result in savings to the Government. A more complete evaluation of the cost estimates, which we believe reasonably should have been made in the circumstances, would have indicated that the proposed amount of the fixed-price contract would not have resulted in the savings anticipated by the Corps and, therefore, that there was no need to deviate from the general policy which prescribes the use of cost-reimbursable contracts.

In a report issued to the Congress in March 1966, we recommended that the Corps' regulations be amended to require that field requests for permission to enter into fixed-price contracts for major relocations be supported by detailed cost analyses or other justifications to enable the headquarters office to properly evaluate the circumstances requiring a deviation from the prescribed procedures. Subsequent to the issuance of our report, the Corps amended its regulations in accordance with our recommendation.

138. Action taken by the General Services Administration to discontinue the requirement that Federal agencies procure office desks equipped with locks--In October 1965, we reported to the Congress that the General Services Administration (GSA) did not have a "value engineering" program which emphasizes an independent review of items in the supply system to determine whether unnecessary features or components can be removed or changed at a reduction in cost. We stated that our review showed that the elimination of the requirement by GSA for a lock in general office desks purchased by Federal agencies would result in savings of about $250,000 a year.

Federal agencies had been purchasing, in recent years, an annual average of about 170,000 general office desks, each equipped with a lock and locking mechanism. We found that Federal agencies generally do not require employees to lock their desks; hence, the incremental cost for a lock on a desk was an unnecessary expense in most instances. We also identified additional savings that could be obtained if locks on rehabilitated desks were repaired or replaced only in those instances where there is a requirement for locks.

GSA advised us that it would make greater use of the principles of value engineering in the development of standards and specifications. Also, as a result of our proposals and recommendations, GSA revised the appropriate standards and specifications so that Federal agencies could purchase desks without locks and adopted a "no lock" policy in the rehabilitation of office desks. At our urging, GSA also revised its invitations to bid, which were being drafted while our review was in progress, for suppliers to provide steel office desks during the period May 1, 1965, through April 30, 1966. GSA estimated that the Government would save about $194,000 during the contract year 1965-66 by eliminating locks from most steel general office desks 1 year earlier than originally planned.

139. Action taken to require contractors to adequately maintain property in which the Bureau of Reclamation has a reversionary interest--In a report issued in April 1966, we stated that, upon the completion of construction of permanent-type housing by the prime construction contractor for the Glen Canyon Dam, the Bureau of Reclamation, Department of the Interior, had sold a reversionary interest in the housing to the contractor at an amount substantially below cost.

The sale was made because the Bureau believed it likely that the housing would be allowed to deteriorate since the contractor was not required to adequately maintain the property. Although the Bureau estimated that the property cost the contractor about $465,000, the selling price was only $98,500. We proposed that, where facilities constructed for the use of contractors' employees at Bureau of Reclamation project sites are expected to be usable after the projects have been completed, the construction contracts contain appropriate language to require the contractors to adequately maintain the housing and facilities and to return them to the Government in good condition upon completion of the projects.

The Bureau advised us that future specifications involving contractors' camps would require that all permanent buildings subject to a reversionary interest be painted and maintained in a first-class condition until completion of the work under the contract.

140. Armed Services Procurement Regulation revised to strengthen documentation of the record of negotiation of contract prices--We found that the Air Force had negotiated a fixed-price contract on the basis of cost and pricing information, furnished and certified by the contractor, which was overstated by about $284,000. We found also that the price originally proposed by the contractor was subsequently reduced by about $91,000 during negotiation and prior to award of the contract. However, the record of negotiation was not clear as to which elements of cost or profit gave rise to the reduction, and it could not be determined what portion, if any, of the reduction of $91,000 was applicable to the overstatement of $284,000.

In our report issued in April 1965, we recommended, among other things, that the Armed Services Procurement Regulation (ASPR) be amended to require the contracting officer to include in the record of

negotiation a statement documenting the basis used in establishing the contract price and the extent of reliance or nonreliance by the contracting officer on cost or pricing data furnished by the contractor. The Department of Defense agreed and on February 1, 1966, added the substance of the recommended provisions to the ASPR.

141. Armed Services Procurement Regulation revised to define more clearly contractors' employee recreation and morale costs allowable as charges to Government contracts--Pursuant to a request by the Chairman of the Subcommittee for Special Investigations, House Committee on Armed Services, we conducted a survey of contractors' expenditures for employee recreation and morale purposes that are passed on to the Government. In our report on the survey, submitted to the Subcommittee in July 1964, we pointed out, among other things, that the provisions of the Armed Services Procurement Regulation (ASPR) relating to such expenditures were being variously interpreted by agency contracting officials and agency auditors. As a result, there were significant variations as to the nature and extent of the costs allowed under Government contracts.

The Subcommittee held hearings on the subject and, in its report issued in August 1964, recommended that the Department of Defense make such changes in contracting policy and in provisions of the ASPR as may be necessary to clarify existing policy. On December 1, 1965, the Department of Defense revised the ASPR to define more clearly the nature and extent of contractors' employee recreation and morale costs allowable as charges to Government contracts.

142. Cost reductions available to the Post Office Department by consolidating requirements for small office machines--In our review we noted that the Post Office Department had issued 63 purchase orders for 1,895 typewriters and 183 purchase orders for 2,219 adding machines and calculators during fiscal year 1964. The purchase orders were issued to Federal Supply Service contractors. We noted also that, in fiscal year 1964, the General Services Administration (GSA) made only one procurement of small office machines for the Department, consisting of 405 typewriters for third-class post offices.

The price obtained by GSA for these typewriters was 17.5 percent less than the lowest price available, after discount, for these typewriters under the Federal Supply Schedule contract with the same company. For larger quantities of typewriters procured competitively by GSA for the Veterans Administration (VA) in fiscal years 1964-65, the prices averaged about 24 percent less than the prices available for the same machines from the contractors listed on the Federal Supply Schedules for those fiscal years. Thus, the VA saved more than $150,000 on its procurement of about 2,600 typewriters in those 2 fiscal years. We noted other instances where appreciable savings were obtained--for the Department of Commerce and the Internal Revenue Service--through the procurement of adding machines and calculators by GSA, as the result of competitive negotiation with the suppliers.

So that substantial cost reductions could be achieved, we recommended in a report to the Postmaster General in April 1966 that the Post Office Department's annual requirements for small office machines be determined in advance and that the requirements be submitted to GSA for competitive procurement.

143. Need for clarification of allowability of contractors' costs of transferring employees between locations--We reviewed the costs incurred by a contractor in the transfer of employees from one location to another in connection with work under contracts with the Department of Defense and the National Aeronautics and Space Administration. We found that such costs included reimbursements to relocated employees for expenses of the unsold homes that they had vacated. These expenses included mortgage interest, insurance, property taxes, utilities, ground care services, and maintenance. During 1963 and 1964 the contractor had charged to Government contracts over $190,000 for expenses of this nature.

We concluded that the existing provisions of the Armed Services Procurement Regulation (ASPR), dealing with the allowability of costs of relocating employees, were not sufficiently clear as to the allowability of such costs and recommended that the ASPR be revised to provide specific guidance to Government auditors and contracting officials. In June 1966 the Department of Defense advised us that it concurred with our conclusion and recommendation and that action was being taken to clarify the pertinent provisions of the ASPR.

144. Need for a more effective implementation of the Truth in Negotiations Act--The Truth in Negotiations Act (Public Law 87-653, approved September 10, 1962; effective December 1, 1962) amended the Armed Services Procurement Act. It requires, among other things, that, with certain exceptions, where price competition is lacking under negotiated contracts and subcontracts, cost or pricing data be submitted in procurements over $100,000 and be certified by the contractor and subcontractor as accurate, complete, and current. The law provides further that in these procurements the contract contain a clause permitting the Government to recover any significant increase in the price that resulted from the submission of inaccurate, incomplete, or noncurrent cost or pricing data.

We made a review to determine the extent to which procurement officials of the Department of Defense were requiring contractors to comply with the cost or pricing data provisions of the law and the implementing provisions of the Armed Services Procurement Regulation (ASPR). We found that, although certificates of the contractors were generally being obtained, there was no authoritative record of what had been submitted and what was being covered by the certificate. It appeared to us that the certificates were not wholly effective and that the Government's rights under the defective-pricing-data clause of the contracts might be impaired. We found also that the provisions of the ASPR were not clearly understood and were being variously interpreted by individual procurement personnel.

On January 29, 1965, while our review was in progress, the Department of Defense prescribed a new contract pricing proposal form, by a revision to the ASPR, which should go a long way toward achieving compliance with the law. This form had not been used, however, in the procurements we reviewed and, as late as July 1965, had not yet been distributed.

In August 1965, we discussed our findings with officials of the Department of Defense and were advised that the new forms were then available and that action was being taken to ensure that they are appropriately used. We were advised also that our findings indicated a need for more effective training of procurement officials.

145. Need for postaward audits to detect lack of disclosure of significant cost or pricing data available prior to contract negotiation and award--We found, as stated in a number of our reports issued to the Congress and in other reports in process, that significant cost information had not been disclosed to Government negotiators although it was available or known to contractors prior to negotiation of contract prices or prior to the award of the contracts. As a result, contract prices were increased by the inclusion in price proposals of estimated costs that were substantially higher than the costs that should reasonably have been anticipated on the basis of information known to the contractors. For various reasons, preaward audits, where made, were not effective in disclosing cost estimates that were excessive in the light of information available at the time of negotiation and at the time of award of the contracts.

In a report issued in February 1966, we proposed:

a. That the Defense Contract Audit Agency establish a program for regularly scheduled postaward reviews of selected contracts.

b. That contracting officers evaluate the need for postaward audits of contracts awarded on the basis of certified cost or pricing data which they have reason to believe may not be accurate, complete, or current or may not be adequately verified.

c. That the Armed Services Procurement Regulation be revised to provide that a clause be included, in appropriate circumstances, granting the contracting officer the contractual rights to examine records, generated during the contract period, considered necessary for verifying that the data submitted and used in establishing the contract price were accurate, complete and current at the time of negotiation and award.

The Department of Defense advised us of its agreement with the first two proposals and stated that the third proposal was under consideration by a subcommittee of the Armed Services Procurement Regulation Committee.

146. Policy governing the General Services Administration's multiple-award system of contracting to be reviewed for possible clarification--In April 1966, we reported to the Congress that increased costs could have

been avoided if, at the beginning of a new contract period, the General Services Administration (GSA) had either negotiated a lower price with the supplier of certain high-priced felt tip markers or, failing this, had not extended nor renewed the contract with that supplier, and thereby removed that brand of marker from sources of supply available to Federal agencies.

GSA stated that, under its multiple-award contracting system, the contracting officer had no alternative to awarding the contract short of removing all markers from the Federal supply system. We estimated that increased costs of about $300,000 had been incurred by Federal agencies during the period September 1962 through February 1964 in their purchase of felt tip markers from the supplier whose prices were substantially greater than those negotiated with suppliers of two other brands, comparable in performance. We recommended that GSA revise the policy governing its multiple-award system of contracting so that a contracting officer would not be required as a matter of policy to award a contract to, or to extend or renew a contract with, a supplier with whom he could not negotiate a reasonable price.

GSA advised us that the language of the policy statement quoted in our report was in no way intended to suggest that contracting officers would, as a matter of policy, enter into contracts at any price without considering the reasonableness of the price in relation to others offered. GSA did agree, however, to review its existing written policy guidance to determine whether further clarification would be desirable.

147. Policies and procedures applied in evaluating foreign source components and barter bids for an undersea cable communications system--In a report to the Congress in January 1966, we noted that the Department of the Air Force, at the direction of the Department of Defense, had awarded a contract for the domestic source procurement of a communications system at a price $2.3 million higher than a foreign source bid in order to minimize dollar payments abroad.

The successful bidder intended to obtain substantial amounts of goods and services abroad under the contract, and the $2.3 million price differential paid to this bidder seemed excessive in relation to the balance-of-payments advantages which could be expected. The premium of $2.3 million will result in a balance-of-payments advantage of $1.4 million, or about a 61-cent balance-of-payments gain for each extra dollar expended. This contrasts with the normal goal of the Cabinet Committee on Balance of Payments that each extra dollar of cost achieve at least a $2 advantage in balance of payments.

Of equal significance, the Department of Defense did not attempt to evaluate another offer of the low bidder to accept surplus agricultural commodities in partial payment (barter) for the communications system. Under this offer, the low bidder proposed to sell the commodities abroad and use the proceeds to pay his foreign costs. This offer, which was $2,150,000 lower than the successful bidder's price, was rejected on the grounds that existing policy did not permit consideration of a barter offer from a

foreign source bidder whose dollar bid had been rejected. Had the barter offer been accepted under arrangements that would not result in a significant reduction of commercial United States agricultural exports, substantial financial advantage would have been realized by the United States.

Because of the possibility of achieving significant savings on like transactions in the future, we proposed at the conclusion of our review that the procurement policies that had been followed in evaluating offers for the communications system be revised. Our proposal was considered in a study made for and approved by the Cabinet Committee on Balance of Payments.

In commenting on our findings, the Cabinet Committee advised us that it did not plan to recommend changes in current procurement policies of the executive branch. We issued the report to the Congress in the event that it might wish to inquire further into the basis of the judgmental decisions made by the executive branch and their consistency with congressional purpose.

148. Reduction in dollar outflow possible through more extensive use of American-made building materials in Embassy and related construction projects--In a report issued in April 1966, we presented our finding that more extensive use of American-made materials for many embassy and related construction projects located overseas could aid in reducing the dollar outflow. The most significant instance in which we noted the use of foreign-made materials, paid for with nonexcess foreign currency, in lieu of American-made material was in the construction of an annex to the American Embassy in New Delhi, India, completed in 1965. We identified purchases totaling about $273,000 in individual amounts of over $1,000 from suppliers in England, Germany, and France. All the items noted appeared to be of a type that could have been purchased in the United States.

Although we had not attempted to ascertain the full extent of the foregoing practice, it seemed possible, in view of the significant amounts spent in the Foreign Service building construction program, that the Department could have made a worthwhile contribution toward alleviating the United States balance-of-payments problem by making an appropriate modification in its procurement regulations to require the maximum use practicable of American-made materials in its construction projects.

The Department expressed general agreement with our findings and conclusions and stated that it had undertaken to review and alter the policies leading to a greater use of American-manufactured products within the limits of practicality in contracts executed after March 1, 1966. In addition, the Department stated that there was a practical limit with respect to its use of dollars for the purchase of American products in that the Congress annually requires the Foreign Service building program to expend local currencies in amounts which approximate 70 percent of the annual appropriation. The limitations contained in the annual appropriation acts provide that not less than a stated amount of the total appropriation

shall be paid for in foreign currency. There is no requirement that such local currencies be excess, or near-excess, to United States needs.

In our follow-up review we found that instructions, effective March 1, 1966, to bidders on construction contractural contracts had included appropriate language fostering and promoting greater utilization of American-made products.

We believed that the Department's actions would achieve the desired result, within the limitations imposed by the appropriation acts, if properly implemented and given the continued attention of responsible management officials. With regard to the Department's comment concerning the mandatory use of local currencies in the Foreign buildings program, we suggested that the Congress might wish to consider changing the language used in the annual appropriation act to the effect that the use of foreign currencies for constructing and operating foreign buildings would be made mandatory only in those instances where such usage would be beneficial to the United States balance of payments.

149. Savings to be realized by the Veterans Administration through more extensive procurement of periodicals on a multiple-year basis--Our review showed that, although certain Veterans Administration (VA) field stations had been taking advantage of the reduced rates for multiple-year subscriptions of periodicals, the VA could have realized additional savings of more than $27,000 annually by requiring all field stations to order repetitive periodical requirements on a multiple-year basis. We brought this matter to the attention of VA officials in February 1966 and recommended that, for periodicals purchased on a continuing basis, field stations be required to subscribe to periodicals for the number of years which is most economical.

In March 1966 we were notified by VA that action was being taken to implement our recommendation.

FACILITIES, CONSTRUCTION, AND LEASING

150. Action taken or promised by the Federal Aviation Agency to reduce costs of constructing airport traffic control towers at low-activity airports--Our report to the Congress in June 1966 showed that the Federal Aviation Agency had approved the construction of 28 new control towers (type "O") at low-activity airports without first analyzing the relative benefits and costs of the tower design and proceeded with their construction even though available information showed that their cost would have significantly exceeded the cost of conventionally designed towers constructed at other low-activity airports.

We estimated that the FAA would incur additional costs of about $2,250,000 in the construction of the 28 airport traffic control towers of the new design. In addition, FAA planned to construct four similarly designed towers at other low-activity airports. We recommended that FAA orders be amended to recognize the policy relating to the selection of economical designs and to establish the necessary instructions to implement that policy.

FAA agreed with our recommendation and informed us that the following actions had been or would be taken:

a. FAA regional offices had been instructed to prepare a tower design, identified as type "L," for use at locations previously programmed for type "O" towers and to ensure that the design met operational and technical requirements at minimum cost not to exceed $200,000.

b. An initial regional design had recently been completed and would be considered as a basis for the Agency standard for towers at low-activity-level airports.

c. Similar action had been initiated to reduce the cost of medium-activity-level towers by $200,000.

d. Agency directives would be issued with specific attention to the benefits of value engineering for selecting designs of minimum cost.

151. Action taken to decrease cost of Bureau of Indian Affairs construction projects by direct procurement of selected equipment--Our review showed that the practice of the Branch of Plant Design and Construction, Bureau of Indian Affairs, Department of the Interior, of requiring construction contractors to furnish certain items of equipment which could be procured and furnished by the Government had resulted in additional costs.

We found that the contractor's costs for domestic ranges and refrigerators furnished by construction contractors on 12 of 15 construction projects completed in fiscal year 1964 had exceeded the costs of similar items available through the General Services Administration (GSA) by about $35,000, or 37 percent. On the basis of Bureau requirements for these two items for projects started in fiscal year 1965 and programmed and planned

for construction in fiscal year 1966, we estimated that additional costs of about $76,000 could have resulted if these items had been contractor furnished. The practice was contrary to Bureau policy established in May 1959.

After we brought our findings to the attention of Plant Design and Construction officials, we were advised that they would delete domestic refrigerators, freezers, and electric ranges from future construction contracts and obtain their requirements through GSA. The officials stated, however, that domestic gas ranges would continue to be contractor furnished and installed to ensure proper coordination, installation, and responsibility for services and operation.

We believe that gas ranges also should have been considered for deletion from future construction contracts. In a report issued in February 1966, we therefore recommended that the Commissioner of Indian Affairs reaffirm his 1959 policy to procure specified equipment requirements for construction projects from GSA and require that, in the future, the Branch of Plant Design and Construction justify and obtain proper authorization for proposed changes in establishing policy. We recommended also that the internal audit staff include in its reviews of internal controls compliance with established policies.

In June 1966, the Department advised the Bureau of the Budget that it agreed with our recommendations and that corrective action had been taken.

152. Revision by the Bureau of Indian Affairs of construction standards for school dining facilities resulted in savings in construction and furniture costs--Our review at selected boarding schools operated by the Bureau of Indian Affairs, Department of the Interior, showed that substantial savings in construction and furniture costs could have been realized if the Bureau had revised its construction standards for its school dining facilities.

The Bureau had established a standard for the construction of dining facilities which provided for a seating capacity of 50 percent of the maximum school enrollment in the main dining room. From our observations, however, we concluded that the capacity of serving lines and the turnover rate of pupils in the dining areas, rather than the size of the student body, were the principal factors that determine the number of seats needed. After we brought our findings to the attention of the Department and the Bureau, construction standards for dining facilities at schools were revised. We estimated that, as a result of the revised standards, construction and furniture costs of dining facilities at four 1,000-pupil schools being planned by the Bureau would be reduced by about $146,000.

Although the Bureau took action to reduce excess seating capacity in school dining facilities, the action taken had been based on the results of a Bureau survey that appeared to us to be questionable since actual counts of vacant seats had not been made. In our report issued in April

1966, we therefore recommended that the Commissioner of Indian Affairs reevaluate seating capacity needs before giving his approval for the revised construction standards. In July 1966 the Commissioner advised us that the Bureau intended to initiate such a reevaluation in October 1966.

153. Need for further action by the Post Office Department in planning for office space--The Post Office Department contracted for the lease construction in Seattle, Washington, for a period of 20 years, a building containing about 24,700 square feet of office space for which the Department had no current use and about 27,000 square feet of office space which could have been supplied by the General Services Administration in an existing Government-owned building. In view of the apparent inadequate planning for space in this case, we recommended that the Department establish controls to ensure that future contracts for the acquisition of new space not be executed until adequate consideration had been given to the possible effects of all changes or proposed changes in operations.

The Department subsequently issued procedures which may tend to avoid the leasing of unnecessary office space under conditions similar to those which we found in the planning for the Seattle facility. However, because these procedures were applicable only to the planning of space for regional offices and postal data centers, we believed that there may be a need for similar procedures with respect to the planning of space for post offices and for certain other types of postal activities. In a report to the Postmaster General in September 1965, we therefore recommended that the Department's procedures applicable to the acquisition of other postal space be revised to provide for controls similar to those established for the planning of space for regional offices and postal data centers.

No further remedial action appears to be needed with respect to the excess office space in the Seattle facility because the Government is bound by an irrevocable agreement to lease the new building for a 20-year period and most of the excess space is being subleased to another Government agency.

154. Need for improved coordination of transmission line construction practices of the Bureau of Reclamation and the Bonneville Power Administration--The Bureau of Reclamation and the Bonneville Power Administration (BPA), Department of the Interior, had adopted different practices in constructing tower footings for high voltage transmission lines without fully evaluating alternative methods of construction.

Our review showed that, because of these different practices, there had been substantial differences between the amounts which the Bureau and BPA agreed to pay for the construction of tower footings. For example, we found that the Bureau specified the use of concrete pad footings on 473 miles of transmission lines under conditions that it appeared would have permitted the use of steel footings, such as those generally constructed by BPA, and that the prices of the concrete pad footings were about $492,500 more than the average prices of steel footings of equal or greater structural strength constructed by BPA.

We noted, or were advised of, other differences between the transmission line construction practices of the Bureau and BPA, such as the extent of soil testing, weight of towers used, size of conductors, size and number of insulators used, use of overhead ground wires, and use of Government-furnished materials.

In a report issued to the Congress in April 1966, we recommended that a study be made to determine the full extent of the differences between the transmission line construction practices of the Bureau and BPA and the potential for effecting savings by the adoption of more uniform practices. We recommended further that this study be used as the basis for determining the degree of coordination necessary and practicable to effect the potential savings and for developing procedures to implement such coordination.

PROCUREMENT PROCEDURES AND PRACTICES--GENERAL

155. Action taken by the Veterans Administration to achieve savings through purchasing rather than leasing office copying machines--Our examination into the feasibility of purchasing rather than leasing office copying machines showed that the Veterans Administration (VA) could realize substantial annual savings if it were to purchase certain copying machines of the type used throughout the agency. We estimated that savings of about $41,000 a year would be realized if the VA purchased 10 copiers located at two VA offices.

These savings were available to the VA through the exercise of a purchase option in the lease contract which provided that the total monthly rental paid in the 18-month period immediately preceding purchase could be applied to the purchase price up to a maximum of $14,500. In March 1965, we brought this matter to the attention of the agency and pointed out that, if VA was going to continue using these copiers, any further delay in purchasing would result in decreased savings.

In August 1965, the VA informed us that five copiers had been purchased and that other machines in the VA system were currently under evaluation to determine potential savings through ownership. We were informed also that the VA was developing specific criteria to be used by the agency for determining the most economical method of acquiring the use of office copying equipment.

156. Action taken by Civil Service Commission to provide more meaningful guidance in procurement and property management--In a report issued in March 1966 to the Chairman of the United States Civil Service Commission, we noted that certain sections of the Commission's manual for procurement and property management had become obsolete because of the enactment of new legislation and amendments to existing legislation and because of certain changes in the Federal Procurement Regulations.

The latest revision in the manual at the time of our review bore the date of May 1958, and, therefore, the manual did not offer appropriate guidance to procurement officials on current requirements. Approximately 175 changes had been made in the Federal Procurement Regulations since 1958 as a result of either new or amendatory legislation or decisions of the Comptroller General, which could have had an effect on the Commission's procurement policies. We were advised in April 1966 that the agency's project of revising policies and procedures on property management had been completed and that procurement policies and procedures were being updated in a similar manner.

157. Action taken by the Federal Aviation Agency to make greater use of available military aircraft parts--In a report issued to the Congress in April 1966, we expressed the opinion that substantial savings could be achieved through the greater use by the Federal Aviation Agency (FAA) of military aircraft parts. During fiscal year 1964, the Agency's purchases of aircraft parts from commercial sources amounted to about $2.2 million, whereas we found that:

a. The majority of the types of items purchased from commercial sources were carried in the Air Force supply system.

b. A number of these types of items were in long supply in the Air Force system.

c. Many of the parts in the Air Force system were acquired from the same commercial sources as those used by FAA.

We concluded that it was unlikely that maximum use of military parts would be achieved by FAA unless its policy was changed to emphasize that military stocks be considered as the first source of supply.

In response to our findings, FAA stated that it agreed that the policy in effect at the time of our review did limit the use of military parts and that the Agency should use the Department of Defense supply system as the prime source of supply for aircraft parts whenever possible. FAA stated further that a recently issued Agency directive authorized the use of military aircraft parts on certificated Agency aircraft and that overhauled and repaired military parts would be used as well as new parts. Also, the Agency issued a directive for the guidance of its procurement personnel, which stated, in part, that personal property requirements would not be procured from commercial sources until it had been determined that the needed items were not available from other agencies.

In view of the importance of the matters discussed, we recommended that, although FAA's actions were responsive to our findings, the FAA Administrator ascertain, through future management reviews and internal audits, whether the aforementioned directives were being effectively administered.

158. Action being considered by the Navy to centralize management of Marine Corps procurement programs--We found a diffusion of responsibility in the management and supervision of major equipment procurement programs of the Marine Corps. In a report issued in June 1966, we stated that, because of this diffusion, 234 new-type cargo trucks costing about $1.8 million, purchased for use by ground support elements of four Marine Corps air units, were delivered without combat essential spare parts. As a result, the readiness of the four air units was affected for a period of 14 months after delivery of the trucks. During this period the units used old, deteriorated trucks while the new trucks remained in storage.

There were five separate management organizations involved in this procurement--three in the Navy, one in the Marine Corps, and one in the Army. A lack of coordination among these organizations resulted in the procurement of the trucks without concurrent procurement of spare parts. The omission was not detected until delivery of the trucks was imminent.

The Navy concurred in our findings and advised us that a proposal was being considered to give the Commandant of the Marine Corps the total responsibility for all aspects of procurement of combat-type equipment for

Marine Corps' use, including concurrent delivery of spare parts. In order that there be adequate management control within the Marine Corps, we recommended to the Commandant that the basic responsibility for the coordination and supervision of major equipment programs be assigned to a specific organization.

159. Policy guidance strengthened on direct procurement of components needed by contractors in production of weapon systems and other major end items--We issued to the Congress a large number of reports over the past several years on reviews of the policies, procedures, and practices followed within the Department of Defense in determining whether certain components needed for installation in weapon systems or other major end items being produced should be purchased by the contractors or purchased by the Government and furnished to the contractors. In those reports we pointed out the economies that could be realized in Government procurement if the Department of Defense and the military services would make greater efforts to furnish components to contractors in instances where it is feasible for, and to the advantage of, the Government to do so.

The economies stem from several factors. Purchasing of the components by the Government provides an opportunity to consolidate requirements for a component common to several weapon systems or other major end items and to take advantage of the lower prices that may be available for purchases in larger quantities. Inasmuch as military procurement is subject to provisions of the Armed Services Procurement Regulation which requires the use of formal advertising procedures designed to obtain full and free competition, unless specifically excepted by law, the Government is more likely to purchase the components competitively, thus affording all qualified producers an opportunity to participate in supplying the Government's needs. Also, the furnishing of components to the contractor places the Government in a sound position to negotiate a lower price for the end item by reducing the profit or fee which otherwise would be allowed on the contractor's cost of items purchased under the contract.

The Department of Defense policy guidance, in effect during the periods covered by our reports, appeared to us to tend to discourage the practice we were advocating. It gave the military services broad latitude and was variously interpreted in their implementing instructions. The interpretations ranged from the position of the Air Force that components should be Government furnished to the maximum practicable extent to the position of the Navy's Bureau of Ships that the furnishing of such items should be "reduced to an absolute minimum."

On October 1, 1965, the Department of Defense added a new guidance to the Armed Services Procurement Regulation. The new provision, as revised December 1, 1965, contains a policy statement and procedural guidance designed to encourage and expand the practice of furnishing components to contractors when the circumstances are appropriate. It also fixes responsibility for decisions and for maintenance of appropriate records to document the basis of decisions. We believe that the new guidance represents

a significant step toward realizing more fully the economies which are obtainable by direct procurement.

160. Steps taken by the Atomic Energy Commission resulting in possible savings through purchasing rather than leasing certain copying machines--In a report issued to the Congress in October 1965, we stated that our comparison of the cost of leasing with the cost of purchasing office copiers being leased by the Atomic Energy Commission's Chicago Operations Office and Argonne National Laboratory indicated that significant savings could be realized through purchasing rather than leasing certain copiers. As a result of our bringing this matter to its attention, the Commission initiated an agency-wide lease-versus-purchase study of office copiers. Although the study indicated that it would be financially advantageous to purchase certain copiers rather than to continue leasing them, our subsequent review showed that the Commission and its operating contractors were not fully realizing the potential savings available from the purchase of leased copiers.

After we brought this matter to the Commission's attention, we were informed that, as a result of its lease-versus-purchase study which was being carried forward by both the Commission and its contractors on a continuing basis, the Commission had either purchased or planned to purchase a total of 46 copiers and it anticipated or had realized further economies by the replacement or release of 27 other copiers. We estimated that the purchase of these 46 office copiers would result in savings of about $535,000 over the 5-year period following their purchase. Moreover, because the productive life of a copier may be expected to extend beyond the 5-year period, we estimated that the total potential savings may amount to as much as $2.1 million over the estimated productive lives of the copiers.

PROPERTY MANAGEMENT

CONTROL OVER PROPERTY

161. Action taken by Bureau of Indian Affairs to improve controls over acquisition of passenger vehicles--In a report issued to the Congress in November 1965, we stated that passenger vehicles acquired by the Bureau of Indian Affairs, Department of the Interior, exceeded the number authorized by the Congress by 64 vehicles in fiscal year 1962 and by 124 vehicles in fiscal year 1963. The unaurhotized acquisitions consisted of 86 new passenger vehicles purchased and 102 used passenger vehicles obtained from other Government agencies without transfer of funds.

We stated that the purchase of the 86 new vehicles was in violation of the Anti-Deficiency Act (31 U.S.C. 665) and occurred primarily because the Bureau's accounting system did not provide adequate controls to ensure compliance with provisions of the annual appropriation acts. The Bureau did not consider the acquisition of the 102 used passenger vehicles from other Government agencies as being chargeable against appropriation act limitations because no transfer of funds was involved.

Our review showed also that the Bureau augmented its passenger vehicle fleet by the concurrent use of old vehicles with their replacements, a practice which is inconsistent with the intent of existing legislation.

We reported that, after we brought our findings to the attention of the Department and the Bureau, the Secretary of the Interior reported the facts and circumstances pertaining to the violations of the Anti-Deficiency Act to the President of the United States and to the Congress and informed us that procedures were adopted to reestablish control over passenger vehicle purchases, that the General Services Administration's vehicle-replacement procedures would be used, and that the Department had instructed responsible officials that passenger vehicles obtained by transfer must be charged against the purchase authorization in annual appropriation acts.

162. Action taken by Civil Service Commission to improve safeguards and controls over personal property--In our review of financial transactions of the United States Civil Service Commission, we noted that the Commission waited until December 1965 before appointing a Board of Review to establish the reasons for certain losses which had been disclosed by a physical inventory of office machines and furniture and equipment in December 1964. The Office machines and furniture and equipment unaccounted for had been acquired at a cost of $64,000. A reconciliation had not been made since 1961 for other differences between the monetary values shown by the general ledger controlling accounts and the subsidiary property records for the office machines and furniture and equipment.

We recommended in our report to the Chairman of the Commission in March 1966 that, as soon as the Board of Review completed its report, immediate steps be taken to bring physical inventory, the general ledger, and subsidiary property records into agreement, that prompt surveys be

made thereafter to ascertain the reasons for any items missing from physical inventories, and that appropriate property records be maintained.

The Chairman of the Commission, in a letter dated April 19, 1966, advised us that instructions had been issued aimed at accomplishing prompt surveys to ascertain the reasons for any missing items and that employees had been assigned to bring the physical inventory and subsidiary property records into agreement with the general ledger accounts.

163. Action being taken by the Federal Communications Commission to improve control over equipment and supplies--In a report issued in April 1966, we stated that the Federal Communications Commission had not maintained adequate control over its inventory of equipment--consisting mainly of electronic radio and television monitoring equipment and office furniture--and supplies aggregating about $5 million.

We recommended that a physical inventory be taken of all equipment, that subsidiary records be established for all items, and that the general ledger equipment-control account be adjusted to agree with the subsidiary records. We recommended also that a simplified accountability record for supplies be adopted and that the value of the inventory be recorded at year-end as an asset with a related adjustment of charges to expense during the year.

The Commission advised us that, in accordance with our recommendations, action either had been taken or was in process to improve control over its inventories of equipment and supplies.

164. Need for the United States Tariff Commission to improve controls over the procurement and utilization of office equipment--In a report to the United States Tariff Commission in February 1966, we stated that the Commission had not established formal policies and guidelines for use by responsible officials when authorizing the procurement and assignment of office equipment and that management had not regularly made a review to determine whether the equipment was appropriately assigned and whether the use of such equipment justified new procurement or continued assignment to previously designated employees.

These weaknesses led to underutilization of certain assigned equipment, excess equipment on hand, assignment of equipment to high-salaried technical personnel which may have resulted in their performing clerical tasks normally performed by lower salaried personnel, and questionable procurement of new office furniture. For example, according to Commission records at June 30, 1965, there were 208 typewriters and 176 calculators and adding machines on hand valued at $167,500 for a total staff of 276 employees. On the basis of our review of the assignment and utilization of such equipment, we estimated that the value of excess equipment could be as high as $70,000.

The Chairman of the Commission informed us that our proposals for corrective action would be reviewed and evaluated together with the observations and recommendations of a management consulting firm.

MAINTENANCE, REPAIR, AND OVERHAUL

165. Action taken by General Services Administration to improve management of Federal buildings and for detecting and correcting hazardous conditions--In a report issued to the Congress in April 1966, we commented on unsafe and hazardous conditions which we had observed at selected Federal buildings located in Washington, D.C. For one building, in particular, we reported that:

a. Trash was permitted to accumulate in storage areas.

b. Printed matter was stored in a manner that obstructed sprinkler coverage.

c. Corridors and aisles were used for storage areas and thus impeded movement of fire-fighting equipment.

d. Extension cords were used unsafely.

e. Fire hazards were created by broken bulbs and unprotected lighting fixtures.

f. Employees smoked in areas highly susceptible to fire. "No Smoking" signs were not posted in areas where they should have been posted. Inspection and maintenance of fire extinguishers were inadequate not only in storage areas but elsewhere in the building, so that many of the extinguishers were of questionable usefulness.

After advising us in detail of the corrective measures which had been or would be taken on the various deficiencies we had observed, the General Services Administration issued a nationwide notice to its supervisory buildings personnel in May 1966 reemphasizing their responsibility for good management of buildings and for detecting and correcting hazardous conditions.

166. Labor charges for automotive repairs will be reviewed by the Soil Conservation Service for reasonableness--We noted that labor charges on billings for automotive repairs were being paid by the Florida State Office of the Soil Conservation Service (SCS), Department of Agriculture, without a review as to their reasonableness. None of the 62 blanket purchase agreements with commercial sources for automotive repairs and services showed whether labor costs were to be billed on the basis of actual hours or established standard hours for each job.

Our comparison of labor hours for 12 selected automotive repair jobs from September 22 to December 31, 1965, with the standard hours for the jobs, as listed in an appropriate price manual, showed that the 45 labor hours billed for the jobs exceeded the standard hours by 10.75 hours, or almost 24 percent. Automotive repair costs could be substantial for the more than 200 vehicles being maintained by the State office, and, in a report to SCS in June 1966, we expressed the belief that a review of the reasonableness of labor charges included in such costs was warranted.

In August 1966 SCS informed us that the agency planned to include instructions in its Budget and Finance Handbook to effect a continuing review of the reasonableness of automotive repair invoices on a sampling basis.

167. Savings could be realized by the Army through coordination of major modification programs with normal overhaul programs where feasible--We reviewed the Army's program for conversion of its gasoline-powered M48A1 tanks to the diesel-powered M48A3 configuration. We found, as stated in a report issued in June 1966, that pertinent cost and other information with respect to the question of whether to convert used or unused tanks was not presented to top management officials for consideration when the decision was made to convert the unused tanks. At the time of the decision, the Army was rebuilding used tanks and had plans for continuing the rebuild of those vehicles.

On the basis of cost data available at the time, about $2.3 million could have been saved by installing the diesel engines and other conversion features during the process of rebuilding used tanks rather than converting the unused tanks. (On the basis of costs actually incurred, about $5.7 million would have been saved if used tanks had been converted during the rebuild process.)

We recommended that, when major equipment modifications are to be undertaken, the Secretary of the Army specifically provide that (1) if a normal overhaul program is also to be undertaken, Army personnel develop all pertinent cost and other data concerning the alternative of accomplishing the modifications at the same time and (2) the data be furnished to top level Army personnel for consideration in connection with program approval.

168. Savings could be realized through improved practices in use of motor vehicle tires and rebuilding of used tires--We analyzed the tire-rebuilding statistics for 80 Air Force installations and observed the tire inspection and rebuilding practices at 11 of the installations. Our findings were presented in a report issued in June 1966. We estimated that more extensive rebuilding of used motor vehicle tires by Air Force installations, instead of buying new replacement tires, would have resulted in savings of as much as $2 million in one fiscal year and could result in substantial savings in future years.

Many used tires were being condemned when they could have been rebuilt. Others were being used to the point where there was insufficient tread remaining to permit rebuilding. Although the Air Force had established general policy guidance with respect to tire maintenance, the extent to which the policy guidance had been implemented varied substantially among individual installations.

We discussed our findings with Air Force officials and were informed that appropriate action would be taken to provide closer supervision over the inspection and removal of used tires and to prevent disposal of tires that could be rebuilt. The Department of Defense brought our findings to the attention of the other military departments and requested all commands to give additional attention to this matter to ensure compliance with applicable policies and technical publications.

UTILIZATION AND DISPOSAL OF PROPERTY

169. Action taken by the Air Force to strengthen procedures for recovery of needed parts from excess aircraft engines--The Air Force has placed considerable emphasis on the importance of recovery of parts from excess aircraft engines being processed for disposal. However, its procedures for achieving this objective have not been fully effective. In a report issued in May 1966, we stated that, because of errors, oversights, and misunderstandings, needed parts costing about $872,000 were not listed for reclamation when J57 and R4360 aircraft engines were processed for disposal. After we brought this to the attention of the Air Force, parts costing about $213,400 were recovered; the remainder had already been disposed of.

The Air Force acknowledged that the deficiencies we cited had existed and had caused the loss of needed parts and advised us of procedural changes which had been made to preclude recurrence. These procedural changes included such things as (a) an improvement in the method of determining which parts should be reclaimed, (b) a requirement that the lists of parts to be reclaimed, "save lists," be rechecked to ensure that items had not been inadvertently omitted, and (c) a requirement that proper "save lists" be in hand before proceeding with reclamation work.

170. Action taken by the Bureau of Indian Affairs to decrease its requirements for vehicles by improving its management of vehicle utilization--Our review at seven locations under the jurisdiction of the Anadarko and Muskogee Area Offices, Bureau of Indian Affairs, Department of the Interior, indicated that a substantial number of Bureau-owned motor vehicles were not being adequately utilized because of the Bureau's practice of assigning vehicles on an individual basis, rather than using pool operations. Our analyses of motor vehicle usage reports at the Central Office indicated the possibility that a substantial number of Bureau-owned vehicles were not being adequately utilized at locations not included in our detailed field examinations.

When we brought our findings to the attention of Department and Bureau officials, we were informed by the Department that the findings in our report disclosed some significant weaknesses in the management of vehicles and that the Bureau had initiated action for an almost complete take-over of its motor vehicle fleet by the General Services Administration. Transfers of vehicles have been completed at the Anadarko and Muskogee Area Offices; and, as a result of the pooling operations, it is expected that annual operating costs of the Anadarko and Muskogee Area Offices will be reduced by about $33,000 and $40,000, respectively, and that total vehicle needs will be reduced by about 100 vehicles.

During our review, we noted that internal audits of utilization of vehicles had not been made. Accordingly, in our report issued in March 1966, we recommended that the examination of vehicle utilization should be a part of the internal audit function. In May 1966, the Department advised the Chairman, House Committee on Government Operations, that the Department had scheduled a review of the Bureau's vehicle utilization during 1966.

171. Action taken to improve the furniture replacement program of the Internal Revenue Service--In a report to the Congress in July 1965, we pointed out that good, serviceable furniture, badly needed to replace worn-out and obsolete furniture in use, was released by the Internal Revenue Service (IRS), Treasury Department, as property excess to its needs. Furniture valued at about $33,000 was transferred to other Government agencies, and furniture valued at about $121,000 was transferred to various State agencies without reimbursement. These transfers were the result of failure of responsible officials to adequately plan and to take timely action in accordance with established policy for replacing furniture. The transfers will result in the need to expend funds to acquire office furniture needed in the IRS National Office.

After we brought this matter to the Service's attention, detailed guidelines were issued for carrying out the program of replacing worn-out and obsolete furniture. If effectively implemented, these guidelines should reasonably assure the Service that good, serviceable furniture will not be disposed of in the future.

172. Action taken by the National Institutes of Health to increase the use of available desks in lieu of purchasing new desks--In October 1965, we reported on our review of selected property utilization practices at the National Institutes of Health (NIH), Public Health Service, Department of Health, Education, and Welfare. We stated that NIH prabably could have realized savings of about $11,700 in fiscal year 1964 if available serviceable desks had been utilized and repairable desks had been rehabilitated in lieu of purchasing new desks.

We found that the NIH supply unit had issued new desks without first ascertaining whether serviceable desks were on hand to fill the requisitioning unit's requirements. As a result, excessed desks, even though they were serviceable or repairable, were transferred after a limited period to other Federal or State agencies without reimbursement. During our review, we discussed the utilization of excess desks with NIH officials; and, in March 1965, interim procedures were established to provide for utilization of serviceable or repairable desks before issuing new desks. These interim procedures were incorporated in an NIH Policy and Procedure Memorandum issued in October 1965.

173. Action taken by the Navy to avoid general-purpose use of a special-purpose flight boot--The Navy developed a special, impact-resistant, flight boot because foot injuries were being sustained by personnel ejected from aircraft equipped with ejection-seat devices. However, the special boot was authorized for use by all flight personnel of the Navy and Marine Corps, including those personnel who were assigned to aircraft not equipped with ejection-seat devices and who could have used a less costly boot. We estimated that about $264,000 could be saved in fiscal years 1967 and 1968 if the Navy restricted the use of the special boot.

The Navy agreed and advised us in August 1966 that the allowance list for personnel flying aircraft not equipped with ejection-seat devices and

operating from land bases had been revised to authorize issuance of the less costly boot in lieu of the special boot.

174. Action being taken by the Soil Conservation Service to effect savings by replacing sedan delivery vehicles with pickup trucks--Our review of the type of motor vehicles used by the Soil Conservation Service (SCS), Department of Agriculture, disclosed that pickup trucks, instead of sedan delivery vehicles, could generally be utilized effectively in the agency's operations at significant savings to the Government. We estimated that future purchases of pickup trucks as replacements for the 2,294 sedan delivery vehicles in the SCS fleet at June 30, 1964, could result in savings to the Government of as much as $870,000 over the average life of the replacement vehicles with additional savings of up to $125,000 in future interest costs to the Treasury.

SCS informed us in November 1964 that, at the present, the agency needed a minimum of about 1,200 sedan delivery vehicles and that this would permit a reduction of about 1,100 vehicles. While such a reduction would, in itself, result in estimated savings to the Government of about $415,000 over the life of the replacement vehicles, exclusive of savings in interest costs to the Treasury, the reasons advanced by SCS for retaining sedan delivery vehicles did not, in our opinion, justify the retention and use of such a large number of these vehicles. We reported our findings to the Congress in April 1965 and recommended certain actions to be taken by the Department to achieve maximum economies in vehicle management, consistent with the agency's operating needs.

In July 1965, SCS issued instructions whereby sedan deliveries would be purchased only when needed by certain personnel who travel extensively in the course of their duties. The sedan delivery fleet was reduced from 2,208 vehicles in June 1965 to 1,779 in June 1966 by replacing old sedan deliveries with pickup trucks.

175. Action taken by the Veterans Administration to achieve economies through greater utilization of excess medical equipment and supplies--In a report issued to the Congress in April 1966, we expressed our belief that the Veterans Administration (VA) had not acquired the maximum quantities of medical equipment and supplies, declared excess by other Government agencies, that it could have used because the responsibility for screening and evaluating excess property for use by the VA was not centralized and was therefore ineffective.

In 1962 and 1963, the Department of Defense declared excess about $2.7 million worth of medical equipment and supplies. Of these excess items, about $1.8 million worth were acquired by Government agencies--including about $450,000 worth acquired by the Veterans Administration-- and about $900,000 worth were donated to recipients outside the Government We expressed the opinion that a significant quantity of the $900,000 worth of donated excess items could have been used in the VA hospital system.

In commenting on the results of our review, the VA informed us in September 1965 that it agreed that the VA should make the fullest practicable use of excess property of other Government agencies and that, in response to our proposal, procedures had been developed centralizing the responsibility for screening and maximizing the utilization of excess property.

176. Action taken by the Veterans Administration to reduce land holdings in excess of current needs--In a report issued to the Congress in August 1965, we expressed the opinion that about 1,200 acres of land, with an estimated value of about $44 million, at 11 Veterans Administration (VA) field stations were excess to current or demonstrated future needs and were being retained contrary to the established policy of the Government. Most of the land had been excess for many years, and considerable sums had been spent for maintenance.

The Federal Property and Administrative Services Act of 1949 provides that each executive agency continuously survey its property to determine what is excess to its needs and report any excess property to the General Services Administration (GSA) for transfer or disposal as provided by law and by regulations of the GSA. We found, however, that, although VA landholdings were significantly reduced over a period of years prior to our review, field stations did not make continuing surveys or adequate determinations of land requirements, VA officials were unwilling or reluctant to declare unneeded land as excess, and the Central Office did not have control procedures to determine the field stations' conformance with requirements.

After our field reviews, the VA established additional controls on the management of its landholdings. As a result, lands at many field stations not included in our review were being considered by VA for disposal action. In commenting on our findings, VA stated that it did not agree that the 1,200 acres of land at the 11 field stations were being retained unnecessarily. VA advised us, however, that much of this land was either reported to GSA as excess; relinquished to the Bureau of Land Management, Department of the Interior; or being considered for excess action by the Central Office.

In connection with one tract of land with an estimated value of about $41 million, VA advised us that, in view of the high land value and the increasing demand for Federal services in the area, preliminary studies to develop an integrated master plan for the use of the land were being coordinated with GSA and the Bureau of the Budget and that, therefore, disposal action should not be contemplated until these plans were finalized.

177. Need for further action by the Federal Aviation Agency to make overstocks of electron tubes available to other Government users--In a report to the Congress in March 1966, we stated that the Federal Aviation Agency (FAA) had not taken adequate action to identify and dispose of electron tubes excess to its reasonably current needs because it had established retention levels which, in our opinion, were too high in view

of the ready availability of tubes on the market. We reported that the Agency retained, for long periods, over $1 million worth of tubes which should have been made available to other Government users. We noted that, in 1963 and 1964, the Department of Defense purchased from commercial sources significant quantities of tubes which, at the time they were purchased, could have been supplied from FAA stocks.

In April 1964, about midway through our review, FAA entered into an agreement with the Defense Electronic Supply Center, which resulted in the Agency's reducing its retention levels for certain tubes. However, the Agency did not reduce its retention levels for tubes that were not to be reported to the Supply Center and did not make overstocks of such tubes available to the General Services Administration (GSA) for possible use by several civil agencies which were also users of many FAA tube types.

In responding to our proposals for corrective action, the Administrator advised us that action was being initiated with GSA to develop a coordinated system to ensure that the Agency's overstocks would be made available to other civil agencies, that the Agency was in the process of revising its retention levels for tubes, and that, after the revisions were made, inventories of tubes would be adjusted and excess stocks reported.

Subsequently, we were informed by an Agency official that GSA was planning to include electronic items in the National Supply System by July 1, 1966; that under this system, the Defense Supply Agency would provide supply support for all electronic items for all agencies; and that, in view of these developments, the Agency did not believe it worthwhile to implement special procedures to make overstocks available to other civil agencies.

We were informed that it would be some time before actual supply support for electronic items was accomplished by the Defense Supply Agency. Therefore, we recommended that the FAA Administrator initiate action to have the Agency's overstocks of electron tubes reported to GSA.

178. Need to reexamine planned replacement and augmentation of high-endurance vessels, Western Area, United States Coast Guard--In a report issued in February 1966, we expressed our belief that, on the basis of our review of operating experience during fiscal years 1962-64, the plans of the United States Coast Guard, Treasury Department, for acquiring 14 high-endurance vessels to replace the 11 high-endurance vessels then assigned to the Western Areas were questionable. Our analysis indicated that the stated requirements could be reduced by 3 high-endurance vessels and thus save about $45 million in construction costs and about $3.5 million annually in vessel operating costs.

The Commandant of the Coast Guard concurred with our proposal that the Coast Guard reexamine its planned replacement and augmentation program for high-endurance vessels in the Western Area. He stated that several actions had been taken or were in process which would improve the Coast Guard's techniques for analyzing its requirements and that our previous

report on requirements for high-endurance vessels in the Eastern Area and our finding relating to the vessels in the Western Area would be used as guidelines in the Coast Guard's planning and analytical efforts.

The Coast Guard later established procedures, effective July 1, 1966, providing for the collection of data to be used to (1) measure vessels or other operating unit workload and effectiveness, (2) determine resources utilization and needs, (3) justify budget requests to meet projected requirements, and (4) analyze system operations for potential savings.

179. Potential savings through more effective utilization of buoy tenders in the 1st Coast Guard District--We reported to the Commandant of the United States Coast Guard, Treasury Department, in March 1966 our belief that the utilization of six buoy tenders in the 1st Coast Guard District could be increased and the operation of a seventh tender could be discontinued and that these actions would provide an estimated $250,000 savings annually in operating costs and would eliminate the need for replacing one seagoing tender at a cost of about $3.5 million. The Commandant concurred with our finding and stated that the equivalent time of one seagoing tender could be made available, at no additional cost, for the Coast Guard's partial support of the national oceanographic effort.

180. Savings in interest cost to result from liquidation by the Army of stock of obsolete telephone cable--The Army had retained about 55 million feet of telephone cable which became obsolete in 1962 for military purposes and should have been disposed of. In a report issued in August 1965, we pointed out that retention of the cable denied to the Government use of funds ranging from $450,000 (value as scrap cooper) to $2.4 million (value as cable) at current market prices. This was resulting in increased interest costs to the Government, ranging from $16,000 to $88,000 annually. After we brought this matter to its attention, the Army Electronics Command initiated action to dispose of the cable and, in addition, reemphasized an Army regulation regarding the orderly and economical phasing of items into or out of the supply system.

181. Savings could be realized by the Navy through improved control of projectile fuze covers and other reusable ammunition components--In January 1966, we reported our findings that the Navy had incurred costs of about $218,000 in the 3-year period ended June 30, 1964, because reusable fuze covers had not been returned for reuse or, if returned, had been lost or sold as scrap. We estimated that, inasmuch as the Navy had a continuing need for these fuze covers, about $600,000 could be saved in the 5-year period ending June 30, 1970, by establishing effective controls over the return and reuse of such covers. Our review did not extend to other reusable ammunition components. However, we did note that the user installations were failing to return many of such items.

We recommended that the Navy develop and implement appropriate accounting controls over the issue and return of reusable ammunition components and establish surveillance over the operation of such controls to

ensure their effectiveness. In March 1966, the Navy advised us that the Navy Auditor General would conduct a servicewide audit of the Navy's ammunition supply system and that the audit would include a review of the adequacy of existing accounting precedures for control and surveillance.

TRANSPORTATION ACTIVITIES

TRAFFIC MANAGEMENT POLICIES AND PRACTICES

182. Possible savings in ocean transportation costs for surplus agricultural commodities donated to foreign countries--In March 1966, we reported to the Congress that ocean transportation charges incurred by the Government for the shipment of agricultural commodities donated for assistance to needy persons abroad were increased in some cases because United States agencies did not, by exercising reasonable traffic management, take advantage of shipping arrangements more economical than those used.

Under current procedures, the Department of Agriculture and each voluntary relief agency makes its own arrangements for shipping donated commodities abroad at Government expense. Their usual practice has been to ship relatively small quantities on ocean liners although this practice results in higher costs than those that would be incurred if commodities were accumulated in boatload quantities and shipped in chartered tramp vessels.

For one type of commodity delivered to six countries during fiscal year 1963, we estimate that savings of as much as $1.7 million could have been realized with better traffic management. We believe that significantly greater savings could probably be realized by consolidating quantities of commodities shipped to other countries.

The Department of Agriculture, the Agency for International Development, and the voluntary relief agencies generally agreed that the consolidation of cargoes could result in savings in ocean transportation freight costs. All of them stressed, however, that consideration would have to be given to a number of potential problem areas before determining the extent to which our proposals could be implemented.

Actions taken since our review have resulted in savings in ocean freight costs through the consolidation of shipments. Department of Agriculture officials advised us that, through February 25, 1966, savings amounting to about $880,000 had been realized by the consolidation of food-for-peace shipments through the cooperative efforts of the Department of Agriculture, the Agency for International Development, and the voluntary relief agencies.

We have brought this matter to the attention of the Congress because we believe that there is an opportunity, through better traffic management and consolidation of Government-financed shipments, to significantly reduce total costs as well as dollar expenditures to foreign shipping interests.

183. Savings available on charges for diversion of overseas household goods shipments at points in the continental United States--We reported to the Congress, on August 30, 1966, that we had reviewed payments made by the Department of Defense (DOD) for the diversion of overseas household goods shipments at points in the continental United States. These

payments were made to unregulated forwarders of household goods for diversion of shipments from destination points originally specified in shipping documents, to new destinations.

Our review disclosed that DOD could have saved over $1 million in charges paid during the 21-month period ended December 6, 1964, if the responsible traffic management offices had analyzed the potential cost to the Government which would result from use of the negotiated diversion rates. At our suggestion, the Military Traffic Management and Terminal Service took actions which greatly reduced the excess costs and, following receipt of our report, outlined planned actions for reducing shipping costs on diverted shipments.

184. Savings on shipments subject to special Government rate tenders--On August 1, 1966, we dispatched a letter report to the Commander, Military Traffic Management and Terminal Service (MTMTS), concerning savings of about $50,000 which could have been realized had annotations, required in special rate tenders to the Government, been placed on Government bills of lading or shipping documents prior to shipment. The letter stated that (1) in some cases, the traffic routing offices included annotation instructions to shipping installations when furnishing shipping instructions, but the shipping officers failed to enter the required annotations on shipping documents and (2) in other cases, the traffic routing offices failed to include annotation instructions when furnishing shipping instructions to an installation.

We pointed out that annotating bills of lading with statements required by special rate tenders had been a continuing problem and suggested that all shipping and routing organizations be advised of the importance of these annotations. We also suggested that MTMTS negotiate with carriers for removal of annotation requirements from tenders in appropriate cases. MTMTS agreed with our suggestions and took immediate steps to implement them.

185. Savings to result from using commercial air transportation services in lieu of operating Government-owned aircraft--The Army Mobility Command and the Army Tank-Automotive Center, a subordinate organization of the Command, were operating two Government-owned aircraft for transportation of their personnel. In a report issued in July 1965, we pointed out that the annual cost of operating the aircraft was about $138,900 higher than the cost of available commercial air transportation.

The stated reason for retention of the aircraft was that urgent mission demands could not be satisfied by commercial transportation because of timing requirements or the locations involved. However, our review of the flights for a 6-month period failed to disclose any instances where the flights were of an urgent nature. On the contrary, the flights were nonurgent and involved destinations served daily by commercial airlines. In response to our findings, the Army directed the withdrawal of the two aircraft and associated operating personnel.

186. Savings could be realized by the Air Force under certain circumstances by buying rather than leasing specialized transportation equipment--In April 1966, we reported that the Air Force expended, during the period October 1961 through June 1965, about $1 million more to lease liquid oxygen and nitrogen transport trailers from common carriers than it would have expended to purchase and maintain the trailers. The Air Force had not considered comparative costs before it made the agreements with the carriers.

The Air Force agreed to revise its transportation regulations to require a cost analysis when a long-term requirement existed for specialized transportation equipment but did not agree that the leasing arrangements resulted in avoidable costs in this instance. It took the position that acceptable military design trailers could not have been purchased in time to meet requirements and that, since the trailers in its inventory were of military design, it would not have considered procurement of commerical design trailers. We pointed out that the leased trailers were of commercial design, that they were considered satisfactory for their purpose, and that they would have been equally satisfactory had they been owned by the Government.

187. Savings to result through reduction of packing materials in shipments airlifted overseas for the military departments--We examined into the packing of material and equipment being airlifted overseas for the military departments. We found, and reported to the Secretary of Defense in October 1965, that the Army and the Navy were using more packing material than necessary to ensure safe arrival of shipments at the overseas destinations. This practice, by increasing the weight and size of the shipments, increased the cost of transportation about $170,000 a year. The Air Force, on the other hand, was following the practices of (a) removing excess packing material prior to loading its shipments at cargo terminals in the United States and (b) notifying the originating shippers of the fact that their shipments were overpacked for the shippers' guidance in packing future shipments.

The Department of Defense agreed with our findings and conclusions and stated that (a) the Army and the Navy had established systems for reporting to shippers instances of overpacking and (b) the military departments and the Defense Supply Agency had been requested to reemphasize the importance of taking corrective action in this matter.

188. Study undertaken by the Department of Defense to explore feasibility of using a more economical container for shipping mattresses--On the basis of information developed in our review of the packing requirements established by the Department of Defense for the transportation of household goods of its personnel, we are of the opinion that savings of about $1 million a year could be realized by reducing the packing requirements applicable to mattresses shipped within the United States. Mattresses were required to be packed in cardboard cartons even though carriers offered lighter weight, less expensive, paper covers which would adequately protect the mattresses.

In our report on these findings, issued in August 1965, we recommended that the Military Traffic Management and Terminal Service (MTMTS) be directed to study the feasibility of using less expensive covers offered by carriers. After some preliminary studies of the matter, the MTMTS, with the participation of eight military transportation offices, undertook a study on July 1, 1966, to evaluate the relative merits of paper bags and cartons as packing materials for shipment of mattresses and box springs.

MISCELLANEOUS MATTERS

MOTOR VEHICLE INSPECTION STICKERS

189. Action taken by the District of Columbia Government to improve controls over motor vehicle inspection stickers--In a report issued in May 1966 on our review of the controls of the Department of Motor Vehicles, District of Columbia Government, over motor vehicle inspection stickers, we pointed out that the accountability records did not evidence a complete accounting for all stickers and that the inadequacy of the accountability records may be attributable to the lack of written procedures providing for their maintenance.

Subsequent to the issuance of our report, the Accounting Systems Staff of the Budget Office, Department of General Administration, reviewed the practices of the Department of Motor Vehicles in controlling and accounting for inspection stickers and developed written procedures providing for the maintenance of the accountability records. We believe that the procedures, if properly implemented, should result in improved accountability for the inspection stickers.

USER CHARGES

190. Action to be taken by the District of Columbia Government to adjust rates for water furnished to the Washington Suburban Sanitary Commission--Our review of the rates at which the District of Columbia Government had furnished water to the Washington Suburban Sanitary Commission showed that the rates had not been adjusted since January 1, 1957. We estimated that an adjustment of the rates based on the cost of delivering the water during the period January 1, 1957, to June 30, 1964, would have resulted in the District's realizing additional revenues of about $26,000.

A study made by the Department of Sanitary Engineering, at our suggestion, showed that the cost of furnishing water to the Washington Suburban Sanitary Commission in fiscal year 1964 was 38 percent higher than in fiscal year 1956, or an average annual increase of 4.14 percent.

Subsequently, the Superintendent of the Office of Planning, Design, and Engineering, Department of Sanitary Engineering, informed us that consideration was being given to negotiating a new contract with the Washington Suburban Sanitary Commission for the furnishing of water at rates based on fiscal year 1964 costs and on annual increases in the rates of 4.14 percent. He informed us also that the cost of furnishing water to the Commission would be redetermined about every 5 years at which time necessary adjustments would be made in the rates and in the escalation factor for computing the annual increases in the rates.

OTHER AREAS OF OPERATIONS

191. Action taken or being considered by the Board of Education, District of Columbia, for the increased use of low-enrollment schools in Northwest Washington--Our review of the utilization of District of Columbia elementary schools showed that 12 elementary schools in Northwest Washington were being operated with pupil enrollments of about 58 percent of the established pupil capacity of the schools. The operation of the 12 elementary schools at low levels of pupil enrollment resulted in an operation and maintenance cost per pupil that was more than double the average of all other District elementary schools.

The operation of the elementary schools at the low levels of pupil enrollment has resulted in the combining of pupils of various grades into single classes which, according to the Superintendent of Schools, does not provide the best educational opportunities for the pupils. We were informed by the Superintendent of Schools that a school policy of encouraging pupils to transfer from overcrowded schools to the low-enrollment schools was in effect and that, while the policy had not produced the desired results, more intensive efforts should result in a greater number of pupil transfers.

In a report to the Board of Education, District of Columbia, in April 1966, we stated that the low enrollment of the 12 elementary schools in Northwest Washington was being brought to the attention of the Board so that it might consider possible alternatives to the continued operation of the schools with enrollments far below their pupil capacity. Subsequently, the Superintendent of Schools reported that increased use was being made of certain of the low-enrollment elementary schools in Northwest Washington by the transfer of pupils from overcrowded schools in other school areas and that a study was being made of the feasibility of additional transfers of pupils from other overcrowded schools.

192. Action taken to reassign enlisted personnel from nonmilitary to military activities--Department of Defense policies in general state that civilians will be used in positions which do not require military personnel. We found, however, as stated in our report issued in December 1965, that the Army, Navy, and Air Force were using enlisted personnel in such nonmilitary activities as officers' and noncommissioned officers' clubs, hobby shops, bowling alleys, golf courses, and commissary stores. We estimated that about 9,000 enlisted personnel, whose annual pay and allowances totaled about $40.5 million, were being used in nonmilitary activities. After completion of our review, the Secretary of Defense initiated a program for reassigning to military duties those personnel who were assigned to noncombat, support-type activities.

On July 15, 1966, the Chairman, Subcommittee on Manpower, House Committee on Post Office and Civil Service, announced that he had been informed by the Assistant Secretary of Defense for Manpower that the Department of Defense was in process of replacing about 3,500 military personnel with civilians in commissary stores, officer's clubs, bowling alleys, golf courses, theaters, etc., and that this substitution was in addition to a program, started last year primarily at the request of the Subcommittee,

whereby 74,000 military personnel in support-type jobs were being replaced with 60,500 civilians.

The Chairman stated that the Department of Defense expected the substitution of the 3,500 military personnel with civilians to be completed by December 1967 and that, at that time, a review would be made to determine the need for continuing the use of military-trained personnel in about 10,800 other civilian-type jobs in commissary stores and in welfare and recreation activities. The chairman pointed out that this action reflects the results of the General Accounting Office study and the continued efforts of the Subcommittee.

193. Limited success in obtaining contributions for the binational educational exchange program--Our review of the efforts of the Department of State in obtaining contributions by participating countries for the binational educational exchange program disclosed that the Department of State, on the whole, has had only limited success thus far. For fiscal years 1962 through 1965, foreign currency contributions to binational foundations were made or planned by only eight of the 48 countries participating in the program.

Moreover, we found that only five of 15 Western European countries had been approached within the 18 months following enactment of the 1961 law which stated, among other things, that foreign governments should be encouraged to participate, to the maximum extent feasible, in carrying out the act, and to contribute funds, property, and services to carry out the purposes of the act. We also reported that, during the time of our review, formal cost-sharing negotiations had been held with only one country outside of Western Europe.

In commenting on our draft report, the Department stated that timely action had been taken and that informal discussions had been held with certain countries regarding the possibility of cost-sharing as early as 1961 and 1964.

Subsequent to the completion of our review, the Department of State announced a policy to nurture, develop, and negotiate arrangements wherein contributions by foreign governments and foreign private donors for financing educational and cultural activities would be maximized. Also, the Department instructed all posts to discuss possible cost-sharing with the respective foreign governments and to report on the prospects for obtaining contributions.

We reported this matter to the Congress because we believe that the effect of the announced policy change will not be measurable for some time and that, consequently, the Congress may wish to consider the actual success achieved under the Departments new policy and, if needed, to suggest more specific criteria for achieving financial participation by other countries to the maximum extent feasible.

194. Need for closer surveillance over the readiness status of idle ammunition-production facilities held by the Army for mobilization purposes--Our review of the readiness status of selected idle ammunition-production facilities of the Army, and a broader study conducted later by

the Army, indicated that many of the facilities, considered essential for mobilization purposes, would probably not be available when needed. We reported in June 1966 that the facilities lacked equipment, technical support, subcontractor support, or competent production personnel. On the other hand, some facilities were maintained in a high state of readiness without adequate justification and at considerable cost to the Government.

This resulted, in our opinion, from a general lack of management attention to this critical area and from the fact that too few qualified persons were assigned to industrial readiness planning. A low priority had been given to this area by procurement and contract administration organizations, and a comprehensive review of mobilization capabilities for ammunition production had not been made for some time.

The Army study team made certain proposals, with which we concurred, designed to improve readiness status of the production facilities.

195. Savings could be realized by consolidation of field organizations and facilities for recruiting military personnel--In a report issued in June 1966, we pointed out that millions of dollars could be saved annually if the separate field recruiting organizations and facilities of the four military services were consolidated. Consolidation would also help achieve the purpose of the President's new program for improving and facilitating communications with the public. Each of the services canvasses the entire country through separate networks of many hundreds of branch stations. This results in substantial duplication of expense for office space and equipment, utilities, personnel, and motor vehicles.

We brought our findings to the attention of the Department of Defense and were advised that a Defense-wide study was underway to develop plans for relocating and combining separate recruiting offices to the extent practicable and to identify appropriate geographical areas for conducting a test of the consolidation of recruiting offices. The Department informed us also of action taken to further combine and unify physical examining, mental testing, and enlistment processing functions within the military services.

We recommended to the Secretary of Defense that the contemplated field test be undertaken and completed as expeditiously as feasible. We requested that the Secretary of Defense furnish us with the results of the study as well as the results of the field test to be made of the consolidation of recruiting offices.

SUMMARY OF FINANCIAL SAVINGS ATTRIBUTABLE TO THE WORK OF THE GENERAL ACCOUNTING OFFICE IDENTIFIED DURING THE FISCAL YEAR 1966

COLLECTIONS AND OTHER MEASURABLE SAVINGS

	Collections	Other measurable savings	Total
	(000 omitted)		
Departments			
Army	$ 1,327	$ 10,100	$ 11,427
Navy	393	6,024	6,417
Air Force	1,165	21,417	22,582
Defense	691	21,553	22,244
Agriculture	37	14,093	14,130
Army Corps of Engineers (civil functions)	53	3	56
Commerce	271	401	672
Health, Education, and Welfare	50	18,294	18,344
Housing and Urban Development	-	2,984	2,984
Interior	22	270	292
Justice	-	109	109
Labor	4	563	567
Post Office	3	5,182	5,185
State (including AID, Peace Corps, and USIA)	136	216	352
Treasury	4	5,390	5,394
Agencies			
Atomic Energy Commission	24	1,748	1,772
Civil Service Commission	2	32	34
District of Columbia Government	87	1	88
Federal Aviation Agency	91	139	230
General Services Administration	128	675	803
Interstate Commerce Commission	44	-	44
National Aeronautics and Space Administration	18	1,026	1,044
National Mediation Board	1	-	1
Panama Canal Company	5	28	33
Railroad Retirement Board	8	-	8
Veterans Administration	2	2,313	2,315
Other agencies	2	884	886
Total for audit of departments and agencies	4,568	113,445	118,013
Transportation audit	8,495	-	8,495
General claims work	4,129	-	4,129
Total	$17,192	$113,445	$130,637

DETAILS OF OTHER MEASURABLE SAVINGS

Details of other measurable financial savings, including additional revenues attributable to the audit work of the General Accounting Office during the fiscal year 1966, totaling $113,445,000, are listed below. Approximately $40 million of the savings or additional revenues are recurring in nature and will continue in future years. The items listed consist of realized or potential savings in Government operations directly attributable to action taken or planned on findings developed by the General Accounting Office in its examination of agency and contractor operations. In most instances, the potential savings are based on estimates and, for some items, the actual amounts to be realized are contingent upon future actions or events.

Action taken or planned	Estimated savings
Supply Management:	
Transfer of excess material to agencies or contractors for use in lieu of making new procurements	$19,940,000
Return to active inventory excess or surplus material and equipment which was either prematurely scheduled for disposal or not being recognized as an acceptable substitute for items in current demand	11,595,000
Cancellation of plans to purchase materials for which there was no current need	10,006,000
Savings resulting from reduction of rates paid for farm storage of grain under the 1965 reseal program	9,200,000
Reduction in losses from deterioration of limited-life and excess medical supply items in the civil defense medical stockpile	8,691,000
Adjustment of prices under existing contracts for proposed amendments	6,707,000
Annual savings in operating cost ($250,000) and reduction in replacement cost ($3,500,000) of seagoing tender used for aid-to-navigation work made available for partial support of the national oceanographic effort	3,750,000
Transfer and utilization of excess missile launching and handling rails in lieu of making new procurements	502,000
Reduction in procurement costs as a result of qualifying additional suppliers as competitive sources for items previously purchased on a sole-source basis	439,000
Savings by having fee-basis physicians' prescriptions filled in VA pharmacies instead of in private pharmacies	428,000
Savings in procurement cost as a result of direct purchase from actual manufacturer	396,000
Redistribution of ammunition provided under the military assistance program which was excess to recipient country needs	392,000

Action taken or planned	Estimated savings
Supply Management (continued):	
Cancellation of production of items obtainable at lower prices	$ 361,000
Savings realized by replacing sedan delivery vehicles with lower cost pickup trucks	294,000
Reduction in Government-wide procurement costs due to elimination of the requirement that general office desks be equipped with locks	250,000
Annual savings resulting from change in method of contracting for photographic services from time and material contract to cost-plus-fixed-fee contract	145,000
Savings on purchase of aircraft parts for overhaul as a result of new pricing procedures	131,000
Reduction in charges to Government cost-type contracts of corporate and administrative expenses	126,000
Cancellation of unnecessary handtool procurements	125,000
Return to accountability of Government-owned material not known to exist and equipment improperly retained by contractors	125,000
Reduction of costs resulting from revision of procurement procedures to require support services contractor to consider GSA source of supply prior to purchase of general supply items from more costly commercial sources	116,000
Utilization of excess property as a result of more adequate screening procedures	110,000
Savings resulting from the centralized procurement of certain drugs at prices lower than prices available to individual field stations	108,000
Redistribution of missile system spare parts which were determined to be excess to the needs of the Republic of China	96,000
Cancellation of outstanding requisitions and programs for training ammunition not required for the military assistance program in a South American country	33,000
Other items	289,000
Communications:	
Reduction in number of leased telephone circuits in cable facility through utilization of unused telephone circuits in microwave facility (estimated annual savings)	503,000

Action taken or planned	Estimated savings
Payments to Government Employees, Veterans, and Other Individuals:	
Annual savings through reducing travel costs by making Government vehicles available for use in lieu of privately owned automobiles	$ 1,500,000
Savings resulting from revising travel regulations to permit the payment of a lower rate when justified to compensate employees for expenses incurred when using privately owned automobiles for official business	1,000,000
Savings resulting from the enactment of legislation granting leasing authority to the Coast Guard and the issuance of instructions to implement the Coast Guard's Leased Housing Program to permit leasing FHA houses in certain areas	244,000
Improved housing administration procedures reducing vacancy periods and resulting in a reduction in payments for housing allowance (estimated annual savings)	218,000
Increased use of quarters in Air Force-leased hotels to prevent unnecessary payments of quarters, lodging, and per diem allowances to military personnel on official duty in London, England (estimated annual savings)	159,000
Annual savings resulting from reducing Federal unemployment benefits payable to certain Federal military retirees	138,000
Revision of method used to compute living quarters allowance to civilian employees overseas (estimated annual savings)	104,000
Correction of erroneous pay and allowance computations and records	75,000
Reduction in costs of allowances for quarters by discontinuing payments of housing allowances to military personnel without dependents living in quarters provided by the Republic of China (estimated annual savings)	43,000
Correction of erroneous payments of post differential and charge pay from Foreign Service Personnel and salary overpayments to reemployed Civil Service annuitants	12,000
Other items	95,000
Loans, Contributions, and Grants:	
Additional interest earnings by making payments under the medicare program on a reimbursement rather than on an advance payment basis	9,500,000
Disallowance of excessive noncash grant-in-aid credits for school, park, storm drain, sewer, and parking facility	601,000

Action taken or planned	Estimated savings
Loans, Contributions, and Grants (continued):	
Additional funds available to extend the Cropland Conversion Program to more farmers by discounting at the rate of 5 percent a year advance payments made to farmers participating in the 1966 program.	$ 200,000
Reduction in cost of Federally financed project.	200,000
Prevention of unauthorized expenditure of funds on nonmatching basis	160,000
Other items.	263,000
Leasing and Rental Costs:	
Purchasing rather than leasing automatic data processing and related equipment.	2,836,000
Savings resulting from the purchase of leased automatic data processing machines at reduced prices	518,000
Annual savings in rental cost for equipment, resulting from the consolidation of certain data processing operations	435,000
Annual savings resulting from the conversion to usable space of a Government-owned building which had been declared unsuitable for use by Federal agencies and was scheduled for disposal	227,000
Savings to be attained by purchasing instead of continuing to lease radio and telewriting equipment	109,000
Savings to be attained by purchasing rather than leasing certain office copying equipment	97,000
Purchasing rather than leasing office copier	23,000
Other items.	62,000
Rental Income:	
Additional revenue due to changes in rental rates and utility charges for Government-owned housing and quarters	126,000
Other items.	21,000
Construction, Repair, and Improvement Costs:	
Savings in construction and furniture costs to be effected because of revisions in seating and capacity standards for school dining facilities	146,000
Savings to be effected by direct procurement of certain equipment for construction projects.	29,000

Action taken or planned	Estimated savings
Operation and Maintenance:	
Discontinuance of the use of a U.S. Navy Landing ship tank in support of recreational facility in Hawaii (estimated annual savings)	$ 704,000
Increase in charges for utilities furnished to industrial and agricultural lessees and nonappropriated funds activities (estimated annual savings)	24,000
Manpower Utilization:	
Reduction in staff at Army Finance Center (estimated annual savings)	1,276,000
Annual savings in personnel costs resulting from the consolidation of certain data processing operations	1,038,000
Savings resulting from reduction of positions for the Chicago Employment Service offices	421,000
Savings in salary costs resulting from utilization of available automatic data processing equipment (estimated annual savings)	160,000
Elimination of unnecessary guard post positions at security installation (contract period)	152,000
Trade Development and Assistance:	
Annual dollar savings and favorable effect on balance-of-payments position by requiring that certain sales agents involved in Public Law 480 transactions be paid sales commissions in foreign currency rather than in United States dollars provided by CCC	1,200,000
Annual dollar savings and favorable effect on balance-of-payments position by requiring foreign governments to bear their proper share of ocean transportation costs of shipping Public Law 480 commodities on United States flag vessels	1,042,000
Consolidation of shipments of agricultural commodities donated under Public Law 480 to voluntary relief agencies, resulting in annual savings in ocean transportation freight costs	880,000
Estimated annual reduction of dollar expenditures for the purchase of bags for the distribution of commodities donated under Public Law 480, by requesting the recipient country to provide bags from its own resources	100,000
Transportation:	
Savings in transportation costs by reduction in the number of empty CONEX containers shipped from Europe to the United States (estimated annual savings)	1,000,000

Action taken or planned	Estimated savings
Transportation (continued):	
Savings resulting from partial consolidation of duplicate shipping services to the Canal Zone (estimated annual savings)	$ 534,000
Reduction in travel costs through greater utilization of Air Force passenger aircraft	295,000
Other Items:	
Increaed postal revenues to be realized as a result of increasing the selling prices of stamped envelopes	3,000,000
Elimination of payments of excess sales proceeds to defaulted small home mortgagors upon resale by FHA of foreclosed property	2,264,000
Savings in mail transportation costs by discontinuing the use of refrigerator cars	2,000,000
Elimination of interests costs resulting from the accelerated payment of unamortized construction costs of a laboratory building	1,200,000
Increased revenues resulting from an increase in bus fares and savings resulting from discontinuance of nonessential bus services	364,000
Annual savings in interest cost resulting from termination of check-cashing agreement and discontinuance of the practice of compensating Washington, D.C., area banks for cashing Government salary checks	340,000
Additional annual revenues resulting from the inclusion of sawlog clip values in timber appraisals	275,000
Additional revenue resulting from an increase in the volume of timber to be cut from a Forest Service management area (working circle)	228,000
Savings resulting from discontinuing the purchase of title insurance on properties acquired as a result of default on guaranteed housing loans	180,000
Cancellation of contracts for consultant's services and reduction in number of employees by a nonprofit corporation financed under Government contracts (estimated annual savings)	125,000
Additional income resulting from increases in prices charged for meals served employees and visitors at penal institutions	110,000
Savings in interest costs as a result of deferring payment for new computer systems	95,000
Termination of costs to Government for property damage insurance on Government-owned property being utilized by contractor (estimated annual savings)	39,000
Miscellaneous other items	400,000
Total other measurable savings	$113,445,000

ADDITIONAL FINANCIAL SAVINGS NOT FULLY OR READILY MEASURABLE

Many significant financial savings of a one-time or recurring nature which are attributable to the work of the General Accounting Office are not fully or readily measurable in financial terms. These savings often result from actions taken by Federal agencies in their efforts to eliminate the unnecessary expenditures or otherwise correct the deficiencies brought to light in our audit reports. The extent to which these corrective actions are motivated by our reports is not readily identifiable nor are the financial savings readily measurable in all cases. A few examples of such actions identified during the fiscal year 1966 are described below:

Changes in Agency Policies, Procedures, and Practices

Rebuilding of Used Motor Vehicle Tires

In a report to the Congress in June 1966, we presented our findings on the savings that can be attained by the Department of the Air Force by rebuilding used motor vehicle tires. We estimated that extensive rebuilding of used tires by the Air Force would have resulted in savings of as much as $2 million in one fiscal year and could likewise result in substantial savings in future years. At most of the installations included in our review, requirements for replacement tires were being met to some extent through the rebuilding of used tires; but, on the whole, insufficient emphasis had been placed on this source of potential savings. Many used tires were being condemned when they could have been rebuilt and, in many cases, tires were worn excessively before removal, thus rebuilding was precluded.

We found that tire inspection personnel had not been adequately indoctrinated in the savings to be derived from rebuilding used motor vehicle tires and that sufficient review and control had not been exercised over their activities. The Air Force had established general policy guidance with respect to tire maintenance which provides that used motor vehicle tires can be rebuilt and used by Air Force installations whenever possible. The instructions pointed out that careful periodic inspection of tires will provide carcasses suitable for rebuilding and that such tires can be expected to last as long as new tires and in some cases longer. We found, however, that the extent to which this general policy guidance had been implemented varied substantially among installations.

We concluded from our review that there was a need for the establishment of specific tire-removal criteria which could be applied by vehicle maintenance personnel to ensure the removal of tires before excessive wear prevented rebuilding. In addition, since each Air Force installation has the responsibility for obtaining replacement tires for its motor vehicles, it seems evident to us that closer supervision of tire inspection, removal, and rebuilding activities by base officials and increased command surveillance are required to ensure effective performance and to realize the maximum savings possible.

In response to our draft report, the Assistant Secretary of Defense (Installations and Logistics), informed us by letter that the Air Force was in general agreement with our findings. He also stated that a new technical order had been prepared to provide, among other instructions, for the periodic inspection of tires and for their removal if the remaining tread depth was less than 2/32 inch at its lowest point. Further, he pointed out that broad dissemination had been given our findings within the Air Force and other military departments so that proper attention could be given to these matters. We believe that the new instructions will result in substantial savings if properly implemented.

Management Control of Projectile Fuze Covers and Other Reusable Ammunition Components

In a report to the Congress in January 1966, we stated that the Navy had incurred costs of about $218,000 in the 3-year period ended June 30, 1964, because significant quantities of the projectile fuze covers were not returned by user activities and because other quantities, although returned, were lost or sold as scrap. Since the Navy has a continuing need for these fuze covers, possible savings of as much as $595,000 could be realized during the 5-year period ending June 30, 1970, by establishing effective controls over the return and reuse of these covers.

Although our review was limited to the specific fuze covers, we did note that procurements of other reusable ammunition components were made necessary by the failure of user activities to return such components to the supply system.

We concluded from our review that the basic problem was the absence of an adequate system of responsibility, accountability, and surveillance over reusable ammunition components in the Navy. We recommended that the Navy develop and implement appropriate accounting controls over the issue and return of reusable ammunition components and establish surveillance over the operation of such controls to ensure their effectiveness.

In March 1966, the Navy advised us that the Navy Auditor General would conduct a service-wide audit of the Navy's ammunition supply system and that the audit would include a review of the adequacy of existing accounting procedures for control and surveillance. Proper corrective actions taken as a result of the Navy's audit should result in substantial savings.

Reduction in Vacancy Losses in Government-Owned Housing

In a report to the Congress in March 1966, we stated that, during our review of the management and utilization of Capehart, Wherry, and other Government-owned family housing, we found that unoccupied family housing units at Army installations remained vacant or were used for other than their intended purpose for excessive periods. This condition prevailed because installation officials responsible for the management of family housing did not (1) control the time taken to process and renovate family

housing for reoccupancy, (2) maintain complete listings of personnel eligible for family housing, (3) direct eligible personnel to occupy family housing, and (4) redesignate excess available officer housing to meet the housing needs of enlisted men. Had the Government-owned housing been occupied by eligible personnel, the cost of family housing could have been offset by reductions in quarters allowance payments as intended by the Congress.

The Deputy Assistant Secretary of Defense (Family Housing) concurred in general with the findings, conclusions, and proposals contained in our draft report and outlined to us a series of corrective actions being taken Army-wide. He also stated that, at the specific installations concerned, corrective action had been initiated on deficiencies uncovered by the General Accounting Office as rapidly as they were identified. The actions taken should result in improvement in utilization of the housing and a substantial savings in quarters allowance payments.

Power Contract Amended

A power contract between the Southwestern Power Administration (SPA) and the Associated Electric Cooperative, Inc., provided that SPA reserve, for Associated's use, a number of kilowatts of electric capacity for which Associated agreed to pay $14.40 a kilowatt a year. A similar provision was contained in contract between SPA and a group of utility companies. In addition to the capacity charges, both contracts provided that 2 mills would be paid for each kilowatt-hour of energy used. The SPA-Associated contract also provided that Associated could utilize the capacity reserved for the companies during periods in which the capacity was not required for use by the companies.

The SPA-Associated contract is to expire on May 31, 2000, while the SPA-companies contract is to expire on May 31, 1985. Since the SPA-Associated contract provided that Associated would be permitted to utilize, until May 31, 2000, capacity not required for the production of energy under the SPA-companies contract, termination of the SPA-companies contract on May 31, 1985, could result in Associated's utilizing without a capacity charge for a 15-year period the 190,000 kilowatts of capacity previously reserved for the companies. At a charge of $14.40 a kilowatt a year, the revenue loss could be $2,736,000 annually and $41,040,000 for the 15-year period.

We proposed that the SPA-Associated contract be amended to ensure that, in the event the SPA-companies contract is terminated prior to the SPA-Associated contract, the Government could require Associated to pay for the right to use capacity previously reserved for the companies or that SPA could sell the right to the use of such capacity and the related energy to another customer.

This finding was included in a report to Congress in June 1965, and in October 1965 the SPA-Associated contract was amended to implement our proposal.

Opportunities for Reducing Certain Training Costs

Our review of selected training courses conducted by the Internal Revenue Service (IRS) showed that, for 32 training courses and conferences, the IRS could have reduced per diem, travel, and space rental costs by about $65,000 had these courses and conferences been conducted in space available in Government buildings located within the official duty station of 572 out of a total of 1,203 participants rather than at outlying hotels and other leased accomodations. Since similar courses and conferences were held by IRS at hotels, motels, and other non-Government space, during the period of our review, which cost the IRS an estimated $800,000, additional cost reductions may have been possible for other training courses.

In July 1965, we proposed that the Commissioner of Internal Revenue require that, whenever possible responsible officials select available Government facilities, for use in the training program, at locations which would result in the most economical use of Government funds. In February 1966, IRS issued guidelines for use of Service officials which may afford opportunities for reducing training costs.

Leased Bin Sites

Our review of the practices employed by the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, in obtaining leases for bin sites for storage of Government-owned grain, disclosed that the Government would incur additional costs because, in two States included in our review, ASCS had entered into new leases at increased rentals although the existing leases provided options to continue occupancy of the sites, at no increase in rental; generally for as long as 10 years. We found also that the granting of the rental increases was contrary to ASCS's written policies and procedures and that such policies and procedures had not been uniformly applied in the four States included in our review.

In response to our report to the Administrator, ASCS, in September 1965, ASCS informed us of the action it proposed to take in the matter. Because, at the time of our review, there were in one State alone 1,428 bin-site leases having an annual rental of $180,000, we believe that the action promised by ASCS, if properly implemented, will result in significant, but not readily measurable, annual savings to the Government.

Possible Reductions in Medicare Program Costs

In a report to the Senate Committee on Finance in May 1966, we raised specific questions and commented on certain aspects of the Social Security Administration's (SSA) proposed principles of reimbursement to providers of services for reasonable costs under the medicare program. As a result of our review, SSA revised its planned procedure for paying providers of medicare services, which revision, the Chairman of the Committee subsequently stated, would save the Government $95,000,000 during the first

10 years of the program. SSA also made certain other revisions in line with our suggestions in its cost reimbursement formula which, under certain circumstances, will result in additional financial savings for which no estimates have been made. These revisions were (1) offsetting interest earned on funded depreciation amounts in prior years against interest expense currently allowable, in the event the funded depreciation is used for purposes not related to patient care, (2) restricting changes in method of depreciation to one change during the useful life of a particular asset, and (3) including in the determination of allowable cost, gains and losses realized from the disposal of depreciable assets.

Military Pay and Allowances

As a result of reviews and reports on military pay and allowances, improvements were made which should result in substantial savings and more effective administration of certain aspects of pay and allowances of service members, particularly since the payments were of a type which recur frequently.

We reported to the Congress in October 1965 that our audit indicated that, for a period of one year, the Army and Air Force had made estimated erroneous mileage payments of $1.1 million (about $800,000 in overpayments and $300,000 in underpayments). The accuracy of these payments should be improved as a result of action taken by the Army and the Air Force to strengthen their internal review procedures to ensure that instructions for computation of travel vouchers are understood and complied with and that supervisory personnel perform adequate reviews of travel vouchers.

In a letter to the Secretary of the Army in March 1966, we reported on our evaluation of the audit performed by the Finance Center, U.S. Army, of payments to military personnel for travel of dependents and for dislocation allowance. We advised him that, on the basis of our review, we estimated that the Finance Center audit of vouchers for a 1-year period failed to disclose overpayments amounting to about $133,400. Subsequent to our review, Finance Center officials established detailed audit procedures, and instituted formal training for auditors. In addition, in an effort to prevent errors in the field, provision was made for data concerning errors to be included in a monthly bulletin issued to all installations.

Disparities in Transporting Overseas Personnel To and From Work

At 10 overseas posts visited by us, we found that, while one or more agencies were providing free transportation to and from work for their American employees on the grounds that there was no practical alternative, other agencies at the same post were not providing such transportation and their employees were commuting without using Government-furnished transportation. We found also that a substantial number of personnel at the posts we visited were receiving free Government-furnished transportation to and from work daily even though privately owned vehicles of these employees had been transported to their posts at Government expense.

On the basis of our review in the 10 countries and the limited information available on the worldwide practices of the principal United States Government agencies overseas, we estimated that the practice of providing free transportation to and from work to employees on a worldwide basis was resulting in unrecovered costs to the United States Government of several hundred thousand dollars annually. The Department of State informed us that it was aware of inequities in the treatment of overseas employees of the various agencies and that it was determined to overcome these differences. The Department agreed that, as a matter of principle, a charge for use of Government-owned vehicles to and from work was appropriate. The Department's plans called for the Ambassadors in the various countries to ensure equitable treatment of all employees regardless of agency and to provide for the levy of a charge for to-and-from-work transportation except in unusual and unique circumstances.

Changes in Regulations of Government-Wide Significance

Armed Services Procurement Regulation

Procurement of components needed by contractors in production of weapon systems and other major end-items--We had issued to the Congress a large number of reports over the past several years on reviews of the policies, procedures, and practices followed within the Department of Defense in determining whether certain components needed for installation in weapon systems or other major end-items being produced should be purchased by the contractors or purchased by the Government and furnished to the contractors. In these reports we pointed out the economies that could be realized in Government procurement if the Department of Defense and the military services would make greater efforts to furnish components to contractors in instances where it was feasible and to the advantage of the Government to do so.

The economies stem from several factors. Purchasing of the components by the Government provides an opportunity to consolidate requirements for a component common to several weapon systems or other major end-items and to take advantage of the lower prices that may be available for purchases in larger quantities. Inasmuch as military procurement is subject to provisions of the Armed Services Procurement Regulation which requires the use of formal advertising procedures designed to obtain full and free competition, unless specifically excepted by law, the Government is more likely to purchase the components competitively and thus afford all qualified producers an opportunity to participate in supplying the Government's needs. Also, the furnishing of components to the contractor places the Government in a sound position to negotiate a lower price for the end-item by reducing the profit or fee which otherwise would be allowed on the contractor's cost of items purchased under the contract.

The Department of Defense policy guidance, in effect during the periods covered by our reports, appeared to us to tend to discourage the practice we were advocating. It gave the military services broad latitude

and was variously interpreted in their implementing instructions. The interpretations ranged from the position of the Air Force, that components should be Government furnished to the maximum practicable extent, to the position of the Navy's Bureau of Ships, that the furnishing of such items should be "reduced to an absolute minimum."

One example of the economy resulting from direct procurement of items by the Government was brought to the attention of Congress in February 1966, when we reported that the Navy, in contracting for variable-timing fuzes, could purchase directly from the component manufacturers, rather than through prime contractors, certain electron tubes and reserve energizers required for use in the fabrication of the variable-timing fuzes. Had the Navy furnished the tubes and energizers under contracts awarded for variable-timing fuzes in 1962 and 1963, the Government would have saved $421,903 in profits realized by the prime contractor in subcontracting for these components.

After we brought this matter to the attention of Navy officials, they agreed that there would have been a savings if the tubes and energizers had been furnished by the Government. Further, the Navy has indicated intentions to supply components as Government-furnished material in the future procurement of fuzes.

On October 1, 1965, new guidance was added to the Armed Services Procurement Regulation. The new provision, as revised December 1, 1965 (sec. 1-326), contains a policy statement and procedural guidance designed to encourage and expand the practice of furnishing components to contractors when the circumstances are appropriate. It also fixes responsibility for decisions and for maintenance of appropriate records to document the basis for decisions. (Numerous reports issued in recent years; also, Policy Guidance Strengthened on Direct Procurement of Components Needed by Contractors in Production of Weapons Systems and Other Major End Items, Department of Defense, B-158604, April 29, 1966.)

Contractors' employee recreation and morale costs charged to Government contracts--Pursuant to a request by the Chairman of the Subcommittee for Special Investigations, House Committee on Armed Services, we conducted a survey of activities of selected defense contractors relating to employee recreation and morale expenditures that are passed on to the Government. Our report on the survey, submitted in July 1964, presented our findings that there was little uniformity in the management and control of morale and recreational expenditures by contractors and that the costs financed by contractors were generally allowed by the agency contracting officers in contract negotiations. Also, because the related provisions of the Armed Services Procurement Regulation were variously interpreted by agency contracting officers and agency auditors, there were significant variations as to the nature and extent of the costs allowed under Government contracts. The Subcommittee held hearings on the subject and, in its report issued in August 1964, recommended that the Department of Defense make such changes in contracting policy and in provisions of the Armed Services Procurement

Regulation as may be necessary to clarify existing policy and to attain certain specified objectives.

On December 1, 1965, the Armed Services Procurement Regulation was revised (sec. 15-205.10) to define more clearly the nature and extent of contractors' employee recreation and morale costs allowable as charges to Government contracts. (Survey of Activities of Selected Defense Contractors Relating to Employee Recreation and Morale, Department of Defense, B-153403, July 21, 1964.)

Documentation of extent of reliance on contractor-furnished cost or pricing data in negotiation of prices--We found that the Air Force had negotiated a fixed price contract on the basis of cost and pricing information, furnished and certified by the contractor, which included an overstatement of about $284,000 in the estimated labor and material costs. The price proposed by the contractor was reduced by about $91,000 during negotiation and prior to award of the contract. However, the record of negotiation was not clear as to which elements of cost or profit gave rise to the reduction. Therefore it could not be determined what portion, if any, of the reduction of $91,000 was applicable to the overstatement of $284,000 or what reliance the contracting officer had placed on the overstated labor and material cost estimates furnished by the contractor.

In our report submitted to the Congress in April 1965, we recommended, among other things, that the Armed Services Procurement Regulation be amended to require the contracting officer to include in the record of negotiation (1) a statement evidencing the extent of his reliance, or the reasons for and extent of his nonreliance, on cost or pricing data required from and supplied by the contractor and (2) a statement evidencing and justifying the bases used in those instances where the prices were negotiated in whole or in part on a basis other than reliance on the cost or pricing data required from and supplied by the contractor. The Department of Defense agreed and on February 1, 1966, added the substance of the recommended provisions to the Armed Services Procurement Regulation (sec. 3-811(a)). (Overpricing of Aircraft Identification Equipment Under Contract, Department of the Air Force, B-146944, April 29, 1965.)

Revision in production procedures--In a report to the Congress in August 1962, we stated that the Navy could have avoided costs of over $2.3 million if action had been taken to prevent the start of production on an item when test results of preproduction models indicated they were defective and did not meet contract requirements. We found that, despite continuing adverse test results, the Navy accepted delivery of 1,829 of the items. In so doing, the Navy provided that such modifications as were required to meet contract requirements would be made by the contractor at no cost to the Government. Although some modifications were made, the items were not satisfactory.

Disposal action and recovery action against the contractor resulted in revenues of only $62,000 with a loss to the Government of about $2.3 million. We concluded that the avoidable costs disclosed by our review were

attributable to failure to follow the established policy of ensuring that a satisfactory production model has been manufactured before volume production was undertaken. We recommended that the Department of Defense consider incorporating into the Armed Services Procurement Regulation guidelines for testing preproduction models in order to make readily available to contractors and contracting officials existing policies and procedures for obtaining satisfactory preproduction models before volume production is stated.

The Department of Defense referred this matter to the Armed Services Procurement Regulation Committee for study. As a result of the Committee study, a new part was added to the Armed Services Procurement Regulation on August 1, 1965, incorporating uniform policies and procedures to be used by all military services with regard to ensuring that a contractor is able to furnish a product satisfactory for its intended use prior to authorizing volume production. This should result in substantial future savings.

Federal Property Management Regulations

Savings resulting from eliminating locks on office desks--In a report submitted to the Congress in October 1965, we presented our findings that savings would result from the elimination of the requirement by the Federal Supply Service, General Services Administration, that general office desks be equipped with locks and that additional savings would be realized if, in rehabilitating desks, locks were repaired or replaced only in those instances where there was a need for desk locks. We found that Federal agencies generally do not require employees to lock their desks and, hence, the incremental cost for a lock on a desk was an unnecessary expense in most instances.

After we brought these matters to the attention of GSA, it revised the Federal standards and specifications to eliminate the lock requirement. In January 1966, GSA issued Bulletin FPMR No. H-3, Utilization and Disposal, encouraging the elimination of the repair and/or replacement of locks and locking mechanisms on desks being repaired or rehabilitated except where there was a valid need for locks in operating condition. In February 1966, GSA issued Bulletin FPMR No. E-19, Supply and Procurement, announcing the availability of general office steel desks without locks through GSA supply depots and plans for providing other types of desks without locks or modified lock arrangements through established GSA supply sources. (Savings Resulting From Elimination of the Requirement That General Office Desks Be Equipped With Locks, Federal Supply Service, General Services Administration, B-114807, Oct. 22, 1965.)

Safety conditions in certain storage areas of Federal office buildings--In a report submitted to the Congress in April 1966, we commented on unsafe and hazardous conditions which we had observed at selected Federal buildings located in Washington, D.C. For one building, in particular, we reported that trash was permitted to accumulate in storage areas; printed matter was stored in a manner that obstructed sprinkler coverage; corridors and aisles were used for storage areas and thus impeded movements of

fire-fighting equipment; extension cords were used unsafely; broken bulbs and unprotected lighting fixtures created fire hazards; employees smoked in areas highly susceptible to fire; "No Smoking" signs had not been posted in areas where they should have been posted; and inspection and maintenance of fire extinguishers were inadequate not only in storage areas but elsewhere in the building, so that many of the extinguishers were of questionable usefulness.

After advising us in detail of the corrective measures which had been or would be taken on the various deficiencies we had observed, the General Services Administration issued a nationwide notice to its supervisory buildings personnel in May 1966 reemphasizing their responsibility for good management of buildings and for detecting and correcting hazardous conditions. (Safety Conditions in Certain Storage Areas, Primarily in the South Building of the Department of Agriculture, Washington, D.C., Department of Agriculture and General Services Administration, B-158427, Apr. 12, 1966.)

Civil Service Regulations.

Sick leave and outside employment guidelines for Federal and District of Columbia Government employees--In a report submitted to the Congress in December 1965, we reported that, in many cases where Federal and District of Columbia Government employees engaged in outside employment while on sick leave and where there was doubt as to whether they could perform their Government duties, disciplinary action was not taken because neither the Annual and Sick Leave Act of 1951, as amended, nor the supplementary Civil Service regulations specifically prohibit such a practice. We proposed that the Civil Service Commission consider favorably a regulation which would prohibit an employee from engaging in nongovernmental employment, including self-employment, while he was on sick leave with pay from his Government position.

The Commission advised us that the most effective control of the abuse of sick leave is with the individual agencies and that a change in the regulations is not the best solution to the problem, but agreed to issue guidelines on the matter of sick leave abuse. Accordingly, in June 1965, the Commission issued a Federal Personnel Manual System Letter to all agencies pointing out that, normally the standards upon which the granting of sick leave is based would also be expected to prevent an employee from working elsewhere, that the agencies have a special obligation to review carefully all of the evidence submitted in support of requests for sick leave, and that each agency is urged to require its employees to notify it whenever they engage in outside employment on a day for which sick leave has been requested. The letter also recognized that there are rare instances, generally involving extended periods of illness, when there is acceptable justification for outside employment while on sick leave. (Review of Investigations and Actions by Certain Agencies Pertaining to Government Employees Licensed to Drive Taxicabs in the District of Columbia, B-146850, Dec. 17, 1965.)

Bureau of the Budget Regulations.

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U.S. GAO, Wash., D.C.