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REPORT ON THE COMPILATION OF GENERAL ACCOUNTING OFFICE FINDINGS AND RECOMMENDATIONS FOR IMPROVING GOVERNMENT OPERATIONS, FISCAL YEAR 1964

LETTER

FROM

COMPTROLLER GENERAL OF THE UNITED STATES

TRANSMITTING

A REPORT ON THE COMPILATION OF GENERAL ACCOUNTING OFFICE FINDINGS AND RECOMMENDATIONS FOR IMPROVING GOVERNMENT OPERATIONS RELATING FOR THE MOST PART TO FISCAL YEAR 1964, PURSUANT TO THE BUDGET AND ACCOUNTING ACT, 1921, AND OTHER RELATED LAWS

FEBRUARY 8, 1965.—Referred to the Committee on Government Operations and ordered to be printed

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LETTER OF TRANSMITTAL

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

B-138162

February 8, 1965

Dear Mr. Speaker:

Herewith for the information of the Congress is the sixth annual compilation of General Accounting Office findings and recommendations for improving Government operations. This compilation relates for the most part to the fiscal year 1964.

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 through the issuance of revised directives and instructions. Such actions, while desirable and necessary, do not in themselves assure 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 and benefits attributable to our work cannot always be fully measured. However, our records show that collections and other measurable financial benefits identified during the fiscal year 1964, which were directly attributable to the work of the General Accounting Office, amounted to $321,489,000. Of this amount, $27,166,000 consisted of collections and $294,323,000 represented other measurable benefits. A summary of financial benefits appears on page 236 of this report.

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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.

This report is also being sent today to the President of the Senate. Copies are being sent to the President of the United States.

Sincerely yours,

Comptroller General
of the United States

The Honorable John W. McCormack
Speaker of the House of Representatives

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PROCEDURES FOR DETERMINING SUPPLY REQUIREMENTS

1. Action taken to delete from the supply system items of the type readily available from local commercial sources--The supply system of the Department of Defense includes hundreds of thousands of low-volume minor items of the type which are readily available to using activities from commercial sources and could be procured directly by the users as needed. These items consisted of such things as screws, nuts, bolts, washers, pins and the like. We estimated that direct procurement of such items would reduce supply management costs by about $50 million a year and the investment in supply inventories by about $275 million.

In a report submitted in November 1963, we pointed out that the inventory control points within the Department of Defense had not given appropriate consideration to commercial availability and the costs of central management and distribution when determining whether an item of supply should be procured directly by using activities or should be procured for stock and furnished the users through supply channels. The Department of Defense promised that corrective action, substantially in agreement with the measure we proposed, would be taken to eliminate from the central supply system the maximum number of items practicable.

Our report was discussed in hearings held in February 1964 on the Department of Defense appropriations for fiscal year 1965. In testimony before the Subcommittee on the Department of Defense, House Committee on Appropriations, a representative of the Defense Supply Agency stated that about 200,000 items had already been decentralized. We estimate that decentralization of these items will result in savings in management costs of about $20 million a year and an ultimate reduction in investment in inventories of about $104 million after existing stocks have been exhausted.

2. Procedures strengthened by the Air Force to assure more frequent reviews of requirements for spare parts--The Air Force revised its system for computing requirements for nonrecoverable spare parts (low unit-cost items which are either consumed in use or considered to be more economical to replace than to repair).

Because of problems experienced in adapting the system for use with electronic data processing equipment, the Air Force decided to omit its semiannual review of requirements, scheduled to be made in the last months of calendar year 1962, without having considered alternative methods of making the review. In the absence of such a review, the Air Force was not aware that it had initiated procurement of about $13 million worth of spare parts which were already in long supply.

As stated in our report submitted in April 1964, contracts had been awarded for $6 million worth of the unneeded parts and purchase requests had been issued for an additional $7 million worth. After we brought this matter to the attention of Air Force officials they took action to terminate the contracts and cancel the procurement requests. However, contracts for about $1.8 million worth of parts had progressed beyond the point of economical termination. The Air Force also took action to assure that reviews of requirements for nonrecoverable spare parts are conducted with greater frequency.

3. Procedures improved by the Navy for projecting future requirements--The Navy had issued contracts and purchase requisitions for 333 receiver/transmitter groups, valued at about $2.3 million, although it had sufficient stocks of this equipment to meet its needs. This came about because the Navy had overstated its needs. In projecting its future requirements on the basis of past issues the Navy was not aware that certain of the issues were of a nonrecurring nature. As stated in our report submitted in July 1964, field installations in reporting past issues failed to distinguish between recurring issues to replace worn or damaged equipment and nonrecurring issues for initial installation. After we brought our findings to its attention the Navy canceled the outstanding contracts and purchase requisitions for the 333 units. The Navy also took steps to improve its procedures for accumulating and reporting issue data.

In another instance, the Navy procured about $1 million worth of spare guidance components in excess of the quantities needed for maintenance of the IMPROVED TARTAR missile. The excess quantities were procured pursuant to a Bureau of Naval Weapons policy which required that spare complete guidance sections, in addition to

spare guidance components, be stocked aboard vessels carrying the missiles. As stated in our report submitted in July 1963, the procurement of components for use in assembling spare complete guidance sections was unnecessary as the regular allowance of spare components, as computed on the basis of usage experience, was sufficient to cover maintenance requirements on board vessels.

The Navy, in commenting on our findings, informed us that shipboard allowances for spare components have been reduced and that prompt action would be taken to terminate contracts for excess undelivered components and to divert to current production of missiles those excess components which have already been delivered.

4. Procedures strengthened by the Army to assure that items procured meet specification requirements of potential users--The Army procured 557 unneeded 60,000-BTU air conditioners costing about $2.1 million. In our report submitted in October 1963, we pointed out that the Army, in computing its requirements for this type of air conditioner, included 557 units to meet the needs of the United States Air Defense School, Fort Bliss, Texas, without an adequate investigation to determine what type of air conditioner was suitable to meet the needs of the school. After the 60,000-BTU air conditioners had been procured, it was determined that they were not suitable and that the school needed 36,000-BTU air conditioners. At the time of our review the 557 unneeded 60,000-BTU air conditioners were on hand and, as far as we could determine, the Army had no alternative plans for their use. In commenting on this finding and our proposals for corrective action, the Army stated that its regulations have been revised to preclude recurrence.

5. Savings could be realized if specifications for clothing requirements of the military departments were standardized to the maximum practicable extent--We submitted three reports on our findings of unnecessary costs resulting from failure of the military departments to standardize tropical wool trousers (October 1963), dress shoes (December 1963), and utility caps (June 1964). In the case of the trousers, the Army and the Marine Corps could not agree on whether the hip pockets should or should not have flaps. The Defense Clothing and Textile Supply Center neither resolved this matter nor referred it to the Defense Supply Agency for resolution but continued to procure and supply both types of trousers.

We estimated that the Government incurred additional supply management costs of about $68,000 annually.

The Department of Defense agreed with our proposal that the Director, Defense Supply Agency, be required to assure himself that the Defense Clothing and Textile Supply Center is making prompt standardization decisions, in cases when operationally critical factors are not involved and unnecessary costs are being incurred, and stated that the hip pockets of the tropical wool trousers were being standardized.

The second case involved the Navy's refusal to discontinue use of brown dress shoes for officers and to accept the standardized black shoes agreed upon by the Army, Air Force, and Marine Corps. As a result, the Government incurred unnecessary supply management costs of about $158,000 annually. On February 26, 1964, the Deputy Assistant Secretary of Defense (Supply and Services) advised us that the Navy had accepted the black shoe and that brown shoes would not be used after the existing inventory is exhausted.

The third case involved the Army's decision, after the military services could not agree on a common utility cap, to develop and procure its own cap using material and a design significantly more expensive than that being used by the Marine Corps and the Navy. On the basis of the cost differential between the two caps, we estimated that the Army incurred unnecessary costs of about $1.4 million through December 1963 and will incur further unnecessary costs of about $1.3 million through fiscal year 1965.

Neither the Defense Supply Agency nor its delegated agency, the Defense Clothing and Textile Supply Center, directed or controlled efforts to achieve standardization of utility caps. The Army was permitted to assume the dominant role in the standardization program. It unilaterally developed an expensive cap for its own use and classified the cap as the preferred item. We pointed out that, unless the Defense Supply Agency directs and controls standardization projects, the services can continue to unilaterally develop items which are unacceptable to the other services. We recommended that the Secretary of Defense require the Director, Defense Supply Agency, to provide the necessary direction and control.

PROCEDURES FOR DETERMINING SUPPLY REQUIREMENTS (continued)

On September 24, 1964, the Assistant Secretary of Defense (Installations and Logistics) advised us that his office had established an Item Entry Control Office which has the responsibility, among other things, for preventing the entry of unnecessary items into the supply system.

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PROCUREMENT PRACTICES

6. Action taken by the Air Force to procure spare parts directly from manufacturers or suppliers rather than through producers of the related equipment--In a report submitted in January 1964, we pointed out that the Government incurred unnecessary costs of about $18.7 million in the years 1959 through 1961 because the Air Force procured, as initial support for new items of aeronautical equipment, spare parts costing about $50.8 million under contracts for the related equipment although the parts could have been procured under spare parts contracts, generally from other suppliers, for about $32.1 million. Generally, when a new item of equipment is procured it is considered necessary to procure from the equipment contractor a complete range of spare parts to assure support of the equipment in the initial operating period--usually a year. However, where spare parts required for the initial period are of the type already in the supply system, procurement directly from manufacturers or suppliers, rather than the equipment contractor, is generally feasible and is the more economical method.

Subsequent to our review the Air Force took actions designed to improve its performance in this area. We believe that these actions, if properly carried out, should result in substantial savings through decreased procurements of parts under equipment contracts. We plan to evaluate the effectiveness of these actions in our subsequent reviews.

7. Committee established by the Army to assure that decisions to make or buy are based on consideration of all pertinent factors--The Army produced in its Springfield Armory, Springfield, Massachusetts, certain repair parts for rifles at a cost of about $468,000 exclusive of fixed overhead charges at the Armory. On the basis of the prices then being paid for procurement from commercial sources, the parts could have been bought for about $252,000--a saving of about $216,000. In our report submitted in February 1964, we pointed out that the production orders for these parts were placed with the Armory without comparing the costs estimated to be incurred by the Armory with the prices currently being paid to commercial sources.

After we brought this matter to the attention of the Army Weapons Command, the Command established a "make or buy" committee which will make decisions, after consideration of all pertinent factors, whether to place orders with Government arsenals or with

commercial sources. We recommended to the Secretary of the Army that the same or similar procedures be established at other Army Commands. On April 11, 1964, the Office of the Assistant Secretary of the Army (Installations and Logistics) informed us that this would be done.

8. Savings could be realized in many instances if parts and components needed in performance of contracts were furnished by the Government rather than procured by contractors--Contracts for overhaul of aircraft usually identify the parts needed in the overhaul operations and indicate which of the parts are to be procured by the contractor and which are to be made available to the contractor as Government-furnished equipment. Our review of the cost of aircraft parts supplied by overhaul contractors under 58 selected contracts awarded by the Army showed that contractors were permitted to purchase parts which were available to the Army at substantially lower cost either under existing supply contracts or from stock on hand. In a report submitted in May 1964, we stated that the Government incurred unnecessary costs of about $1.9 million with respect to those parts.

We found also that under a contract for modification of a quantity of aircraft, the Air Force agreed that certain of the electronic equipment needed for the modification would be procured by the contractor. However, the Air Force and the Navy were procuring identical types of electronic equipment directly from equipment suppliers. Therefore, it would have been feasible for the Air Force to procure the equipment and furnish it to the contractor as Government-furnished material. As stated in our report submitted in November 1963, we found that the prices paid by the modification contractor were about $872,000 or 61 percent higher than the prices being paid by the Air Force and the Navy. Since the contractor received a profit of about $278,000 on the purchases, the total unnecessary cost to the Government was over $1.1 million. After we brought our findings to its attention, the Air Force arranged to supply as Government-furnished equipment much of the equipment needed under a current modification contract.

In each of these reports we recommended, and the Secretary of Defense agreed, that reviews be made on a continuing basis at defense procurement centers to assure that the services made sound decisions as to whether material should be furnished by the contractor or the Government.

STOCK CONTROLS

9. Action taken to identify and redistribute excess stocks accumulated at Far East bases and to avoid such accumulations in the future--At selected bases of the United States Fifth Air Force in Japan and Korea, we identified over $4.3 million worth of excess stocks on hand or on order from United States depots. These excesses accumulated because stock was requisitioned from United States depots without appropriate consideration of prior usage experience and the availability of substitute or repairable stock on hand. The bases were not aware of the excesses and thus had not made them available for redistribution to other locations which may have had need for the stock. We recommended that the Secretary of the Air Force initiate a review of the need for all major items of stock at Fifth Air Force bases and institute an adequate system of surveillance of base level supply operations. On April 9, 1964, the Deputy Assistant Secretary of the Air Force (Supply and Maintenance) outlined to us the corrective measures taken and stated that one of the specific results of the corrective measures was the return of about $10 million worth of stock from Fifth Air Force bases to United States depots.

Similarly, the Navy's Western Pacific supply depots had on hand excessive quantities of spare parts for ships and submarines at the same time that additional quantities of identical parts were being procured to meet Navy's requirements in the United States. In our report submitted in May 1964, we pointed out that the depots had been erroneously authorized to retain as much as twice the quantities of stock for mobilization reserves as Navy records indicated were actually needed. After we brought this matter to the attention of the Navy, the stock requirements of the Western Pacific depots were recomputed. The recomputation showed that about $1 million worth of the stock on hand at those depots was excess to their needs and available to meet requirements at other locations. The major portion of the excess ($736,000 worth) was returned to United States depots.

The Army also had excess stocks in the Far East. We found that the Eighth United States Army in Korea had about $1.1 million worth of excess spare parts for the NIKE missile. Had the Eighth Army identified the excesses and reported them as being available to meet requirements at other locations, unnecessary procurement of at least $100,000 worth of spare parts could have been avoided. In response to our findings and proposals for corrective action, the

Army advised us on December 27, 1963, that the excesses had been redistributed, that steps had been taken by the United States Army, Pacific, to provide greater surveillance of supply practices in the field, and that procedures were being strengthened to provide more complete information on the status of stocks overseas.

10. Procedures strengthened by the Army to improve its accounting for stocks on hand--The Army needlessly procured about $184,000 worth of radar test sets and was planning an additional procurement of about $300,000 worth of the sets. These unnecessary procurement actions were taken because stock already in the Army supply system that would have satisfied the requirement was not properly accounted for by using organizations and because the Army Electronics Command did not reconcile the data, shown in inventory reports received from using organizations, with other available information.

After we brought this matter to the Army's attention, it was determined that the $184,000 worth of sets already procured could be used to satisfy another requirement and plans for the additional procurement were canceled. Also, the Deputy Assistant Secretary of Defense (Supply and Services) advised us on March 25, 1964, that the Army had established a new system and procedures for reviewing, editing, and verifying the accuracy of inventory reports. We recommended that the Secretary of the Army require all Army Commands to make independent internal reviews periodically to determine compliance with the requirements of the new inventory reporting system.

11. Need for surveillance by the Army to assure adequate supply support for its essential equipment--In a report submitted in June 1964, we stated that deficiencies in the supply management of repair parts had caused a high deadline rate at an overseas location, of essential equipment representing an investment of over $30 million. (The identity of the equipment and of its location is classified information.) Repair parts that, because of frequent demand, should have been stocked at the using-unit level had not been authorized for stockage; about one third of the repair parts requisitioned by using units were not stocked by their direct support units although, based on past demand, they should have been; unserviceable repair parts and components were not repaired on a timely basis by the overseas supply depots; and known shortages of repair parts were not given prompt attention by overseas supply depots.

STOCK CONTROLS (continued)

The supply deficiencies not only contributed to a high nonoperational rate because of shortage of repair parts but resulted also in an accumulation of stocks, for which there was little or no demand at the overseas location, which were needed to meet requirements elsewhere. We recommended, and the Army agreed, that the Chief of Staff of the United States Army institute periodic and continuing reviews of the adequacy of the functioning of all units, involved in the supply support of the air defense system discussed in our report, and that the inspections be formal and in depth and be used as a basis for corrective action.

USE AND DISPOSAL OF SUPPLIES

12. Controls strengthened to preclude premature disposal of supplies--Because of an unrealistically inflexible policy of the Air Force with respect to "age-controlled" aeronautical spare parts (deteriorable parts having a prescribed shelf life) many such parts were committed to disposal when only a minor component of the part, such as a gasket, seal, washer, or diaphragm had reached the end of its shelf life. As stated in our report submitted in March 1964, the four Air Force depots we reviewed had committed to disposal about $4.8 million worth of parts without an examination to determine whether the minor components could be economically replaced and the basic parts retained for future use. After we brought this matter to its attention, the Air Force revised certain of its regulations and directives. One of the revisions provides that disposition of age-controlled items with expired shelf lives is to be governed by the results of periodic engineering tests of the parts. The Air Force also returned to active stock about $3 million worth of the parts which had previously been condemned.

We found also that the United States Fifth Air Force in Japan had prematurely disposed of certain usable military vehicles. As a consequence, commercial vehicles had to be procured and shipped to Japan as replacements at a cost of $1.7 million. This finding was discussed in our report submitted in February 1964. The vehicles disposed of had been used only about one half of their estimated useful life. We estimated that at the time of disposal the remaining useful life of the vehicles had a value of about $1 million over and above the proceeds received from disposal sales. The disposals had been made pursuant to instructions of the Headquarters, Pacific Air Forces. These instructions, which were not in accord with the criteria prescribed by Air Force regulations, were rescinded during our review.

In another instance, reported in June 1964, the Army had earmarked for disposal about $414,000 worth of aircraft parts which were needed in its supply system. This resulted from the failure of supply analysts to follow instructions relating to disposal and from a lack of adequate supervisory review of disposal actions. After we brought this matter to its attention, the Army returned the parts to stock and took action to rescreen about $694,000 of other parts which also had been earmarked for disposal.

13. Controls strengthened to preclude replacement and disposal of serviceable equipment--In the closing months of fiscal year 1962, the Air Force procured office furniture costing $323,000 to replace furniture in the Pentagon that was in good serviceable condition. As stated in our report submitted in November 1963, there was no evidence that replacement was economically justified. Apparently, availability of unobligated funds, rather than the existence of valid requirements, was the overriding consideration to procure the furniture. After our inquiries into this procurement, issuance of new furniture was halted. Although the Air Force did not dispute our finding that the replaced furniture was generally in good serviceable condition, it nevertheless contended that there was no unnecessary procurement. However, the Air Force furnished no support of this contention other than abstract justifications as to improvements in utilization of office space and in employee morale and efficiency. The Air Force also advised us that it would re-evaluate its criteria for replacement of furniture and that it had taken interim steps to limit further procurement.

On February 5, 1964, the Deputy Assistant Secretary of Defense (Supply and Services) informed us that the Department of Defense was reviewing its policy concerning office furniture, and the related directives of the Defense Supply Agency and of the individual military departments, to assure that procurement of new furniture and other office equipment is limited to properly justified requirements and that replacement and disposal of serviceable equipment are precluded.

The House Committee on Appropriations also took note of our finding and, in its report on the Department of Defense appropriations for fiscal year 1965, recommended a reduction of $1 million in the Air Force budget estimate for equipment.

14. Savings could be realized if accessories attached to uninstalled aircraft engines were removed for use as spares--During the 12-year period ended December 31, 1962, the Army, Navy, and Air Force bought $9.4 million worth of accessories for jet aircraft engines which would not have been needed if the military services had removed accessories attached to uninstalled engines (except those needed for quick-change purposes) and had used the accessories so removed to meet operating needs for spare accessories. We pointed out that while the practice of leaving accessories attached to

these uninstalled engines had already resulted in significant additional cost to the Government, even greater additional cost would be incurred if the practice were continued. In this respect, on the basis of the services' available predictions of future need, we estimated that procurements of selected accessories during the period January 1, 1963 to June 30, 1968, could be reduced by about $42 million if this practice were discontinued.

We found that since 1950 the Navy had been following a policy called the "nude engine" concept, under which most accessories were separated from uninstalled reciprocating aircraft engines, and had found this concept to be feasible and economical. However, none of the three services had applied this concept to jet aircraft engines.

The Department of Defense agreed that, in general, it is practical to separate jet engine accessories from uninstalled engines and advised us that a study would be undertaken for the purpose of determining the extent to which this concept can be applied and of assessing the benefits or savings which can be expected.

On March 12, 1964, the Assistant Secretary of Defense (Installations and Logistics) reported to us the results of the study. He stated that it had been concluded from the study that with respect to jet engines (a) the nude engine concept does not reduce the cost of the logistic system, (b) it fosters a sluggish logistic pipeline with undesirable additional tests for jet engines, and (c) it reduces ability to respond to emergency situations. We are doing additional work in this area to evaluate the study and the conclusions reached by the Department of Defense.

We examined also into the applicability of Navy's nude engine concept to the reciprocating aircraft engines of the Army and Air Force. Our findings in the respective services were presented in two reports submitted in January 1964. We pointed out that, if the other services had adopted Navy's concept, the Army could have avoided about $1 million worth of procurement in the 6-year period ended December 31, 1962, and about $421,000 in overhaul costs in fiscal years 1961 and 1962, and the Air Force could have avoided about $3.3 million worth of procurement in the period 1950 to 1962 and about $2.8 million in overhaul costs in fiscal years 1961 to 1963. As a result of our findings, the Army adopted the nude engine concept for all its reciprocating aircraft engines. The

Air Force conceded that the concept had merit but expressed the belief that further study was necessary and advised us that such a study would be made.

STORAGE FACILITIES AND PRACTICES

15. Savings to result from fuller utilization of available storage space--Although an average of at least 450,000 barrels of tank capacity in Navy-owned petroleum facilities at Point Molate, Richmond, California, had been excess to the Navy's needs for Navy Special Fuel Oil since December 1960, nearby commercial facilities with a storage capacity of 432,700 barrels were being leased by the Defense Petroleum Supply Center for the Air Force and the Navy in which to store aviation fuels at a minimum annual price of $305,500. If the unused facilities had been converted for storage of aviation fuels and the commercial leases had been discontinued, the savings in lease costs could have offset the conversion costs in about 14 months. Thereafter, savings would have amounted to at least $305,500 a year. We were informed prior to the completion of our review that the Navy-owned facilities would be converted for storage of aviation fuels and that leases totaling $241,900 annually for commercial facilities would be terminated.

In response to the findings and recommendations in our report, the Deputy Assistant Secretary of Defense (Supply and Services) informed us on October 1, 1963, that (a) the Department of Defense had established a policy which requires that any military department request to the Defense Petroleum Supply Center for leasing of commercial petroleum storage facilities must contain a statement that coordination has been effected with the other military departments and neither excess Government-owned nor excess commercial facilities currently under contract are available or suitable to satisfy the specific requirement and (b) the military departments had established procedures, in collaboration with the Defense Petroleum Supply Center, whereby each department having excess tankage, either Government-owned or commercially-leased, promptly makes this fact known to the other departments.

We found also that the Army and the Navy incurred unnecessary costs of about $112,000 annually for storage of Government-owned empty 55-gallon drums at two commercial facilities in the Los Angeles, California, area although sufficient storage space was available at the nearby Naval Fuel Depot in San Pedro, California. The Army and Navy agreed that the number of drums in commercial storage could be reduced, and, prior to completion of our review, made plans which should result in annual savings in commercial storage costs of about $72,300.

CONTRACTING POLICIES AND PRACTICES

16. Action taken to assure that prior to award of contracts for technical data investigation is made of existing rights of the Government to such data--The Navy awarded a contract in the amount of $1.01 million for a technical data package comprised of technical information developed by the contractor in connection with its work on a Government-financed military gas turbine engine program. We found that the Navy had already acquired, under prior contracts, unlimited rights to use all the significant data included in the data package. We found also that the Navy had reimbursed the contractor, under other contracts, for the actual costs of reproducing, assembling, packaging, and delivering the tangible items which comprised the technical package.

We concluded, and so stated in our report submitted in December 1963, that the Navy had received no consideration for the contract price of $1.01 million. Accordingly, action has been taken which has resulted in recovery of the improper amount paid. In addition, we recommended that the Secretary of Defense direct that, prior to the purchase of data and other recorded technical information, the military departments determine whether the data and information are essential and, if so, whether the Government had previously acquired the data and information or the right of access to it. The Department of Defense concurred in our recommendation and informed us that appropriate directives have been issued.

17. Armed Services Procurement Regulation revised to provide for disallowance of certain travel costs--We had reported in a prior year that the Government could save millions of dollars annually through greater use by contractors of air travel accommodations less costly than first class. In response to our recommendations in that report, the Department of Defense urged its contractors to adopt policies to assure the use of accommodations less costly than first class wherever feasible.

To determine the extent of the application of the policy urged by the Department of Defense, we made a follow-up review of the air travel policies and practices of 20 defense contractors. We found that, although substantial savings were being achieved, certain policies and practices of nine of the contractors resulted in continued uneconomical use of first class air accommodations. In bringing our findings to the attention of the Department of Defense, we pointed out that, if the practices disclosed by our

review were allowed to continue, other contractors might consider the practices permissible and establish their policies accordingly. We suggested that the Department of Defense provide closer surveillance over the air travel practices of defense contractors and disallow any unreasonable air travel costs included in contract prices to the extent that contractors had not exercised due care in expenditures to be reimbursed by the Government.

On November 15, 1963, the Armed Services Procurement Regulation was revised to provide for the disallowance, under certain circumstances, of the difference in cost between first class and less than first class air accommodations.

18. Armed Services Procurement Regulation revised to preclude fees to contractors for procurement of industrial facilities improperly classified as special tooling--Contractors are frequently authorized to procure, at Government expense, facilities and equipment needed in the performance of Government contracts. Such items are classified either as industrial facilities (general-purpose items) or special tooling (specialized items peculiar to the needs of the work for the Government). Procurements of industrial facilities, when authorized, are required to be made under facility contracts and normally are not subject to allowance of profit or fee. Procurements of special tooling, however, are generally made under the related production contracts and are subject to profit or fee consideration.

We found that a contractor had acquired, under various cost-plus-a-fixed-fee contracts with the Air Force and Navy rather than under no-fee facility contracts, about $4.5 million worth of test equipment. If the equipment had been appropriately identified and described, it would have been classified as industrial facilities, deleted from the fee-bearing contracts, and acquired under the contractor's no-fee facility contracts. A proportionate reduction in the contractor's fees would have amounted to about $289,000.

We recommended that the Secretary of Defense provide in procurement regulations and instructions a clear and unequivocal basis for identifying and classifying as industrial facilities those significant items of general-purpose test equipment which are not limited to use in production of supplies peculiar to the needs of the Government. We recommended also that the Secretary of Defense take

such action as may be necessary to effect an equitable adjustment in fees allowed the contractor where such fees include amounts attributable to the procurement of industrial facilities.

On October 3, 1963, the Deputy Assistant Secretary of Defense (Procurement) informed us that a proposed revision of the Armed Services Procurement Regulation includes a new definition of special tooling and special test equipment which, together with related policy treatment of such property, will provide the necessary criteria and procedure for identifying general or multi-purpose test equipment as facilities rather than as special tooling or special test equipment. The Deputy Assistant Secretary stated also that the Air Force was reexamining the entire area of policies, procedures, and industry practices on acquiring, classifying, and controlling special tooling and that the issue of seeking equitable adjustments will be considered as information develops in the course of the project. As of July 1964 this matter was still being studied.

19. Need for greater discrimination in selection of type of pricing arrangement most appropriate in the circumstances existing at time of award--We found instances where the Government incurred unnecessary costs because fixed-price contracts and subcontracts were awarded under circumstances which did not provide a sound basis for establishing a reasonable fixed price. Under such circumstances, a more flexible pricing arrangement should have been used.

In one such instance, a contractor undertook construction of a ship for the Navy under a preliminary contractual arrangement (letter contract) which provided that the Government would reimburse the contractor for applicable costs until an appropriate price could be established and other necessary contractual arrangements could be made. In January 1962, after 3 years of price negotiations during which time numerous offers and counteroffers were made, a fixed price of $87 million was accepted by the Navy. In accepting the fixed price, the Navy contracted to pay the contractor about $5 million more for the construction of the ship than was warranted on the basis of available cost data and the circumstances existing at the time of negotiations.

We found that the contractor's statement of actual costs incurred and estimated costs to complete construction, submitted in

support of the price of $87 million, included a provision for contingencies of about $3.4 million and duplications and overstatements of costs of about $1.6 million. The Navy was aware that the contractor's estimates appeared high and had sought a more flexible pricing arrangement than the fixed-price terms proposed by the contractor. The contractor would not agree and the Navy concluded that it had no reasonable alternative to acceptance of the fixed price. In reaching this conclusion the Navy considered (a) that the letter contract was not a suitable contractual arrangement for completion and delivery of the vessel and (b) that the ultimate cost might be higher under a cost-type arrangement because the contractor would not have any incentive to reduce costs.

In our opinion, the Navy was not compelled to accept an excessive price to obtain a definitive contract. Had further negotiations been unsuccessful, the ship could have been completed under the terms of the letter contract and the price and other terms could have been settled on a quantum meruit basis; that is, the Government would pay the reasonable value of the services performed. Furthermore, the extra motivation towards efficiency and economy which fixed-price contracting normally provides was greatly diminished in this case because three quarters of the work had already been completed on a cost reimbursable basis.

We recommended that the Secretary of Defense take all action that is available to him to obtain a price adjustment from the contractor. We recommended also that the Secretary of Defense establish regulations to require that, if work is more than half completed under a letter contract, a fixed-price contract will not be used unless it can be affirmatively established that it is in the Government's interest to put the contract on a fixed-price basis and the use of a fixed price is specifically approved by the Secretary of Defense. The Secretary of Defense informed us in June 1964 that he did not agree that a price adjustment was appropriate or that regulations should be established as recommended. We are considering whether further action is warranted.

In another instance, the Air Force negotiated a fixed-price contract for aerial reconnaissance cameras and related components under circumstances which did not permit establishment of a reasonable fixed price. The contract price of about $2 million was about $814,000 or 64 percent greater than the costs incurred by the

contractor in performing the contract. At the time of the negotiation, there was no adequate cost experience for the development of realistic estimates of costs. The Air Force did not make an adequate evaluation of the contractor's price proposal and supporting data which would have disclosed that negotiation of a fixed-price contract was not appropriate. Recognition of this would have provided a basis for negotiation of a contract subject to price revision as accurate cost data became available. The Air Force stated that every effort would be made to obtain a refund from the contractor. As of October 31, 1964, the Air Force had not reported to us the results of its efforts.

In still another instance, a prime contractor negotiated a firm fixed-price subcontract for components needed in the production of aircraft under a prime contract with the Air Force. The cost information available at the time of the negotiations was not adequate for establishing a reasonable fixed price. Therefore the subcontract should have included a provision for price revision.

We found that the fixed price of the subcontract exceeded the subcontractor's costs by about $821,000 or 41 percent and that it appeared that a significant portion of this amount was attributable more to the basis of negotiation than to efficiency of the subcontractor's performance. The Air Force and the prime contractor advised us that they would perform a detailed audit of this subcontract and of prior orders for similar items with the view of seeking price adjustments.

We recommended to the Secretary of Defense that, where meaningful data are not available for the development of realistic cost estimates or where other evidence is not available to support the reasonableness of the proposed prices, prime contractors be required to include provisions for price revisions in their subcontracts. The Assistant Secretary of Defense (Installations and Logistics) advised us of April 20, 1964, that the Air Force had completed its study of the subcontract in question and of prior orders issued to the subcontractor and that the results of the study were being reviewed by the prime contractor. The Assistant Secretary informed us also that our report on this case was being studied by the Armed Services Procurement Regulation Committee.

20. Need for the Army to recognize impropriety of awarding advertised contracts for work substantially different from that described in invitations for bids--The Army Corps of Engineers, acting as contracting agent for the Air Force, awarded an advertised contract which differed so substantially from that advertised that the contract must be considered as having been illegally awarded. The contract, in the amount of about $12 million after modifications, covered construction of a runway and operational apron.

Prior to award of the contract the Air Force decided that it required a new narrow-gauge-type runway lighting system and a decision was made to incorporate the change through a change order after award of the contract. The contractor also knew that this significant change would be made to the lighting system. The new narrow-gauge lighting system that was later added to the contract was estimated to cost $1.2 million. The estimated cost of the remainder of the lighting system included in the work for which bids were solicited was about $914,000. The known change in the scope of the work therefore was of such significance that it was inappropriate and illegal to award the contract in an unrevised form. To allow such a procedure would be grossly unfair to other bidders and would not afford the Government the full advantages of true competition.

Instead of awarding the contract for work significantly different from that known to be required, the contracting officials should have followed other methods available to them to assure the best possible price to the Government. For example, they could have reissued invitation for bids after all known requirements had been incorporated therein or, if time or other circumstances did not permit procurement by formal advertising, they could have used the competitive negotiation method for the procurement.

In our report, submitted in June 1964, we recommended that the Secretary of Defense bring our findings to the attention of contracting officials to emphasize (a) the legal requirement for including in the invitation for bids the work actually required at the time of the award and (b) the possible adverse effects of amending advertised contracts by negotiated change orders. We stated also that under the circumstances the only proper method of payment to the contractor was on the basis of the fair value of the work performed and that the Army should make a study to determine

the value of the work performed and recover any amounts paid to the contractor in excess of reasonable value.

On September 14, 1964, the Deputy Assistant Secretary of Defense (Procurement) advised us that he did not agree that the contract award was illegal or that the only proper method of payment under the contract is on the basis of the fair value of the work performed. We are giving this matter further attention.

21. Need for the Army to recognize impropriety of awarding advertised contracts in the absence of effective competition--The Army incurred unnecessary costs of about $28,000 for clutch pressure plates through the inappropriate use of formal advertising procurement procedures. Formal advertising was inappropriate in this case because there was only one manufacturer and each of the bidders contemplated obtaining the item from that manufacturer. The Army realized that the low bid was excessive, but it failed to reject the bids and negotiate a more reasonable price with the sole-source manufacturer. Had the Army done this, it would have been in a sound position to negotiate a price about $28,000 less than that paid under the advertised contract.

At the time of our review the Army was planning to use formal advertising procedures in the procurement of an additional quantity of the clutch pressure plates. However, after we brought our findings to the attention of the contracting officials, the procurement was made under a negotiated contract and, with the cost information we furnished, the Army was able to negotiate a price that resulted in savings of about $56,000. We recommended that, in order to provide contracting officers with adequate information to evaluate bids, the Secretary of Defense revise current procedures so that bidders will be required to state whether they intend to manufacture the items bid upon, to buy them from another source, or to furnish them from available inventories.

ADMINISTRATION OF CONTRACT TERMS AND CONDITIONS

22. Action taken to correct uneconomical practices in furnishing supplies to contractors--The Army incurred unnecessary costs of about $145,000 because of the method used in furnishing ammunition to a contractor for use in test-firing newly produced M14 rifles. The contractor was the producer of the rifles and the ammunition for the rifles. Therefore, the Army could have furnished the ammunition by diverting unpackaged quantities from the contractor's own production. We found, however, that significant quantities of the ammunition furnished to the contractor either had been (a) produced by the contractor, shipped to Army depots and then returned, (b) unnecessarily packaged by the contractor and then unpackaged, or (c) produced by another contractor. As the result of our bringing this matter to its attention, the Army modified its ammunition contract to provide for the diversion of unpackaged ammunition for test-firing rifles being produced by the same contractor.

In another case, the Air Force incurred unnecessary packaging costs in furnishing repair parts to a contractor for use in overhaul and repair of aircraft equipment. The overhaul and repair contractor was also the Air Force's major supplier of repair kits. The contractor's records showed that from December 1957 to September 1962 about 27,500 packaged repair kits had been used as Government-furnished property in connection with overhaul work performed for the Government. We estimated that the Government paid about $200,000 for packaging the kits. These costs could have been avoided by the use of appropriate contract provisions which would have precluded the packaging of kits destined for use at the contractor's plant. We found also that the Government paid $144,000 for the packaging of about 12,500 kits which had not in fact been packaged. The parts for the kits had either been merely moved in bulk quantities from the contractor's storerooms to its overhaul department or had been shipped to Air Force installations in bulk quantities to save time in meeting critical needs. After we brought this matter to the attention of the contractor, the Government received credits of about $144,000 for the packaging which the contractor had charged but had not performed.

On December 27, 1963, the Deputy Assistant Secretary of Defense (Procurement) advised us that the military departments had been directed to incorporate provisions, in current and future contracts whenever applicable, to the effect that material ordered by the Government but used by the contractor in connection with other

activities or services performed for the Government would not be packaged.

23. Action taken by the Army to assure timely delivery of Government-furnished repair parts to overhaul contractors--A contract awarded by the Army for the overhaul of helicopter engines provided that certain of the parts needed in the performance of the contract would be Government-furnished material. However, the Army failed to furnish the parts on a timely basis and the contractor was therefore unable to meet the delivery schedules. The failure was attributable to a lack of coordination among responsible officials of the Army Aviation Materiel Command. Delays in delivery ranged from 7 months to 1 year. In a report submitted in June 1964, we pointed out that, because of these delays, the 22 helicopters assigned to the United States Army Aviation School, Fort Rucker, Alabama, were grounded about 60 percent of the time for lack of serviceable engines. As a consequence, many training courses were either canceled or curtailed in fiscal years 1962 and 1963. The Army concurred in our proposals for coordination between materiel management and procurement personnel of the Army Aviation Materiel Command.

24. Need for the Army to strengthen its procedures for inspection and acceptance of supplies--The Army procured a quantity of rocker arm assemblies for combat vehicle engines. The assemblies produced by the contractor were defective but the Army did not perform an adequate inspection and accepted them. Efforts to rework the assemblies and make them usable were unsuccessful and the Army had to procure additional assemblies from another contractor to meet its needs. The defective assemblies cost the Government about $156,000 including the costs incident to unsuccessful efforts to rework them. We proposed that the Army initiate action to recover these costs from the contractor and that it review the contracting and contract administration procedures of the responsible procurement office and take appropriate corrective action. The Army agreed.

On November 14, 1963, the Deputy Assistant Secretary of the Army (Installations and Logistics) informed us that the case was being referred to the Department of Justice for analysis and determination of available legal recourse and for assistance in recoupment from the contractor and that further efforts at recovery by

the Army and disposal of the defective material was being deferred pending advice from the Department of Justice.

25. Need for the Army to strengthen its procedures for surveillance of contract provisions pertaining to use of surplus parts--The Army awarded a contract for the overhaul of aircraft engines which contained a provision that, if use of former Government surplus property were contemplated by the contractor, a complete description of the parts and circumstances of acquisition should be disclosed; the parts should meet quality control standards as approved by a Government inspector; and written authorization for use of the parts should be obtained from the contracting officer.

Prior to the date of the contract the contractor purchased, from a supplier which the contractor knew or should have known to be a dealer in Government surplus parts, 352 different parts at a price of $71,858 for the entire lot. At least some of these parts were former Government surplus. The contractor used parts out of this lot in the performance of the engine overhaul contract without disclosure to the Government or approval of the contracting officer as required by the terms of the contract. We identified 15 such parts for which the Government was charged $321,854--the replacement cost. We were denied access to pertinent cost records and were unable to determine what portion of the $71,858 paid by the contractor for the entire lot of 352 parts was applicable to the 15 parts used on the Government contract and what rework costs, if any, were incurred.

We brought our findings to the attention of the Army and were informed that the Army was reviewing the legal aspects of this case in coordination with the Department of Justice. We recommended, and the Department of Defense concurred, that procedures be strengthened to assure compliance with contract provisions pertaining to the use of surplus parts.

26. Need for contract administrators to detect significant variation in prices of identical or comparable items sold for Government use--The Government incurred increased costs of about $500,000 in 1961 because the prices paid by Air Force contractors for ammonium perchlorate (an ingredient of solid propellants for missile and rocket propulsion systems) were generally higher than the prices paid by the Navy under contracts negotiated directly with one of the principal suppliers.

Recent instructions issued by the Department of Defense to promote the exchange of cost and pricing information by military departments or procuring activities should provide more effective bases for negotiation of fair and reasonable prices. However, the instructions seemed to place most of the responsibility upon the purchasing or approving activities for requesting such information from other purchasing activities. We believe the exchange of information could be made more effective if the essential pricing data were obtained at the suppliers' locations by the agency personnel who are responsible for directly maintaining the Government's relationships with the suppliers.

Accordingly, in our report submitted in January 1964, we recommended that the Secretary of Defense take action to require Department of Defense personnel having responsibilities for the administration or surveillance of prime contracts or subcontracts (a) to review periodically items sold for the Government's use, (b) to identify identical or comparable items sold at varying prices, and (c) to report significant variations in prices to the appropriate purchasing activities for consideration in future procurements or for obtaining price adjustments on past procurements, if the circumstances warrant such action.

DEVELOPMENT AND PROCUREMENT OF NEW TYPES OF EQUIPMENT AND SYSTEMS

27. Procedures strengthened by the Navy to assure selection of appropriate frequency bands prior to procurement of new types of electronic equipment--The Navy spent about $1.1 million for the design, development, and limited-quantity production of a radar altimeter which proved to be of no value to the Navy. In our report submitted in August 1963, we pointed out that the altimeter was designed to operate in a frequency band which was not suitable for operational purposes and had not been authorized by the Director of Naval Communications. After a suitable frequency band had been selected and authorized, it became necessary to completely redesign the item. The contractor stated that the redesign changes were so extensive that the experience gained under the original design and development contracts was of little or no value. We proposed, and the Navy concurred, that the Office of Naval Material be in possession of written approval by the Director of Naval Communications before it approves any contracts for electronic equipment using frequency bands.

28. Need for strengthened controls to preclude volume production of newly-designed equipment without reasonable assurance of its successful performance--We found that hundreds of millions of dollars were committed to volume production of new types of equipment and systems without reasonable assurance that known problems and deficiencies, revealed in the developmental and test stages, could be solved and that the items would have the required performance characteristics. The more significant of our findings are discussed below.

In February 1964, we reported that the Army spent about $300 million for the development and production of a certain missile system which had not met the required performance characteristics and had not improved the Army's capabilities. The system was an unsatisfactory weapon because of its unreliable accuracy and because of the tactical problems related to unusually stringent maintenance requirements and a high degree of susceptibility to electronic interference. Because of these deficiencies the tactical units, to which the system was deployed, requested existing older weapons as replacement of the system. The unsatisfactory characteristics of the weapon were known at the points in time when the Army ordered successively increasing quantities of the weapon.

At least $100 million, of the $300 million spent for the missile system, was a clear waste of funds. This amount represents the cost of missiles and related equipment procured for issue to the troops after it became known that the weapon was unsuitable for tactical use. A substantial but undetermined portion of the remaining $200 million spent for the system was also wasted.

The failure of this program and the resulting waste of funds were caused by fundamental deficiencies in the Army's management of the program, namely the lack of effective methods for gathering and considering available and essential information, for relating such information to program objectives, and for assuring that program decisions further these objectives by specifying minimum results to be obtained. Accordingly, we recommended to the Secretary of Defense that the management control of weapon systems programs be strengthened by improvements in the decision making processes to provide for closer accountability for program decisions and program actions. On April 13, 1964, the Director of Defense Research and Engineering outlined to us certain projects which had been put into effect to improve management control of weapon system programs. He stated also that the Secretary of Defense had directed that a Defense Weapons Systems Management School be established.

The Navy, in order to fulfill a need for a fast jet-powered seaplane for laying mines, began its P6M seaplane program in 1951. Because of delays, increased costs, and unexpected difficulties with the aircraft, the program was terminated in 1959 without having produced a single serviceable aircraft. In our report submitted in March 1964, we stated that about $445 million was spent on the program: $236 million for development, engineering and fabrication of experimental and prototype aircraft and $209 million for 24 production aircraft.

At the time the contracts for the 24 production aircraft and for related supporting items were awarded, it was known that serious problems had developed in the prototype aircraft and that the problems had not been solved. The Navy conceded that the problems were serious, that their solution was uncertain, and that considerable risk was taken in proceeding with production but expressed the belief that its decision to proceed with production, until termination of the program in August 1959, was appropriate in the

light of the then existing situation. The Navy acknowledged, however, that, on the basis of a current assessment, it should have terminated the program at an earlier date. The Navy agreed with our proposal that, in the future, costly quantity production of new weapons systems not be authorized until the contractor has given adequate evidence that a satisfactory operational product has been developed.

MANPOWER UTILIZATION

29. Screening procedures strengthened by the Navy to preclude enlistment of unqualified personnel--We pointed out in a report submitted in February 1964 that the Navy did not adequately screen applicants for the Regular and Reserve Forces to determine whether they were mentally qualified to absorb naval training. Tests and examinations to measure mental qualifications and learning ability were given after the applicants had been accepted for enlistment and had commenced active duty. In calendar year 1962 the Navy discharged about 1,900 Regular and Reserve recruits while undergoing basic training because the Navy found that they lacked the necessary mental capacity or the ability to absorb training. The Navy estimated that it expended about $1.2 million on these 1,900 recruits.

The Navy took certain steps after we started our review, and additional steps after we completed our review, to strengthen the preenlistment mental screening of its Regular and Reserve applicants.

30. Savings to result from consolidation of public information operations--During the last half of fiscal year 1963, there were approximately 450 persons engaged in public information activities, in the Office of the Assistant Secretary of Defense (Public Affairs) and in the public information offices at the headquarters level of military departments, at a total cost of about $3.8 million annually. We pointed out that consolidation of these activities under a single Defense organization would permit improved distribution of workload and more efficient utilization of personnel and would save about $1 million annually.

On May 16, 1964, the Assistant Secretary of Defense (Public Affairs) informed us that the Secretary of Defense had approved the consolidation of public information functions relating to liaison with magazine and book media, with national organizations, and with industry, and that consolidation of other functions was under study.

31. Need for the Army to utilize its trained enlisted personnel more effectively--Our review of the Army's utilization of its trained enlisted personnel showed that about 35,000 of such personnel were not utilized in duties commensurate with their military or

civilian training and experience. The training which the 35,000 men had received at a cost of about $48 million was being wasted. This condition stemmed primarily from the fact that (a) assignments of enlisted personnel to installations were made on the basis of data that did not accurately reflect the true needs of those installations and (b) installation commanders were permitted to utilize the personnel assigned to them in any duties they deemed appropriate.

The Army advised us that the rate of misassignments disclosed by our review was consistent with its own findings but that it did not consider the rate (about 4 percent) to be excessive. We expressed the belief that the rate could be reduced through more effective controls and cited the Air Force, whose controls were more effective and the rate of misassignments was significantly lower than those of the Army, as an example.

Accordingly, we recommended that the Secretary of the Army (a) revise current regulations to preclude installation commanders from changing the primary occupational specialty of enlisted personnel without obtaining authorization from higher commands on the basis of clear justification, and (b) require installation commanders to report to higher commands all enlisted personnel who are not being utilized in their primary military occupational specialties. The Secretary of the Army did not concur in our recommendation but informed us on July 9, 1964, that other actions were being taken to improve the effectiveness of controls over personnel.

32. Personnel reductions and other savings could be realized by consolidation of supply management operations at the Atlantic Missile Range--The Atlantic Missile Range provides facilities and support for missile and space programs conducted by the Air Force, Army, Navy, and National Aeronautics and Space Administration. Each of these agencies has one or more contractors who also use the range in connection with tests and development of missiles and space vehicles. Many of the users of the range operate their own supply organizations. At the time of our review there were 22 separate supply organizations at the range.

In a report submitted in March 1964, we stated that, if a single organization were assigned management responsibility for all

supply items except those peculiar to the needs of individual contractors using the range, the annual administrative costs of $7.5 million, incurred by the 22 separate organizations could be reduced by more that $1 million principally by reduction in personnel. Additional significant savings would likely accrue from a consolidation of supply requirements of all organizations which would permit the lowering of stock levels and a consequent reduction in funds invested in inventories. Reductions in inventories and their management by a single organization should, in turn, minimize the accumulation of excess stocks and result in more economical utilization of available storage facilities and in reduction in the cost of supporting equipment, maintenance, and utilities.

We therefore, recommended that the Secretary of Defense designate a single organization to provide supply support to all organizations at the Atlantic Missile Range and take action to effect the consolidation of all supply activities at the range. The Secretary of Defense agreed in principle with the recommendation.

33. Savings could be realized if Government personnel rather than contractor-furnished personnel performed certain services for the Air Force--Certain technical services needed by the Ground Electronics Engineering Installation Agency at the Fuchu Air Force Base, Japan, were being performed by contractor-furnished personnel at higher cost than if the services were performed by Government personnel. We estimated that the additional cost was about $230,000 in fiscal year 1963. The Air Force did not agree with our conclusion that it would be more economical to use civil service employees, in the positions occupied by contractor-furnished employees, and furnished us cost estimates on which it based its position. Our analysis of these cost estimates did not change our conclusion. Accordingly, we recommended to the Secretary of Defense that the Air Force undertake measures to assure conversion of contract positions to civil service positions wherever and whenever practicable.

On June 4, 1964, we were informed by the Office of the Assistant Secretary of the Air Force (Installations and Logistics) that the Air Force recognized that there were opportunities for improvement in the management of its Contractor Technical Services program

and that a special review was being conducted by the Air Force to insure full understanding and compliance with existing policy relating to use of contractor-furnished personnel. With respect to the situation at the Fuchu Air Force Base, however, the Office of the Assistant Secretary reiterated the earlier position of the Air Force that use of civil service employees would not be more economical.

34. Need for reevaluation of the utilization of Reserve Recovery Squadrons of the Air Force--The Reserve Recovery Squadrons were established at civilian airports as a part of the Air Force Reserve Forces to carry out certain missions in the post-attack periods namely, to recover aircraft and aircrews unable to land at their home bases by providing them with ground support, and to assist in regrouping and evacuation of Air Force residual resources after an enemy attack. The squadrons were also assigned the mission of providing ground support to aircraft and aircrews dispersed from their home bases during prehostility periods of increased tension.

The Air Force established 200 such squadrons at various airports in the United States. The selection of the airports was made before ascertaining the needs of the major Air Force commands which the squadrons were intended to serve. As a result, the airports selected for over 100 of the squadrons reduced the squadrons to a doubtful usefulness in the event of an emergency. These airports (a) were located in areas of high vulnerability to enemy attack, had inadequate facilities, or otherwise did not meet requirements, (b) were at unreasonably long distances from the home cities of the units thus reducing the units' capabilities to react quickly in the event of an emergency, or (c) were already occupied by military units capable of performing the mission assigned to the squadrons. We stated that unless the Air Force could find some way of effectively using these squadrons, more than half of some $30 million appropriated to the time of our review for the Reserve Recovery program will have been largely wasted.

We found also that the premature establishment of squadrons brought about the development of manning tables that were not based on the actual needs of the major using commands. As a consequence, the manning tables may have included positions that are not likely

to be necessary during periods of emergency. To the extent that unneeded positions are filled or will be filled, the costs of drill pay and other expenses involved in training these personnel are largely wasted.

We therefore recommended that the Secretary of Defense consider for immediate inactivation those Air Force Reserve Recovery Squadrons for which there was no foreseeable need and that further inactivations be made as necessary upon completion of a study then being made by the Air Force. Since the Air Force had for more than a year been seeking ways to support retention of improperly located squadrons, we recommended further that the Secretary of Defense require the Air Force to fully document the need and justification for any new missions proposed for these squadrons.

Subsequently the Air Force announced that, beginning on July 1, 1964, 91 of the Reserve Recovery Squadrons and 40 Reserve Recovery Groups would be inactivated with a total reduction of 8,500 in Reserve personnel.

MAINTENANCE, REPAIR, AND OVERHAUL

35. Controls strengthened to preclude wasteful practices in the use of repair parts kits--We found that millions of dollars of unnecessary costs had been incurred by the Air Force because insufficient management attention had been devoted to the use being made of repair parts kits in the repair and overhaul of aircraft. As a consequence, kits were procured which contained a great many parts that were not used, or were used only rarely, in the repair and overhaul operations. Most of the new unused material was disposed of as scrap along with the used parts that had been replaced. A projection of the results of our tests at four overhaul centers indicated that the cost of kit parts procured unnecessarily during fiscal year 1962 at these locations exceeded $10 million. Other unnecessary costs were also incurred because kits had been used to support certain types of overhaul activities in which their use was neither logical nor economical.

The basic weakness in the kit policies and regulations was that the criteria prescribed for determining which parts would be included in repair kits were unrealistic. This was compounded by the failure of the regulations to provide for periodic analysis of actual usage experience with kits so that the kit contents and packaging could be revised to suit the needs of the overhaul activities. When our findings were brought to the attention of the Air Force, a reevaluation of the existing kit policies was promptly undertaken, and significant revisions were made in the regulations and procedures affecting the use of depot repair kits.

The Departments of the Army and the Navy also have significant programs involving overhaul of aircraft and other types of equipment. A preliminary review in the Navy disclosed that the Navy policies and regulations relative to repair kits were essentially the same as those used by the Air Force prior to our review. Accordingly, we recommended that the Secretary of Defense direct that a review be made of the use of repair kits in both the Army and the Navy and requested that we be advised of the results of that review. The Acting Assistant Secretary of Defense (Installations and Logistics) informed us on March 23, 1964, that the Army and the Navy had completed such reviews and had made appropriate revisions in their policies and regulations.

36. Action taken by the Marine Corps to improve its practices in maintenance of combat vehicles and equipment--Our review of combat vehicles and other combat equipment assigned to the 3d Marine Division (Reinforced), Okinawa, revealed that large quantities of combat equipment had been out of service for extended periods in fiscal year 1962. In a report submitted in October 1963, we stated that the unsatisfactory condition of the equipment was attributable to inadequate emphasis on maintenance and to shortages of needed repair parts. We found also that the quarterly reports on combat readiness, submitted by the division to higher headquarters, did not contain sufficient information for the proper evaluation of the condition of the equipment. We returned to Okinawa after we had informally brought our findings and proposals for corrective action to the attention of the Marine Corps and the Department of Defense and had been informed of the actions the Marine Corps had taken or planned to take. Our follow-up showed that the division's equipment and material readiness had improved substantially.

37. Need for the Army to improve its practices in maintenance of combat equipment--Our review of the combat readiness of the Army's armored divisions at Fort Hood, Texas, revealed that the aircraft were not adequately maintained and, to the extent that aircraft are used in combat, the combat readiness of the divisions was impaired. As stated in our report submitted in June 1964, most of the aircraft of the 1st Armored Division required extensive maintenance at the time of the preparations for emergency deployment during the Cuban crisis. Deployment occurred intermittently over a 26-day period and not all of the maintenance was performed before deployment. The aircraft of the 2d Armored Division were in similar condition.

The factors contributing to the unsatisfactory condition of the aircraft included (a) failure to follow prescribed procedures in performing daily inspections, (b) lack of adequate training and qualifications of the personnel assigned to inspection and maintenance operations, (c) failure to take timely action after the need for maintenance became apparent, and (d) lack of repair parts. We proposed to the Army certain corrective measures which the Army considered to be generally sound and informed us that directives to implement the proposals had been issued.

In a similar review at the Army's Fort George G. Meade, Maryland, we found that during preparation for deployment to Berlin in the fall of 1961, most of the combat and combat-support vehicles of the 3d Armored Cavalry Regiment, a Strategic Army Corps Unit, were out of commission and were not made completely battle ready after 18 days of intensive effort.

In our report submitted in July 1963, we stated that the vehicles had been in poor condition as far back as 1959. This resulted from inefficient inspection practices and from failure to maintain stocks of repair parts at adequate levels. Furthermore, the system of reporting had indicated to higher authority a much better situation as to the readiness of the vehicles than actually prevailed. The Army agreed that the combat and combat-support vehicles of the 3d Armored Cavalry Regiment were not in as high a state of combat readiness as was desirable, but stated that the unit was equipped with "combat serviceable" vehicles when deployed. The Army also recognized that problems existed and cited several Army regulations and current programs for improvement in procedures and practices.

We found also that the capability of certain units of the United States Eighth Army in Korea to perform sustained combat was seriously impaired because significant quantities of essential communication and electronic equipment were inoperable. In our report submitted in April 1964, we stated that some of the equipment had been inoperable for periods as long as 150 days. This condition existed because (a) personnel responsible for maintenance operations had failed to stock adequate quantities of repair parts, (b) maintenance personnel were misassigned and were lax in performing their duties, and (c) unit commanders were not sufficiently aggressive in correcting known deficiencies in the maintenance operations.

In response to our findings and proposals for corrective action, the Department of the Army informed us of the measures being instituted by the Eighth Army. These included (a) unannounced maintenance management inspections, (b) aggressive follow-up of deficiencies identified during the inspections, (c) unannounced alerts to test operational readiness, and (d) reassignment of military personnel not properly carrying out their assigned functions.

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38. Need for controls to assure that decisions whether to repair or to procure new items are based on relative costs--The Government incurred unnecessary costs of about $7.2 million because the Army rebuilt used track for tanks instead of procuring new track. In a report submitted in June 1964, we stated that the Army had overlooked the fact that the low-grade steel in the used track precluded economical rebuild of the track. When the rebuilt track was installed in tanks it failed prematurely creating safety hazards to personnel and impairing the combat effectiveness of the Army. In many instances the rebuilt track failed after less than 500 miles of service as compared with the life expectancy for new track of at least 1,500 miles.

We estimated that the Army could have procured a substantially lesser quantity of new track and obtained at a cost of about $5.3 million the same total mileage that it obtained from the track that was rebuilt at a cost of about $12.5 million. In accordance with our recommendation, the Secretary of Defense agreed to bring our report to the attention of appropriate officials in the military departments to emphasize the importance of determining relative costs of rebuild and new procurement.

39. Need for the Army to reconsider its practice of having commercial contractors perform aircraft maintenance work of the type normally performed by mechanics attached to military units--In a report submitted in May 1964, we stated that aircraft mechanics of the 101st Airborne Division, Fort Campbell, Kentucky, were deprived of experience and training essential to the accomplishment of the unit's mission because they were assigned duties unrelated to their primary qualifications. Most of the aircraft maintenance work which they could have and should have performed was performed by a commercial contractor at a cost of about $237,000 annually. The Army agreed with our proposal that (1) action be taken to assure that military maintenance companies perform at maximum capability and (2) a review be made of maintenance contracts, at Fort Campbell and at other installations, with a view of eliminating unnecessary contracts.

ACQUISITION AND UTILIZATION OF AUTOMATIC DATA PROCESSING EQUIPMENT

40. Savings being realized through purchase of leased equipment installed in military installations--Our reviews at selected military installations which were using leased automatic data processing equipment disclosed that this method of procurement of the equipment installed at those installations was substantially more costly to the Government than procurement by purchase. In several instances, the military departments purchased the leased equipment, after we had brought the matter to their attention, prior to completion of our review at that installation. One such instance which we reported in December 1963 involved the leased equipment installed at the Kirtland Air Force Base, New Mexico. The Air Force purchased the equipment as of July 1, 1963. We estimated that the purchase would result in savings of about $1.78 million in the first 3 years and about a million dollars each year the equipment is used thereafter.

Another instance which we reported in June 1964 involved the leased equipment installed at the Army Finance Center, Indianapolis. The Army purchased the equipment in February 1964. We estimated that the purchase would result in savings of about $1.15 million in the first 5 years and about $485,000 each year the equipment is used thereafter.

In response to our reports, the Department of Defense advised us that it had made its own study for the purpose of evaluating the financial advantages of purchasing the automatic data processing equipment it was leasing. Following the study, the Department purchased at a cost of about $200 million some of the equipment which theretofore was leased. We estimated that purchase of the equipment would result in savings of about $282 million over a 10-year period.

41. Savings could be realized in many instances if equipment leased by contractors for use in Government work were purchased by the Government--During the year we submitted 10 reports on our reviews, conducted at plants and offices of selected contractors which were leasing automatic data processing equipment primarily for use in performance of Government contracts, of the costs to lease as compared with costs to purchase such equipment. The reports presented our findings that leasing by these contractors resulted in greater costs to the Government, in the form of

reimbursable costs and as elements of contract prices, than would have been incurred if the Government had purchased the equipment and furnished it to the contractors for use on Government work. We estimated that, with respect to the leased equipment installed in the plants and offices of these contractors at the time of our review, the costs being incurred by the Government would exceed purchase costs by about $18 million over a 5-year period. Furthermore, the Government would not own the equipment at the end of that period and would continue to bear rental costs for further use.

In determining whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where it is installed. It is our view, however, that, when the Government in effect exclusively or predominantly bears the cost of such equipment, the decisions affecting such costs should be based on the usefulness of the equipment throughout the Government. We believe that there is a need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government.

In view of the substantial financial savings that can be realized through improved management of this function, we repeated in these reports our earlier recommendation that the President of the United States establish in his organization a central management office suitably empowered with authority and responsibility to make decisions on the procurement and utilization of data processing equipment with the objective of obtaining and utilizing all needed facilities at least cost to the Government. We recommended also, as an interim measure pending action on the foregoing recommendation, that the Secretary of Defense consider either purchasing the leased equipment we identified in our reports and furnishing such equipment to the contractors or limiting the amounts the contractors are permitted to charge to Government contracts to an appropriate allocation of the cost of ownership.

We have been advised that the military departments have initiated studies to reappraise leases of automatic data processing equipment of Government contractors and that, upon completion of the studies, the Department of Defense will take the necessary

action to realize financial savings that may be available. However, the Department expressed its intention to avoid furnishing data processing equipment to Government contractors as Government-furnished equipment unless the equipment is already Government owned and in an excess status. We have been further advised that the Department of Defense is considering a revision of the Armed Services Procurement Regulation that will, under certain conditions, limit reimbursement of lease costs to the equivalent of contractor ownership costs.

ADMINISTRATION OF MILITARY PAY AND ALLOWANCES

42. Savings to result from strengthened controls over temporary duty assignments in the Navy--The practices followed by the Navy in administration of temporary duty assignments resulted in millions of dollars of unnecessary per diem payments to military personnel. We found, as discussed below, that (a) prospective crew members of nuclear-powered submarines were assigned under temporary duty orders rather than permanent duty orders, (b) military personnel were paid per diem for periods prior to the dates their temporary duty was scheduled to begin, and (c) military inspection representatives at plants of Japanese contractors had been assigned under temporary duty orders to the same locations for continuous periods of up to almost 4 years.

Prospective crews of nuclear-powered submarines were assigned to construction sites for the purpose of observing and familiarizing themselves with construction details during the construction period, checking technical drawings and instruction manuals relating to the equipment being installed, and acting as additional inspectors to assure proper installation and functioning of the equipment. The crew members were assigned under temporary duty orders and were paid per diem. We found that in the period March 1959 to October 1963 the Government incurred unnecessary costs of about $6.1 million in per diem payments because the crew members had been placed on temporary duty rather than permanent duty at the construction sites.

It was known at the time the crew members were placed on temporary duty that (a) the duty at the particular shipyard sites would be for extended periods, (b) the crew members could, and in fact did, live under permanent-duty conditions, and (c) the crew members would not, and did not, incur extra living expenses. We proposed to the Secretary of Defense that the Navy be directed to assign prospective crew members to construction sites under permanent-duty orders when the duty would exceed a reasonable period. The Department of Defense agreed and advised us that the Navy was taking the necessary action. The Navy's action should result in a saving of about $9.2 million in per diem payments to prospective crews of nuclear-powered submarines under contract at the time of our review.

Another practice of the Navy resulted in unnecessary per diem payments of about $600,000 annually to military personnel who reported to temporary duty stations prior to the dates the temporary

duty was scheduled to begin. We found (a) that personnel who had been authorized to take leave prior to the temporary duty did not take the leave and elected, instead, to report early, and (b) that some order-issuing commands had established reporting dates that were in advance of the dates the temporary duty was scheduled to start. We recommended that the Secretary of the Navy issue definitive instructions and guidelines which will provide for uniform implementation of Department of Defense policy relating to payment of per diem for early reporting at temporary duty stations. On May 18, 1964, the Assistant Secretary of Defense (Manpower) replied to our report and informed us that the Navy was developing instructions to meet the objectives of our recommendation.

We found also that military personnel of the Navy and the Marine Corps, serving as military inspection representatives at plants of Japanese contractors in Tokyo and Osaka, Japan, had been placed on temporary rather than permanent duty although they had been assigned to the same locations for continuous periods of up to almost 4 years. In our report submitted in October 1963 we stated that these personnel were improperly placed on temporary duty and that the per diem received by them in that status was illegally paid by the Navy. We identified about $265,000 of such payments made to 40 inspectors in the period July 1, 1959, to June 30, 1962. Of this amount, the unnecessary cost to the Government was about $203,000 since the Navy would have paid the inspectors allowances of about $62,000 had they been placed on permanent duty.

After we brought our findings to its attention, the Navy placed the inspectors on permanent duty and revised its instructions to clearly prohibit consecutive periods of temporary duty at the same location. However, the Navy did not agree with our proposal that the illegal payments be recovered from the individuals involved. The Navy stated that it recognized the dictum that no one may retain that to which he is not entitled, but felt that recovery action was unconscionable since competent officials had administratively misinterpreted the spirit of the Joint Travel Regulations although they had complied with the letter of the law. Contrary to the Navy's view, the record shows that the Navy did not comply with the law. Accordingly, we issued formal exceptions against the accounts of the disbursing officers who made the illegal payments. We advised the disbursing officers that the amounts of the exceptions may be reduced by the permanent duty allowances to which the inspectors would otherwise have been entitled.

43. Savings to result from strengthened controls over payments to Reserve officers on annual active duty--Naval Reserve officers on annual active duty training were paid for days on which no training or necessary travel was performed. We found instances where officers traveled by privately owned automobiles and were paid for up to 5 days' travel time in excess of that which would have been required by air common carrier. We found also that officers residing within commuting distance of their active duty training sites were unnecessarily required to report the day before training started and were not released promptly after training was completed. In our report submitted in September 1963, we stated that these practices resulted in unnecessary costs to the Government of as much as $600,000 a year.

We extended our review to the Army and the Air Force and found similar practices with respect to pay and allowances of Army and Air Force Reserve officers on annual active duty training. In our report submitted in May 1964, we stated that the practices of the Army and the Air Force resulted in unnecessary payments totaling about $620,000 in fiscal year 1963.

In response to our findings and recommendations, the Department of Defense instructed the military departments to revise their regulations so as to preclude unnecessary payments of the type disclosed in our review. The military departments have revised their regulations pursuant to the instruction.

44. Action taken to reduce unnecessary storage of household goods for military personnel--In a report submitted in December 1963, we pointed out that the Government was incurring unnecessary costs of about $1.2 million annually because shipments of household goods arriving at servicemen's new duty stations were placed in temporary storage even though Government quarters or civilian housing were available when the shipments arrived. We proposed to the Department of Defense certain specific measures to improve coordination among transportation officers, housing officers, and service personnel in order to minimize unnecessary storage of household goods. The Department of Defense advised us that instructions were being issued in conformity with our proposals.

45. Regulations and procedures to be strengthened governing recovery of shipping costs applicable to household goods in excess of weight allowances--We found that the Government was incurring unnecessary costs of about $250,000 annually because Army military personnel avoided excess weight charges for shipment of household goods by improperly claiming weight for more professional books, papers, and equipment than they actually had shipped. (Household goods shipped at Government expense are subject to weight limitations; professional items are not subject to weight limitations.) Improper claims for professional items were allowed because transportation officers had not examined the shipments to satisfy themselves that the weights claimed were actually for professional items. Furthermore, the travel regulations did not clearly define what constituted professional books, papers, and equipment. We recommended certain corrective measures and on May 6, 1964, the Assistant Secretary of Defense (Manpower) advised us of the actions taken on the recommendations. He stated that the Joint Travel Regulations were being amended to more clearly define items which may properly be classified as professional items and that instructions were being issued by the Defense Traffic Management Service to insure inspection and an appropriate certification in those cases where the weight of professional items claimed would affect assessment of excessive weight charges against servicemen.

46. Action taken to improve reporting of taxable income and taxes withheld by the Air Force--The Air Force inaccurately reported to the Internal Revenue Service the taxable income and the taxes withheld from the pay of its military personnel. We stated in our report submitted in December 1963 that about $2.7 million of service members' income subject to Federal income tax was not reported for 1961 and that about $780,000 of income not subject to tax was reported. The same errors were included in the statements furnished to the individual service members for their use in filing income tax returns. If the taxable income not reported were taxable at the minimum rate of 20 percent, the potential loss of revenue to the Government for 1961 would be about $540,000. The Government could be required to make refunds of about $156,000 to those service members whose taxable incomes were overstated. Also, errors in the reporting of taxes withheld for 1961 resulted in certain members' receiving credit for about $158,000 of taxes not actually withheld, while others did not receive credit for about $212,000 that had been withheld.

Similarly, because of improper determinations of wages subject to social security tax, the Government did not collect taxes in 1961 on wages of approximately $164,000 from some members, while others paid taxes on wages of about $123,000 for which they were not actually liable. These errors also resulted in erroneous payment by the Air Force to the Internal Revenue Service of its share of social security taxes. A further consequence of the incorrect reporting of wages is the possible effect on the amount of social security benefits to which individual service members may eventually become entitled.

After we brought our findings to the attention of the Department of Defense, the Air Force issued instructions emphasizing the necessity for review of the taxable nature of items of entitlement in the audit of military pay records and provided for reconciliation of the income and tax data appearing on military pay records with the data submitted to the Internal Revenue Service. The Air Force also undertook a review of its records for 1962 to identify discrepancies between the pay records and the data submitted to the Internal Revenue Service for that year and is making arrangements to report the discrepancies for both 1961 and 1962 to the Internal Revenue Service. We also brought our findings to the attention of the Commissioner of the Internal Revenue Service. In reply, he stated that, upon receipt of the report of discrepancies from the Air Force, appropriate action would be taken to protect the interests of both the Government and the taxpayers.

47. Controls strengthened by the Army to preclude improper payments to military personnel for travel of dependents--Army personnel, through fraud or error, claimed reimbursement and were paid for travel of their dependents despite the fact that the Government had paid common carriers directly for the transportation. We estimated that such payments totaled about $181,000 in the calendar years 1958 through 1962. The Army had no effective controls to detect improper claims. We brought our findings and proposals for corrective action to the attention of the Department of Defense and on December 6, 1963, the Assistant Secretary of Defense (Comptroller) advised us of the measures taken to preclude recurrence. The measures included a requirement that copies of all transportation requests issued for travel of dependents be forwarded to the new duty station of the service member for use in determining entitlement to reimbursement for travel expense.

MILITARY COMMISSARY STORE OPERATIONS

48. Need for clarification of criteria for operating military commissary stores--Although competitive food stores are located near most military commissary stores in the United States, commissary stores have continued in operation and increased in number despite the statutory requirement since 1953 that such stores be authorized only if reasonable prices are not otherwise readily available. The authorization of commissary stores had continued each year because the criteria established by the Department of Defense defeat the purpose of the law. Under these criteria, for example, the prices at all commercial food stores surveyed in the United States during recent years have been found to be unreasonable. In view of the strong competition among commercial grocery stores and their resulting low profit margins, it is apparent that the criteria are illogical. Under any realistic criteria more than half the commissary stores in the United States would be closed.

The manpower expended by the Department of Defense each year in conducting surveys at all commissary stores in the United States for compliance with its criteria, even though it was obvious that the surveys would not in any way restrict commissary operations, has been a waste of effort. We estimated that the wasted effort cost the Government about $100,000 annually or about $1 million since 1953. We estimated also that the operation of the commissary store system in the United States resulted in loss to the Government of almost $150 million a year because commissary store sales prices excluded major operating expenses.

The justification advanced over the years by the military departments for maintaining a widespread commissary store system has been that the fringe benefit has become, as a practical matter, a part of the pay structure for military personnel. We expressed the belief that any inadequacy of pay and allowances to military personnel should be brought to the attention of the Congress as a matter to be decided on its merits, apart from the need of commissary stores.

We suggested to the Chairman, Joint Economic Committee, that the Committee consider recommending to the Congress the enactment of legislation to establish precise conditions under which the operation of military commissary stores may be authorized. Also, to the extent that the operation of commissary stores may be authorized, the Congress may wish to consider providing for selling

prices to be set at the level of competitive commercial retail prices in order to avoid inequities between personnel at installations having commissary stores and personnel at installations not having commissary stores. We expressed the belief that, pending action by the Congress to clarify its position with regard to commissary stores, it would be desirable to omit from future appropriation acts for the Department of Defense the requirement for the annual certification of commissary stores by the Secretary of Defense. This will avoid the expenditure of about $100,000 a year for surveys of the type now conducted for the purpose of authorizing commissary stores.

On May 14, 1964, a member of the Joint Economic Committee introduced a bill in the House of Representatives to restrict the operations of commissary stores and to provide for the charging of approximately commercial prices by the commissary stores that would be operated. This bill was referred to the House Committee on Armed Services for consideration.

UTILIZATION OF COMMUNICATIONS FACILITIES

49. Unnecessary costs being incurred because of delay in consolidating teletype switching functions--The military services operate teletype switching centers adjacent to each other on the west coast and on the east coast. We found that the operations on each coast could be handled by two instead of three switching centers and proposed to the Department of Defense that the switching functions at Stockton, California, and at Cheltenham, Maryland, be eliminated. The Department agreed that these switching centers should be closed. However, the Department felt that this could not be done before the calendar year 1966 because the other centers lacked some of the equipment necessary to absorb the Stockton and Cheltenham operations.

We did not agree. In our report submitted in April 1964, we stated that the Stockton and Cheltenham functions could be systematically phased out during calendar year 1964. We pointed out that delay would cause the Government to incur unnecessary costs of about $3.6 million, in the period July 1964 through December 1966. We recommended, but the Secretary of Defense did not agree, that immediate steps be taken to transfer the switching functions of Stockton and Cheltenham.

50. Savings could be realized if leased teletypewriter machines were replaced with available Government-owned machines--The military services use thousands of leased and Government-owned teletypewriter machines interchangeably in the operation of their teletype communication systems within the continental United States. We reported in May 1964 that the Government incurred unnecessary costs of about $750,000 annually because machines were leased while identical or functionally equivalent Government-owned machines were available. The Department of Defense agreed that Government-owned machines on hand could replace leased machines in some instances but questioned whether such replacements could be made on a large scale because of certain problems that would be encountered. We expressed the belief that the problems cited by the Department could be overcome. We recommended, but the Secretary of Defense did not agree, that the military departments should be required to use excess Government-owned teletypewriter equipment in lieu of leased equipment wherever possible.

ADMINISTRATION OF CIVILIAN PAY

51. Action taken by local management to strengthen control over civilian pay at military installations--Our reviews, at various installations, bases, and stations, of matters relating to civilian pay disclosed many deficiencies in local policies, procedures, and practices. During the fiscal year 1964 we issued to local management officials, 185 reports on our findings and our recommendations for corrective action and the recommended actions were either taken or promised. Examples of the deficiencies most frequently disclosed in our reviews are summarized.

1. Promotion of employees prior to completion of required periods of service.

2. Credits for leave at rates inconsistent with length of employees' service.

3. Inadequate support for absences attributed to military leave or to court leave.

4. Inadequate control over authorization of overtime and granting of compensatory time.

5. Improper payments for holiday and overtime work.

6. Questionable granting of administrative leave.

7. Inadequate control over time and attendance recording and reporting.

8. Errors and omissions in retirement records.

9. Inadequate control over distribution of checks to payees.

52. Need for strengthening of internal audit procedures with respect to civilian pay matters--Our reviews, at various installations, bases, and stations, of matters relating to civilian pay disclosed that the internal audit agencies of the military departments were not devoting sufficient audit effort to payroll operations in the belief, apparently, that such audits could be curtailed because of the auditing work performed by us. Inasmuch as we had found similar conditions in other departments and agencies

of the Government we issued a letter on September 3, 1963, to the heads of all departments and other Federal agencies, pointing out their responsibilities in this area and requesting them to review their internal audit procedures with respect to civilian pay matters and to strengthen their procedures wherever necessary. On October 23, 1963, we were advised by the Office of the Assistant Secretary of Defense (Comptroller) that the internal audit programs of the Department of Defense were being reappraised to assure adequate coverage in the civilian pay area.

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CIVIL DEPARTMENTS AND AGENCIES

ACCELERATED PUBLIC WORKS PROGRAM

53. Need to preclude grants to areas ineligible for accelerated public works funds--In a report issued in June 1964 on our examination of the administration of the accelerated public works program by the Area Redevelopment Administration, Department of Commerce, and other Federal agencies, we reported that grants of over $21,000,000 had been made for 85 projects in areas which were no longer burdened by conditions of substantial unemployment at the time the grants were consummated.

We have been informed by officials of the agencies concerned (1) that it would be unfair to deny assistance to areas which become ineligible during the period required for agency processing procedures because the areas had an investment of time and money in the project, (2) that a firm cutoff date for determination of eligibility was necessary because areas were frequently being designated and dedesignated as eligible areas, and (3) that their policies were legally sound, in accord with the reasonable exercise of administrative judgment, and in accord with the letter and the spirit of the law.

Although we do not consider such grants to be illegally made because neither the statute nor the regulations issued pursuant thereto specifically provide at what point a determination of area eligibility must be made, we believe there is considerable doubt that the Congress intended that assistance under the Public Works Acceleration Act would be granted to areas under the circumstances noted in this report. In our opinion, funds appropriated to assist areas burdened by substantial unemployment should not be used to assist areas which have sufficiently recovered from their unemployment burdens to lose their eligibility. In view of the large backlog of applications for assistance under this act which could not be met because of insufficient funds, it would appear that the agencies should have concentrated their resources on processing applications from eligible areas rather than expediting the processing of applications from areas whose termination was imminent.

We recommended that the Secretary of Commerce adopt a policy and devise procedures to preclude grants to areas which become ineligible during the grant processing procedures and that applicants be advised that all approval actions taken prior to the time

of the formal grant agreement are conditional upon the area's being eligible for assistance at the time of formal agreement.

54. Need for accurate reports on progress and accomplishments--In our examination into the accuracy and reliability of selected information pertaining to the accelerated public works (APW) program reported to the Congress and other interested parties by the Area Redevelopment Administration (ARA), Department of Commerce, we found that the reports contained significant overstatements of the number of jobs estimated to be created by accelerated public works projects approved by the Community Facilities Administration (CFA), Housing and Home Finance Agency. We found also that the reports contained overstatements with respect to the number of actual man-months of work created by CFA approved projects already under construction.

The overstatements resulted from inaccurate estimates by the applicants for grants and from CFA's use of these inaccurate estimates, rather than contractor payroll information, to calculate the amount of actual on-site employment. As CFA projects account for almost one half of all funds appropriated for the accelerated public works program, these overstatements take on added significance.

In a report issued in June 1964 we recommended that the Administrator, ARA, take steps to periodically verify the information reported by the agencies participating in the (APW) program in order to improve the reliability of the information reported in its directories of approved APW projects. We have been advised that ARA is giving serious consideration to our recommendation. We also recommended that the Commissioner, CFA, take steps to provide that procedures followed by that agency result in accurate reporting on its portion of the APW program.

We further recommended that the Administrator, ARA, devise a reporting system which can consistently be used to provide meaningful, cumulative information on actual on-site man-months of work created by APW projects.

AUTOMATIC DATA PROCESSING EQUIPMENT, ACQUISITION AND UTILIZATION

55. Substantial savings to result from purchase by the Atomic Energy Commission of a leased automatic data processing system--Our review of the cost of leasing compared with the cost of purchasing a large-scale automatic data processing system that was being leased at the Atomic Energy Commission's (AEC) contractor-operated Sandia Laboratory showed that significant cost savings could be attained through Government ownership of the system. Subsequent to our discussions of this matter with AEC and Laboratory officials, the system was purchased on June 28, 1963. We estimated that, if the system continued to be used on a two-shift basis, savings to the Government of about $2.7 million will be achieved over a 5-year period and savings of about $1 million will be realized each year thereafter as a result of purchasing the system.

Our review showed also that unnecessary costs of about $512,000 were incurred because the system was not purchased in July 1962 when an adequate evaluation by AEC of the contractor's lease-versus-purchase study would have indicated that the purchase of the system would be advantageous to the Government.

The AEC advised us that under current procedures a determined effort is being made to assure that decisions with respect to purchasing or leasing automatic data processing systems are based on realistic and thorough reviews of all pertinent factors.

56. Steps taken by the Agricultural Stabilization and Conservation Service to correct and avoid inadequacies in planning and operation of automatic data processing systems--In a report issued in October 1963, we commented on certain inadequacies in the planning and operation of automatic data processing (ADP) systems at the Kansas City, Missouri, and Evanston, Illinois, commodity offices of the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture. Between 1956 and 1961, ASCS made four installations of ADP equipment at these commodity offices. The agency was unable to make sufficient use of the first system installed and, of the other three, two proved to be inadequate for the purposes for which they had been acquired. The problems encountered in these installations were due, in major part, to ASCS's failure to made adequate feasibility and application studies. We found also that ADP equipment had been selected without soliciting competitive proposals and that decisions to use such

equipment were made without comprehensive studies of the effect of its use on costs of operations.

We recommended to the Administrator, ASCS, (1) that steps be taken to assure that in all future studies full consideration be given to the nature and amount of work to be handled in order to obtain the specific equipment best suited for the job, (2) that decisions to install or make major changes in equipment be made only after preparing adequate specifications, soliciting competitive proposals, and fully considering the equipment of all manufacturers capable of meeting the agency's needs, and (3) that, in considering future conversions to or major modifications of ADP systems, steps be taken to assure that comprehensive studies are made of the effect that such conversions or modifications will have on operating costs.

The need for carrying out such studies was recognized by the Office of Management Appraisal and Systems Development (OMASD) of the Department of Agriculture which was given centralized staff responsibility in the Office of the Secretary for the general direction, coordination, and technical guidance of electronic data processing activities in the Department. We were informed subsequent to the issuance of our report that the regulations of OMASD, which were then being written, would reduce the probability of such inadequacies occurring again.

57. Action taken by the Agricultural Stabilization and Conservation Service to avoid incurrence of further unnecessary rental costs because of uneconomical scheduling of work--Unnecessary rental costs were incurred by the Evanston, Illinois, commodity office of the Agricultural Stabilization and Conservation Service, Department of Agriculture, because two tape data selector systems were used on the prime shift to convert data from magnetic tape into printed or punched-card form. With minor rescheduling of work, commodity office requirements could have been met by using only one selector system on the prime shift and by using the same selector system on extra shift time when necessary. In this way, idle machine time could have been minimized and rental costs could have been reduced by about $80,000 during the 2 years ended May 31, 1961.

Although the agency did not adopt our suggestion that only one tape data selector system be used, we were informed that after completion of our review, newer and less expensive automatic data processing equipment had been installed to meet commodity office requirements at a basic annual rental of about $40,000 less than that of the equipment which it replaced.

58. Action to be taken to insure economical scheduling of automatic data processing operations of the Federal Aviation Agency--Our reviews at the Boston and Washington Centers, Federal Aviation Agency (FAA), indicated that extra-use rental charges of about $30,000 annually would be incurred if one hour was unnecessarily scheduled each day of the year for the use of automatic data processing equipment (ADP). Hourly workload data were not being currently accumulated and analyzed at either the Boston or the Washington Center to form a basis for a management decision on whether any unnecessary operating time of the ADP system existed. In the absence of such analyses, FAA can not control the economical use of the ADP systems.

In this connection, we noted at the Boston Center that during November 1962 an average of only 11 flight plans and related flight progress strips were processed during the last hour of the scheduled computer operations from 10 to 11 p.m., compared with an average of 74 flight plans processed hourly during fiscal year 1962.

Accordingly, in a report issued in March 1964, we recommended (1) that a study be made to ascertain whether the benefits derived from operating the ADP systems at all Centers during periods of low air traffic activity justify the additional operating costs incurred and (2) that appropriate action be taken on the basis of the results of the study. In July 1964, the FAA Administrator advised the Bureau of the Budget that the Agency believes the benefits derived during periods of low utilization are justified, in view of the fact that the Agency has purchased the systems in question with a resulting reduction in the operating costs. However, the Agency agrees, that the recommended action should be accomplished on all leased ADP systems, and that action shall be taken to insure that this is done on all future leased systems.

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59. Action to be taken by the Federal Aviation Agency to obtain an allowance for time used to reprocess data rejected due to failure of equipment--Allowable time for reprocessing data rejected because of errors attributable to the failure of the automatic data processing (ADP) system had not been offset against extra-use time at the Boston and Washington Centers of the Federal Aviation Agency (FAA) after the installation of the ADP systems on September 28, 1959, and December 15, 1958, respectively.

In a report issued in March 1964, we proposed to FAA that an appropriate allowance be obtained from the manufacturer for the time required to reprocess data entered but rejected for errors due to the failure of the ADP equipment. We proposed that the allowance be obtained for the period following the certification of the ADP systems as operational at the Boston and Washington Centers in September 1959 and December 1958, respectively.

In November 1963 the FAA Administrator stated in a letter to us that the contracts negotiated by the General Services Administration (GSA) with the manufacturers of ADP equipment were generally based on normal business operations and that the contracts were deficient in providing guidance and term definition for systems directed toward real-time ADP application such as for use in air traffic control; therefore, mutual agreements between the manufacturer and FAA were reached on controversial items not considered or included in the GSA contracts. The Administrator stated that the GSA contracts did not require maintenance personnel to be in attendance at all times but that the manufacturer provided on-site continuous service to assure satisfactory operation at no increase in rental costs. He stated that the decision whether the complete ADP system or any integral part was to be continued in use operationally rested solely within the discretion of Agency representatives because air traffic safety could not be compromised and that the GSA contracts did not provide for such unilateral decisions.

The Administrator stated also that the types of machine errors could not be easily identified because they were caused by human errors, computer program deficiencies, environmental irregularities, and equipment failure. The Administrator stated further that the processing of data could not be discontinued for momentary interruptions to make detailed analyses of the causes of errors and

that adjustments for the above-mentioned types of processing interruptions were made on the basis of a mutual agreement through adjustment of the extra-use time as shown on monthly equipment-use records.

We pointed out that if FAA's operations were of such a nature that supplementary agreements to the GSA contracts were considered necessary, FAA should have requested formal amendment of the contracts rather than having placed reliance on informal agreements.

With reference to the Administrator's comments that adjustments in rental payments had actually been made for machine-failure errors, we could not determine from our tests of monthly equipment-use records whether such adjustments had been made. If adjustments of machine-use time were made, they were made without proper documentation. Such a practice is undesirable, is indicative of inadequate management control over ADP operations, and should be discontinued.

Consequently, in view of the lack of documentation to substantiate that any such adjustments were made and the inadequacy of the Boston Center's records on even the number of such errors, we believe that the FAA Administrator should reconsider this matter and should obtain an equitable allowance from the contractor for allowable time not claimed since the installation of the ADP systems. Accordingly, we recommended that, at all Centers, appropriate allowances be negotiated with the contractor for adjustments for the allowable time used to reprocess data rejected for errors attributable to failure of the ADP systems to properly process input data.

In July 1964, the Administrator stated in a letter to the Bureau of the Budget that FAA will make every effort to obtain an appropriate settlement and that, in the future, where FAA operations of rented ADP equipment are of such a nature that supplemental agreements to GSA contracts are considered necessary, FAA will request formal amendments of the contract rather than place reliance on informal agreements.

60. Consideration to be given to the use of automatic data processing equipment to compile statistical flight data--Flight activity statistics which could be compiled by the computer and

related automatic data processing (ADP) equipment, at both the Boston and Washington Centers, Federal Aviation Agency (FAA), were being accumulated manually by assistant air traffic controllers.

The ADP systems, which prepare about 80 percent of all flight progress strips at the Boston and Washington Centers, could be programed to automatically compile flight activity statistics by the desired categories during the processing of the flight progress strips. Only the remaining 20 percent of the flight progress strips not processed by the ADP system would then require the accumulation of statistical data manually.

In a report issued in March 1964, we proposed to FAA that consideration be given to using the ADP systems to compile statistical flight progress data during the processing of the current flight progress strips.

In November 1963 the FAA Administrator stated in a letter to us that the ADP systems could be extremely useful for the semi-automatic collection, analysis, and summary of flight data; however, the automatic compilation of data would not actually be of benefit to the daily air traffic control problems within a Center. He stated that, since the primary function of the ADP systems is to assist in and improve air traffic control, any expanded use of the ADP systems for supplemental functions must be assigned a lower priority.

We expressed the belief that FAA should give this matter further consideration because the supplementary statistical data could be accumulated simultaneously with the processing of the flight progress strips. We were informed that only limited programming and storage space would be required for the accumulation of statistical data. While we agree that supplemental functions should not interfere with the primary function of the ADP systems, the FAA should use its ADP equipment so as to increase efficiency and provide economy in the overall operation of the Centers to the fullest possible extent. Accordingly, we recommended that reconsideration be given to using the ADP systems to compile statistical flight data at all Centers. FAA advised the Bureau of the Budget that it would reconsider this matter.

61. Need for the National Aeronautics and Space Administration to consider lease-versus-purchase alternatives for automatic data processing equipment in a timely manner and from a Government-wide viewpoint--Our review of the cost to the Government of leasing compared with the cost of purchasing certain automatic data processing machines being leased by the Jet Propulsion Laboratory, National Aeronautics and Space Administration (NASA), disclosed that NASA had not given adequate consideration to the alternative of purchasing the machines either at the time of installation or at the time the Bureau of the Budget directed that such an alternative be considered. It appears that savings of at least $1,812,000 could have been realized if the machines had been purchased at the time of their installation and that savings of about $1,176,000 could have been realized if the machines had been purchased shortly after the Bureau of the Budget directive was issued. Our review also showed that substantial savings would still have been possible if NASA had taken prompt action to purchase certain machines when we first brought this matter to its attention in April 1963. NASA did not take final action, however, until December 1963 when it decided not to purchase the machines because it had concluded that the opportunity for monetary savings had passed.

In a report issued in May 1964 we recommended that NASA review with the Bureau of the Budget the results of its lease-versus-purchase studies, including the study for the machines at the Laboratory, to determine whether continued leasing is justified from the standpoint of the financial interests of the Government as a whole. On July 22, 1964, NASA informed us that a recent analysis of the computer situation at the Laboratory indicated the desirability of purchasing selected components of the systems.

AVIATION FACILITY REQUIREMENTS OF
THE UNITED STATES COAST GUARD

62. More economical plans for replacing and acquiring helicopters under consideration--In August 1963 we reported that more economical search and rescue coverage appeared possible through the United States Coast Guard, Treasury Department, directing its future planning toward (1) eventual replacement at certain locations of medium helicopters and medium-range fixed-wing amphibious aircraft with twin-turbine amphibious helicopters, (2) acquisition from the Department of Defense of medium helicopters as interim replacements for overage medium helicopters, and (3) continued acceptance of helicopter assistance from other military services instead of acquiring additional helicopters for use at Barbers Point, Hawaii.

In view of the growing experience of the Navy and the other military services with twin-turbine amphibious helicopters and the possibility of effecting substantial economies in aircraft procurement and operating costs, we proposed that the Commandant of the Coast Guard survey recent military twin-turbine helicopter experience to determine whether such helicopters could be used to replace both medium helicopters and fixed-wing amphibians at certain Coast Guard locations. We proposed also that, because of the large number of helicopters being procured by the other military services, the Commandant make a continuing effort to obtain serviceable medium helicopters from the Department of Defense as interim replacements for overage medium helicopters. In addition, because of the number of military helicopters assigned to Hawaii and the helicopter assistance provided by the other military services, we proposed that the Commandant reconsider plans for acquiring three helicopters, including necessary facilities, at an estimated cost of $1.9 million for assignment to the Barbers Point air unit.

The Commandant of the Coast Guard informed us that the Coast Guard is watching closely the design, testing, and operation of twin-turbine helicopters for possible solution to the problem of finding a replacement for the fixed-wing amphibians. The Commandant assured us that, if long-range helicopters are used to replace fixed-wing amphibians, the number and kinds of aircraft needed for a given area would be reappraised. In regard to the use of the Department of Defense helicopters, the Commandant stated that, when feasible, helicopters are obtained from other military services as interim replacements but that suitable medium helicopters were not available at that time.

Concerning the assignment of helicopters to Barbers Point, the Commandant gave several reasons why the use of Coast Guard aircraft and crewmen for search and rescue was considered more satisfactory than the use of aircraft and crewmen of other military services. Our review indicated, however, that helicopter assistance provided by the other services in Hawaii had been adequate.

63. Headquarters control of training flights to be strengthened--The practices followed by air units of the United States Coast Guard in scheduling training flights and the costliness of the flights showed a need for improved Headquarters direction to better assure that such flights are limited to those necessary to fulfill required training needs.

Headquarters prescribed minimum flight requirements and provided general guidelines for training requirements to be established by the air units, but did not provide for periodic Headquarters reviews of training requirements established by the air units. We found, in addition to certain inconsistencies in practices, that training flights at some air units were being performed without scheduling them so as to permit and encourage aviators to fulfill training requirements to the extent possible on operational flights. Accomplishment of training requirements on operational flights reduces the need for flights performed specifically for training purposes.

In a report issued in August 1963 we proposed that the Commandant of the Coast Guard undertake a review of air unit flight-training programs and practices with a view toward establishing criteria and procedures to better assure (1) that training requirements are designed to fulfill the actual needs of Coast Guard aviators and (2) that such training requirements are fulfilled to the maximum extent possible on operational flights.

In commenting on our proposal, the Commandant stated that the need for closer Headquarters supervision of proficiency flying would be reviewed to assure that training for such flying is adequate, as well as to assure that it is not excessive.

64. Need to review requirements of long-range aircraft for search and rescue use--We found that the number of SC-130B

long-range aircraft, acquired by the United States Coast Guard at a cost of about $3.3 million each, may exceed requirements. The SC-130B aircraft acquired prior to 1962 were being used principally for administrative and other logistic flights rather than for search and rescue (SAR), the primary purpose for which they were obtained.

The Commandant of the Coast Guard advised us that any reduction in the number of long-range aircraft to a quantity below the presently planned complement would be a hazard to the Coast Guard's statutory commitment to SAR responsibility.

Because the long-range aircraft which were acquired for use on the basis of SAR needs were being used principally for administrative and other logistic purposes, we recommended in a report issued in August 1963 that the Commandant reconsider Coast Guard-wide requirements for long-range aircraft on the basis of more recent operating experience.

In October 1963, we were informed by the Treasury Department that the Commandant had initiated a reappraisal of facility requirements and deployment under the long-range Coast Guard aviation requirements plan, and our recommendation will be considered in the light of current operating requirements, as well as recent operating experience.

65. Need to discontinue uneconomical utilization of aircraft--Instances were noted in which operating costs were incurred unnecessarily because United States Coast Guard aircraft were used to transport personnel and supplies when more economical means were available. Western Pacific area logistic flights made by Coast Guard aircraft from Barbers Point, Hawaii, uneconomically duplicated transportation service available from the Military Air Transport Service (MATS) and the Military Sea Transportation Service (MSTS). We estimate that during fiscal years 1960 and 1961 it cost the Coast Guard approximately $380,000 for aircraft fuel and maintenance to transport an estimated total 154 tons of cargo to the Western Pacific area. This cargo could have been flown by MATS for about $80,000, and much of the cargo could have been shipped by sea transportation at a cost substantially less than would have been incurred if flown by MATS.

AVIATION FACILITY REQUIREMENTS OF
THE UNITED STATES COAST GUARD (continued)

We found other instances where the use of Coast Guard aircraft was economically questionable. We identified 122 flights involving a total of 229 flight-hours during a 6-month period which we concluded were uneconomical. The estimated maintenance and fuel cost applicable to the flights approximated $32,000: transportation could have been performed by other means for about $3,000.

The Commandant of the Coast Guard informed us that our views would be helpful in reappraising logistic flights in the Western Pacific. He stated that, when operationally feasible, the Coast Guard routinely utilizes MATS and MSTS. He stated also that, whether a flight is specifically classified as a training flight or as another type of flight, operating experience is gained by aviators and that judgments will vary as to the economical rationalization of such flights.

In a report issued in August 1963 we recommended that the Commandant issue instructions to district and air unit officials requiring that all available means of transportation, including military, commercial, and other facilities, be considered before authorizing the use of Coast Guard aircraft to transport supplies and personnel.

66. Need to reduce number of medium-range aircraft assigned to air units--The medium-range fixed-wing amphibious aircraft assigned to the Salem, Massachusetts, and San Diego, California, air units of the United States Coast Guard, exceeded the number of aircraft required to perform SAR activities. Our review indicated that three aircraft were not needed and that operating costs could be reduced by $246,000 by arranging for their transfer or other disposition. Also, at the Barbers Point, Hawaii, air unit, we found that logistic work being performed by a medium-range transport could readily be done by the medium-range fixed-wing amphibious aircraft assigned to the unit without any apparent loss in operating efficiency.

The Commandant of the Coast Guard informed us that, with the relocation of the Salem air unit, the number of fixed-wing amphibians would be reduced from four to three and that, of the aircraft assigned to San Diego at the time of our review, one aircraft had been transferred and SAR activity justified the need for the

remaining aircraft. The Commandant also stated that a continuing need existed for the medium-range transport at Barbers Point because logistic activity had increased considerably since the period covered by our review.

Although the medium-range aircraft at Barbers Point may be justified on the basis of increased activity, it appears that the reduction from four to three fixed-wing amphibians at the Salem air unit need not be deferred pending relocation of the air unit and that one additional fixed-wing amphibian could be transferred from the San Diego air unit. In a report issued in August 1963 we recommended that the Commandant reconsider the number of fixed-wing amphibians required at the Salem and San Diego air units in view of past operating experience and the availability of emergency assistance by suitable aircraft from other nearby military installations.

67. Need to review civil search and rescue activity which is insufficient to warrant operation of aircraft at Bermuda--Our review indicated that the United States Coast Guard aircraft at Bermuda performed few civil SAR flights and duplicated or supplemented existing SAR capabilities of Air Force and Navy aircraft.

In commenting on our proposal to consider the disestablishment of the Bermuda air unit, the Commandant of the Coast Guard informed us that continued operation of the Bermuda air unit is necessary to carry out SAR responsibilities under national and international SAR agreements and to afford ditch and rescue training for personnel aboard Coast Guard vessels. It appears, however, that adequate SAR coverage could be provided by aircraft of other military services in Bermuda and that ditch and rescue training could be provided by a Coast Guard air unit located on the Atlantic coast. In a report issued in August 1963 we recommended that the Commandant of the Coast Guard reexamine the need for Coast Guard aircraft at Bermuda in the light of specific Coast Guard responsibilities for SAR and the low volume of civil SAR flight activity.

68. Need to reduce flight orders issued in excess of operational needs--The number of flight orders issued to enlisted personnel by United States Coast Guard air unit commanding officers under a formula prescribed by Coast Guard Headquarters exceeded the

number needed to perform the flying missions of Coast Guard aircraft. Flight orders require enlisted personnel to participate in regular and frequent aerial flights for which they receive additional pay. The formula was intended to provide a ceiling on the number of flight orders that may be issued if the need arises, rather than to determine the number of flight orders that should be issued. All commanding officers of the eight air units where we reviewed flight-order needs had issued the maximum number of flight orders permitted under the Headquarters formula. At most of these air units, more enlisted personnel than necessary received flight pay.

The Commandant of the Coast Guard advised us that, although Coast Guard believes that its policy on the issuance of flight orders is sound, the policy will be reviewed in the light of our observations and that, in addition, Coast Guard area inspectors will be asked to review the practices followed by the air units to make sure the intent of Coast Guard policy is being carried out.

We recommended in a report issued in August 1963 that the Commandant strengthen controls over the issuance of flight orders by (1) establishing criteria to guide air unit commanding officers in determining the number of enlisted crew members that are required to be continuously available for flight and (2) directing that flight orders be issued only after determinations have been made under the criteria.

CONTRACT ADMINISTRATION

69. Action taken by the General Services Administration to improve administration of building construction projects--In June 1964, we reported that about $112,000 had been expended unnecessarily by the General Services Administration (GSA) because timely action was not taken in the administration of construction of the Museum of History and Technology, Smithsonian Institution.

No provision for window washing equipment was made in the original building design plans, and revisions to the building roof became necessary to permit installation and operation of the equipment, resulting in unnecessary costs of over $78,000. These costs were incurred because the necessary data concerning window washing equipment was not furnished to the architect by GSA or the Smithsonian Institution prior to the completion of the building design plans.

Also, had timely recognition been given to the apparent delay in the completion of the building design, prompt action could have been taken to defer the award of the contract for excavating, piling, and dewatering the site. Because the contract was not deferred, unnecessary costs of about $34,000 were incurred in dewatering the site over a 6-month extension period.

These additional costs, in our opinion, could have been avoided by prompt action and closer coordination of construction activities by the responsible agency officials.

We proposed that the Administrator of General Services take appropriate action to improve the administration of building construction projects to avoid similar unnecessary costs in future building construction. The Administrator advised us that, in an effort to improve its scheduling and administration of building construction projects, GSA is now utilizing the critical path method of scheduling for large and complex projects to assure better management control and that the use of this scheduling technique, together with better on-site supervision of projects and improved technical coordination with the architects and with agencies for whom the buildings are being constructed, will avoid unnecessary costs in connection with future construction projects.

70. Administration by the Federal Aviation Agency of aircraft maintenance contract improved--Our review of the Federal Aviation Agency (FAA) National Aviation Facilities Experimental Center's (NAFEC) administration of the aircraft maintenance contract disclosed that NAFEC (1) had certified the contractor's vouchers for payment without ascertaining that the services had been performed or that the costs were proper for reimbursement and (2) had not exercised adequate surveillance over the contractor's aircraft maintenance work and his inspection of such work to assure that the work met safety standards. Also, NAFEC had taken no action to determine whether the contractor was properly accounting for Government-furnished tools, equipment, aircraft parts, and supplies. We pointed out to the NAFEC officials that more detailed examinations of the aircraft maintenance contractor's costs are necessary in order to determine that the costs are proper for reimbursement.

The FAA stated that improved procedures had been adopted and that they included the review of the contractor's vouchers and the supporting cost reports to verify that the work had been performed, the material had been used as directed, and the charges were proper; the inspection of the final product in detail; the making of floor checks of contractor personnel; and the use of monthly accounting reports in monitoring the contractor. The FAA stated also that the NAFEC inspection force would be further increased and that the contractor's personnel had been advised of the necessity for applying applicable regulatory and technical procedures to assure flight safety.

71. Need for the Atomic Energy Commission to review commercial vehicle rental practices--Our review of commercial motor vehicle rental costs incurred by two Atomic Energy Commission (AEC) operating contractors disclosed instances where unnecessary costs were incurred because employees on temporary duty assignments (1) rented commercial motor vehicles for commuting between their temporary lodgings and temporary duty stations instead of using available public transportation, (2) rented commercial vehicles although Government-owned vehicles generally were available at a much lower cost from the interagency motor pools established by the General Services Administration for the purpose of servicing the transportation requirements of Government agencies, including AEC and its operating contractors, (3) rented standard-size motor

vehicles although compact motor vehicles can be rented at considerable lower costs, and (4) during the same period, individuals rented motor vehicles for commuting between their temporary lodgings and temporary duty stations although a sharing of the motor vehicles was possible.

Subsequent to our discussing with the AEC Albuquerque Operations Office the results of our review and the corrective actions taken and proposed by the contractors, we were advised that a review would be made to determine whether the contractors' revised commercial motor vehicle rental procedures have been effectively implemented. In a report issued in March 1964 we recommended, that the Operations Office make periodic follow-up reviews of the contractors' commercial vehicle rental practices to assure that excessive costs are not being incurred for transportation. We recommended also that AEC consider the need for reviewing the commercial vehicle rental practices of its other operating contractors to determine whether contractor-employees' travel at temporary duty stations is being conducted in the most economical manner.

72. Need for the Federal Aviation Agency to review instructions for preventing excessive payments for rental of punched card machines--In our review of the administration by the Federal Aviation Agency (FAA) of the rental contract pertaining to certain punched card machines, we noted overpayments of about $20,000 which occurred because FAA did not (1) provide timely reporting instructions to regional offices on the computation of extra use time, (2) follow up on the regional offices' implementation of issued instructions, and (3) review adequately the accuracy of the contractor's billings which were based on user reports.

After we repeatedly brought these matters to the attention of FAA officials, FAA obtained appropriate credits from the contractor and the Administrator advised us that instructions had been or would be issued to prevent future overpayments totaling about $21,000 annually. We recommended in a report issued in May 1964 that the instructions assign to appropriate Washington officials responsibility for reviewing the administration of rental contracts for punched card machines and similar equipment.

CONTRACTING PROCEDURES

73. Savings accomplished by the National Aeronautics and Space Administration in transportation of Saturn launch vehicles--The National Aeronautics and Space Administration (NASA) transports the Saturn launch vehicle stages along the waterways between the assembly site (Huntsville, Alabama) and the launch site (Cape Kennedy, Florida) on two specially modified Government-owned barges towed by tugs provided by a commercial operator under negotiated fixed-price contracts. The first two contracts for such services amounted to about $335,000.

The first towing contract was awarded by NASA on March 1, 1961, on a lump-sum fixed-price basis. The contract price was negotiated on the basis of the estimated number of tug-days multiplied by daily cost rates. At the time of negotiation, NASA had no experience regarding the number of tug-days required for towing Saturn-carrying barges between Huntsville and Cape Kennedy. We believe that a lump-sum fixed-price type of contract was unsuitable in view of the lack of experience in towing Saturn barges. As a result of the use of the lump-sum fixed-price type contract, NASA paid the contractor about $46,000 for 64 tug-days which were not needed.

At the time of awarding the second towing contract on January 31, 1962, NASA had available the experience from the round trips made to Cape Kennedy under the first contract which indicated that the round trips could reasonably be expected to take about 51 tug-days each. Despite this experience, NASA negotiated the fixed price of the second contract on the basis of an estimated 59 tug-days for each round trip. As a result, NASA contracted to pay about $15,600 for 16 tug-days which experience indicated would not be needed.

In a report issued in April 1964 we recommended to the Administrator that NASA use a fixed-price-per-day type of contract for towing services when a new routing or unique cargo is involved and operating experience is not available. Subsequent to our review, NASA entered into the recommended type of contract for towing services on four additional round trips between Huntsville and Cape Kennedy.

74. Railroad contracting procedures and reviews of existing contracts improved by the Post Office Department--In a report issued in September 1963 we noted that more effective contracting with railroad companies for motor vehicle service in lieu of rail service by the Post Office Department (POD) was needed. The law authorizes POD to contract with a railroad company to perform mail transportation by motor vehicle in lieu of service by rail at rates or compensation not exceeding those allowable for similar service by rail.

Some contracts were negotiated with railroad companies for mail transportation service by trucks in the Seattle, Boston, Cincinnati, and Dallas Regions at prices that appeared high in relation to prices obtained by POD for similar services under contracts awarded under competitive procedures. We noted some cases where competitive prices were not considered and others where competitive prices were considered but the contract prices negotiated exceeded these prices. We estimate that, for the cases reviewed in these four postal regions, mail transportation costs incurred under negotiated contracts exceeded the estimated costs if the contracts had been awarded by competitive means by about $230,000 a year.

Although the Postmaster General has authority to negotiate contracts with railroad companies for the transportation of mail by motor vehicles in lieu of service by rail, the authority is clearly permissive and appears to place a significant responsibility upon the POD to exercise discretion in the use of its negotiation authority.

We also noted that more effective reviews and evaluations of existing contracts with railroad companies were needed at the Seattle and Dallas Regions to determine whether the contracts are adequate and beneficial to the POD. We noted that some contracts which were not beneficial to the POD were continued rather than having been modified, renegotiated, or terminated and the service advertised for competitive bids.

We recommended that, to obtain the best contract prices available, the Postmaster General strengthen the POD's policies and procedures and require the award of contracts by competitive processes when reasonably competitive prices cannot be negotiated with

railroad companies for the transportation of mail by motor vehicle in lieu of service by rail. We recommended also that more effective periodic reviews and evaluations of special contracts with railroad companies be made. For those contracts found not to be competitively priced, we recommended further that the POD either renegotiate the contracts at competitive prices or terminate the contracts and award new contracts by competitive processes. The Postmaster General informed us that the POD's guiding principle is to award contracts by competitive processes when reasonably competitive prices cannot be negotiated with railroad companies. The Postmaster General informed us also that the POD agrees that it can improve its railroad contracting procedures and the reviews of existing contracts and he stated that action had been and would continue to be taken in this field.

In April 1964 we were advised that three contracts with the railroads had been negotiated in the Seattle Region at lower rates and one contract had been awarded on a competitive basis, resulting in estimated annual savings of about $97,000. We were also advised that additional savings will be realized when other proposed changes have been approved by the POD.

75. Thorough review of unbalanced bids on Federal-aid highway construction contracts to be required--Although the contractor's overall bid price for a Federal-aid highway project in the State of Oklahoma was known to have contained a unit price on a substantial contract item which was completely out of line with the engineer's estimate, the Bureau of Public Roads, Department of Commerce, concurred in the award of the contracts. This type of bidding, commonly referred to as unbalanced bidding, occurs when a high unit price is bid on one or more construction items and corresponding reductions are made in the price bid on other items. A significant overrun of quantities of this item later occurred due to an error in the State engineer's estimate, and the contractor was paid on the basis of the high unit price contained in his original bid. As a result, contract costs were unnecessarily increased by about $94,100; the Bureau, however, refused Federal participation in these costs.

We believe that this type of situation demonstrates the need to evaluate carefully any bid that is substantially unbalanced, particularly where the bid item involved is susceptible of large

overruns. In the interest of avoiding the unwarranted expenditure of public funds because of errors in engineering estimates, we recommended in a report issued in June 1964 that the Federal Highway Administrator establish a policy requiring that Bureau field offices, prior to concurring in the award of a contract, thoroughly analyze the quantity calculations for any item on which an obviously unbalanced unit price is bid and the bid price, coupled with a large overrun of quantity, would adversely affect the cost of the highway project. We recommended further that in such cases, where material errors are identified, the estimates be corrected and the projects be readvertised so that all bidders will have an opportunity to bid on a more accurate estimate of the work to be accomplished. The Bureau advised us that it concurred in our recommendation and would instruct its engineers to carefully examine all unit bid prices and thoroughly analyze the reasonableness of quantities where unbalancing of bids is suspected.

76. Need for the National Aeronautics and Space Administration to reduce cost of transporting launch vehicles--The National Aeronautics and Space Administration (NASA) transports the Saturn launch vehicle stages along the waterways between Huntsville, Alabama, and Cape Kennedy, Florida, on two Government-owned barges towed by tugs provided by a commercial operator under negotiated fixed-price contracts. The contracts require that all towing be done on an "exclusive tow" basis including the towing of the empty barges between New Orleans and Huntsville. The towing of each empty barge along the inland waterway on an exclusive tow basis instead of on an "integrated tow" basis, that is, in combination with other barges, resulted in additional costs of about $9,000 for each return trip.

In a report issued in April 1964 we questioned the need for the exclusive tow of the empty barges between New Orleans and Huntsville because there appeared to be no physical obstacle to towing the empty barges on an integrated tow basis inasmuch as they had been delivered over the same route on that basis. We pointed out also that not more than a week was saved by the use of exclusive tows between New Orleans and Huntsville, an inconsequential period in view of the 6-month intervals between deliveries of Saturns to Cape Kennedy.

CONTRACTING PROCEDURES (continued)

NASA stated that the integrated towing of the empty barges did not appear to offer the maximum in safety and that the relative savings that could be effected did not appear to be worth the risk involved. However, in our opinion, a saving of $9,000 for each return trip outweighs any added risk. The availability of two barges precludes the possibility that damage to one of the barges would affect the Saturn program. Also, the total loss of a barge on the inland waterway is unlikely. Therefore, we recommended to the NASA Administrator that NASA reconsider its decision to contract for the towing of empty barges between New Orleans and Huntsville on an exclusive tow basis rather than on an integrated tow basis.

COTTON STORAGE CHARGES

77. Payment of storage charges on cotton for overlapping periods eliminated--In a report issued in January 1963, we pointed out that in the Commodity Credit Corporation's (CCC), Department of Agriculture, cotton storage operations, storage charges for overlapping periods were being paid when CCC-owned cotton was sold and when CCC moved or reconcentrated cotton from one warehouse to another. We questioned the equitableness of the provisions of CCC's storage agreement for cotton which, on CCC sales, permitted the warehousemen to receive storage payments from two parties on the same bales of cotton for the same periods of time and which, on reconcentrations from one warehouse to another, resulted in CCC's paying two separate warehousemen storage charges on the same bales of cotton for the same periods of time.

We recommended that CCC review the provisions of the then existing CCC storage agreements for cotton and determine the need for revisions aimed at eliminating the apparent inequities. The Under Secretary of Agriculture advised us by letter dated June 4, 1964, that, in line with our recommendation and in the interest of economy in Government, it was determined that CCC should not pay duplicate charges on the same bales of cotton. This change was effected for the storage year beginning August 1, 1964, by having the storage agreements provide that storage charges for the last month of storage of CCC-owned cotton will be prorated, so that payment will be made only for the period of actual storage up to the time that the cotton is sold or moved from the warehouse. The Department estimated that this change should result in savings to CCC of $1.2 million for the storage year beginning August 1, 1964.

78. Insurance promptly canceled after cotton is acquired--For a number of years we pointed out in reports to the Congress and to the agency on our audits of Commodity Credit Corporation (CCC), Department of Agriculture, activities that delays in canceling insurance on cotton acquired by CCC at the expiration of the price-support loan period resulted in CCC incurring unnecessary costs because warehousemen continued to carry insurance on the cotton at CCC expense. The cancellation delays were caused by CCC not promptly furnishing warehousemen with detailed listings (tag lists) identifying bales of acquired cotton. These lists were required by the warehousemen to effect cancellation of insurance on CCC-owned cotton.

COTTON STORAGE CHARGES (continued)

In a report issued in January 1961, we stated that, in view of the substantial costs to CCC resulting from delays in canceling insurance on acquired cotton, further effort on the part of CCC was warranted to effect cancellation of insurance on the date cotton was acquired. Further comments on the agency's delay in canceling insurance on acquired cotton were contained in a report issued in January 1963 on warehousing operations under the 1959 and 1960 cotton purchase programs.

By letter dated November 15, 1963, the President of CCC advised us that, regarding the 1962-crop cotton placed under price support, CCC had, for the first time, furnished warehousemen the detailed tag lists in time to enable cancellation of insurance on about 4 million bales of cotton as of July 31, 1963, the date of acquisition by CCC, and on about 700,000 bales as of August 31, 1963. These cancellations occurred a month earlier than comparable cancellations in the past, thereby saving insurance costs of about $154,000. In addition, because the tag lists were available sooner, CCC sold about 329,000 bales of 1962-crop cotton in August 1963, at least one month earlier than in previous years, resulting in savings of about $124,000 in storage charges. To the extent that CCC continues to furnish tag lists promptly, similar savings will be realized in the future.

CUSTOMS ACTIVITIES

79. Control over unloadings of bulk petroleum to be improved--Our review of deficiencies in Bureau of Customs, Treasury Department, control over unloadings of bulk petroleum imports into the United States disclosed that, at several of the ports we visited, Bureau control was deficient because, contrary to Customs procedures, inspectors failed to properly seal certain tank and pipeline valves during the unloading operations. At one port Customs inspectors accepted importers' statements of quantities unloaded instead of making their own independent determinations.

Control was also deficient in that the Bureau of Customs was relying upon public gaugers for reports on the amount of petroleum unloaded, although at several locations public gaugers did not make it a practice to seal pipeline and tank valves and were accepting importers' statements of imported oil withdrawn for use to arrive at the quantity imported. Public gaugers are independent contractors hired jointly by importers and exporters.

Effective control over bulk petroleum unloadings is important because of the large volume involved and the potential for significant losses in Customs revenue. Owing to the nature of the operation, identification of losses is difficult after unloading has been completed. We expressed the opinion that, because of the large volume of imports involved and the inadequate control over these unloadings, monetary losses may have occurred and corrective action was needed.

In a report issued in April 1964 we recommended that, to strengthen control over bulk petroleum unloadings which are the basis for assessment of taxes, the Commissioner of Customs provide for headquarters personnel to carry out an aggressive program of periodic reviews of petroleum unloadings to determine whether prescribed procedures governing the sealing, gauging, and control over imported petroleum are being carried out at the operating level.

Also, we proposed to the Commissioner that Customs Regulations be revised to provide that public gaugers adhere to standards for gauging bulk petroleum similar to the standards prescribed by Customs for its own inspectors. The Acting Commissioner advised us that it was the Bureau's intention to adopt this proposal.

ELECTRIC LOAN FUNDS

80. Loan funds received by a borrower twice for the same purpose recovered--Our review of the records of a borrower disclosed that the borrower was including part of the depreciation expense of a headquarters building, communications equipment, transportation equipment, and other miscellaneous assets in the overhead cost allocated to the cost of construction financed with Rural Electrification Administration (REA), Department of Agriculture, loan funds. Since the cost of assets being depreciated was financed initially with REA loan funds, the borrower's accounting for depreciation of these assets resulted in its receiving REA loan funds twice for the same purpose.

We questioned the practice followed by this borrower. REA officials advised us that they had long recognized that in some instances there had been an advance of REA loan funds in excess of actual cost of construction to the extent that overhead costs allocated to new construction included depreciation of assets previously financed with REA loans.

REA officials advised us also that usually the amounts involved had not been material and that REA believed the cost and administrative problems of assuring that such advances would not be made far outweigh the benefits that the Government would receive from avoiding such duplicate advances. However, REA officials advised us that depreciation on general plant financed by REA would no longer be considered a proper cost of construction for the purpose of being financed from REA loan funds and that all borrowers would be so informed. All electric borrowers of REA were notified of the change by letter dated July 16, 1963.

REA officials advised us further that the borrower cited had been required to reimburse its REA loan fund account in the amount of $48,263, representing amounts received during the period January 1, 1961, to March 31, 1963, for costs previously financed by REA. This had the effect of reducing the amount of REA loan funds to which the borrower would otherwise be entitled in the future.

81. Possibilities for reducing Federal expenditures for loans --On the basis of our examination, we stated a belief that in certain circumstances Federal expenditures under the electric loan program could be reduced without adversely affecting the accomplishment of program objectives. To avail itself of these

possibilities, the Rural Electrification Administration (REA), Department of Agriculture, should, in determining the need for granting loans and in establishing loan repayment periods, consider the availability of funds expected to be generated by borrowers' income-producing operations.

To place the REA in a position to encourage and bring about the fullest use of a cooperative's own capital in lieu of Government loan funds, when warranted, and thereby effect savings in interest costs incurred by the Government, we recommended in a report issued in November 1963 that the Secretary of Agriculture institute appropriate action to provide that the agency impose a requirement upon borrowers to prepare and submit long-range financial plans and forecasts in support of loan applications.

Our recommendation included a provision for careful analysis by the agency of such plans and forecasts before approving loans or granting loans for the maximum authorized 35-year repayment period, giving particular attention to the availability of funds expected to be generated by borrowers' income-producing operations and to the financial policies governing the planned disposition of borrowers' expected operating margins. We stated a belief that such financial policies should be carefully weighed by the REA with due regard to the rightful interests of the borrowing cooperatives and the consumer public and also to the possibilities of effecting economies in the expenditure of Federal funds.

The REA expressed complete agreement with the desirability of accomplishing rural electrification program objectives at the lowest cost to the Government and stated that it was considering certain action which it felt would be in line with the purpose of our recommendation. However, it did not agree to consider the availability of funds expected to be generated by borrowers' income-producing operations in determining the need for granting loans and in establishing loan repayment periods.

FACILITIES, CONSTRUCTION AND LEASING

82. Study to be made of existing land areas prior to major reclamation of river area for use of Coast Guard Academy--The Academy of the United States Coast Guard, plans to reclaim for expansion purposes 12.5 acres of land from offshore at the Thames River boundary at an approximate cost of $1.6 million, or about $125,000 an acre. On the other hand, we noted that 12.69 acres of adjacent park land were acquired by the Academy through condemnation proceedings in fiscal year 1961 with total acquisition and development cost expected to be about $35,134 an acre. A comparison of the estimated costs of these two areas indicates that a potential savings of about $90,000 an acre, or a total of about $1.1 million for the entire 12.5 acres, may result if the additional land were acquired from the park area.

In view of the costliness of the proposed land reclamation project, we proposed that studies be made of existing land areas adjoining or in proximity to the Academy campus, especially in the Riverside Park area, to determine the feasibility of utilizing such land for Academy expansion purposes. The Coast Guard, in commenting on our proposal, stated that since starting this project was not planned before 1966, full engineering attention has not been directed to a review of the project. The Coast Guard stated, however, that a cursory review of alternative proposals indicated that more economical ways of providing the land for expansion purposes may be feasible and that, before reclamation of the river area is undertaken, full consideration will be given to our proposal and any other alternative plans.

83. Consideration should be given to adopting a policy of Government ownership of small-size and medium-size postal facilities--Our comparisons showed that the total costs of leasing 91 facilities, selected for our review, for a 10-year basic lease period were less than the total Post Office Department (POD) estimates of the lessors' costs to construct these facilities by about $610,000; however, under Government ownership the POD would have title to land originally costing $745,000 and to buildings with remaining useful lives of 30 to 40 years which had cost about $4.5 million to construct. Moreover, our computations showed that, if the POD exercises its renewal options and continues to occupy these 91 facilities for 5 or 10 or more years beyond the basic 10-year lease terms, the cost of leasing at the end of 15 and 20 years of occupancy would exceed the cost of Government ownership by about $2.1 million and $4.9 million, respectively. In addition, under

Government ownership the POD would have title to the land and to the buildings with remaining useful lives of about 20 to 35 years.

In support of the leasing program the POD has emphasized that the operational advantage of flexibility under leasing is not provided in a program of Government ownership. However, our review showed that (1) many of the facilities leased for 10-year periods were built in relatively stable communities where the need for any great degree of flexibility was not apparent and (2) the reasons advanced by POD regional officials for leasing facilities for 10-year periods or longer generally were unrelated to flexibility.

In a report issued in September 1963 we recommended that the POD determine on an individual facility basis whether to acquire postal space by leasing or through Government ownership, rather than follow a general policy of leasing. We recommended also that each determination be supported by adequate cost comparisons and other appropriate justifications.

84. Need to develop detailed standardized construction plans for constructing leased facilities for use of the Post Office Department--Several lessors advised us that much of the increase in construction costs which has occurred during the past several years was due not only to normal price increases, but also in part to certain construction features included in Post Office Department (POD) specifications. The increase in construction costs, which was about $5 per square foot of interior space, has been reflected in increased annual rent costs to the POD.

It was suggested to us by lessors that development of detailed standardized construction plans would result in lower construction costs and consequently lower rental costs. POD has about 40 standard post office designs which have been used as guides in planning new facilities. However, these designs are general in nature and the lessor has to employ an architect to develop detailed plans.

In a report issued in September 1963 we recommended that POD consider the feasibility of developing the available general designs into more detailed standard plans, to be used wherever applicable to eliminate the need for employing architects in the construction of each facility. We recommended also that POD review

its present specifications and reconsider the necessity for certain construction features which may have added to the annual rental costs borne by POD.

The POD stated that the use of standardized construction plans may be a sound method to construct a number of buildings with the use of one set of drawings although local conditions may require modifications. The POD advised us that consideration is being given to revising designs to eliminate certain construction features and to reducing the number of individually designed projects.

FEDERAL-AID HIGHWAY PROGRAM

85. Improper payments for costs of utility relocations recovered--In March 1964 we reported that the Bureau of Public Roads, Department of Commerce, improperly approved the use of Federal funds to reimburse the State of New York for costs of relocations of privately owned utilities located on public lands. The State's highest court had previously ruled that such costs should be borne by the affected utilities.

Our examination of 36 construction contracts, awarded during the years 1956 through 1961, covering highway projects in New York City and Long Island (Nassau and Suffolk Counties) disclosed that the Bureau had authorized Federal participation in utility relocation costs totaling $336,550. It appeared that the Bureau's division office had not been alert to the legal implications of the inclusion of utility relocation costs in the construction contracts at the time of their approval.

We were advised by the Bureau's division engineer in October 1961, after we called this matter to his attention, that the State highway department had informed franchised utility companies in New York City and Long Island that relocation costs on public rights-of-way would no longer be borne by the State. The Bureau's division office had not, however, initiated appropriate action at the time of our review to recover any amounts already reimbursed to the State for costs of those utility relocations for which the private companies were legally responsible.

Accordingly, we proposed that the Bureau review all contracts for Federal-aid highway construction to determine the full extent of Federal participation in utility relocation costs which should have been borne by privately owned franchise holders. The Bureau undertook such a review and recovered $25,824 from the State, representing the Federal share of improperly incurred utility relocation costs paid on completed projects.

86. Improper waiver of policy requirements corrected--In our review of the Federal-aid highway program in certain States, as administered by the Bureau of Public Roads, Department of Commerce, we have found that Federal reimbursements have been made to States under circumstances where such reimbursements were specifically

prohibited by certain provisions of Bureau policy statements. In these instances, the Bureau waived its requirements in order to allow Federal participation in costs incurred in contravention of these requirements. An additional consequence has been the lack of consistent application of Bureau policy requirements among the several States. A determination to afford relief from a Bureau requirement in one State, under circumstances that are similar to those which form the basis for denial of Federal participation in other States results in inequitable treatment of the States.

We brought this matter to the attention of the Secretary of Commerce by letter dated July 9, 1963, and advised the Secretary that we would be required to disallow all future payments which may be made on the basis of a retroactive waiver of requirements stipulated in the policy and procedure memorandums issued by the Federal Highway Administrator.

On June 12, 1964, the Federal Highway Administrator established a policy to be followed by the Bureau of Public Roads in determining the eligibility of costs for Federal participation in the event a question arises concerning a State's failure to comply with a requirement prescribed by the Administrator. This policy embodies the basic principles informally agreed upon by representatives of our respective offices.

87. Inadequate State controls over payments for certain highway materials corrected--In October 1963 we reported that inadequacies existed in State of Nebraska controls over payments for certain materials used in the construction of Federal-aid highways. Our review disclosed that, on a number of projects where granular foundation course material was paid for on a weight basis, the weight tickets either were not validated by State personnel at the points of loading and delivery or were not retained as evidence of the quantity of materials delivered to the site, as required by Federal-aid regulations. On four projects reviewed by us, the granular foundation course material actually paid for exceeded by $118,000 the amount which State engineers estimated would be required.

We proposed that, to provide improved control over payments for materials placed in the roadway which are paid for on a weight

basis, the Administrator, Bureau of Public Roads, Department of Commerce, require the State of Nebraska to adopt certain basic control procedures. We proposed also that the Federal Highway Administrator, consistent with appropriate sections of the Federal-aid regulations, require the State of Nebraska to retain all records developed in connection with a Federal-aid highway project for the minimum period specified in the regulations. The Bureau of Public Roads advised us that corrective action was subsequently taken by the State of Nebraska, with respect to both improved controls and the retention of all records required by the governing Federal-aid regulations.

88. Responsibility for administration of the construction program for national parkways and park roads and trails clarified by revised regulations--Certain significant problems existed in the relationship between the Bureau of Public Roads, Department of Commerce, and the National Park Service (NPS), Department of the Interior, in connection with their joint administration of the construction programs for national parkways and park roads and trails. These problems concerned (1) lack of clearly defined road-building responsibilities of the two agencies, which has created a trend toward the duplication of road-building functions, (2) inability of the two agencies to develop mutually acceptable design standards for construction of roads on the national park system, and (3) a long-standing controversy between the two agencies over the adequacy of funds allocated to the Bureau to cover its engineering and administrative costs in connection with the NPS road-building programs.

Attempts of the two agencies over the years to satisfactorily resolve these problems had been generally unsuccessful.

In a report issued in September 1963 we expressed the opinion that the problems discussed above indicated the desirability of concentrating in the Bureau of Public Roads more responsibility for the NPS construction programs for both parkways and park roads and trails. The division of responsibilities had resulted in a trend toward a duplication of road-building functions with the attendant additional cost to the Government of maintaining separate engineering and administrative staffs. In view of the continuing inability

of the Bureau of Public Roads and the National Park Service to reach agreement on several major issues adversely affecting joint administration of the construction programs for national parkways and park roads and trails, we recommended that the Congress consider legislation to resolve these issues.

In August 1964, subsequent to the issuance of our report, a memorandum of agreement and regulations relating to the survey, construction, and improvement of roads by the Bureau of Public Roads for the National Park Service was approved by the Secretaries of Commerce and the Interior.

89. Policy revised to assure that Federal participation in utility relocation costs will be in accordance with law--The Bureau of Public Roads, Department of Commerce, policy governing the extent of Federal participation in the cost of relocation of utility facilities necessitated by the construction of Federal-aid highway projects had not been applied in the State of California on a basis consistent with the controlling provisions of Federal-aid highway legislation. As a result, the Bureau of Public Roads had no assurance that reimbursement to the State of California for utility relocation costs incurred on Federal-aid highway projects had been limited to amounts permitted by statute. In a report issued in February 1964 we expressed the view that, under the circumstances, the Bureau of Public Roads is required to reexamine all utility relocation transactions in which Federal funds have participated in the State of California, and in any other State where the same situation may exist, and to recover the amount of any Federal fund reimbursement found to be in excess of that permitted by law.

As a result of our action, the Bureau promulgated an appropriate revision to its policy. The Bureau also advised us that it is making a study to determine the possibility and financial desirability of retroactive application of the revised policy.

90. Policy permitting excessive Federal participation in severance damages corrected--Federal reimbursements to the State of California, on account of severance damages to remainder lands acquired by California, have substantially exceeded amounts proper for reimbursement under controlling Federal-aid highway legislation

State of California estimates of severance damages to State-owned remainder lands were not a realistic measure of actual State costs because they did not recognize certain factors peculiar to State of California ownership which had a material effect on the value of such lands. In addition, State of California estimates that had been accepted by the Bureau of Public Roads, Department of Commerce, as support for Federal participation in severance damages had not been sufficiently documented to allow effective Bureau of Public Roads review of the reasonableness of the amounts shown therein. In a report issued in February 1964 we expressed the view that these conditions required Bureau of Public Roads revision of its policy governing Federal participation in right-of-way transactions involving State of California acquisition of land in excess of highway needs to provide reasonable assurance that Federal reimbursements to the State of California are limited to actual State costs.

We proposed that the Federal Highway Administrator revise Bureau of Public Roads policy to limit Federal participation to such severance damages as are actually sustained by a State, the amount of which would be determined by reference to the relationship between the acquisition cost and the sales price of the excess land, giving consideration to other measurable factors that would affect the ultimate sales price.

The Bureau of Public Roads advised us that it had negotiated with the California State highway department a revised basis for Federal participation in the costs of properties involving severance damages. The proposal was generally in accordance with our suggestion to the agency. The Bureau of Public Roads stated also that a revised Bureau policy would be prepared which would be applicable to all States having legislative authority to acquire lands in excess of that actually needed for highway purposes, and that as an interim measure, other States which now have such authority have been individually notified of the change in Bureau policy.

91. Legislation introduced to enable Federal Government to participate in revenue derived from interstate right-of-way airspace--Federal-aid highway legislation permits the use of right-of-way airspace above and below Interstate highways under

circumstances which will result in revenues to States or their political subdivisions. This legislation, and the related legislative history, however, does not indicate whether the Federal Government should participate in such revenues.

In a report issued in February 1964 we expressed the view that, where Federal funds participate in the cost of rights-of-way for highway purposes and portions of the rights-of-way are later dedicated to revenue-producing nonhighway uses, recognition should be given to the fact that the revenue arises from the combined investment of the State and the Federal Government.

We suggested that the Secretary of Commerce propose an amendment to section 111 of title 23, United States Code, that would result in appropriate recognition of the Federal interest in the revenues derived by States or their political subdivisions from the use for nonhighway purposes of airspace above and under Interstate highways. We stated that recognition of the Federal interest in such revenues could take the form of a credit to participating project costs in the amount of the estimated value of the airspace dedicated to nonhighway purposes at the time of such dedication.

In commenting on our proposal, the Department advised us that it had reached the conclusion that net revenues derived from the use for nonhighway purposes of airspace above and under Interstate highways should be allocated in the same ratio as that in which the Federal and State Governments participated in the cost of the Interstate highways concerned. On June 30, 1964, the Secretary of Commerce submitted draft legislation to the Congress to provide that the Federal Government shall share in the revenue from the lease, use, or disposition of airspace on the Federal-aid highway systems. A bill covering such legislation (H. R. 12143) was introduced on July 30, 1964.

92. Criteria for justification of collector-distributor roads to be developed--The justification for collector-distributor (C-D) roads planned or constructed at three major interchanges on Interstate Route 80 in Nebraska appeared questionable in the light of established Bureau of Public Roads, Department of Commerce, design criteria and the relatively low volumes of through traffic and

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weaving movements generated by traffic entering and leaving the Interstate route. According to the Bureau, the estimated cost of the C-D roads was about $330,000.

The Bureau advised us that, while the volume of traffic shown for the three interchanges was below the suggested maximum practical values for weaving areas, it believed that both the State and the Bureau field officials exercised prudent judgment by including the C-D roads in the design of the three interchanges. According to the Bureau there was no agreement among design engineers on this feature of design and no firm standard based upon mathematical analysis had been established. The Bureau advised us further that experience since the Bureau-approved American Association of State Highway Officials (AASHO) design policy was published in 1954 had shown that C-D roads provide improved traffic operation, and their use was desirable--even in instances where the estimated traffic volumes were below those listed in the policy.

These comments were clearly open to question when viewed in the light of the position taken by the Bureau at about the same time in another State where a design with C-D roads was rejected by the Washington office of the Bureau although justified by that State in the same manner as the design was justified by the State of Nebraska. Furthermore, these comments were not compatible with interchange designs approved by the Bureau in other States since 1957, when the Nebraska interchanges were approved. We noted a number of locations in one State where traffic is considerably higher than anticipated in Nebraska, yet no C-D roads were included in the approved interchange designs.

In the light of the AASHO design criteria, which were still applicable to the design of Interstate System projects, the justification for the expenditure of about $330,000 to incorporate the C-D roads in the three interchange designs was open to question. Further, the lack of a consistent policy in approving interchange designs in several States indicated that the Bureau had not complied with the requirement of 23 U.S.C. 109(b) that the approved geometric standards for the Interstate System be uniformly applied throughout the States.

Because of the inconsistent treatment of this matter by the Bureau, and the reported disagreement among highway engineers as to when C-D roads should be used, we recommended in a report issued in October 1963 that the Federal Highway Administrator direct appropriate Bureau officials to reexamine, in cooperation with AASHO, the criteria for justification of C-D roads with a view toward establishing a set of standards and warrants which will permit greater uniformity in justifying and designing such roads.

Bureau of Public Roads advised us that it is working with the operating committees of AASHO in preparation of design guides and other policy statements relating to design material and that under the continuing updating of design information the AASHO Committee would develop additional data relative to the design needs in interchange areas to assure maximum operational efficiency and safety. The Bureau also stated that the Planning and Design Policy Committee of AASHO was currently engaged in rewriting the AASHO policy on geometric design of rural highways, and that the question of criteria for C-D roads will be considered by the committee. The Bureau stated it would cooperate with the committee in developing new criteria and warrants.

93. Need to improve construction inspection and testing practices--Considerable uncontrolled cracking had occurred in concrete pavements on various segments of the Federal-aid highway Interstate System in Nebraska. The State and Bureau of Public Roads, Department of Commerce, investigations into the causes of the cracking of the pavement had been generally inconclusive. In our review of the administration of the construction contracts for several of these segments, we observed certain inadequacies in Bureau and State inspection and testing procedures intended to provide assurance that a contractor was fully complying with the contractual specifications.

The Bureau advised us that, while the investigations into the cause of the pavement's cracking had been generally inconclusive, it was satisfied that the cracking could not be attributable to testing procedures or the inspection practices of the State. The Bureau stated also that various corrective actions had been, or would be, taken by the State which should materially reduce uncontrolled pavement cracking if not eliminate it entirely. With

respect to apparent deviations from the testing recommended in the State's Field Engineers Manuals, Bureau officials informed us that the State's manuals were issued as a guide to project personnel and were never submitted to the Bureau of Public Roads for approval or adoption as a standard operating procedure requirement.

Under the governing Federal legislation, the State highway departments are responsible primarily for supervision of the construction of Federal-aid highway projects, subject to inspection and approval of the projects by the Bureau of Public Roads. In this connection, the Bureau issued instructions which emphasized its responsibility to perform such reviews and require such State actions as might be necessary to reasonably assure that completed work will be of high quality and durable, and thus provide a long period of satisfactory service at lowered annual cost.

We recommended in a report issued in October 1963 that, to assist the Bureau in its responsibilities for determining whether appropriate State controls over highway construction existed and were being carried out, the Federal Highway Administrator require the States to submit statements of their materials testing and construction inspection organization, policies, and procedures for Bureau review and approval. The Bureau did not concur that the action recommended by us was necessary; the Bureau considered that its existing policies and procedures were adequate for carrying out its responsibilities.

94. Savings resulting from greater use of Federal Telecommunications System for long-distance telephone calls--During our reviews of the usage of leased lines provided by General Services Administration (GSA), in three regional areas for making long-distance telephone calls, we found that unnecessary costs were being incurred at a rate of over $1.2 million annually by Government agencies because they were using commercial facilities to make telephone calls between cities served by the Federal Telecommunications System (FTS). On a nationwide basis, we estimated that agencies were incurring unnecessary costs at a rate of over $2 million annually. The continued use of commercial long-distance telephone service where FTS service is available results in substantial unnecessary expenditures of Government funds to satisfy agency long-distance telephone-call needs because the charges paid for the leased lines are fixed, regardless of the extent to which they are utilized.

We proposed that the Administrator of General Services take appropriate action to (1) point out to the civil agencies the extent to which unnecessary costs to the Government are being incurred by placing commercial calls to cities where FTS service is available and (2) encourage such agencies to take steps to require that telephone calls between cities be made through the FTS. We proposed also that the GSA make periodic reviews to determine the extent to which the FTS is not being used and initiate appropriate corrective action based on the results of these reviews. In addition, we proposed that the GSA give consideration to adapting the existing GSA and other civil agency switchboards located in FTS cities to handle all long-distance telephone calls through the FTS.

Our proposals were accepted by the Administrator of GSA and at hearings before the Subcommittee on Government Activities, House Committee on Government Operations, on March 18, 1964, he stated that he agreed that more systematic and aggressive steps would have been appropriate. The Administrator also stated that our report has received careful consideration and that our proposals have already been placed in effect or are in the immediate process of being implemented.

To determine the nationwide effect of actions taken by GSA and the user agencies to achieve greater FTS participation, we examined subsequent traffic data. By May 1964, on the basis of GSA's estimate of approximately $1.88 as the average cost of a commercial

long-distance call, the nationwide increased usage of the FTS was saving the Government about $2.2 million a year.

95. Consolidation of teletypewriter communications system being implemented--In a report issued in May 1964, we noted that many Government agencies in the Washington, D.C., area were operating their own teletypewriter communication systems even though teletypewriter service was available through the General Services Administration (GSA) facilities. We indicated that a unified teletypewriter system for the Washington, D.C., area should have been considered because of evidence indicating that such a system was more efficient and economical than the individual agency system, and was consistent with the intent of the Federal Telecommunications System, approved by the President in November 1959, which calls for a unified civil agencies communications system.

In commenting on this matter in September 1963, GSA stated that planning for the consolidation of teletypewriter services using a more advanced system known as the Advanced Record System had been under active consideration since 1960 and that consolidation of teletypewriter services was not feasible under pre-1960 technology. While we recognized GSA's efforts to develop the Advanced Record System, we pointed out that for many years prior to 1960 GSA and the communications companies recognized the feasibility of consolidating teletypewriter services, and in a few instances interim consolidations of teletypewriter service needs were made since 1960, using pre-1960 technology.

In addition, we pointed out that, although GSA was expecting to implement the Advanced Record System over the next 2 years, it had not obtained written agreements from the planned user agencies to assure the integration of their requirements into the new system. In view of the substantial expenditures that would be necessary to implement the new system, and in view of past agency resistance to GSA consolidation efforts, we recommended that the Administrator, General Services, use all means at his disposal to require agency participation including, if necessary, calling the matter to the attention of the President of the United States for prompt resolution unless proper and expeditious cooperation was forthcoming from the agencies which should participate. In July 1964, GSA informed us that agency cooperation was being achieved and that interim implementation of the Advanced Records System has already started to produce substantial economies.

96. Need to consolidate Government switchboards to eliminate unnecessary telephone service costs--In a report issued in May 1964, we stated that unnecessary costs had been incurred for telephone service because aggressive action had not been taken by the General Services Administration (GSA) to consolidate Government switchboards wherever feasible in the Washington, D.C., area. If the consolidations recommended by GSA studies had been carried out in the Washington, D.C., area, more than $1.9 million, not including space savings, would have been saved during the 8 years ended December 31, 1963. The recommendations for switchboard consolidations were not carried out by the GSA either because of objections raised by some of the Federal agencies or because of the possibility of agency opposition to the consolidations.

In commenting on our finding GSA stated that the Office of Telecommunications was established in 1961 and had been successful since that date in correcting previous deficiencies, evaluating existing situations, and establishing positive planning to effect a consolidated operation of the telephone switchboards in the Washington, D.C., area whenever feasible and economical.

We noted, however, that GSA had been studying and planning switchboard consolidations in the Washington, D.C., area for about 10 years and that its failure to take decisive action to fully effectuate such plans has continued to be a major weakness. In view of the determinations as to the feasibility of such action and the economies which would result, we recommended that the Administrator of General Services take appropriate action to effect the further consolidation of civil agency telephone switchboards in the Washington, D.C., area. Subsequent to the release of our report, GSA requested The Chesapeake and Potomac Telephone Company in June 1964 to make another study, this time of the entire Washington metropolitan area, the study being oriented toward a consolidation of the metropolitan area Government complex.

FINANCIAL REPORTING PROCEDURES

97. Audit and report on financial statements of Federal home loan banks to be changed from fiscal year basis to calendar year basis--Under the provisions of the Government Corporation Control Act, the Comptroller General is required to audit and report to the Congress on the financial transactions of the Federal home loan banks for each fiscal year ending June 30. Audits of the banks and reports on their financial transactions based on a calendar year rather than such fiscal year would coincide with the accounting periods of the banks and would facilitate the audit made by the Comptroller General.

In a report issued in February 1964 we recommended that, in order to provide reporting to coincide with the accounting periods of the Federal home loan banks and to facilitate our audit of those banks, the Congress consider amending the Government Corporation Control Act to require the Comptroller General to audit and report to the Congress on the financial transactions of the banks on a calendar year basis rather than on a fiscal year basis as is presently required. Legislation to implement this recommendation was passed by the House of Representatives on June 1, 1964.

98. Action to be taken to establish policies and procedures for disposing of no-value deposits held by the Treasury Department for various agencies--Certain securities and other items sent to the Treasury Department for safekeeping by various agencies of the Government and classified as no-value deposits have been held by the Office of the Treasurer, in some cases, for periods in excess of 50 years.

Maintaining accountability for these items and storing them in a security vault appeared to be an unnecessary administrative operation. Because of the nature of these items and the length of time that they have been held in safekeeping, we believed that a review of all items classified as no-value deposits should be made and that action should be taken to dispose of as many of these items as possible.

In a report issued in November 1963 we recommended that a review be made of the no-value deposits held by the Treasurer to determine whether these items should be sold pursuant to 31 U.S.C. 741a, sent to the Archives pursuant to General Service Administration Circular No. 153, deposited in the Treasury pursuant to

Treasury Department Circular No. 865, returned to the depositor, destroyed, or retained. We recommended further that specific policies and procedures be established to limit acceptance of such deposits in the future. The Fiscal Assistant Secretary of the Treasury informed us in May 1964 that he agreed with the principle which motivated our recommendations and that corrective action would be undertaken.

FINANCING POLICIES AND PROCEDURES

99. Need for more equitable arrangement between the Federal Government and commercial banks maintaining Treasury Department tax and loan accounts--Under the present tax and loan account arrangement, the earning value of the larger tax and loan account balances held by commercial banks substantially exceeds the estimated expenses for the services rendered by those banks to the Government and the Government is not being adequately compensated for the use of its funds on deposit in tax and loan accounts. The Treasury Department has not provided new convincing evidence that the arrangement is fair and equitable to the Government, and we believe that a modification along the lines recommended by us in our May 1962 report to the Congress is desirable.

We do not question the usefulness of the tax and loan account system and we, therefore, have not advocated that the system be discontinued. We believe that imposition of a reasonable charge for the use of funds in the tax and loan accounts would not result in an unworkable modification of the tax and loan account system or destroy the essence of the system because the banks would continue to handle tax and loan accounts so long as the amounts earned by the banks on these accounts exceeded the charges by the Government.

Accordingly, we recommended in a report issued in December 1963 that the Congress consider the desirability of enacting legislation establishing a general policy requiring that the banks pay to the Government amounts approximating the excess of the earnings value of the tax and loan accounts over the cost of services rendered to the Government.

We recommended also that the Congress consider assigning to the Treasury the responsibility for establishing schedules of charges to the banks intended to accomplish the purposes of this policy. Such schedules could be established and prospectively applied on the basis of periodic studies of the earnings and services

of representative individual banks rather than on the basis of payments to the Government determined from actual experience of individual banks. The Treasury could perform such examinations as necessary to insure the reliability and consistency of the data submitted. Because significant earnings are made only by certain banks having large balances, schedules could be developed and applied only to those individual banks having tax and loan account balances above an administratively established minimum amount.

100. Need to restore improperly used funds appropriated for construction of bridge--Our review disclosed that the Panama Canal Company improperly used about $640,000 of funds appropriated for the construction of a bridge and its approaches to finance the construction of facilities and facility improvements which were not directly related to or necessitated by the bridge project.

After these matters were called to the attention of Company officials, the Company agreed to restore about $375,000 to the bridge appropriation from funds of the Panama Canal Company and the Canal Zone Government. With respect to the remaining amount totaling about $265,000, the Company disagreed with our view that these costs were not directly related to or necessitated by the bridge construction project and rejected our proposal that these funds also be restored to the bridge appropriation.

Inasmuch as the Company had not submitted in support of its position any information which we had not considered previously, we recommended in a report issued in April 1964 that the President of the United States direct the Governor of the Canal Zone-President of the Panama Canal Company to initiate action to reimburse the bridge appropriation for the amount of about $265,000. We were subsequently informed by the Secretary of the Army, the President's representative in matters concerning the Canal organization, that, in his opinion, the Company had properly exercised its discretion in determining that the improvements financed by the $265,000 were necessitated by the bridge construction and that these funds should not be restored to the bridge appropriation.

FISCAL PROCEDURES

101. Current use by State employment agencies of funds appropriated for prior years corrected--In a report submitted to the Congress in September 1963, we commented on the practice followed by the Bureau of Employment Security, Department of Labor, of making available to State employment agencies for expenditure in the current fiscal year uncommitted funds which had been granted to them in prior fiscal years. We pointed out that during the period from July 1, 1957, through January 31, 1963, the Bureau of Employment Security authorized the State agencies to use in succeeding years about $32.4 million of such funds. This practice reduced congressional control over the funds made available because funds appropriated for a single year, in effect, were treated as no year funds, which are available until expended. We also pointed out that the amounts of uncommitted funds made available to the State agencies were not adequately disclosed to the Congress for its consideration in determining the amounts which should be appropriated for employment security administration for the new fiscal year.

We recommended that the Congress consider including suitable language in the Department of Labor appropriation acts which would specifically limit the annual appropriations to use by the State agencies only for obligations they incur during the specified fiscal year. Subsequently, in the Department of Labor appropriation act for fiscal year 1964, the Congress provided that funds unobligated by the States in that year shall be returned to the Treasury.

102. Action taken to recover disallowed expenditures of State employment security agencies--In our report issued in May 1963 we stated that effective action is needed by the Bureau of Employment Security, Department of Labor, to recover more than $1.2 million of expenditures by State employment security agencies from Federal grants for administration which the Bureau had disallowed as not necessary for proper or efficient administration. We pointed out that over $1 million of these expenditures were made by the agencies during fiscal years 1942 through 1956 and that the Bureau's procedures for obtaining restoration of the disallowed amounts indicated little affirmative action. We recommended that the Bureau revise and strengthen its policies and procedures so that restoration of future disallowances may be achieved within a reasonable time.

The Bureau advised us in June 1964 that it had changed its internal audit reporting procedures wherein outstanding disallowed expenditures are now highlighted, and had strengthened and established certain other procedures for follow-up on outstanding disallowed expenditures. As a consequence of the changed procedures 17 State agencies had restored more than $314,000.

103. Action taken to collect delinquent accounts receivable from Republic of Panama--Our review of accounts receivable owed the Panama Canal Company and Canal Zone Government disclosed that at November 30, 1963, the Republic of Panama was indebted to the Canal organization for about $2.7 million, of which about $2.5 million was delinquent. The major part of the delinquent accounts represented unpaid billings for potable water and other services provided to the Republic in 1959 and 1960.

Inasmuch as there was no indication as to when payment might be ultimately made by the Republic, we recommended in a report issued in June 1964 that the President of the United States consider the advisability of directing appropriate United States officials to negotiate with the Republic of Panama leading to the collection of the indebtedness. We were subsequently advised by the Secretary of the Army, the President's representative in matters concerning the Canal organization, that the matter of the indebtedness of the Republic to the Canal organization had been explored fully with the Department of State with a view to finding a resolution of the problem in the course of discussions which were then being held with the Republic of Panama.

104. Action taken to revise charges for Coast Guard vessel operating time to recover costs--Standard hourly charges for the United States Coast Guard vessel operating time, established in 1959 on the basis of the 1957 operating costs, appear to be inadequate to recover costs. The Coast Guard is authorized (14 U.S.C. 642) to charge private parties with the repair or replacement costs of aids to navigation that such parties damage. Such costs include expenses of Coast Guard vessels required to assist in repair or replacement of navigation aids.

Our review of the statistics on operating costs accumulated by the 12th Coast Guard District for fiscal years 1959 through 1962

disclosed that the standard hourly charges for operating vessels of 100 feet or more in length were substantially less than the average hourly vessel operating costs incurred by the District for these years.

Accordingly, we recommended in a report issued in June 1964 that the Commandant of the Coast Guard require annual revision of the Aids to Navigation Regulations so that the standard hourly rates for vessels used in connection with repair and replacement of aids to navigation will be based on operating costs applicable to the latest fiscal year.

In July 1964, the Treasury Department advised us that charges for vessel operating time utilized in connection with the repair and replacement of aids to navigation damaged by private parties will be redetermined annually based on service-wide vessel operating costs incurred in the latest fiscal year.

105. Refunds for unused tickets to be collected from carriers --The Department of Labor was not collecting large numbers of refunds from carriers for unused transportation tickets, or portions thereof, returned to administrative offices by travelers. We brought the matter to the attention of cognizant representatives of the Department who, after making a general search of files and repositories, found documentation upon which over 650 refunds for unused tickets, amounting to about $15,000, were claimed and collected.

Improved collection actions were then instituted and informal instructions adopting the standardized procedures in the GAO Policy and Procedures Manual for Guidance of Federal Agencies were issued and made applicable in some of the Department's administrative units. These actions, however, did not fully provide the internal control needed for effective administration of the purchase of transportation in all of the Department's administrative units; the Department did not issue appropriate written procedures applicable to all administrative units and did not provide for periodic review of these administrative practices.

We therefore suggested in a report issued in June 1964 that the Department officially adopt the informal instructions now in use by issuing them in the Manual of Administration, for

Department-wide use. Also, we suggested that the internal audit unit conduct periodic internal audits of travel refunds in order that weaknesses may be promptly detected and corrected. In March 1964, the Administrative Assistant Secretary of the Department of Labor advised us that the practices of not effecting prompt collection of unused tickets would be immediately corrected through the development of appropriate procedures and through improved supervisory practices.

106. Need to revise charges to recover costs of various services rendered to other Government agencies and non-Government entities--Our review disclosed that user charges assessed by the Federal Aviation Agency for various services to other Government agencies and non-Government entities are inadequate to recover related costs.

The Agency stated that its policy, which provides for the recovery of only those additional costs that are directly attributable to the reimbursable work performed, conforms with prescribed Government policies. However, we do not consider the Agency policy to be in accord with prescribed Government policies which require that charges for Government-furnished services shall be adequate to cover all costs incurred in providing the services. Accordingly, we recommended in a report issued in March 1964 that the Agency establish procedures for determining appropriate charges for services furnished others that will result to the fullest extent practicable in the recovery of the actual costs incurred in the performance of the services.

107. Need for the Federal Aviation Agency to establish user charges to recover costs incurred in certifying aircraft, aircraft components, and airmen--Our review disclosed that the Federal Aviation Agency has not followed prescribed Government policies in assessing user charges. User charges are not assessed to recover any portion of the costs incurred in inspecting aircraft and aircraft components and issuing the required certificates or in determining the competency of airmen and issuing certificates of competency.

We brought our findings to the attention of the Administrator of the Agency. The Agency has taken the position that its present policy of not assessing any charges for the certification of

aircraft, aircraft components, and airmen should be adhered to until consideration has been given to legislative proposals for an increase in the tax on aviation gasoline. The Agency has stated that, since the certificates in question are primarily for the benefit of the flying public, there are strong and compelling legal arguments for the nonassessment of any charges against the recipients of the certificates.

We believe that the imposition of general or special taxes does not relieve an agency from the existing requirement that the costs of providing special services are to be recovered, to the extent feasible, from the recipients of such services. We believe also that the recipients of the certificates in question derive a special benefit from the issuance of such certificates above and beyond any benefits that flow to the public. We recommended in a report issued in March 1964 that the Agency establish user charges to recover the costs incurred in certificating aircraft, aircraft components, and airmen to the extent determined to be fair and reasonable.

GOVERNMENT-FURNISHED HOUSING

108. Need for the Bureau of Prisons to limit size and cost of construction of dwelling units--An unreasonably expensive one-family employee residence was constructed by the Bureau of Prisons, Department of Justice, for the warden at the United States Penitentiary, Leavenworth, Kansas. Our review disclosed that the Bureau incurred costs of about $100,000 to construct and furnish the residence, including the extension of utilities and a road to the residence site. About $24,000 of this amount represents the estimated cost of the inmate labor which was used for most of the construction work.

The cost of this house is about 3-1/2 times the maximum amount authorized to be spent for a comparable family housing unit of a commanding officer of a military post within the United States, and exceeded, by about 50 percent, the limitations prescribed by Bureau of the Budget Circular No. A-18 as to the size of one-family dwellings which may be constructed. We also noted that certain costs applicable to the project were not properly recorded and were not readily identifiable from the records.

The Director of the Bureau of Prisons, in commenting on this matter, disagreed with our inclusion of $24,000 for estimated inmate labor cost and of amounts for certain other costs as part of the investment in the residence. The Director concluded that the costs of the house which he considered applicable seemed in no way to be excessive when consideration is given to the status of the warden and his need for a suitable dwelling for the official entertainment expected of him.

In a report issued in April 1964, we recommended that the Director of the Bureau of Prisons require penal institutions to design and construct all dwelling units within the size limitations prescribed by the Bureau of the Budget; to prepare specific and realistic estimates of cost; and to record all costs directly applicable to staff housing construction in a manner which will enable ready determination of the total costs for such housing. So that more effective control over appropriated funds used for the construction of residential housing may be provided, we recommended also that the Congress consider placing limitations, similar to those prescribed in the case of family housing for military personnel, on the floor area that may be provided for Bureau of Prisons staff housing and on the amounts which may be expended for the

construction of such housing, taking into consideration the fact that inmate labor is used at no recorded cost.

109. Need for further action by the Bureau of Prisons to increase rentals--In our review of rentals charged for housing provided to employees of the Bureau of Prisons, Department of Justice, we found that certain practices by the Bureau had resulted in depressing the entire rent structure below the levels contemplated by Bureau of the Budget Circular A-45, which required establishing rental rates at levels similar to those prevailing for comparable private housing in the same area. These consisted of (1) adjusting appraised rents downward to compensate for such intangibles or unmeasurable factors as hazards, restrictions, and inconveniencies associated with living near a prison--a practice which is not authorized by Circular A-45, (2) equalizing and limiting rents at all locations instead of setting rents on the basis of appraisals, and (3) accepting inadequate appraisals as a result of insufficient guidance by the central office of the Bureau to wardens of institutions and appraisers concerning the specific requirements of the Bureau of the Budget regulations.

On July 9, 1963, after we had discussed the inadequacies of previous appraisals with officials of the Bureau of Prisons, the Director issued revised instructions requesting that new appraisals be made. Based generally on these appraisals, the Bureau of Prisons revised rental rates in February 1964, and thereby increased annual rentals for housekeeping quarters by about $170,000. Also, rentals for nonhousekeeping quarters were increased by about $30,000 annually. However, these increases for nonhousekeeping quarters were not based on appraisals, but resulted from an overall increase in monthly rentals for such quarters ranging from $18 to $30 per month plus $2 to $6 for bath facilities.

With respect to the rental increases for housekeeping quarters, we found that the Bureau continued to make downward adjustments for intangible and unmeasurable factors associated with living near prisons and to equalize and improperly limit rents at various locations. The Bureau contended that it continued the practice of making downward adjustments for intangible considerations on the basis that it is anticipating a revision in the Circular A-45 to permit such adjustments. However, our discussion with officials of the Bureau of the Budget disclosed that although it

plans to clarify Circular A-45, no change is anticipated in the established Government-wide principle of requiring that rentals for Government-furnished housing be set at levels similar to those prevailing for comparable private housing in the same area. Although the Bureau of Prisons has recently increased the rentals of its employee housing, we believe it still has not fully complied with the requirements of the Bureau of the Budget Circular A-45, and, consequently, the increased rentals are often depressed below comparable commercial rentals in the same area.

110. Action taken to strengthen procedures for verifying financial information submitted by outpatients of District of Columbia contract hospitals--Our review disclosed that contract hospitals were not adequately verifying financial information submitted by outpatients who received treatment at District of Columbia expense. In some cases this situation was due to deficiencies on the part of the contract hospitals; in other cases the problem arose from the policies of the Medical Assistance Division (MAD), Bureau of Administration, Department of Public Health, District of Columbia Government. We found numerous instances where inaccurate or incomplete financial information submitted by outpatients went undetected because of inadequate verification procedures. Also, contract hospitals did not check information submitted by outpatients against similar information in MAD records.

As a result, many patients were furnished medical treatment at District expense but either were not entitled to such care or were not billed in the amounts established under the District's payment criteria. Our tests indicated that, if financial information had been properly reported, costs to the District for treatment of outpatients at contract hospitals could have been reduced by about $133,000 during fiscal year 1963.

So that procedures for verifying financial information submitted by outpatients may be strengthened, we suggested in a report issued in March 1964 that consideration be given to (1) the feasibility of transferring the responsibility for making eligibility and ability-to-pay determinations from the contract hospitals to MAD and (2) if such a transfer is not feasible, the development of improved MAD procedures for determining that contract hospitals adequately verify financial information submitted by all outpatients.

In a letter dated January 23, 1964, the President, Board of Commissioners, District of Columbia, set forth the views of the Commissioners which indicated a basic agreement with our suggestions for correcting weaknesses. In July 1964 we were informed that six additional positions had been authorized within the contract hospital section of MAD. Hospital officials stated that these positions should strengthen MAD's enforcement of procedures relating to verification of financial information submitted by patients.

111. Adequacy of utility charges assessed against nonappropriated fund activities of a Coast Guard Reserve Training Center, to be periodically reviewed--Utility charges assessed against certain nonappropriated fund activities at the Coast Guard Reserve Training Center, Yorktown, Virginia, United States Coast Guard, Treasury Department, were low in relation to charges assessed against rental housing units at the Yorktown Training Center for like services. Our review disclosed several inequities in charges for heat, electricity, and water and for sewage and garbage services for the Officers' Mess, the Exchange, and the Snack Bar.

We were informed that, as a result of our review, charges for utility and other services furnished to nonappropriated fund activities had been reviewed and rates had been revised upward as of March 1, 1963. We estimated that the revised rates will increase revenues by about $1,500 annually.

We recommended in a report issued in June 1964 that, to provide for equitable charges for utility services to nonappropriated fund activities at other locations, the Commandant of the Coast Guard require a servicewide review of such utility charges and revision of those rates found to be inequitable. The Treasury Department informed us in July 1964, that the Coast Guard instructions for assessing these charges would be amended to provide for a periodic review of such charges and for the equitable applications of the charges among various users.

112. Pilot study to be made to determine feasibility of billing hospital outpatients at the District of Columbia General Hospital at the time treatment is administered--Our review disclosed that most persons receiving emergency, obstetrical, or pediatric outpatient treatment at the District of Columbia General Hospital did not pay the fee at the time treatment was administered and that there were no procedures for billing the patients. Our tests indicated that up to $448,000 in additional revenue might have been received during fiscal year 1962 if the District had collected all the prescribed fees for those types of outpatient treatment.

In a report issued in January 1964 we suggested that the District place emphasis on attempting to collect the prescribed fees for outpatient services at the time treatment is administered and give consideration to billing a patient for any unpaid portion of the fee unless it has been adequately determined that the person

qualifies for care at District expense. The collection of fees, where possible, before patients leave the hospital would tend to keep the volume and costs of subsequent billings to a minimum.

In July 1964, hospital officials informed us that they have started a pilot study to determine the feasibility of billing emergency room patients.

113. Need to improve billing practices for services to hospital inpatients of the District of Columbia General Hospital--In a prior report to the Congress, we pointed out that in fiscal year 1959 ability-to-pay determinations were not made for about 6,000 inpatients at the District of Columbia General Hospital and we recommended that such determinations be made for all inpatients. Our current review of hospital records indicated that during fiscal year 1962 about 24,000 persons were admitted to District of Columbia General Hospital as inpatients. Ability-to-pay determinations were made, however, in only about 18,000 cases; the remaining 6,000 patients were given medical care entirely at District expense without determination of their ability to pay.

Our examination showed that billings of about $162,000 were not made because of the District's failure to determine the ability to pay of all inpatients.

In a report issued in January 1964 we suggested that a concerted effort be made to interview all inpatients and determine their ability to pay and that the feasibility of adjusting the working hours of employees, to enable the making of ability-to-pay determinations in the evenings and on weekends, be fully explored. We suggested also that all inpatients be cleared through the hospital Business Office before they are discharged and that patients be billed for the entire cost of services when appropriate.

The President, Board of Commissioners, District of Columbia, stated that (1) lack of adequate Medical Assistance Division staff is the principal problem in implementing the first two suggestions and (2) a present lack of both staff and space in the Business Office makes it impossible to implement the third suggestion. We believe that the District should consider staggering the hours at which patients are discharged at the various locations in the

hospital so that representatives of the Business Office may visit such locations to clear all inpatients before they are released.

In July 1964, hospital officials informed us that billings were being made to all inpatients, except those determined to be eligible for free care, regardless of whether a determination of ability to pay had been made. If a determination of ability to pay has not been made, a billing is made at the full rate, subject to adjustment if the patient is subsequently determined to be unable to pay the full rate.

114. Need to strengthen procedures for verifying financial information submitted by inpatients of the District of Columbia General Hospital and contract hospitals--Our examination disclosed that the procedures of the Medical Assistance Division (MAD), Bureau of Administration, Department of Public Health, District of Columbia Government, for verifying financial information submitted by inpatients treated at the District of Columbia General Hospital and at contract hospitals were not adequate. We found numerous instances where the MAD did not detect that inpatients had submitted inaccurate or incomplete information on their financial resources. As a result, many patients were furnished medical care at District expense but either were not entitled to such care or were not billed in the amounts established under the District's payment criteria. Our tests indicated that, if financial information had been properly reported, additional billings of about $366,000 could have been made by the District of Columbia General Hospital in fiscal year 1962 and additional billings of about $520,000 could have been made by contract hospitals during fiscal year 1963.

So that procedures for verifying financial information submitted by inpatients may be strengthened, we suggested that certain certifications and investigations be required and necessary written procedures be established.

In commenting on our suggestions the President, Board of Commissioners, District of Columbia, stated that studies would be made regarding our suggestions, but that without a statutory definition of legally responsible relatives there is no way to enforce the securing of information, the contracting for payment, nor verifications signed by all adults.

In July 1964, we were informed that proposed legislation had been drafted by the District, and sent to the President pro tempore of the United States Senate, providing for the legal liability of individuals and certain relatives to pay if they are financially able to do so, for care and treatment furnished by or at the expense of the District. Hospital officials believe that, if enacted, the bill will enable the District to better secure and verify financial information and to improve their overall collection efforts.

115. Need for effective criteria in determining patients' ability to pay for treatment at District of Columbia General Hospital--Our review disclosed that the criteria used in making ability-to-pay determinations gave only limited recognition to the earning capacity of the patient's family group. As a result, the District of Columbia bears an unnecessarily large part of the cost of providing treatment to many patients.

Our tests indicated that additional billing of over $2,000,000 a year might have been made if the District had given full recognition to the earning capacity of the patient's family group. We suggested that consideration be given to revising the ability-to-pay criteria to give full recognition to the family group's ability to pay over a reasonable period of time after the patient is discharged and to revising the procedures for determining ability to pay of patients on leave without pay so that prior earnings are considered where there is a reasonable possibility that the patients will be gainfully employed after being discharged from the hospital.

The President, Board of Commissioners, District of Columbia, stated that the earning capacity of a patient's family group is an indeterminate factor and concluded that the District's present policies and procedures for determining patients' ability to pay are adequate. We believe that full recognition should be given to the family group's ability to pay over a reasonable period of time after the patient is discharged so that the full cost or a larger part of the cost of hospital care is recovered. Should the family group's financial circumstances change, a redetermination of ability to pay should be made.

GRANT FUNDS ADMINISTRATION

116. Action taken to strengthen administration of grant funds--Our review in nine States of expenditures of National Defense Education Act title III grant funds, totaling about $8 million, disclosed (1) Federal participation of $161,840 in expenditures which the Office of Education, Department of Health, Education, and Welfare (HEW), subsequently determined to be ineligible under the provisions of the law and regulations and for which recoveries have been or will be sought from the States and (2) Federal participation of over $295,000 in essentially similar expenditures for which the Office of Education will not seek recoveries.

In our opinion, most of the expenditures of $295,000 could reasonably have been regarded as ineligible and subject to recovery if the Office of Education had administered eligibility requirements in a more consistent and effective manner. In addition, we questioned Federal participation of over $270,000 in expenditures for which the Office of Education had not, as of October 31, 1963, made final determinations as to eligibility.

We believe that our findings indicated weak administration of title III grant program eligibility requirements because (1) the Office of Education did not take positive action to give the States definite, prompt, and complete guidance on standards prepared by the States, (2) the audits by the Division of Grant-in-Aid Audits were incomplete, and (3) the Office of Education did not take prompt action concerning questionable expenditures disclosed by Division audit reports and by certain administrative and fiscal reviews.

In response to our proposals for strengthening administration of the program, HEW issued revised regulations and instructions designed to give the States more complete and specific information as to eligibility requirements, and administrative procedures were changed to require States to revise procedures, adjust financial reports, and make refunds as soon as findings are disclosed which require such action. Also, HEW informed us that a study was being made to strengthen and improve its audit operation.

117. Need to eliminate excessive accumulation of grant funds in States--The Office of Education, Department of Health, Education, and Welfare (HEW), practice of making semiannual advance payments of grant funds under title III of the National Defense

Education Act resulted in an excessive accumulation of these funds in certain States during fiscal years 1959, 1960, and 1961. The semiannual advance payment practice is disadvantageous to the Federal Government since it tends to unnecessarily accelerate Government borrowings and may increase related interest costs.

Excessive accumulations would be much less likely if title III funds were advanced to the States more frequently than twice a year to meet State cash requirements for shorter intervals, as is done for grant programs administered by other HEW agencies. Therefore, we proposed that a review be made of the need for the semiannual advance payment practice for title III grant funds. Effective July 1, 1964, the Office of Education changed its procedures so as to pay title III grant funds to all States on a monthly basis. Also, in May 1964 the Treasury Department issued a new Government-wide letter of credit and draft procedure under which funds to finance programs carried out by State and local governments and other institutions will be disbursed only as required for grant purposes.

INTERNAL AUDIT AND REVIEW ACTIVITIES

118. Review and appraisal functions of mortgage servicing operations of the Federal Housing Administration improved--The efficiency and effectiveness of the review and appraisal functions of the Federal Housing Administration (FHA), Housing and Home Finance Agency, mortgage servicing operations have been weakened because of (1) overlapping or duplication of effort in the reviews made by the Audit and Examination Divisions and (2) the failure to make independent reviews and appraisals of headquarters activities.

In a report issued in January 1964 we recommended that (1) the review functions of the Audit and Examination Divisions be coordinated and clarified and (2) the Commissioner expand the system of internal review and appraisal to provide for periodic evaluation of FHA's mortgage servicing activities at all organizational levels.

FHA advised us that reviews of field offices are now made only by the Examination Division and that the chance of overlapping and duplication of effort no longer exists. Further, the Office of Audit and Examination has been authorized to make periodic reviews of all activities of the central office.

119. Untimely reviews of interim rental and sales income rate for crediting participating right-of-way project costs to be corrected--Since the latter part of calendar year 1958, the Bureau of Public Roads, Department of Commerce, had not reviewed the reasonableness of a predetermined 5-percent rate used by the State of California on an interim basis for crediting participating right-of-way project costs with net income derived from rentals, sales of improvements, and salvage; nor had the Bureau of Public Roads formally approved the use of this rate beyond June 30, 1959, although it was still in use 2 years after that date. Subsequent to our review the Bureau of Public Roads has twice reviewed and revised the interim credit rate, necessitating retroactive adjustments of reimbursements to the State of California.

We stated the view in our report issued in February 1964 that the interim credit, while designed to eventually result in appropriate credits to project costs, was unduly cumbersome and might have the effect of considerably weakening the effectiveness of Bureau of Public Roads audit of State of California transactions

which give rise to rental, sales, and salvage income. Accordingly, we expressed our belief that the Bureau of Public Roads should explore with the State of California the possibility of adopting a procedure under which individual right-of-way projects would be credited with actual net income amounts on a current basis, thus permitting Bureau of Public Roads audit prior to the State of California's submission of final right-of-way reimbursement vouchers.

The Bureau of Public Roads advised us that it was actively engaged in promoting improvement in the State of California's accounting system to the end that all costs and income would be recorded currently and billing to the Government for its proportionate share would be taken directly from accounting records. The Bureau of Public Roads further stated that, when this procedure had been established, the need for interim percentage credits would no longer exist, as the billings would show the costs less appropriate income credits.

120. Action being taken by the Federal Housing Administration to increase site audits of construction cost certifications--Federal Housing Administration (FHA), Housing and Home Finance Agency, does not have a program for making audits at the site, on a test basis, of cost certifications submitted by mortgagors and builders as part of its regular reviews of mortgagors, mortgagees, and others participating in the FHA programs. Our review disclosed that there is a need for making such audits of the certified statements of actual cost, on a selected basis, to provide additional assurance that insured mortgages do not exceed statutory limits.

We recommended in a report issued in October 1963 that the regular compliance reviews by FHA's internal audit and compliance staffs be extended to include audits, on a test basis, of the records supporting the cost certifications submitted by mortgagors and builders under the various FHA multifamily mortgage insurance programs.

FHA advised us that progress has been made in its efforts to increase the number of site audits of mortgagors' and builders' cost certifications.

121. Need to take action on recurring deficiencies reported by internal auditors of the Small Business Administration--Actions by the Small Business Administration (SBA) have not been adequate to correct the recurring deficiencies in the business loan program reported by SBA's Office of Audits.

In his letter the Administrator, SBA, advised us that effective corrective action is a continuing problem and, in recognition of this, he has taken many corrective measures to have the field offices correct the deficiencies reported by the Office of Audits. He has, among other things, written to individual regional directors concerning particular audit reports, placed resident auditors in all large regions, and ordered follow-up audit reports in all future cases of reported poor administration.

In our opinion the steps the Administrator has taken are sound improvements which should result in a strengthened and more effective internal audit. The reports of SBA's internal auditors for fiscal year 1963, however, continued to show a significant and repetitious pattern of deficiencies. Accordingly, we recommended in a report issued in January 1964 that the Administrator, SBA, to enable SBA to receive the full benefits of its internal auditors' efforts, require responsible Washington program officials to take whatever further administrative action is necessary to have the field offices adopt adequate measures to correct recurring deficiencies in the business loan program reported by the Office of Audits.

LOW-RENT HOUSING PROGRAM

122. Action taken to require timely advance payments in land condemnation proceedings to reduce interest costs--Our review of site acquisitions disclosed that the New York City Housing Authority did not make timely advance payments for property that was acquired in condemnation proceedings for two project sites for low-rent public housing. We estimated that the failure to make timely payments increased interest costs about $15,000 for the two projects.

In a report issued in December 1963 we recommended that the Commissioner, Public Housing Administration (PHA), require the local housing authorities (LHAs) to make advance payments in land condemnation proceedings where such payments are permitted by local law, in order to reduce interest charges to the LHAs.

The PHA Commissioner issued a circular on March 11, 1964, which stated that the policy of PHA would be that advance payments in land condemnation proceedings shall be made wherever permitted by State or local law.

123. Legislation needed for the Federal Government to avoid bearing unnecessary costs of new low-rent projects--Our review of land acquisitions for low-rent housing project sites disclosed that the Public Housing Administration (PHA), Housing and Home Finance Agency (HHFA), approved payments totaling $326,663 to five local housing authorities (LHAs) for authority-owned land purchased from PHA pursuant to title VI of the Lanham Act (public war housing and veterans' re-use housing) and subsequently used in the development of new low-rent public housing projects. The PHA's approval was based on its interpretation of the appropriate provisions of the United States Housing Act of 1937, as amended.

The payments totaling $326,663 were included in the development costs of the projects that are financed by the LHAs' sale of bonds to private investors. The principal and interest on these bonds are secured by a pledge of annual contributions to be paid by PHA to the LHAs. Although the act does not clearly prohibit these payments, we believe that the payments to the LHAs for such lands are unnecessary since the LHAs already owned the land, having purchased it from the Federal Government under favorable conditions provided by the Lanham Act.

Further, the act does not require LHAs to use their own lands as sites for new low-rent public housing projects and, accordingly, one LHA, with PHA's approval, expended about $4.3 million for new sites although the local authority owned sites that could have been made available for low-rent use.

In addition other LHAs own former Lanham Act or other types of housing, conveyed to them by the Federal Government, that are located on sites which some day may be considered as sites for new low-rent public housing projects. In the one PHA region where we made our review, we noted that 35 of the 84 LHAs in the region owned relinquished Lanham Act or other types of housing purchased from the Federal Government.

Since PHA is paying most of the cost of constructing new low-rent projects, we believe that the unnecessary increases in the development costs of new low-rent projects will be paid for principally by the Federal Government.

We obtained comments on our findings from the PHA Commissioner who did not agree with our views. The Commissioner stated that the agency was without a legal basis for requiring an LHA to devote its Lanham Act land to new low-rent project use or for requiring it to do so without consideration and, when an LHA makes such land available on a reimbursable basis, the cost of the land to the LHA is a proper item of development cost.

In a report issued in June 1964 we recommended that the PHA Commissioner request appropriate amendatory legislation of the Congress in view of the lack of clear authority for the agency to take remedial administrative action.

124. New low-rent housing projects constructed or planned for construction although Government-owned housing was available--Our review of low-rent housing projects disclosed two instances wherein we believe that existing Government-owned housing could have been acquired and converted to low-rent public housing use with resulting savings of about $1,140,000. Further, we noted four instances at the time of our review wherein we believe that existing Government-owned properties could be acquired and converted to satisfy, in whole or in part, the housing needs of local housing authorities (LHAs) which have new low-rent public housing projects in

the early stages of development. Based on cost information that was available in three of the four instances, about $1,450,000, less estimated costs of rehabilitation, could have been saved in the three instances. Since Public Housing Administration (PHA), Housing and Home Finance Agency (HHFA), ultimately is paying for most of the cost of constructing new low-rent projects, any savings resulting from using existing Government-owned housing in lieu of constructing new low-rent projects will accrue principally to the Federal Government.

The Commissioner of PHA did not agree with some of our conclusions or our recommendation. In a report issued in December 1963 we recommended that the HHFA Administrator require the PHA Commissioner to establish procedures to provide LHAs with information regarding the availability and location of all Government-owned properties and to require verification of an LHA's determination that such project was not suitable for low-rent use. We recommended also that PHA strongly encourage LHAs to acquire such properties where obvious savings are indicated and, where available Government-owned housing is not proposed for use, to approve plans for constructing new low-rent public housing only after determining that the LHAs rejected the existing Government-owned housing for sound reasons.

125. Need to discontinue purchase of excess land--The Public Housing Administration (PHA), Housing and Home Finance Agency (HHFA), approved the purchases by the New York City Housing Authority and the Housing Authority of the City of Providence, Rhode Island, of land which we believe was excess to the needs of two low-rent public housing projects. The excess land was acquired in order to eradicate slums to further civic improvement. PHA regulations generally prohibit the acquisition of excess land. The development costs of the two projects will be increased about $519,000 because of the purchase of the excess land.

In commenting on our findings, PHA stated that the land in question did not appear to be excess to the needs of the projects since it was acquired for the benefit of the projects and their occupants, and the agency expressed the belief that the purchases were consistent with the intent of the housing act.

We believe that the acquisition of land excess to project needs, for the primary purpose of eradicating slums to further civic improvement, is contrary to PHA's stated policy and is beyond the scope of the low-rent public housing program. Therefore, it is improper to use Federal low-rent housing funds to eliminate overcrowded private housing from streets bordering low-rent projects or to eliminate slum properties across the street from a low-rent project. The elimination of blight beyond necessary project boundaries is the responsibility of local governing bodies, possibly with the assistance of the Urban Renewal Administration under the provisions of Title I of the Housing Act of 1949.

In a report issued in December 1963 we recommended that the HHFA Administrator require the PHA Commissioner to clarify PHA's instructions to its regional offices to prohibit the use of Federal low-rent housing program funds for land purchases made to improve areas adjacent to necessary project boundaries. We recommended also that PHA reconsider whether the two projects have land that is excess to project needs. If any land is determined to be excess, including land that is used for purposes for which other project land could be used, PHA should require that the land be sold and the proceeds be applied to reduce the outstanding indebtedness incurred in the development of these projects, which will reduce PHA's ultimate liability for making contributions to the projects to retire such indebtedness.

126. Need for better control over architects' inspectors--Public Housing Administration (PHA), Housing and Home Finance Agency, construction representatives determined during their visits to project sites that inspectors, who were hired by architects at five local housing authorities (LHAs), to inspect construction of seven low-rent public housing projects, failed to observe construction deficiencies involving the use of inferior materials and evidence of poor workmanship. The cost of constructing these projects was about $1.6 million. The PHA representatives' reports indicated that the inspectors did not meet PHA's suggested minimum qualification standards of employment. Since the inspectors continued to be employed until the projects were completed, undetected latent deficiencies may exist because the inspectors were not qualified to make proper inspections.

We suggested to the PHA Commissioner that PHA instruct its regional directors (1) to deal more aggressively with LHAs in order

to improve the inspection services and (2) to require more frequent or longer visits by PHA construction representatives at project sites, as circumstances demand, to obtain proper inspection of construction in any case where PHA finds that the local inspections are inadequate.

In a letter dated June 27, 1963, the PHA Commissioner informed us that PHA believed the existing safeguards in the annual contributions contracts to be adequate but that the agency agreed that a need existed for reviewing procedures for implementing the safeguards. The Commissioner stated further that PHA would undertake to strengthen the regional offices' review of the inspection services.

In a report issued in January 1964 we recommended that the PHA Commissioner instruct the PHA regional directors to take more aggressive action with the LHAs in order to obtain replacement of not properly qualified inspectors with competent, qualified persons. In addition, we recommended that PHA rearrange the schedules of the construction representatives to permit them to give closer attention to project sites where inspectors have proved to be not properly qualified until competent inspectors are assigned.

On April 3, 1964, the HHFA Administrator informed us that the Low-Rent Housing Manual on Inspection had been amended to improve the quality of the inspection services and that the Architects Contract on Inspection of Construction had been strengthened with respect to on-the-site inspection by the architect. He did not agree that, based on the situation in one LHA, all PHA regional directors should be instructed to act more aggressively to obtain LHA removal of unqualified inspectors.

We believe that the changes indicated by the Administrator do not adequately respond to our finding and recommendations because no provision is made for strict enforcement of the changes. We believe this enforcement is necessary to assure that the administration, supervision, and inspection of construction are in accordance with the requirements of the applicable contracts and regulation.

127. Need to eliminate loans for off-site community facilities from project costs--The prior Public Housing Administration (PHA), Housing and Home Finance Agency, requirement that local housing

authorities (LHAs) include loans for off-site community facilities in the cost of developing their low-rent housing projects resulted in increasing the maximum Federal annual contributions payable over the life of the annual contributions contracts by an amount estimated by us to be in excess of $5,000,000. These increases could have been avoided if PHA had excluded loans for off-site community facilities from project development costs. We believe that these increases were not authorized by the United States Housing Act of 1937.

It appears that it would be impracticable for PHA to take action toward eliminating the increases in maximum annual contributions in cases where the LHAs have made arrangements for permanent financing of the projects involved because the maximum Federal annual contributions are pledged as security for notes or bonds sold to the public to obtain funds for financing the project development costs. However, in cases where the projects are not permanently financed, PHA could avoid the increases by requiring the LHAs to omit loans for off-site community facilities from project development costs. In effect, this would follow the current PHA policy.

In a report issued in September 1963 we recommended that the PHA Commissioner (1) require the LHAs which have made loans pursuant to the prior policy but which have not sold notes or bonds for permanently financing the projects involved to exclude the loans from project development costs and (2) advise the LHAs which have not made loans authorized under the prior policy that the current PHA policy with respect to loans for off-site community facilities must be followed.

128. Need to apply collections on loans for off-site community facilities as a reduction of Federal annual contributions--In order to protect the interests of the Federal Government, all collections on the loans for off-site community facilities should have been used to reduce the maximum Federal annual contributions to low-rent housing project development costs. The Public Housing Administration (PHA), Housing and Home Finance Agency, requirement that local housing authorities (LHAs) include in operating receipts collections on the loans for off-site community facilities, authorized under the prior policy, does not always result in collections being used to reduce maximum Federal annual contributions and thus does not adequately protect the interests of the Federal Government.

The amount of collections on loans for off-site community facilities that has been used for purposes other than reduction of maximum Federal annual contributions is unknown and cannot readily be ascertained. However, at the time of our review 80 LHAs had reported, on their latest available financial statements, unpaid balances of loans for off-site community facilities totaling about $847,000. In a report issued in September 1963 we recommended that the PHA Commissioner advise the LHAs involved that future collections on loans for off-site community facilities must be used to reduce the maximum Federal annual contributions. Such use would be ensured if the LHAs were required to make prompt deposits of cash, equal to the amounts collected on their loans for off-site community facilities (whether collected in cash or by offset against amounts otherwise owed by the LHAs), into one of the trust funds held by the LHAs' fiscal agents for use in making future payments of principal and interest on notes and bonds sold by the LHAs to obtain funds for financing the projects' construction costs.

MANPOWER UTILIZATION AND ORGANIZATIONAL MATTERS

129. Establishment of a single tax compliance unit for District of Columbia Government--In fiscal year 1962 we reported that the District of Columbia Government, in conducting its tax and other-revenue collection activities, had dispersed the responsibility for enforcing compliance with District tax laws among three separate units: the Personal Property Assessment Section; the Income and Franchise Tax Section; and the Sales, Use, and Excise Tax Section. This dispersal of functions resulted in the same business concerns being visited by different officials of the several compliance units. Also, one of the compliance units made more field investigations than appeared to be necessary, whereas another unit made relatively few investigations. In our report issued in June 1962, we suggested that the District consider the feasibility of establishing a single compliance unit within the Department for the purpose of more effectively carrying out its compliance program.

In fiscal year 1964, two of the 3 units were combined, and the compliance functions of the Revenue Division's Income and Franchise Tax Section and Sales, Use, and Excise Tax Section were transferred to a newly formed Compliance and Records Section responsible for discovering and visiting taxpayers who do not file returns and for assessing those who cannot or will not file returns.

130. Action taken to consider consolidating health and medical activities performed by the District of Columbia Government--In our review of the organization and management structure under which health and medical activities are being performed by the District of Columbia Government, we found that substantial health and medical activities are carried out not only by the Department of Public Health but also by four other major departments of the District of Columbia Government, namely, the Department of Public Welfare, the Department of Corrections, the Board of Education, and the Fire Department. The health and medical activities within each of these departments are under the complete control of the directors of the individual departments. The Department of Public Health has by far the largest professional health and medical staff in the District of Columbia and the largest and best equipped medical facilities of any of the departments.

We believe that the dispersion of health and medical functions to several different departments does not make for efficient, effective, and economical planning and execution of District health

and medical activities. We found that under the existing arrangements there is some duplication and overlapping of health and medical activities, limited flexibility in the utilization of medical personnel, and limited coordination in the overall health and medical activities of the District of Columbia Government.

We proposed to the Board of Commissioners that they give consideration to realigning as soon as practicable the functions and responsibilities of the Department of Public Health and other departments involved to the extent necessary to vest in the Department of Public Health the overall responsibility for planning, directing, and implementing all health and medical activities carried on by the District of Columbia Government.

In a letter dated June 6, 1963, the President of the Board of Commissioners, District of Columbia, stated that the Commissioners were in accord with the objectives of simplifying and improving medical services and that they had instructed the Director of General Administration, in collaboration with the department heads involved, to make a thorough examination of our proposal and to report to them as soon as practicable on the detailed aspects of what the examination indicates as desirable.

Subsequently, in August 1964, we were informed that the study undertaken by the Department of General Administration was complete but the results had not been fully evaluated and the report and recommendations to the Commissioners had not been finalized.

131. Action initiated to achieve better staffing standards of the General Services Administration for skilled trades--Our examination disclosed that the staffing standards of the General Services Administration (GSA) for skilled trades were not adequate to promote efficient utilization of manpower. The standards were not based on realistic measurements of the scope, frequency, and type of work to be performed in individual buildings, but were based on gross square feet of space serviced and, later, on historical productive hours. The GSA staffing standards were not generally in use at the regions visited by us because regional personnel believed them to be unsuitable. In the absence of reliable criteria for measuring staffing needs, it was not practical to determine whether some skilled trades were properly utilized.

We proposed in a report issued in October 1963 that GSA develop more adequate staffing standards to promote better utilization of skilled trades in the operation, maintenance, and repair of public buildings in order to accomplish programmed objectives. GSA informed us that action has been initiated and in some instances implemented to achieve adequate staffing standards.

132. Skilled aircraft mechanics to be more effectively utilized by the Federal Aviation Agency--In March 1964 we reported that the use of skilled aircraft mechanics by the Federal Aviation Agency (FAA) for indirect aircraft maintenance work results in high aircraft maintenance costs. For example, we estimated on the basis of the actual direct labor maintenance hours, compiled by us from available records, that the costs incurred for maintenance work performed by aircraft mechanics at the New York International Airport maintenance base amounted to $8.36 an hour, compared with the standard rate of $5.50 an hour charged by independent contractors.

We suggested that FAA make a study of the manpower utilization of aircraft maintenance personnel with the objective of reducing the ratio of indirect aircraft maintenance labor-hours to total aircraft maintenance labor-hours.

FAA stated that, although at times it was necessary to use skilled labor in indirect labor areas because of fluctuations in the workload, a contributing cause of high labor costs would be eliminated when the new supply system was implemented and skilled aircraft mechanics were no longer used in the operation of the supply system. FAA also indicated that it would continue to seek other means of obtaining effective utilization of skilled labor.

133. Steps taken for enforcing corporate mortgagors' compliance with charter requirements--Our review disclosed weaknesses in the control by the Federal Housing Administration (FHA) Housing and Home Finance Agency of the financial management practices of corporate mortgagors and in enforcing mortgagors' compliance with the charter requirements. These practices included excessive withdrawal of corporate funds and the retirement of capital stock without the prior approval of FHA as required by the corporate charter.

Since FHA's underwriting policy under which mortgages are insured is based on prudent management by the mortgagor over the life of the mortgage, we believe that FHA should use all its rights as provided in the insuring agreements to enforce compliance with charter requirements and to correct all cases of imprudent financial practices. In a report issued in January 1964 we recommended that FHA take more aggressive action to enforce compliance with charter requirements and to correct imprudent financial practices, especially in those cases where such practices are detrimental to FHA's interest as insurer.

FHA stated that several steps have been taken to detect imprudent financial practices before they seriously harm FHA's interests. We were informed that the mortgage servicing staff has been increased and the Office of Audit and Examination is developing more effective methods of identifying such potential problems, and is giving priority to the audit of mortgagors in an unsound or borderline financial condition.

134. Action being taken to inspect and correct maintenance deficiencies of project property--Since the underlying security for insured and Commissioner-held mortgages is the project property, the proper maintenance of the property is a matter of primary importance to the Federal Housing Administration (FHA), Housing and Home Finance Agency. Our review showed that annual inspections were not made to provide early detection and timely correction of physical deterioration of projects. Our review disclosed also that project maintenance deficiencies were not corrected because efforts to obtain mortgagor correction of such deficiencies have been inadequate.

In a report issued in January 1964 we recommended that (1) action be taken to provide that all projects are appropriately

inspected by FHA insuring offices and the mortgagees and (2) FHA use more aggressively all means available to obtain mortgagors' correction of maintenance deficiencies which have impaired the value of the properties.

FHA stated that they are seeking more adequate compliance with the inspection requirements of their mortgage servicing manual. FHA also stated that they are continually reminding their offices of the importance of using all means available to obtain correction of maintenance deficiencies.

135. Procedures revised requiring that actual cost instead of estimated cost of land be included in project cost--Developers of federally assisted urban renewal projects in New York City were permitted by the Federal Housing Administration (FHA), Housing and Home Finance Agency to include land in their statements of project costs at its estimated cost rather than actual cost. We noted that a developer of an urban renewal project in New York City included land in his certified statement of project costs at its estimated cost which was $452,000 in excess of his actual acquisition cost. If actual land cost had been used, as is done in other cities, the insured mortgages in this case would have been reduced by about $215,000.

Since the Federal Government furnishes financial assistance to local communities in making land available to developers at a fair market value for the uses specified in the urban renewal plan, we believe that developers should not be permitted to include such land in their statements of project costs at a value higher than their actual cost of acquiring the land and thereby obtaining larger mortgages. Therefore, we suggested to the Commissioner, FHA, that the underwriting procedures for federally assisted urban renewal projects be revised to provide that, where the actual cost of land to the developers is not known at the time the applications for mortgage insurance are being processed, the developers be required to include the actual cost of such land in their statements of project costs.

The Commissioner has agreed with our suggestion and, in a letter dated March 26, 1963, he advised us that FHA will require developers of federally assisted urban renewal projects to include land in their cost certifications at its actual acquisition cost.

136. Need to revise mortgage servicing requirements--Our review at each of the seven Federal Housing Administration (FHA), Housing and Home Finance Agency, insuring offices visited disclosed weaknesses in many areas of mortgage servicing, such as lack of follow-up action to obtain delinquent financial statements and inadequate follow-up with mortgagees on insured small home properties in default.

We believe that there is a need to review FHA's present mortgage servicing requirements. In a report issued in January 1964 we recommended that FHA review its present mortgage servicing requirements to provide, within established criteria and guidelines, insuring office directors with authority to direct their servicing efforts to those projects which warrant increased attention rather than to require the same degree of servicing for all projects.

137. Need to obtain timely control over project operations during periods of foreclosure actions--Our review showed excessive delays in acquiring multifamily properties and in obtaining control over project operations from the time the defaulted mortgages were assigned until final acquisition by the Federal Housing Administration (FHA), Housing and Home Finance Agency. In many of these cases, mortgagors collected rents and made no payments on the mortgage indebtedness while FHA paid the real estate taxes and hazard insurance on the properties during this period.

In a report issued in January 1964 we recommended that FHA make greater use of its rights as provided by the corporate charters or regulatory agreements to expedite obtaining control over the operations of multifamily projects in default and in process of acquisition, where it is recognized that delays will occur in obtaining such control through foreclosure actions. We recommended also that, if such rights do not provide a satisfactory or effective means of protecting FHA's interests, the Commissioner seek other means of obtaining control over projects.

138. Policies and procedures for scheduling city delivery carriers to be improved--The need for scheduling certain Post Office Department (POD) city delivery carriers to report for work on delivery routes prior to 6 a.m. is questionable and results in additional costs for night differential compensation of 10 percent of the carriers' hourly basic rate.

During the postal fiscal year ended June 21, 1963, night differential payments to city delivery carriers performing collection services after 6 p.m. and delivery services before 6 a.m. amounted to $2.6 million. POD's records do not show how much of the $2.6 million was paid for work performed on delivery routes before 6 a.m. However, the amount involved may be substantial as the six post offices reviewed by us had incurred night differential costs of about $98,200 for work performed on delivery routes before 6 a.m., and there are approximately 6,000 post offices which provide city delivery service. Accordingly, we proposed to the Postmaster General that a review be made of the scheduling of city delivery carriers reporting for duty prior to 6 a.m. based on the criteria of providing reasonably satisfactory service as economically as possible and that appropriate adjustments be made to the scheduled starting times for carriers.

The Deputy Postmaster General informed us by letter dated October 14, 1963, that there may be routes serving strictly residential areas where carriers are unnecessarily scheduled to report before 6 a.m. He stated that the Bureau of Operations will follow up with the regions to assure that more economical scheduling is adopted where feasible to do so without impairment of service. He informed us further that the Postal Manual will be amended to provide that due consideration be given to night differential costs in contrast to needs of the service when establishing city delivery carrier schedules.

139. Consolidating dispatches of small quantities of mail to be explored--In the Seattle Region of the Post Office Department (POD), small quantities of mail were being dispatched on certain trains, and, because of the nature of the Interstate Commerce Commission rate structure for the transportation of mail by rail, savings of about $135,000 a year could be effected by consolidating dispatches without a significant delay in service to the patrons.

In a report issued in September 1963 we recommended to the Postmaster General that the POD instruct the Seattle Regional Director to revise the dispatch schedules and avoid lesser unit shipments where possible. If the railroad companies are unwilling to accept the consolidated dispatches because of possible effects on train schedules, we recommended that the POD attempt to negotiate pooling agreements with each railroad company whereby all mail carried on its trains would be considered for pay purposes as having been carried on one train.

The Postmaster General informed us that the two cases cited in our report would be explored with the Seattle Region and that the region would be asked to review all other dispatches which might be adjusted in accordance with our recommendation.

140. Need for more timely management action to determine railway post office requirements--At Post Office Department (POD) headquarters we noted that, about 2 years after the postal regions had submitted 10 proposals to substitute less costly means of service for railway post office (RPO) service, the POD had not taken final action on the proposals even through the operating divisions concerned at POD headquarters believed the proposals were operationally feasible. The regions had estimated that implementation of these proposals would result in annual savings of about $1,170,000.

The Postmaster General has informed us that in some instances there appeared to have been undue delay in acting on proposals to discontinue railway post office service and that in many instances the reasons for deferring action were not operational but were because of other factors, such as the effect upon employees and the railroad companies.

In a report issued in September 1963 we recommended to the Postmaster General that the POD be more timely in evaluating and acting upon regional proposals to replace RPO service with less costly means of service.

141. Need to establish criteria for reevaluating the program of transporting first-class mail by air--Our review of the airlift program of the Post Office Department (POD) disclosed that the stated cost objectives of the 1960-61 expansion were not met. We noted that, rather than reducing costs by about $212,000 a year as

had been estimated by the POD, the expansion of the program increased costs by about $1.1 million a year--about 85 percent more than the estimated costs of surface transportation. We also noted that the POD, in evaluating existing airlift segments during fiscal year 1963, compared service by existing surface transportation with service by air transportation, without giving adequate consideration to the comparative costs of such services or the reasonable need for such services, as related to patrons' expectations when they choose to use regular first-class postage rather than premium airmail postage.

The Deputy Postmaster General informed us by letter dated January 17, 1964, that the POD had reevaluated and would continue to reevaluate the program of transporting first-class mail by air; that it had adopted different criteria, based essentially on the service normally expected by patrons, for the use of the airlift in today's situation; and that these criteria require constant reevaluation of the different movements in relation to the changing services and facilities available for the transportation of mail.

The Deputy Postmaster General stated that it was obvious that some experimental routes established in 1960 exceed service expectations as compared with the POD's present service criteria, but that, once this service has been afforded postal patrons and they have come to depend on it for their business and social correspondence, it is difficult for the POD to substitute another service. He informed us that, nevertheless, the POD was considering adjustments in this type of service.

Because of the substantial additional transportation costs incurred in airlifting first-class mail over certain routes, we recommended in a report issued in May 1964 that in reevaluating the airlift program the Postmaster General give greater consideration to the cost of such service. We recommended also that the guidelines for evaluating each airlift segment be (1) better service at equal or less cost than by adequate surface transportation or (2) equal service at less cost than by adequate surface transportation. We believe that the POD, in determining the adequacy of surface transportation, should give greater consideration to the fact that the patrons who use first-class mail have chosen to pay the regular first-class postage rather than the premium airmail postage.

142. Need to reduce costs of operations of mail-flo system--Our review of cost and production data pertaining to the mail-flo systems and the operations directly affected by the systems at the Philadelphia and Denver Post Offices disclosed that the costs, as adjusted for comparability, of the affected operations increased after installation of the mail-flo systems. The costs for these operations, excluding interest costs, increased by an estimated $782,500 a year at the Philadelphia Post Office and $624,400 a year at the Denver Post Office. At the Philadelphia and Denver Post Offices the labor productivity rate for the operations directly affected by the mail-flo systems decreased after installation of the systems. Also, certain functions which the mail-flo systems were designed to perform mechanically were performed manually.

Because of the substantial costs involved and because of decreased productivity after installation of the equipment, we recommended in a report issued in October 1963 that the Postmaster General have the Department reevaluate the mail-processing operations at the Philadelphia Post Office and continue the review of the mail-processing operations at the Denver Post Office to determine the most efficient and economical way of processing the mail. On the basis of these reviews, the Department should take appropriate action to improve the efficiency of the operations. We recommended also that, when other major mechanization projects are installed, the Postmaster General have timely studies made to determine the impact of the mechanization upon the postal operation and whether the equipment is being used effectively and, if needed, to initiate appropriate action on a timely basis to improve the efficiency of the operation.

PROCUREMENT PROCEDURES AND PRACTICES

143. Action taken to achieve significant economies in the procurement of milk by the Veterans Administration--The Veterans Administration (VA) central office recognized, as early as 1958, the economies that could be realized by purchasing milk in bulk quantities, usually in 5-gallon containers, and serving it from refrigerated dispensers rather than purchasing and serving the milk in individual half-pint containers. In nine prior reports, we called the attention of the VA to the economies involved in the use of bulk milk dispensers. However, our review disclosed that effective action by the VA central office had not been taken to have individual stations use such equipment wherever feasible.

We estimated that if the VA had required all stations to use bulk milk dispensers, wherever feasible, savings of as much as $450,000 annually could have been realized. We estimated also that the lack of aggressive action since fiscal year 1959, the year in which we first reported this matter to the Veterans Administration, through fiscal year 1963, had resulted in excess costs of about $1.8 million. In accordance with our recommendation made in prior years, all VA field stations, where feasible, have now procured bulk milk dispensing equipment.

144. Substantial savings realized through purchase of electric substations at the Agricultural Research Center, Beltsville, Maryland--Excessive costs were being incurred by the Government because the Agricultural Research Service (ARS), Department of Agriculture, decided to lease rather than purchase two electric substations at the Agricultural Research Center, Beltsville, Maryland. ARS officials stated that the agency had intended to lease for 25 years one of the electric substations which was completed by the Potomac Electric Power Company (PEPCO) in 1961. The costs to the Government during this period would have exceeded, by about $326,000, the costs which would have been incurred by the Government had the substation been purchased upon construction. We stated that savings in Government funds of about $288,000 could still be realized if ARS would purchase the substation as of July 1964. The other substation had been leased from PEPCO since 1939 at a cost which, after 25 years of leasing, in 1964 would exceed, by about $83,000, the costs which would have been incurred by the Government had the substation been purchased in 1939.

We concluded that ARS should have requested the funds required to purchase the substations, originally, and thereby avoided the

higher costs of leasing. Since significant savings could still be effected by purchasing the substation completed in 1961, we proposed that the Secretary of Agriculture, in consultation with the Administrator of General Services, initiate appropriate action to obtain the funds necessary to acquire the substation at the earliest possible date. We pointed out also that in our opinion there is a need for the Administrator, ARS, to (1) create among agency officials a greater awareness of the opportunities for achieving savings of Government funds, (2) require agency officials to make adequate cost studies to ascertain whether it is more economical to buy than to lease facilities which are to be installed, and (3) encourage the officials, whenever the opportunity arises, to take prompt and effective action to realize indicated savings.

In accordance with our proposal, ARS issued purchase orders to PEPCO in June 1964, for the purchase of the electric substations at the Center.

145. Availability of excess military aircraft engine parts and accessories to be determined before purchase from commercial sources by the Federal Aviation Agency--Aircraft engine parts and aircraft accessories were purchased or were on order from commercial sources although the items could have been obtained through the military services from stocks on hand in excess of military needs at costs less than the commercial costs to the Federal Aviation Agency (FAA). We proposed to FAA that a procurement policy be established requiring its purchasing personnel to inquire of Department of Defense military depot inventory managers as to the availability of excess aircraft engine parts and accessories before arranging for the purchase of such items from commercial sources. FAA informed the Bureau of the Budget that action was being taken to meet the objectives of our recommendation.

146. Unwarranted inclusion of tooling costs in the price of forgings should be recovered by the Atomic Energy Commission--Our review of the pricing of case extrusion cylinders (forgings) procured by an Atomic Energy Commission (AEC) operating contractor disclosed that the price included a factor providing for the supplier's recovery of tooling costs of about $49,000. We expressed the view that the price for the forgings should not have included a factor for tooling costs because the AEC operating contractor had provided, under a prior tooling order with the supplier, for the

use of tooling necessary to produce the forgings at no additional cost. Our review disclosed also that neither the operating contractor nor AEC had examined into the supplier's price for the forgings to the extent necessary to determine whether or not the price included a factor for tooling costs.

In a report issued in April 1964 we recommended that AEC, in coordination with the Department of Justice, take all legal and administrative measures available to recover costs of about $49,000 that resulted from the supplier's improper inclusion of tooling costs in the price of the forgings. We recommended also that AEC emphasize to its contracting officials the need in negotiating contract prices to give appropriate consideration to any prior contractual arrangements that have a bearing on the prices.

147. Adjustment of the overpricing of tube sheet assemblies should be obtained by the Atomic Energy Commission--Our review of the procurement by an Atomic Energy Commission (AEC) operating contractor of K-27 tube sheet assemblies under a negotiated supplemental agreement to a subcontract that had been awarded under competitive conditions showed that the fixed unit price for the tube sheets had not been based on a proper analysis and evaluation of the supplier's prior cost experience.

Our review of the supplier's records showed that the negotiated fixed price of the tube sheets was overstated by about $464,000 in relation to the costs the supplier was likely to incur in producing the tube sheets. The effect of paying for the tube sheets at the excessively high price was to lessen the losses the supplier asserts it sustained under that portion of the subcontract that was awarded under competitive conditions. In view of the excessively high price for the tube sheets, we recommended in a report issued in October 1963 that AEC take action to obtain an equitable price adjustment.

148. Adjustment of the overpricing of aluminum procurements should be obtained and procurement policies should be amended by the Atomic Energy Commission--Our review of the procurement by an Atomic Energy Commission (AEC) operating contractor from a sole-source supplier of (1) aluminum caps and cans at a total cost of about $7.3 million and (2) reactor weldments at a total cost of about $12 million showed that the supplier's proposed prices had

been accepted by the contractor and AEC without obtaining analyses of the supplier's prior actual or estimated costs as a basis for determining the reasonableness of the proposed prices because of the supplier's refusals to furnish cost information.

Our review of the supplier's cost records and other available data disclosed that (1) the amount of $2.7 million paid for caps and cans procured under 9 purchase orders was about $1.4 million, or 105 percent, in excess of the supplier's experienced costs in producing the same or similar items in similar quantities and (2) the amount of $5.5 million paid for reactor weldments procured under 14 purchase orders was about $2 million, or 60 percent, in excess of the supplier's prior actual or estimated production costs.

Our review also disclosed that although the purchase orders were for repetitive and noncompetitive procurements of the same or similar items, the orders did not contain an appropriate examination of records clause giving either the AEC operating contractor or AEC the right to examine the supplier's records to obtain information relating to its cost experience under the orders for use in evaluating subsequent price proposals. Knowledge of the supplier's cost experience would have put the operating contractor in a position to negotiate for lower prices. Also, AEC would have been in a better position to determine whether the procurements should have been approved.

In reports issued in July 1963 and June 1964 we recommended that AEC negotiate with the supplier for an equitable adjustment of the prices of the caps and cans and the reactor weldments. AEC informed us that an adjustment of the prices would be pursued with the supplier.

In view of the supplier's continued refusals to furnish cost information in connection with current procurements, we recommended that AEC amend its procurement policies to require that its top management officials be informed of those instances where an AEC operating contractor or an AEC contracting officer is unable to obtain definitive cost information for consideration in negotiating prices so that the officials may take action to obtain such cost information or may consider alternatives available in meeting procurement needs. AEC informed us that it was negotiating with the

supplier to furnish detailed cost information and to furnish cost certifications. However, at June 30, 1964, the supplier had not agreed to furnish cost information in the detail requested by AEC or to furnish the requested certifications.

149. Need to consider standardization of certain post office lobby equipment--Our review of the procurement of counterline-screenline items disclosed that certain economies could, in our opinion, be obtained by the Post Office Department (POD) from greater standardization of this equipment. Prior to 1954, the POD utilized two series of counterline-screenline equipment for furnishing post office lobbies. In an attempt to modernize post office lobbies, additional series of this equipment have been developed, and the POD presently purchases or maintains stocks in its warehouses for seven different series of counterline-screenline equipment comprising about 450 items. Items in the seven series of equipment are generally not interchangeable between series because of differences in construction and finishing. In some cases items of equipment are not interchangeable within the same series because equipment obtained from different suppliers has not been standardized.

We were advised by the POD that its continuing program for the standardization of counterline-screenline equipment had resulted in the maximum standardization of this equipment consistent with the needs of the postal service. We were informed that the future standard counterline-screenline equipment would consist of three separate series but that these series would be procured in wood and in steel and would continue to be noninterchangeable. We believe that further standardization could be achieved and that consideration should be given to the interchangeability of wood and steel items for future installations in postal facilities. Accordingly, in a report issued in March 1964 we recommended that the Postmaster General institute a comprehensive study of post office counterline-screenline equipment to consider whether through the use of different materials, component parts, or design and finishing, similar items of wood or steel counterline-screenline equipment might be made interchangeable within a series and whether the number of series of this equipment might be further reduced.

PROPERTY MANAGEMENT ACTIVITIES

150. Procedures established to eliminate duplicate payments of real estate taxes by the Veterans Administration--As a result of inadequate internal controls over payments of real estate taxes, the Chicago Regional Office of the Veterans Administration (VA) paid real estate taxes twice on at least 80 properties. The overpayments totaled about $17,800.

Under the procedures followed at the Chicago office at the time of our review, the office would reimburse the mortgage holder for any real estate taxes paid before the transfer of an acquired property to VA. VA would also notify the county tax collector of its acquisition of a property and request that bills for any unpaid taxes be sent to VA. No controls were in effect to determine that payments of taxes were not duplications of reimbursements of taxes to former mortgage holders.

We discussed the lack of control over tax payments with Chicago regional officials and suggested that improved procedures be established. We also suggested that a review of tax payments be made to identify and recover other possible overpayments. The Regional Manager agreed and a study was made. A total of 80 duplicate payments of 1959 and 1960 real estate taxes totaling about $17,800 were identified and necessary recovery action was taken. In December 1962 the Regional Manager reported to the VA central office that internal control procedures had been established whereby VA requests tax bills from the county collector only after examining the mortgage holder's claim for reimbursement and after entering on a tax record card the amounts reimbursed to the mortgage holder for taxes.

151. Action taken to improve control of fee payments to brokers for management services on Veterans Administration properties--Our reviews at the Chicago and Philadelphia regional offices of the Veterans Administration (VA) showed that improper payments were being made to brokers for management services on VA properties because the regional offices had inadequate procedures for the review and control of such disbursements.

Our tests of the monthly fees paid by the Philadelphia Regional Office between April and October 1961 showed that the brokers billed and the VA paid for management services on 22 properties after the properties had been sold and delivered to the

purchaser. On 10 other properties, monthly fees were paid to brokers although VA had received no indication that the required services were performed. In addition our test disclosed 11 instances where the VA office paid two different brokers for managing the same properties for the same month.

At the Chicago Regional Office, we tested 274 fee payments to brokers in fiscal years 1961 and 1962 and found 21 instances where a broker billed and VA paid both rental and nonrental management fees on the same property for the same month. We also found eight duplicate payments of fees where the Chicago office had paid on the basis of both the original and a copy of a broker's invoice.

We discussed our findings with VA regional officials at both offices and suggested improvement of the control of brokers' fee payments. Regional officials have since informed us that they now require a review of brokers' fee payments and the use of individual property records as a means of preventing duplicate payments. They informed us also that most of the overpayments shown by our tests have been collected.

152. Action taken by the Public Health Service to review controls over accountability and management of Government-furnished and contractor-acquired property--Our review disclosed that weaknesses existed in the accountability and management of Government-furnished and contractor-acquired property under cost reimbursement research and development contracts of the Public Health Service (PHS), Department of Health, Education, and Welfare (HEW).

We found that (1) property records were incomplete or were not kept, (2) controls over disposition of property at termination of contracts were generally inadequate, (3) property settlements with contractors generally were not made in a timely manner, and (4) no systematic screening procedures existed to enable a matching of equipment requirements with Government-owned equipment no longer needed for use on completed contracts. Under these circumstances we believe that appropriate safeguards against loss, unnecessary procurement, and unauthorized use of property were lacking, and PHS management had been unable to make reliable determinations that the property furnished or acquired under the contracts continued to be effectively used.

PHS acknowledged the need for strengthening procedures and practices relating to contractors' inventories of nonexpendable property and advised us that corrective action had been or was being taken in line with our proposals. Because similar conditions may exist within other HEW operating agencies, we recommended to the Secretary of HEW in a report issued in March 1964 that the reported findings and related corrective actions be brought to the attention of appropriate officials with instructions to review their controls on comparable property and, where needed, to take corrective action. We were informed that action was taken to comply with our recommendation.

153. Action taken by the General Services Administration to implement a preventive maintenance program--Only one of the six regions of General Services Administration (GSA) visited by us had a systematic program for the preventive maintenance work, whereas at the other regions preventive maintenance was preformed at the discretion of buildings managers and foremen without a satisfactory program or plan. The delay in the establishment of a systematic program for preventive maintenance resulted in little or no preplanning of work and the lagging of the work. We proposed to the Administrator of General Services that the establishment of a preventive maintenance program be expeditiously completed and that management periodically inspect and evaluate the progress of the preventive maintenance work to assure that the program is carried out adequately.

GSA developed a systematic preventive maintenance program and in fiscal year 1963 issued instructions to implement the program.

154. Action by the General Services Administration to improve buildings inspection program--At five of the six regions of General Services Administration (GSA) visited, our examination disclosed that prescribed buildings management inspections were not carried out adequately in recent years, that prescribed inspection reports were not prepared or were not complete for all inspections that were made, and that deficiencies which were the subject of some inspection reports were not adequately followed up.

In view of the general lag in the inspection program, we recommended that GSA make every effort to carry out an active inspection program at all regions, with emphasis on known or suspected

problem areas. We recommended also that the GSA central office periodically review the performance and effectiveness of the inspection program by regions.

GSA has taken some corrective action on the deficiencies noted in the inspection program. In response to our proposal that the GSA central office periodically review the performance and effectiveness of the inspection program by regions in order to detect and correct any lag in the program, GSA issued a directive requiring an annual report of the regional inspection activities. The first report was received October 1, 1963.

155. Action by the General Services Administration to improve building cleaning services--Our examination at individual buildings in three General Services Administration (GSA) regions disclosed wide variations in the prescribed level of cleaning services, indicating a need for better compliance with GSA cleaning standards to promote adequate manpower utilization, efficiency of performance, and control of buildings management costs.

The level of cleaning services varied widely between some buildings, ranging from 28 percent to 130 percent of the standard level developed by GSA. Regional officials were not fully aware of the specific variations that existed nor could they adequately explain the reasons for the variations.

We believe regions should exercise greater control over the level of services performed at each building in order to promote efficient operations. Further, we believe that the regional officials, in controlling cleaning services, should determine the reasons for variations from the prescribed uniform level in order to promote more adequate use of manpower and to disclose inadequate, inefficient, or unnecessary services.

In view of the size of the cleaning operations in about 1,060 buildings throughout the United States, we recommended that GSA require all regions to review and explain wide variations from the prescribed level based on the standards of cleaning services and to take corrective action toward compliance with the standards.

GSA has taken certain action in this direction, in particular by issuance of a memorandum in July 1962, requesting all regions

to compare the actual cleaning productive hours for fiscal years 1961 and 1962 with the hours authorized and to explain major variations. GSA also issued a directive in August 1962, establishing a standard periodic building cleaning schedule, and a directive in July 1962, establishing procedures for review and inspection of the cleaning program.

156. Procedures and cost standards to be developed by the Veterans Administration to adjust management brokers' fees--Our review showed that, although the management brokers' work was reduced substantially when a large number of Veterans Administration (VA) properties were located close together, the fees paid the brokers for managing such properties were not reduced. We estimated that excessive fees totaling at least $200,000 annually were being paid to brokers because the VA field offices had established fee rates without proper consideration of the amount of work and costs involved in the required management services.

To properly control monthly fees paid brokers for management services, we proposed in a report issued in August 1963 that the Administrator of Veterans Affairs require each VA field office having property management responsibilities to (1) establish standards of work to be performed by management brokers, giving consideration to the time required and the costs incurred under varying circumstances, and to set brokers' fees at the minimum amount that will fairly compensate the brokers for their services under each set of circumstances and (2) develop written procedures for periodic staff review and adjustment of the fees paid brokers in the light of the established standards of performance and cost. VA officials advised us that, in line with our proposal, the VA was developing performance and cost standards for the work of management brokers and that procedures would be prepared for review and adjustment of the fees paid to brokers in the light of these standards.

157. Steps taken to strengthen the control over Federal participation in State Administrative expenses--According to our estimates, the Federal Government paid possibly as much as $1 million in excess of its fair share of the administrative expenses of the Louisiana Department of Public Welfare for the period July 1, 1955, to December 31, 1959, because the Department of Health, Education, and Welfare (HEW), approved a State plan that did not provide an adequate basis for allocating costs to the activities subject to Federal matching and those not subject to matching. The total Federal share of State administrative expenses during this period amounted to about $20 million. The HEW regional office approved the cost allocation plan even though it contained deficiencies. Over 4 years elapsed before the deficiencies were corrected and a revised plan was approved effective January 1, 1960. When the revised plan was approved, the State reported $190,270 as the reduction in Federal matching of State administrative costs resulting from the use of the revised cost allocation plan for calendar year 1960.

In our opinion, the action taken by the HEW regional office in approving the State's cost allocation plan even though it contained deficiencies, and the delay in revising the plan, resulted in substantial unnecessary expenditures of Federal funds. HEW has advised us that the amount of excessive Federal matching cannot be legally recovered because the State was operating under an approved State plan. The fact that the funds cannot be recovered points up the importance of eliminating defects in cost allocation plans before they are approved.

In a report issued in February 1964 we recommended to the Secretary, HEW, that all proposed new or amended cost allocation plans be thoroughly reviewed and analyzed before unconditional approval is given. If it is necessary to proceed with a cost allocation plan which contains some defects, HEW should approve the plan with a stipulation that adjustments will be made in the amount of Federal matching from the time the plan is approved until the defects are corrected.

HEW stated that, although it did not agree with our conclusion concerning the approvability of the Louisiana cost allocation plan,

it had nevertheless taken steps to meet our recommendation by issuing instructions to its field representatives designed to strengthen the review procedures for cost allocation plans.

158. Immediate aid payments to ineligible welfare recipients to be reviewed--Our review of selected aspects of the federally aided public assistance programs, Bureau of Family Services (BFS), Department of Health, Education, and Welfare (HEW), pertaining to immediate aid payments in Louisiana disclosed that about 10 percent of the cases reviewed were ineligible for assistance.

In a report issued in February 1964 we recommended that the Director, BFS, require that a review be made of a sufficient number of cases to definitely establish the reasons for the inclusion of ineligible cases in the immediate aid category and that the necessary action be taken to remedy any basic deficiencies in program administration and recover any Federal funds relating to ineligible cases. HEW subsequently advised us that the State had revised its procedures to assure correct administration of eligibility and that BFS would review the effectiveness of the new procedures to assure that assistance payments will be made only to eligible recipients.

159. Need for redetermination of Federal equity in aid to dependent children pooled fund for medical care--State and Federal contributions to the Oklahoma Department of Public Welfare's aid to dependent children (ADC) pooled fund for medical care resulted in an excessive fund balance during the period July 1, 1957, through January 31, 1959, because the Bureau of Family Services (BFS), Department of Health, Education, and Welfare (HEW), did not require the State to adjust fund contributions in accordance with BFS policies during that period. The fund balance was adjusted as of March 31, 1960, and a refund of $982,503 was made to the Federal Government. However, the amount to be refunded was not computed in accordance with BFS policy which required that the Federal share of the excess balance in a pooled fund be determined on the basis of actual expenditures rather than on premium payments into the fund. Proper application of BFS policy could result in an additional refund to the Federal Government, possibly of as much as $639,000.

In a report issued in February 1964 we recommended that the Secretary, HEW, (1) redetermine the Federal equity in the pooled

fund on the basis of actual expenditures from the fund through January 31, 1959, giving consideration to any unliquidated obligations that may have been properly incurred under the State plan in effect between July 1, 1957, and January 31, 1959, and (2) seek an additional refund from the State. The amount of the unliquidated obligations should be established on the basis of an audit of fund expenditures subsequent to January 31, 1959.

160. Need to correct excessive Federal participation in certain administrative expenses--Our review of certain administrative expenses for the North Carolina State Board of Public Welfare disclosed that excessive amounts, estimated by us at about $25,000 a year, were charged to the Federal matchable programs because incomplete time study data was used in making the cost allocation between matchable and nonmatchable programs. Even though the Department of Health, Education, and Welfare (HEW) became aware of the excessive charges to the matchable programs in 1960, corrective action had not been taken as of July 1963.

The Administrative Assistant Secretary, HEW, informed us that the Welfare Administration in the Department became aware of this deficiency in 1960 and that a date of May 1962 had been set for completion of a time study and revision of cost allocation factors. However, he stated that this date was not met because of pending action on Federal and State welfare legislation and the involvement of the State public assistance staff in the nationwide review of eligibility in the program for aid and services to needy families with children. We were advised that appropriate action would be taken as soon as the latter review was completed.

In this case, over 3 years elapsed since the Welfare Administration became aware of the need for corrective action but procedures had not been corrected. In our report to the Congress issued in February 1964 we commented on another case where over 4 years elapsed until a cost allocation plan was revised to eliminate excessive Federal matching of State administrative expenses. In a report issued in March 1964 we recommended that the Commissioner, Welfare Administration, establish a policy requiring the States to promptly revise cost allocation procedures to correct inequitable charges to the federally aided programs. The policy should provide that, if a State does not take timely action, retroactive

adjustments will be made in Federal matching from the time the inequitable allocation of costs is first brought to its attention.

PUBLIC WORKS PLANNING ADVANCES, COMMUNITY FACILITIES ADMINISTRATION

161. Collection procedures to be strengthened for recovery of planning advances where projects are obsolete--The Community Facilities Administration (CFA), Housing and Home Finance Agency (HHFA), has not included in its collection procedures adequate provisions to safeguard against indefinitely postponing or precluding the recovery of advances to public agencies for public works planning. As a result, the CFA has not collected some planning advances which, according to interpretations of the repayment provisions by the courts, appear to be repayable by the public agencies involved. At June 30, 1962, a total of 1,781 projects had been classified as obsolete by the HHFA regional offices. The projects that had been classified as obsolete involved planning advances totaling about $13 million, or 20 percent of the total amount advanced under the first and second programs of advances for public works planning.

We proposed that CFA (1) review all projects classified as obsolete to ascertain whether, under the criteria established by the Federal courts, the advances are repayable and (2) advise the HHFA regional offices of the correct interpretation and proper application of the court-established repayment criteria with respect to future cases involving the construction of substitute facilities. The CFA Acting Commissioner has advised us that CFA has abolished the obsolete category, pending the development of more precise criteria as to the follow-up method applicable to the various categories of advances, and that a review was being made of all outstanding advances under the first and second programs prior to adopting substantial changes in policy or procedures for the purpose of taking the corrective action we proposed.

162. Need for adequate reviews to determine financial feasibility of proposed projects--The Housing and Home Finance Agency (HHFA) regional offices review the financial data submitted by public agencies on their applications for planning advances to determine whether the applicants have, or reasonably can be expected to have, adequate financial means to undertake construction of the proposed projects. Under certain prescribed conditions, the HHFA regional offices make additional financial reviews before approving the final planning reports and making disbursements for the related planning advances. Our review disclosed that the reviews made by the HHFA regional offices were inadequate, in some cases, for determining the financial feasibility of proposed projects.

We believe that the Community Facilities Administration (CFA) instructions to the HHFA regional offices need to be revised to require that the HHFA regional offices determine whether financial capability studies are needed at the time completed plans are received and to withhold approval of final planning reports for financially infeasible projects.

In a report issued in December 1963 we recommended that the CFA Commissioner instruct the HHFA regional offices to (1) closely scrutinize the construction cost estimates when completed plans are submitted for approval, (2) make financial capability studies in cases where scrutiny of the final cost estimates indicates a possibility that the public agencies may be unable to finance the planned projects, and (3) withhold approval of final plans and disbursements of planning advances for projects determined to be financially infeasible.

RECORDS MANAGEMENT PROGRAMS

163. More effective leadership being provided in records management programs of Federal agencies--In a report issued in October 1962, we pointed out that the National Archives and Records Service, General Services Administration, had not formally instituted periodic inspections and examinations of the records management programs of Federal agencies to promote compliance with the Federal Records Act of 1950 and GSA regulations. Periodic inspections and surveys would enable the Administrator to obtain firsthand information concerning the records management problems and the effectiveness of the agencies' programs. We reported also that the efforts of the National Archives and Records Service were devoted primarily to training conducted on a voluntary basis with those agencies desiring to improve records management and that agencies not requesting assistance generally did not receive it.

We suggested that the Administrator of General Services institute a program of periodic reviews of records management practices of selected Federal agencies. We have since been informed that during fiscal year 1964 the National Archives and Records Service conducted reviews of this type in four Government agencies with good results and that their plans call for six or seven such reviews in fiscal year 1965.

164. Regulations being developed to provide guidance for the creation, organization, maintenance, and use of current records by Federal agencies--Title 3, Federal Records, Regulations of the General Services Administration, which govern the management of the records of Federal agencies, was intended to implement the provisions of the Federal Records Act of 1950. We noted that although these regulations defined responsibilities for records management and covered the disposition of Federal records, they did not provide guidance for the creation, organization, maintenance, and use of current records. In a report issued in October 1962 we suggested that the Administrator of General Services take action to complete the regulations.

During fiscal year 1964 GSA circulated a proposed revision of Title 3 of its regulations to other Federal agencies for comments prior to its issuance. The proposed revision will expand the regulations in those areas which were incomplete at the time of our review.

165. Reviews being made to establish disposability of records being held indefinitely at Federal records centers--Our review indicated that some of the records classified as "retain" were being held by the National Archives and Records Service for periods beyond their useful life and that significant quantities of these records appeared to be currently disposable. In particular we noted a need to review the continued retention of an estimated 14 million Navy X-ray films in the New York records center and more than 42 million X-ray films in the St. Louis records center. These films occupy about 120,000 cubic feet of space and had a combined estimated salvage value of about $563,000. Also, in our review of records listed by the centers as "unscheduled", we noted that some were eligible for disposal. Unscheduled records are those for which the disposal schedules are incomplete or have not yet been received from the originating agency. At June 30, 1962, over 2 million cubic feet of records at the Federal Records Centers classified as "retain" or "unscheduled" were being stored at an estimated cost of $560,000 a year.

In a report issued in June 1963 we recommended that GSA in cooperation with the originating agencies reexamine records classified as "retain", that those records in this category that are no longer needed be disposed of, and that firm and realistic disposal dates be established for as many of the remaining records as possible. Regarding the X-ray films, we recommended that the Administrator of General Services request the Administrator of Veterans Affairs to make a current study to establish their disposability.

GSA informed us that it had actively attended to the problem of reducing the quantity of records being held indefinitely, that progress had been made in reducing the quantity of "unscheduled" records in the records centers, and that records in this category would soon be eliminated. We noted, however, that the volume of "retain" records continued to increase. GSA stated that it expected to continue making improvements in cooperation with the originating agencies and by training agencies' staffs. With respect to the X-ray records, the agency believed that the situation should be reviewed every few years until the time is reached when the entire collection can be disposed of. However, because VA indicated that no current facts were available on which a proper determination of the retention period could be made, we expressed the

belief that any review should include a current study of the need for the X-ray film.

We were informed that during fiscal year 1964 the National Archives and Records Service made a concerted effort to reexamine long term records with a view to their disposal or a shortening of their retention periods and that significant progress has been made. Further, we were informed that the Navy X-ray films at New York and the X-ray films at St. Louis were being studied to establish their disposability as recommended in our report.

166. Criteria governing the eligibility of areas for large-scale demolition clarified--The Urban Renewal Administration (URA), Housing and Home Finance Agency (HHFA), approved Federal grants of over $10 million and Federal loans of over $33 million for large-scale demolition in an urban renewal project without making an adequate examination of the structural condition of the buildings in the project area to verify that the extent of clearance proposed by the municipality was warranted. We pointed out that URA's approval of the project had been based on building inspection reports, submitted by the city to an HHFA regional office, which classified 71 percent of the existing buildings in the project area as "substandard" because of what the city considered to be serious building deficiencies.

The agency's records indicated that HHFA regional office personnel had not inspected the interiors of any of the buildings in the project area prior to the time URA authorized Federal assistance for the project. A detailed reinspection made at our request by an HHFA specialist then showed that only about 20 percent of the buildings in the project area were substandard because of building deficiencies which could not be corrected by normal maintenance.

In a report issued in June 1963 we recommended that a review be made of the proposed demolition of buildings in the project with the view toward retaining those buildings that could be successfully integrated into the project.

In addition, we proposed that URA advise the city of the desirability for establishing reasonable classifications for the buildings in another project in the same area inasmuch as a large percentage of the buildings in this project also had been classified as substandard and hence are subject to demolition. The URA Commissioner agreed that there may be a need for modification of the classification system used by that city and stated that the city would be required to make the necessary modifications with respect to this second project and all future projects.

As a result of our recommendations, URA revised certain of its regulations in November 1963 to clarify the criteria for determining the eligibility of a project for large-scale demolition and now requires the local public agencies to justify and document the consideration given to the acquisition for demolition of expensive

and basically sound properties. Effective application of URA's revised regulations should result in reducing the possibility of unwarranted large-scale demolition and in retaining more structurally sound properties in the urban renewal areas.

167. Review and supervision of relocation activities to be improved--A significant number of families displaced in two cities were relocated into substandard housing and a substantial number of the families displaced in these cities and in another city were not afforded relocation assistance. We believe that the Housing and Home Finance Agency (HHFA) regional office's supervision and review of relocation activities of local public agencies (LPAs) were not adequate to fulfill the intent of title I of the Housing Act of 1949, as amended, that displaced families be afforded an opportunity to relocate into decent, safe, and sanitary housing.

Families who were displaced from slum clearance and urban renewal projects in two cities, and were taken into the LPAs' workloads, relocated into substandard housing. In many instances, the families who relocated into substandard housing were actually relocated into substandard housing by the LPAs, were offered only other substandard housing by the LPAs, or were not offered relocation assistance by the LPAs. Many of the families who were relocated into substandard housing were reported by the LPAs as having been relocated into standard housing. We believe that there were inadequate review and supervision of the LPAs' relocation activities by the HHFA regional office.

Also families displaced from urban renewal areas were not afforded relocation assistance by LPAs because certain Urban Renewal Administration (URA) relocation requirements were not applicable until after the execution of the loan and grant contract. We believe that the displaced families should have been informed of the relocation assistance that would become available to them.

In a report issued in June 1964 we proposed that the URA Commissioner require that HHFA regional officials provide closer supervision over the execution of project relocation plans by LPAs and that such officials make periodic inspections of relocation housing. We proposed also that the Commissioner not authorize future projects for two of the cities unless URA received positive

evidence from the LPAs that sufficient standard housing would be available for permanently relocating all displaced project families into decent, safe, and sanitary housing.

The URA Commissioner informed us that the agency had authorized regional offices to employ additional site representatives who would specialize in the examination of all LPA relocation activities and had issued an instruction which requires the HHFA regional offices, at the time an LPA submits an application for survey and planning for a title I project, to make a systematic evaluation of past and current performance of urban renewal activities in the locality, including the quality of the relocation operation. He informed us also that the LPAs in the two cities had instituted changes in their administrative policies and actions which were intended to provide that displaced families be relocated in standard housing. He stated that these actions on the part of the LPAs, combined with closer regional office supervision, should result in far more satisfactory relocation activities.

With respect to the matter of informing families of relocation assistance that would become available to them, we proposed that the URA Commissioner require that (1) at the time LPAs develop information to support their survey and planning applications, they inform the residents of proposed urban renewal areas of the relocation assistance that will become available to the residents should the properties in which they live be acquired and (2) during the planning stage of the projects, the LPAs obtain reliable information regarding relocation requirements and resources.

The Commissioner agreed to adopt our first proposal and pointed out that since the projects referred to in our report went into execution the agency has strengthened its policies and procedures with respect to our second proposal.

168. Need for effective review and evaluation of claims for noncash grant-in-aid credit--The Urban Renewal Administration (URA), Housing and Home Finance Agency (HHFA), approved a noncash grant-in-aid tentative credit in the amount of $1,080,000, representing 40 percent of the estimated cost for replacing an existing bridge, on the assumption that the new bridge would provide flood control benefits to an urban renewal area. Our review disclosed

that the basis underlying the URA's determination of the propriety of the noncash grant-in-aid credit was erroneous.

Although the HHFA Administrator agreed with our finding that the bridge would not provide flood control benefits to the project area, he informed us that it appeared that significant benefit to the project would result from the new bridge as an essential traffic facility. Our evaluation of the new bridge as an essential traffic facility indicated, however, that the allowance of grant-in-aid credit on such a basis was not warranted because available evidence showed that the new bridge would not provide significantly greater traffic benefits to the urban renewal area than does the existing bridge.

We believe that the agency had taken a number of uncommon measures to allow and continue to justify noncash grant-in-aid credit for the bridge even though such credit was not warranted. In our opinion, by originally approving credit for the bridge without making an adequate evaluation thereof, URA placed itself in a position where it became increasingly difficult to avoid justifying a 40 percent credit for the bridge, irrespective of the merits thereof.

If the grant-in-aid credit for the bridge is disallowed and a revised financing plan is prepared, the city will probably have to provide $720,000 in cash. In view of (1) the advanced stage of this project and (2) statements by city officials indicating that such an amount of money may not be readily obtainable, we believe that it was essential that a revised financing plan be prepared so that the city could budget at the earliest possible time the additional funds required.

In a report issued in October 1963 we recommended that the URA Commissioner disallow the noncash grant-in-aid credit for the bridge, and obtain a revised financing plan for the project showing (1) the reduction of grant-in-aid credit for the bridge and (2) the manner in which the city will finance its share of the revised cost of the project.

169. Need to review scheduled demolition of sound structures to determine whether adequate consideration was given to less costly methods of redevelopment--A Housing and Home Finance Agency (HHFA), regional office approved, in March 1961, an urban renewal plan for a project, which provided for the acquisition and demolition of five structurally sound buildings valued at about $350,000, without giving adequate consideration to less costly methods of redevelopment. We proposed to the Urban Renewal Administration (URA) Commissioner that the regional officials review the planned demolition of the structurally sound buildings and that the Federal Government not share in the cost of acquiring and demolishing any such buildings that could be successfully integrated into the project.

Subsequent to our review, the Commissioner informed us that the local public agency (LPA) would attempt to integrate two of the properties, valued at about $190,000, into the project. Because the regional office did not thoroughly and critically evaluate the proposed demolition of these two sound properties, the cost of the project, two thirds of which will be borne by the Federal Government, might have been unnecessarily increased.

With regard to the other three properties, the Commissioner informed us that the LPA's staff and planning consultants had made a subsequent review and decided that it was necessary that the structures be acquired and demolished. The Commissioner concluded that, in view of the LPA's actions, he contemplated no further action on our proposal.

Although the amount of demolition proposed by a city is a matter of local concern and the LPA may be justified in demolishing the buildings, we believe that it is incumbent upon the HHFA regional office to thoroughly evaluate proposed demolition in order to determine whether adequate consideration was given to less costly methods of redevelopment and to determine the extent to which the Federal Government will share in the cost.

In a report issued in June 1964 we recommended that the URA Commissioner direct that qualified HHFA personnel make thorough and critical on-site reviews and evaluations of local proposals to demolish sound structures to determine whether adequate consideration was given to alternative methods of redevelopment and whether

such structures can be successfully integrated into a project. We recommended also that the Federal Government not share in the cost of acquiring and demolishing any sound structures when less costly methods of redevelopment are feasible.

SMALL BUSINESS LOAN ACTIVITIES

170. More supervision to be exercised over loans made in participation with banks--During our review we found that (1) proceeds of some Small Business Administration (SBA) loans were used to repay unsecured and delinquent loans made to applicants by participating banks, (2) some participating banks were not adequately servicing SBA loans, and (3) SBA field offices sometimes were not making required supervisory visits to banks.

The basic loan principles and policies in effect at the time of our review provided that SBA not make a loan if the direct or indirect result would have been to pay creditors of the applicant who were inadequately secured or in a position to sustain a loss nor replenish working capital used for such purposes.

In his letter to us, the Administrator, SBA, advised us that there was a problem in obtaining cooperation from a few banks in adequately servicing loans. However, he believed that, overall, the SBA servicing arrangements with banks were sound and working well. He stated that it was the intent of the Congress that SBA rely on banks to the greatest practical extent but that, in given cases, extra effort would have to be made to insure that the bank is properly servicing the loan.

In a report issued in January 1964 we recommended that the Administrator, SBA, require (1) visits to participating banks and examinations of pertinent bank records by SBA loan specialists for all loan applications in which there is a proposal to refinance, through the use of SBA loan proceeds, existing loans made to applicants by banks and (2) Washington loan administration officials to take whatever administrative action is necessary to have prescribed visits made to banks servicing SBA loans.

Regarding loans made to refinance existing loans, the Administrator, SBA, has stated that if a need is indicated in any particular case, participating banks would be required to furnish a complete history of the loan to be refinanced, and that this record would be carefully reviewed by SBA.

Regarding prescribed visits to banks servicing SBA loans by SBA personnel, the Administrator, SBA has stated that Regional Directors and Branch Managers were being directed to see that such

visits are made, and that follow-up action by SBA internal auditors was planned.

171. Resources available to the applicants to be adequately considered before making loans--During our review we found 19 loans that had been made by Small Business Administration (SBA) under conditions indicating that the owners, management, or shareholders of the applicant-concerns could have furnished all or part of the needed financing.

The basic policy established by the Loan Policy Board (13 CFR 120.2) provides that no business loan shall be made if it appears that funds are available from the personal credit or resources of the owners, management, or principal shareholders of the applicant-concerns without inflicting undue hardship on them. SBA's files and records indicate that the problem of SBA loans being made when personal credit or resources are available has been with SBA for some time.

In his letter, the Administrator, SBA, advised us that, in the consideration of the applicants' personal resources, "adequacy" is a matter of evaluation; however, he stated that he could agree with our conclusions in some of the cases.

In a report issued in January 1964 we recommended that the Administrator, SBA, take the actions necessary to discontinue the making of loans to applicants who have available personal credit or resources to provide the needed financing, unless the applicants conclusively show that use of the resources would inflict an undue hardship on them.

SBA has strengthened its procedures in this area by requiring applicants for loans to provide documentation of undue hardship alleged, and by providing for evaluation of such documentation by SBA.

172. Conditions of loan agreements to be enforced--For some Small Business Administration (SBA) loans, SBA field offices were not enforcing conditions and restrictions imposed on the borrowers by the loan agreement such as limitations on the purchases of fixed

assets, salaries of officers, and use of loan proceeds to repay debts. The nonenforcement of the loan agreements may impair the collectibility of some loans.

SBA's Office of Audits has reported numerous cases of the failure of field offices to enforce conditions and restrictions of loan agreements.

In response to suggestions by us that SBA assess liquidated damages for violations of loan agreements and make loan checks payable jointly to borrowers and their creditors, the Administrator in his letter stated that, at this time, he prefers a more practical approach of overall pressure on the delinquent borrowers through, for example, relating their deficiencies to their future credit needs.

We believe, however, that both our review and the reviews of SBA's internal auditors show that additional control measures over borrowers' activities are necessary. In a report issued in January 1964 we recommended that the Administrator, SBA, require Washington loan administration officials to take appropriate measures and administrative action to provide for more effective enforcement of the terms and conditions of the loan agreements by the SBA field offices.

The Administrator, SBA, has instructed his staff to bring any deficiencies to his attention and plans to take disciplinary action where necessary.

173. Need for consideration of loan application fees--The Small Business Administration (SBA) does not charge a loan application fee to applicants for business loans. The income to be derived from loan application fees could be sizable. For example, SBA would have realized about $850,000 in fiscal year 1962 had it charged a fee of $1 per $1,000 on loan applications received that year.

Following hearings held in August 1962 by the Government Activities Subcommittee, House Committee on Government Operations, SBA made a study of the feasibility of charging application fees and it concluded that a fee should not be charged. In a report

issued in April 1963, the House Committee on Government Operations recommended that an appropriate office of the executive branch of the Government review the program of the various agencies making or guaranteeing loans to determine whether a fair, reasonable, and more consistent Government-wide policy on such fees can be established.

We were advised by representatives of the Bureau of the Budget, Executive Office of the President, in October 1963 that the general matter of user charges was under consideration by the Bureau. They stated, however, that no action had been taken on the Committee's recommendation. Also, in the June 1964 annual report issued by the Bureau of the Budget, Executive Office of the President, it is indicated that the general matter of user charges in the Federal Government is under continuous review and that several actions were taken during fiscal year 1963 in this area. However, no action has been taken by the Bureau of the Budget or the Small Business Administration on the charging of a loan application fee for business loans. In view of the losses on the business loan program, we believe that active consideration should be given to establishing a fair and reasonable application fee for business loans.

STOCK CONTROL ACTIVITIES

174. Improvements made and planned to improve controls over drug stocks in the District of Columbia General Hospital--In our examination of controls over drugs at District of Columbia General Hospital, we found that (1) there were no written procedures governing the control of drugs at the main supply warehouse or the main pharmacy, (2) at the main supply warehouse, efforts were not made to determine reasons for differences between the perpetual inventory records and the monthly physical inventories, and the records were not adjusted to show the balances actually on hand, (3) at the main pharmacy, perpetual inventory records were not being maintained except on narcotics and dangerous drugs and on certain high-cost drugs stored in bulk quantities, and substitute procedures were not effective, and (4) there were no procedures in effect for accounting for drugs, except for narcotics and dangerous drugs, at the approximately 50 nursing stations in the hospital or at the Outpatient Department pharmacy.

In a letter to us dated February 20, 1964, the President, Board of Commissioners, District of Columbia, set forth the views of the Commissioners on the matters discussed in our report and the measures taken and planned by the District to improve controls over drugs. These measures included (1) maintaining perpetual inventory records on all drugs received, issued, and stored in the main supply warehouse and in the main pharmacy, (2) allowing only authorized personnel to have access to storage areas, and (3) improvement of the accuracy and reliability of physical inventories and related procedures through independent spot checks of physical inventories.

We believe, however, that, if it was not feasible, as indicated in the letter from the President, Board of Commissioners, to establish records for expensive drugs at the several nursing stations and the Outpatient Department pharmacy, substitute procedures should be devised to provide management officials with some measure of control over the use of drugs at these locations. Because of the substantial value of drugs handled and because drug shortages have occurred in the past, we recommended in a report issued in May 1964 that such procedures be established.

As of July 21, 1964, procedures had been established in the draft of the new Manual of Policies and Procedures of May 1964, prepared by the Bureau of Pharmacies, whereby nursing stations will

be surveyed periodically to verify compliance with established procedures. In addition to the periodic inspection by the pharmacist, cost accounting reports are to be analyzed and any unit showing a substantial increase in the use of drugs is to be brought to the attention of the Medical Director. The Chief of the Bureau of Pharmacies will review all requisitions from that unit to determine the reason for the increase.

Also as of July 21, 1964, procedures were in operation at the Outpatient pharmacy whereby the book balance and physical count of drugs can be verified. A starting inventory is taken at the beginning of the fiscal year to which all receipts of drugs are added and from which quantities issued are subtracted. Thus a book balance can be verified by physical count. For narcotics and dangerous drugs this is done on a monthly basis. Nothing is issued from the pharmacies unless the order is signed by an authorized person whose signature has been filed in the pharmacy for verification or by a prescription from a physician.

175. Action initiated to correct deficiencies in the control of supplies and materials for use in operation, maintenance, and minor repairs of buildings--In three regions of the General Services Administration (GSA) we noted seceral deficiencies in the control over supplies and materials to be consumed in the operation, maintenance, and minor repair of buildings, which are classified by GSA for management purposes as stock-room supplies, standby repaid items, and cupboard stock. In particular, we noted that prescribed procedures were not followed with respect to procurement requirements, stock levels, and accountability for stock-room supplies and standby repair items; we found excessive cupboard stocks on hand resulting from excessive procurement, poor storage practices, and retention of scrap; and we found that cupboard stocks and standby repair items had not been properly accounted for as required by law since the inception of the Buildings Management Fund.

GSA officials informed us that corrective action would be taken in the three regions to enforce the prescribed procedures for control over stock-room supplies and standby items. GSA took corrective action to eliminate the excessive cupboard stocks on hand in one region by the sale of excess stock and transfers of stock to other Federal agencies. Further, improved procedures for annual reviews of cupboard stock levels are being developed by GSA.

STOCK CONTROL ACTIVITIES (continued)

With respect to the proper accounting for cupboard stocks and standby repair items, we recommended in a report issued in October 1963 that GSA determine and record the current value of such supplies as an increase to the capital of the Fund and to the inventory of operating supplies and materials and make appropriate adjustments at the close of each fiscal year.

GSA advised us that procedures have been prepared to prescribe the manner in which cupboard stocks are to be placed under control. Furthermore, the value of nationwide cupboard stocks, approximately $500,000, has been recorded on the accounting records.

SUPERVISION OVER EMPLOYEES

176. Federal and District of Columbia employees found to be driving taxicabs during duty hours and while on sick leave--We reviewed the time and attendance records of selected employees of the District of Columbia Government, the Post Office Department (POD), the Veterans Administration (VA), and the General Services Administration (GSA), who are also licensed to drive taxicabs in the District of Columbia. Our review disclosed that a substantial percentage of the employees included in our tests apparently drove taxicabs during official duty hours while not on authorized leave or on days when sick leave was used.

Our comparison of the taxicab manifests (record of trips) maintained by 298 employees with the time and leave records maintained by the agencies disclosed that only 50 employees submitted manifests which showed adequate time data and had no discrepancies. We noted discrepancies relating to the attendance to duty of 122 employees or 71 percent of the employees whose manifests were, in most instances, sufficiently complete to enable a determination regarding discrepancies. The manifests of the remaining 126 employees did not contain sufficient data on the time of the trips to enable a determination of whether discrepancies existed.

We found also that, of the four agencies, only the District of Columbia required its employees to obtain written permission to engage in outside employment.

In view of the evidence of serious laxity in supervisory controls disclosed by our limited examination, we believe that the District of Columbia Government and all Federal Government agencies should give careful consideration to the conditions disclosed and to the need for appropriate inquiry into, and any necessary strengthening of, supervisory controls over their employees, both in Washington and at other locations. We believe, also, that these agencies should consider the establishment of procedures requiring employees to obtain written permission to engage in outside employment.

Because of the seriousness of the situation disclosed by our review, our Office issued, concurrently with the release of our report, a circular letter to the heads of all departments and independent establishments on this subject.

SUPERVISION OVER EMPLOYEES (continued)

Our tentative findings were brought to the attention of appropriate agency officials with the recommendation that investigations be undertaken to determine the extent of, and to correct, the indicated weaknesses and abuses. Officials of each of these agencies advised us that action would be taken to investigate the findings disclosed by our review.

The investigations subsequently made by the agencies confirmed our tentative findings in most cases and disclosed that the weaknesses and abuses were quite extensive. GSA has taken positive measures to improve supervisory controls and both GSA and VA have taken appropriate disciplinary measures against employees where such action was found to be warranted. We believe, however, that VA should require its employees to obtain written permission to engage in outside employment. VA has rejected this recommendation on the basis that it would be unfeasible to administer and enforce. At the District of Columbia Government and the POD corrective measures either have not been completed or are less positive than those taken by GSA.

177. Action taken to recover excessive ocean freight charges caused by inconsistent measurements of shipments--Our review of selected recurring ocean shipments of commodities made by the Panama Canal Company in standard packaging disclosed inconsistencies in the measurement of cargo by carriers. Because of the erroneous measurements disclosed, the Company's Internal Audit Branch, at our request, made a limited examination of recurring shipments of standard packaged commodities received during fiscal years 1962 and 1963 and found that excessive freight charges of about $8,300 were made by carriers as the result of errors in measurement, including about $6,800 in excess charges applicable to shipments of aluminum sulphate. The internal audit report indicated that action to recover the excessive payments to carriers had been initiated. The internal auditors recommended that the Company's Supply Division assume the responsibility for testing ocean freight charges, both by voucher audit and by check of cargo measurement. They suggested further that a system of testing cargo measurement be devised which would provide a reasonable coverage with a minimum of effort.

We proposed that the President of the Company instruct the Director, Supply and Community Service Bureau, to establish procedures, similar to those recommended by the Company's internal auditors, which would provide for the verification of the accuracy of measurements and weights used by carriers as a basis for computing ocean freight charges and that appropriate adjustments be made in the ocean freight charges when the carrier's measurements or weights are found to be excessive.

We were advised that the Supply and Community Service Director had directed the General Manager, Supply Division, to implement the recommendation of the internal auditors.

178. Action taken to provide carriers with information concerning the values of commodities being shipped--Our review disclosed that the failure of the Panama Canal Company to include on bills of lading information concerning the values of commodities being shipped resulted in excessive ocean freight charges by carriers. Some of the excessive charges were adjusted by the carriers as a result of the Company's practice of screening ocean freight bills, prior to payment, for apparent excessive charges. The administrative effort necessary to obtain freight adjustments arising

out of such circumstances could have been largely avoided had value information been properly included on the bills of lading.

We suggested to Company officials that as a means of preventing excessive freight charges and of minimizing the effort now expended in attempting to obtain freight adjustments, procedures be instituted under which the commodity value, where appropriate, would be stated on the bills of lading, or to otherwise make the value information available to carriers. We were informed by the Company that, in the future, carriers would be notified in advance of the value of shipments so that they could apply the proper freight rates.

179. Need for additional controls to provide proper descriptions of commodities listed on bills of lading--Our review disclosed that the entry of erroneous commodity descriptions on bills of lading by the Panama Canal Company resulted in excessive freight charges by carriers. Although some of the excessive charges were adjusted by the carriers as a result of the Company's practice of screening ocean freight bills, prior to payment, for apparent excessive charges. The administrative effort necessary to obtain freight adjustments could have been largely avoided had the proper commodity descriptions been included on the bills of lading. Accordingly, we proposed that the President of the Company instruct the Director, Supply and Community Service Bureau, to establish procedures which would require that complete and full descriptions of commodities being shipped be furnished the carriers for billing purposes.

We were informed by Company officials that action had been taken to improve the commodity description on bills of lading for those commodities which were found to have been improperly described in the past. We pointed out that the actions taken should reduce, if not eliminate, erroneous commodity descriptions of items for which errors had been previously noted on bills of lading; however, the new procedures were not designed to detect and correct errors in descriptions of other items. We therefore recommended in a report issued in June 1964 that the President of the Company instruct the Director, Supply and Community Service Bureau, to establish procedures under which the carriers would be furnished complete and accurate descriptions for all commodities in accordance with applicable tariff regulations.

TRAVEL POLICIES AND PRACTICES

180. Action taken in an agency to reduce use of first-class air accommodations--Our review of the travel vouchers processed by the Selective Service System in May, August, and September 1962 covering trips where air travel was used showed that 72 of the 87 flights, or 83 percent, were by means of first-class accommodations.

The review disclosed that many of the regularly scheduled airline flights involved on these trips had both first- and economy-class accommodations. Possible savings in transportation costs from use of less-than-first-class accommodations range from 15 to 25 percent. It was not practicable to determine whether less-than-first-class accommodations were available at the time reservations were made for the first-class flights covered in our review or whether waiting for less-than-first-class accommodations would have been reasonable.

Subsequent to our review the Selective Service System revised its policy with respect to air travel accommodations to give effect to the Bureau of the Budget Bulletin No. 63-7, dated October 10, 1962, which reemphasized the importance of avoiding the use of first-class air accommodations for official travel when more economical transportation will serve the Government's need adequately.

A follow-up review showed that substantial improvement had been made in the use of less-than-first-class air accommodations; however, a statement of justification for the use of first-class accommodations was not found on the limited number of vouchers covering flights on which first-class accommodations were used. Responsible Agency personnel with whom this situation was discussed stated that action would be taken to obtain justification statements on all future travel reimbursement vouchers where first-class accommodations were used.

181. Excessive advances of travel funds to Department of Labor employees to be reduced--Funds often had been advanced to the Department of Labor employees for travel expenses in amounts larger than the nature and probable duration of the travel would warrant and advances had remained in the possession of employees for extended periods during which the employees either did not travel or performed only limited travel. The excessive advances can be attributed largely to the absence of departmental instructions

concerning adequate administration of travel advances. Procedures of the Department did not provide for adequate controls for limiting amounts to those reasonably necessary or for periodic review of travel advance practices. Although the Department established a limited centralized internal audit function in 1963, at the time of our review no program had been established for auditing travel advances. Our examination of selected transactions indicated that a substantial part of the total of about $307 thousand of travel advances outstanding at June 30, 1963, was in excess of the needs of travelers to meet expenses normally incurred.

We advised the Department of our findings and suggested in a report issued in June 1964 that departmental procedures be issued in the Manual of Administration, for Department-wide use, requiring that officials responsible for directing travel periodically (1) review advances in relation to the current reimbursable expenses of the travelers, (2) determine whether the advances are necessary to meet normal expenses, and (3) collect any excess amounts from the travelers. Also, we suggested that the internal audit unit conduct periodic internal audits of travel advances in order that administrative weaknesses may be promptly detected and corrected. In March 1964, the Administrative Assistant Secretary of the Department of Labor informed us that the current practices would be corrected after an analysis was made of all such practices throughout the Department. The corrective action is to be achieved through the development of appropriate procedures and through improved supervisory practices.

182. Need to revise policy regarding transportation by Federal Aviation Agency-operated aircraft of its employees and their dependents--The transportation by Federal Aviation Agency (FAA) operated aircraft of persons other than Federal employees on official business has resulted, in some cases, in additional costs and in the Federal Government's assuming a potential liability in case of injury to or death of such passengers.

We suggested to the FAA that its existing policy be reexamined with the view of determining whether the policy could be made more restrictive as to the persons who may be carried on FAA-operated aircraft without affecting FAA's responsibilities for the promotion, encouragement, and development of civil aeronautics.

FAA stated that all of the categories of persons named as eligible for carriage in FAA aircraft are necessary in the effective discharge of FAA's statutory responsibilities for fostering air commerce, for other official business, and for employees' health and morale. However, FAA stated that action would be taken to assure that the Agency's practices conform to the spirit and intent of the policy by placing positive emphasis on the provisions that flights not otherwise justified for Government business are prohibited and that deviations from the most economical route required for official business are not to be made for the personal convenience of the passengers.

We questioned the propriety of the policy authorizing the transportation of FAA employees, and their dependents, traveling in an unofficial status for health or morale purposes. The availability of such transportation to FAA employees is equivalent to the granting of a fringe benefit to the employees that has not been specifically authorized by the Congress. In a report issued in March 1964 we recommended that FAA reconsider its policy regarding the transportation by FAA-operated aircraft of FAA employees, and of their dependents, traveling in an unofficial status for health or morale purposes.

UNEMPLOYMENT BENEFITS

183. State legislation enacted or policies revised to reduce unemployment benefits paid from Federal funds to Federal service retirees--In our April 1960 report, we recommended that in order to avoid having the Federal Government placed in a position different than other employers in regard to unemployment compensations payments, the Department of Labor should keep closer surveillance over interpretations of State unemployment compensation laws where they affect payments to former Federal employees.

The Department issued letters to all State employment security agencies reminding them that Federal law requires Federal claimants to be paid benefits under the State laws on an equal basis with non-Federal claimants. As a result of these letters several States revised their unemployment compensation laws or policies to provide for the reduction of benefits payable to retired Federal civilian employees and ex-servicemen by the amount of retirement annuities they are concurrently receiving under the same circumstances that similar annuities are deducted from benefits payable to private industry retirees. We estimate that as a result of this legislation the Federal Government will save about $225,000 annually.

184. Need to preclude concurrent payments of unemployment benefits and military retired pay--In a report submitted to the Congress in August 1963, we pointed out that it has been the practice of the Bureau of Employment Security, Department of Labor, and certain State employment security agencies to consider retired members of the Armed Forces eligible for unemployment compensation under the Ex-Servicemen's Unemployment Compensation Act of 1958, although the retired servicemen receive Federal retirement pay.

Although many States deduct from ex-servicemen's unemployment compensation the amount they receive as retirement pay during the compensation period, the laws of 26 States have no such provisions. Hence, for claims filed in these States, the Federal Government is bearing the cost of dual benefits to retired servicemen. We expressed the belief that this practice is not in harmony with the intent of the Ex-Servicemen's Unemployment Compensation Act of 1958 which, in our opinion, primarily contemplated the payment of unemployment compensation for separated noncareer servicemen during the period of their economic readjustment to civilian life. We stated that if this practice of making dual payments is continued, the

UNEMPLOYMENT BENEFITS (continued)

Federal Government will pay an estimated $33 million for unemployment compensation to servicemen retiring in fiscal years 1963 through 1970, in addition to paying the same persons $48 million in retirement annuities.

In passing the Temporary Extended Unemployment Compensation Act of 1961 and in amending the District of Columbia Unemployment Compensation Act, the Congress acted to preclude, with certain exceptions, concurrent payments of retirement pay and unemployment compensation. Therefore, in the interest of precluding payment of dual benefits from Federal funds, and in order to implement a general policy similar to that thus enacted, we suggested in a report issued in August 1963 that the Congress might wish to amend the Ex-Servicemen's Unemployment Compensation Act of 1958 to specifically provide that members of the Armed Forces who retire for reasons other than disability shall receive unemployment benefits based on military service only in the amount by which the unemployment benefit rate exceeds the retired pay rate.

VETERANS BENEFITS

185. Action being taken to reduce costs by filling private physicians' prescriptions in Veterans Administration pharmacies--In a report issued in August 1963, we pointed out that significant economies can be realized by the Veterans Administration (VA) if action is taken by the VA central office to require that certain types of prescriptions, written by private physicians under the program for hometown medical care, be filled by VA rather than private pharmacies, especially the recurring-type prescriptions for patients whose medication needs are generally known far enough in advance for uninterrupted medication to be supplied by mail service. We estimated that the VA incurred costs of about $1.6 million more in calendar year 1962 for prescriptions filled by private pharmacies than it would have incurred if the same prescriptions had been filled by its own pharmacies.

We recommended that the VA Administrator, after giving full recognition to patients' needs, revise VA policy to require the use of VA pharmacies to fill all private physicians' prescriptions written for VA patients except prescriptions involving (1) narcotics or other items which are not mailable, (2) medication for emergency treatment or needed immediately, and (3) articles for which mail service would be impracticable, such as large bulky items or low-cost items which can be obtained more economically at private pharmacies.

After we presented our findings to the VA, additional instructions and guidelines to provide for optimum use of VA pharmacies in filling private physicians' prescriptions were issued to all field stations.

186. Action to be taken to reduce excessive disability pension payments--Our review of disability pension awards at eight Veterans Administration (VA) regional offices disclosed that excessive pension payments were made in about 7 percent of the awards we selected for review. A projection of the amounts and frequency of incorrect payments found in our review indicates that the unnecessary additional benefits paid would total about $2.1 million to approximately 9,200 veterans whose awards originated during fiscal year 1962 and about $1.9 million to approximately 8,100 veterans whose awards originated during fiscal year 1963.

These incorrect payments were made because the regional offices had not adequately reviewed the annual income questionnaires which were submitted by veterans as a basis for determining the amounts of pension benefits to which the veterans are entitled under the income limitations provided by law. We believe that VA had not devised adequate procedures for use by the regional offices in making these determinations. Unless action is taken to correct the deficiencies disclosed by our review, a substantial number of excessive payments will continue to be made in the future.

We proposed in a report issued in June 1964 that the Administrator of Veterans Affairs require that adequate procedures be prescribed and that action be taken to provide the regional offices with sufficient information to enable a determination to be made as to whether or not pensioners have received or anticipate receiving income in excess of legal limitations. We were informed by the Deputy Administrator that certain actions had been taken and others would be taken which, in our opinion, should correct the deficiencies disclosed by our review.

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INTERNATIONAL ACTIVITIES

ADMINISTRATION OF THE ECONOMIC AND TECHNICAL ASSISTANCE PROGRAM

187. Need to improve administration of economic and technical assistance program for Turkey--The United States during fiscal years 1958-62 continued to provide substantial amounts of aid to some enterprises owned by the Turkish Government despite the fact that the enterprises consistently suffered from significant management deficiencies. For example, the government-owned bituminous coal industry continued to suffer from inefficient operations, including low labor productivity, and from substantial operating losses even though dollar aid of at least $68 million and local currency equivalent to $17 million had been provided by the United States. Also, about $18.1 million had been provided to three enterprises for procurement and erection of facilities which were barely used although they had been completed for 2 or more years. The enterprises continued to incur operating losses. The aid contributed little toward improving operations of the enterprises, relieving their drain on the Turkish economy, and thereby reducing the need for outside aid.

The level of United States aid to Turkey has been predicated primarily on Turkey's balance-of-payments deficit, and since 1958 commodity assistance has been an integrated part of the financing of Turkey's overall import programs. The effectiveness of United States commodity aid hinges on careful composition of the overall import programs and proper utilization of indigenous productive capabilities. However, neither the Turkish Government nor the Agency for International Development were able to exercise adequate control over commodity imports because of several interrelated weaknesses. As a result, Turkey's overall import programs included many millions of dollars worth of low-priority commodities or commodities for which idle productive capacity existed in Turkey, thereby retarding the economic advancement of the country and adding to the pressures for outside aid.

The Agency for International Development did not refute the facts contained in our report, but expressed general disagreement with our conclusions. We recommended that the Agency take whatever action is necessary and available to improve the operations and increase the earnings of Government-owned enterprises and to achieve more effective utilization of resources available to Turkey.

188. Problems and deficiencies relating to administration of the economic assistance program for Viet Nam during fiscal years 1958 through 1962--Our review of certain policies and practices followed in the financing of commercial imports and in the administration of other financial elements of the economic and technical assistance program for Viet Nam during fiscal years 1958 through 1962, disclosed that these policies and practices substantially increased the cost of United States assistance, were not consistent with sound program management, and were of questionable or disproportionate benefit.

We found that aid levels for financing commercial imports for the years from 1955 through 1961 were substantially in excess of Viet Nam's requirements for foreign exchange. As a consequence Viet Nam's foreign exchange reserves increased considerably. Also, a $10 million cash grant, negotiated in fiscal year 1962 and consummated in fiscal year 1963, was not justified on economic grounds. The costs of pharmaceuticals and fertilizer--two of the major commodities financed from aid funds--were higher than necessary because of ineligible charges included in billings for pharmaceuticals and the failure to purchase fertilizer in the off-season.

In addition, aid funds were used to finance significant amounts of nonessential commodities, such as plastic raw materials and high-quality nylon and worsted yarns. During fiscal years 1960 and 1961 the Agency expended $2.7 million of appropriated funds to purchase piasters (local currency) for local support costs of its overseas Mission instead of having the Government of Viet Nam provide the necessary funds as the Agency had a right to do and as was done for the United States Military Assistance Advisory Group which is the military counterpart of the Mission.

The Agency signified qualified concurrence in most of our findings and proposed remedies on the above matters and advised us of actions taken or to be taken in accordance with our proposals.

At the time of our review covering fiscal years 1958 through 1962, the Government of Viet Nam had not taken means necessary to assure that it would obtain a reasonable share of the country's financial resources in order to better support its economic development and counterinsurgency activities, nor had it used its

financial resources at hand to benefit these activities to the maximum particularly in such matters as the continuation of an unrealistic exchange rate and a seriously defective tax system and the imprudent use of its foreign exchange for luxury goods. The inability or unwillingness of the Government of Viet Nam to take substantive steps to remedy these defects in its economic and financial policies had the effect of obstructing achievements of the objectives of the aid program.

The Agency for International Development has informed us that its latitude in dealing decisively with these problems was limited by the overriding policy of the United States to support the Government of Viet Nam against Communist insurgency. The Agency informed us also that it has sought to accomplish reforms within the recipient country which would overcome these problems. In view of the subsequent changes in the Government of Viet Nam as a result of the coups which overturned the existing governments in November 1963 and January 1964 and of the reevaluations of the administration of the Viet Nam program which we understood were being undertaken by the Agency, we made no recommendations with respect to these matters.

Our review of certain measures embodied in a special counterinsurgency plan sponsored by United States authorities in January 1961 to assist Viet Nam in overcoming intensified Viet Cong activities showed that they were subjected to extended unnecessary delays despite the fact that (1) the measures had been assigned the highest priority within the economic program and (2) the critical security conditions at the time, particularly in the rural areas, were considered to demand immediate and extraordinary action. After adopting a high-priority counterinsurgency plan, the timely execution of which was considered essential, the Agency failed to assign program responsibilities, develop program priorities, or to monitor program implementation in an effective manner. We believe that these failures reflect serious weaknesses in the management machinery of the Mission and the Agency.

The Agency informed us that it agreed that there were delays, some of them serious, in the execution of programs relating to counterinsurgency in the period under review. The Agency also stated that there were substantial achievements. We were informed

that subsequent measures were taken, including the provision of new and additional senior personnel in Washington and Saigon, the delegation of unprecedented procurement and contracting authority to the Agency's Mission in Saigon, and the installation of an entirely new logistical system modeled along military lines.

We recommended that the Secretary of State and the Administrator, Agency for International Development, (1) evaluate the basic management concepts and methods being applied in the administration of the economic and technical assistance program for Viet Nam and (2) take necessary action to assure that there is in existence a management capability and the necessary machinery to carry out policy decisions in accordance with the degree of urgency assigned to them.

189. Ineffective administration of United States assistance to children's hospital in Poland--Our examination into the United States assistance to a children's hospital in Poland, for which about $2.2 million in dollars and the equivalent of $8.3 million in United States-owned Polish currency has been appropriated, disclosed an almost complete lack of United States Government surveillance of project activities. Consequently, United States officials were not aware of certain unfavorable financial and operational factors attending this project.

We found that cost estimates submitted to the Agency for International Development did not include supporting details and that the Agency had not made a proper review and evaluation of the estimates. We found also that (1) the Agency disbursed more funds to the private sponsor of the hospital than were provided for in the original grant agreement, (2) the sponsor had incurred costs in excess of the maximum amount provided for in the original grant agreement and in excess of the erroneous amount disbursed by the Agency, and (3) the sponsor continued to incur costs even though all available funds were exhausted. We found further that the hospital may not be adequately staffed for effective operation at the time of its completion. We believe that this loose administration was caused in good part by a failure to define Agency responsibility.

The Agency made a commitment in August 1961 to finance the local currency costs of constructing the hospital on the condition that the sponsor would attempt to raise from private contributions in the United States the dollar funds required for certain material and equipment not available in Poland. The Agency made this commitment in the face of overwhelming evidence at the time that the sponsor would not be able to raise the dollar funds and that United States Government dollar financing would ultimately be necessary to complete the hospital. As far as we could determine, the Agency did not present this matter for the consideration of the Congress prior to making the commitment.

At the time of our review, construction was well under way with Polish currency made available by the Agency but the sponsor had raised only a fraction of the dollar requirement and reported that no prospect existed for raising the dollars. Consequently, in order to complete the hospital, the Agency requested $2.2 million in dollars for the hospital in its fiscal year 1964 budget presentation to the Congress. The funds were appropriated in the Foreign Aid and Related Agencies Appropriation Act, 1964, approved January 6, 1964. Because the dollars were not available when needed, our report stated that completion of the hospital would undoubtedly be delayed considerably beyond its scheduled date.

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In addition to the corrective actions which the Agency stated would be undertaken, we expressed the belief that it was incumbent on the Agency to take steps to assure that arrangements were worked out for adequate staffing of the hospital and we understand that a training program has now been initiated.

190. Failure to adhere to accepted standards of programming and project planning for the large number of projects included in earthquake reconstruction and rehabilitation program for Chile--On the basis of our review of projects financed under the reconstruction and rehabilitation program in Chile following the earthquakes in May 1960, we believe that serious problems were encountered because the Agency for International Development did not adhere to accepted standards of programming and project planning for the large number of projects included in such a vast program.

For the most part, no meaningful review was made of the Government of Chile's plans, specifications, and cost estimates for the projects undertaken. The Agency did not adjust the size and makeup of its Mission staff to meet the tremendous expansion of assistance to Chile under the earthquake program. Also, appropriate consideration was not given to the abilities of the various agencies of the Government of Chile to carry out their part of the program. As a result, serious cost overruns and delays occurred in many projects and a number of projects had not been completed, or in some cases had not been started, some 3 years after the earthquakes and substantially after their estimated completion dates.

191. Need for more informative, clear and accurate disclosure of significant data in annual program presentations--Our examination of certain economic development projects for assistance to the Central Treaty Organization, from their inception in 1957 through June 30, 1962, as administered by the Agency for International Development and its predecessor agencies disclosed that the annual program presentations to the Congress on three of the projects did not fully disclose the unusual circumstances and the problems which attended the projects. Moreover, the presentations were incomplete and inaccurate and indicated that the aid provided to these projects was more effective than was actually the case.

In our review of assistance to a children's hospital in Poland, for which $2.2 million in dollars and the equivalent of 8.3 million in United States-owned Polish currency had been appropriated, we found that the Agency, in requesting funds for the hospital in its budget presentations to the Congress for fiscal years 1963 and 1964, did not disclose the unusual circumstances and problems which attended this project and furnished incomplete and inaccurate information regarding some of the financial and operational aspects of the project. We repeated a recommendation made in previous similar instances, that the Agency make more informative, clear, and accurate disclosure of significant data in annual program presentations.

AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954--PUBLIC LAW 480

192. Action taken to strengthen administrative controls for determining receipt and authorized use of agricultural commodities sold--In a report issued in October 1963, we pointed out that inadequate controls existed within the Foreign Agricultural Service, Department of Agriculture, for determining compliance by foreign governments with statutory restrictions placed on the disposition of agricultural commodities made available under title I of the Agricultural Trade Development and Assistance Act of 1954, commonly known as Public Law 480. As a result, FAS did not have adequate assurance that foreign governments were complying with these statutory restrictions.

We found that FAS had not obtained sufficient information on arrival and disposition of commodities in foreign countries from its agricultural attaches or from representatives of American Embassies who were required or had been requested to submit this information. Follow-up action to obtain required reports was not sufficiently aggressive. Furthermore, information was not readily available in the Washington, D.C., headquarters office of FAS as to reports required and received, and there were no formal control records indicating the quantities of commodities shipped to each foreign country and the quantities reported as having arrived in each foreign country, so as to enable prompt detection and investigation of any differences.

We recommended that the Secretary of Agriculture take certain specific actions to strengthen administrative controls for determining that surplus agricultural commodities made available to foreign countries under title I were actually received and used in the authorized foreign countries and did not result in increased availability of the same or similar commodities to unfriendly nations. By letter dated November 29, 1963, the Acting Secretary of Agriculture advised us that action had been taken to implement our recommendation.

CONTRACTING POLICIES AND PRACTICES

193. Need for close adherence to accepted contracting standards for the construction of buildings in foreign countries--A report submitted to the Congress in May 1964 on our review of the construction of a United States Consulate General office building and adjacent official residence at Tangier, Morocco, by the Office of Foreign Buildings, Department of State, involving a total investment of $975,000, disclosed several fundamental deficiencies in the solicitation of bids and in the award and administration of the construction contract.

The need to construct the new buildings in Tangier was questioned by responsible officials within the Department both before and after the construction contract was signed, and recommendations were made that the project be canceled in view of the diminishing importance of Tangier as a Foreign Service post and the likelihood that, because of the abundant availability of buildings created by the exodus of European interests after Tangier ceased to be an international zone, an existing building could be purchased at less cost than new construction would entail. The decision to go forward with construction in spite of these recommendations was stated to have been based primarily on the judgment that it would be in the Government's best interests to preserve funds already invested in architectural services and in the building site. The low occupancy of the office building in June 1963 indicated that it was larger than was required. At that date the 5-story building containing 21,400 gross square feet of floor space was occupied by only 27 persons.

Because of a decision by the Office of Foreign Buildings to obligate funds for the construction of the Tangier buildings before the close of fiscal year 1957, bids were solicited before the plans and specifications were complete, and prospective bidders were not allowed sufficient time to prepare their bids. As a result, a number of prospective bidders declined to bid and bidding was unduly restricted and unresponsive. The Office of Foreign Buildings issued a letter of intent on June 30, 1957 (Sunday), to the low bidder and it was not until 7 months later that the plans and specifications were completed and 3 months thereafter that a contract was executed.

Following the bid award and before a contract was executed, the low bidder notified the agency that because of increases in labor and material costs he could not perform at the bid price, and the Office of Foreign Buildings agreed to an increase of $108,699 over an adjusted bid price of $593,000. Other concessions were made to the low bidder after the bid award in the form of extended contract time and in reduction of liquidated damages. Neither these concessions nor the increases in price were offered to the other bidders.

During the 10 months following the bid award and prior to the execution of the contract, the Office of Foreign Buildings was advised by responsible sources within and without the Department that the low bidder--and, later, the contractor,--lacked the necessary experience, organization, and resources to successfully carry out this construction; and previous unsatisfactory experience with the contractor on smaller jobs was cited. It became necessary for the contractor, at the insistence of the Office of Foreign Buildings, to engage another construction firm to furnish technical assistance in order to proceed with and complete the construction. The construction required 41 months (after the initial delay of 10 months following the bid award) against the original estimate of 12 months. Although the contractor was assessed liquidated damages for 14 months of the overrun, he was granted further extensions aggregating 6 months for reasons not supported by the record.

That the agreed contract price of $727,755 may have been on the liberal side is indicated by an offer from another construction firm, with which the contractor was negotiating for technical assistance, to purchase the contract outright from the contractor for $100,000.

We found no logical reasons for the extraordinary actions which were so clearly disadvantageous to the Government in this matter, and we were unable to obtain from the records or from Department representatives any satisfactory explanation of these actions. We believe that they evidence a serious lack of concern for sound principles of financial management in the administration of Government activities and a disregard of proper contracting practices. We proposed to the Department that its top officers take due note of the Tangier experience and emphasize to all responsible

personnel concerned with foreign building construction the paramount importance of close adherence to accepted contracting standards for the construction of buildings in foreign countries, giving particular attention to the defects brought out in our report.

The Assistant Secretary of State for Administration expressed general concurrence in our findings. He stated that the Office of Foreign Buildings had been reorganized and that certain policies and practices basic to the building program, including those specifically proposed in our report, had been reemphasized.

We recommended that the Secretary of State take steps to assure that internal reports on audits, inspections, and other reviews of administrative operations are given the proper analysis and timely action by responsible top management in the Department that are essential to the effectiveness of the Department's internal control machinery.

FISCAL PROCEDURES

194. Action taken to transfer control of dollar collections to the Treasury--The Agency for International Development was retaining dollar collections of principal and interest on loans made by the corporate Development Loan Fund although the Agency was legally required to deposit such funds into the Treasury as miscellaneous receipts. Collections being retained aggregated about $43 million at March 31, 1964, and we estimate that the total dollars which may ultimately be collected under this category of loans will exceed $500 million.

In our opinion the legislative history of the Foreign Assistance Act of 1961 (22 U.S.C. 2151) and the restriction specified in the foreign aid appropriation legislation for fiscal year 1964, on the use of dollar collections in the current loan revolving funds of the Agency, clearly affirmed the intent of the Congress that dollar receipts from the Agency's development loan programs shall not be used without specific appropriation by the Congress. We believe that, in the light of the congressional intent and the representations of the executive branch, the continued retention of the subject collections by the Agency, both prior to and after our initial inquiry in April 1963, was indefensible.

On April 22, 1964, we advised AID that it had no legal authority to hold these funds. Thereafter, on April 30, 1964, we notified the Agency that on the basis of our legal determination the subject funds should be transferred to the Treasury as miscellaneous receipts without further delay and that procedures should be established to assure that future dollar collections on the subject loans will be similarly transferred to the Treasury immediately upon receipt. On May 8, 1964, the Agency informed us that collections of principal and interest through March 31, 1964, aggregating $42,561,776.12, were transferred to miscellaneous receipts of the Treasury and that all future collections would be similarly transferred.

195. Action taken to prevent premature transfer of United States funds--In our review of the transfer of United States funds to the Social Progress Trust Fund administered by the Inter-American Development Bank, we found that funds were being transferred prematurely to the Trust Fund by the Treasury Department and the Agency for International Development. From data available to us, we estimate that, as a result, additional interest of as much

as $60,000 a year was being incurred by the Treasury. We believe that the premature release of funds was caused by a reluctance to scrutinize requests for funds or to establish the liaison necessary to ascertain the propriety or timeliness of such requests for funds.

We proposed that the Administrator, Agency for International Development, establish procedures which would assure that the Social Progress Trust Fund did not carry excessive cash balances. We suggested that the Agency, in establishing such procedures, take into account the maximum daily balance necessary to sustain the Trust Fund's daily operations and that it establish procedures in cooperation with the Treasury Department whereby the Inter-American Development Bank could withdraw funds from the Treasury to meet daily requirements in a manner which would avoid unnecessary interest costs to the United States.

By letter dated July 8, 1964, we were advised that corrective action was being taken along the lines we had proposed.

196. Consideration of surplus funds resulted in reduction of appropriation request for fiscal year 1964--The Bureau of Educational and Cultural Affairs, Department of State, had not considered unused funds totaling over $3.7 million, advanced in prior years and on deposit with certain binational foundations and commissions, in its budgetary estimates for the fiscal year 1964. Binational foundations and commissions are international agencies established by mutual agreement between the United States and foreign countries to assist in carrying out the purposes of the Mutual Educational and Cultural Exchange Act of 1961.

After we initially brought the matter of unused funds to the agency's attention in March 1963, the Assistant Secretary of State for Administration notified the chairman of the Senate and House Subcommittees on Appropriations for the Department of State that the appropriation request for fiscal year 1964 for educational and cultural exchange activities could be reduced by approximately $1,100,000. This estimate related to reserve funds on deposit with the commissions as of June 30, 1962. Subsequently, it was determined by the Department through further analysis work on reserve fund balances with the binational foundations and commissions as of June 30, 1963, that an additional $2.9 million in reserve funds

existed at the foundations and commissions as of this date and that appropriation requests for this fiscal year 1964 could be further reduced by the amount of $2.6 million. The Chairmen of the Senate and House Subcommittees on Appropriations were advised accordingly by the Department in November 1963.

197. Remittances for interest and principal on dollar portions of two loans accepted at improper exchange rates--During our audit of accounts and financial statements of the Agency for International Development (AID) loan programs, we found that AID had been accepting interest and principal payments on two loans repayable in local currencies at fixed rates of exchange although the loan agreements as amended in December 1960, provided that portions of the loans disbursed in dollars ($7 million) would be repayable with maintenance of value (the exchange rate current at the due date of each payment of interest and principal).

We brought this matter to the attention of AID on April 23, 1963. Thereafter on one of the loans, AID collected principal and interest in amounts provided in the amendatory agreement. We were advised a similar collection on the second loan would be made at the next due date.

In February 1964, the borrower notified the Agency that it would pay foreign currency equivalent to about $295,000 representing past underpayments of principal and interest on both loans. (This amount was subsequently paid.) On the basis of the current Treasury exchange rate, we estimate that the additional foreign currency collectible for principal and interest through the remaining periods of the two loans by application of the maintenance of value provision of the amendatory agreement will total the equivalent of more than $4 million.

INTER-AMERICAN HIGHWAY PROGRAM

198. Questionable United States participation in fencing costs discontinued--The United States has contributed about $260,000 to finance the cost of fencing virtually all the rights-of-way for certain projects on the Inter-American Highway in Costa Rica. In many cases, the need for providing the fences developed as a result of right-of-way considerations, thus indicating a questionable basis for United States participation in such costs.

As required by the Federal-Aid Highway Act of 1950, the Memorandums of Understanding between the United States and the Republic of Costa Rica provide, in effect, that the host country shall be solely responsible for all right-of-way costs and that it shall hold the right-of-way forever inviolate as a part of the highway for public use.

Project 7, which provides for paving the highway extending from Cartago to San Isidro del General, was not yet under construction; however, construction cost estimates included an item of $230,000 for fencing this entire 71-mile section of the Inter-American Highway. The United States share of the estimated cost of fencing on this project would be two thirds, or about $153,000. This portion of the highway extends over mountainous areas where the terrain would appear to obviate the need for fencing the entire right-of-way for the purpose of protecting traffic.

In a letter dated July 1, 1963, to the division engineer, Bureau of Public Roads, Department of Commerce, we requested that the Bureau furnish us with the justification for United States participation in fencing costs on this project. In August 1963 a policy determination was made by the Bureau whereby the United States would not generally participate in fencing costs on any future projects on the Inter-American Highway, and by letter dated August 8, 1963, the division engineer advised Costa Rica that the costs of fencing on the project we had questioned and future projects would not be eligible for participation and such costs would have to be financed exclusively with host country funds. Implementation of this position, with respect to the project we questioned, should result in a savings to the United States of about $153,000.

199. Effective action taken to maintain rights-of-way free from encroachments--For a number of years, the Bureau of Public Roads, Department of Commerce, had not been particularly successful in its efforts to have Costa Rica maintain the right-of-way of the Inter-American Highway free of encroachments, such as houses and commercial establishments.

We proposed in a report issued in May 1964 that, in order to comply with the intent of the pertinent statutory requirements and to assure greater safety on the Inter-American Highway in Costa Rica, the Federal Highway Administrator instruct the Bureau's division engineer in Costa Rica to periodically review Costa Rica's program for removing and preventing encroachments on the rights-of-way to determine whether a recently initiated program to eliminate encroachments was adequate. Also, we proposed that, before United States participation in future construction work is authorized, the division engineer be required to make a formal determination that the country's progress in removing encroachments was physically evident and that effective action had been and was being taken to prevent additional encroachments.

The Bureau advised us that it concurred in and would implement these proposals. A subsequent review of Costa Rica's progress in this area was made by the Bureau, and the Bureau reported that significant progress was being made to prevent encroachments on the right-of-way.

MANPOWER UTILIZATION

200. Reduced manpower utilization due to unnecessary home leave--In August 1964 we reported to the Congress that the Department of State has sustained substantial losses in manpower utilization through the allowance and subsequent use of home leave in certain circumstances which we believe are not compatible with the basic purpose of home leave.

During fiscal year 1963 an estimated 63 man-years of employee time with a salary cost of about $566,000 was lost to the Department by reason of granting home leave to employees who had been returned to the United States for an extended tour of duty; and estimated 22 man-years of employee time with a salary cost of about $200,000 stands to be lost in the future by having permitted employees during fiscal year 1963 to earn home leave while on home leave in the United States; and an additional estimated 65 man-years of employee time with a value of about $726,000 was retained for future use by Foreign Service employees who had been returned during fiscal year 1963 for extended tours of duty in the United States.

We recognize the legitimate need for home leave for employees assigned to posts overseas but believe that the foregoing practices represent unnecessary and uneconomical home leave allowances that result in reduced manpower utilization. These same manpower losses are also being sustained in other agencies concerned with home leave.

The Foreign Service Act of 1946 requires that every Foreign Service officer during his first 15 years in such capacity shall be assigned for duty in the continental United States for periods totaling not less than 3 years. Pursuant to this requirement, officers are periodically brought back to the United States by the Department for Washington assignments. It is Department policy, in connection with such assignments, when the officer is eligible for and requests home leave, to make every effort to authorize such leave to be taken prior to his entry on duty in the position to which assigned or in one continuous period within 6 months thereafter.

We believe that a tour of duty in the United States, in itself, should be sufficient to re-Americanize the employee and thereby accomplish the basic purpose of the home leave statutes

without the necessity of permitting the employee to also take home leave incident to such a tour of duty. While certain parts of the legislative history of the controlling statutes indicate that re-Americanization is the dominant purpose for which home leave is authorized and that home leave may be granted only during a continuation of an assignment abroad or between two assignments abroad, other parts of such legislative history might be construed as indicating an intention that home leave also may be granted during a tour of duty in the United States between assignments overseas.

In view of the long-standing practice of the State Department to grant home leave incident to duty assignments within the United States when it is contemplated that the employee again will be assigned to a station abroad, and as the legislative history fails to clearly indicate that such practice is unauthorized, we have not objected thereto on legal grounds. However, we consider that the granting of home leave incident to an assignment in the United States is unnecessary and of doubtful propriety in the accomplishment of the basic objective of statutory home leave and that such practice, therefore, should be clearly prohibited by law. We further believe that the practices of allowing employees to earn home leave while away from their overseas posts on home leave and to retain unused home leave following a tour of duty in the United States are incompatible with the basic concept of home leave and should be discontinued.

Both the Civil Service Commission which exercises regulatory authority over the granting of home leave in all Federal agencies, and the Department of State disagreed with our findings and proposed changes in present home leave practices. The essence of their position is that home leave is intended to include other purposes in addition to re-Americanization and that discontinuance of the current practices to which our report is addressed would be inequitable and create serious morale problems. We do not consider that this position is valid.

In our report we recommended that the Congress consider revising the provisions of the Annual and Sick Leave Act of 1951, as amended by the Overseas Differentials and Allowances Act of September 6, 1960, to (1) prohibit the granting of home leave to employees of all agencies immediately preceding or during a tour of duty in the United States, (2) prohibit the accrual of home leave while

employees are away from their overseas posts on home leave, and (3) require that unused home leave balances be canceled after an employee has served an extended tour of duty in the United States.

MILITARY ASSISTANCE PROGRAM

201. Action to obtain reimbursement from foreign countries for administrative costs of the military assistance program--The General Accounting Office has made a follow-up review on the adequacy of actions taken by the Department of Defense to obtain reimbursement from foreign countries for administrative costs of military assistance program. Our review, reported to the Congress in March 1964 led to recoveries of $870,000 from the Federal Republic of Germany and the identification of substantial amounts of administrative costs which may be eligible for recovery from other countries.

Our follow-up review related to administrative costs of the military assistance program in Germany and other European countries which were reviewed in prior reports to the Congress.

In these reports we concluded that the local currency amounts collected from countries receiving United States military assistance had not been adequate to cover all the eligible administrative expenditures of the United States under the military assistance program. Certain countries receiving military assistance had agreed to assume certain administrative costs incurred by United States agencies in connection with carrying out the military assistance program and had agreed to furnish local currency for such purposes. We estimated that substantial amounts of administrative costs incurred during the period January 1, 1956, to June 30, 1958, were recoverable under the Mutual Defense Assistance Agreement with Germany in addition to amounts already recovered for that period. Accordingly, we recommended to the Secretary of Defense that Germany and other countries be charged for all eligible expenses of administering the military assistance program in foreign countries.

The Assistant Secretary of Defense, Comptroller, informed us by letter dated April 17, 1962, that the Department of Defense had concluded a review of administrative expenses for Germany and had determined that about $200,000 of administrative costs were chargeable to Germany.

We made a limited follow-up examination into the adequacy of the review made by the Department of Defense. By letter dated January 29, 1963, we informed the Secretary of Defense that our review disclosed several types of recoverable expenditures which had not been appropriately considered. These expenditures included those

made from local currency purchased with appropriated dollars and expenses incurred by technical representatives. As a result of this disclosure, representatives of the Department of Defense made further examinations of disbursing records and identified additional amounts eligible for reimbursement from Germany and other countries.

Officials of the Department of Defense informed us in January 1964 that, as a result of our recommendations and their reviews, $870,000 had been recovered from the Federal Republic of Germany and that action was being taken to recover substantial amounts from nine other countries.

202. Cancellation of procurement for unneeded spare parts--In our examination of the action taken by the Department of Defense as a result of recommendations contained in our prior report pertaining to programming and delivery of aircraft spare parts in excess of Portugal's requirements, we found that action has been taken to cancel procurement of and to redistribute spare parts valued at about $1.2 million.

The results of our prior review of the Military Assistance Program to Portugal were disclosed in our classified report to the Congress, B-146785, May 29, 1963, entitled, "Ineffective Programming, Delivery, and Utilization of Aircraft and Related Equipment Furnished to the Portuguese Air Force under the Military Assistance Program." One of the findings included in that report was the programming and delivery of spare parts for the P2V-5 aircraft in excess of valid requirements. With respect to this deficiency, we recommended to the Secretary of Defense that action be initiated (1) to recompute requirements for spare parts on the basis of current information and cancel procurement contracts or divert delivery to the United States Navy supply system of those items determined to be in excess of requirements and (2) to screen quantities delivered to Portugal which were excess to requirements against current United States Navy requirements for possible recovery.

The Assistant Secretary of Defense, International Security Affairs, in response to our recommendations acknowledged that there were significant overstatements in the spare parts package and that spare parts had been delivered to Portugal in excess of requirements. He informed us that to implement our recommendations

(1) requirements were being reviewed to determine items that were excess and action was already under way to void procurement of $258,000 in excess requirements and (2) spare parts on hand in Portugal were being screened for excess determinations and the Portuguese Government had been requested to return excess items.

Our follow-up review in April 1964 disclosed that (1) procurement of spare parts for Portugal, valued at $562,000, determined to be in excess of Portugal's requirements, was canceled or the items were diverted to United States Navy stock, (2) action was initiated to cancel other Department of the Navy orders for items, valued at $590,000, similar to those items on order for Portugal, since these items were determined to be excess to Navy requirements, and (3) the spare parts that Portugal agreed to release as excess to its requirements were screened and items valued at about $81,000 were requested to be returned to the United States Navy stock.

203. Cancellation of requisitions for unneeded material to be delivered to recipient countries--Our reviews resulted in the identification and cancellation of orders for unneeded material totaling $203,800 which was to be delivered to two countries under the military assistance program.

Our review of stock balances at the Spanish Army Transportation Central Depot disclosed that more than $3 million worth of spare parts had been delivered to Spain under the Military Assistance Program which were excess to the Spanish Army requirements. In addition, about $222,700 worth of additional spare parts were due to be delivered to the Spanish Army because of requisitions submitted to supply agencies in the United States which would further increase the excess stocks in the depot. We brought the matter of outstanding requisitions for the unneeded spare parts to the attention of the Military Assistance Advisory Group (MAAG) for Spain by memorandum dated March 13, 1963. We requested that the outstanding requisitions be reviewed by the MAAG to determine whether a valid requirement existed for these spare parts. On April 1, 1963, in reply to our memorandum, the MAAG advised us that it had taken action to cancel requisitions which, if delivered, would have increased overstockage at the Spanish Army depot by about $178,000.

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During our review of the Ethiopian Army ordnance depot we noted 96 unserviceable engines for 1/4-ton trucks awaiting rebuild. We also noted that the Military Assistance Advisory Group (MAAG) for Ethiopia had processed two requisitions totaling 50 engines for the 1/4-ton truck although the MAAG had advised the Ethiopian Army that there was not justification for the need of additional engines when sufficient reparable engines were on hand in the depot. On March 5, 1963, we notified the Chief, Materiel Branch, MAAG Army Section of the apparent contradiction between MAAG's position regarding the justification for additional engines and its action in processing the requisitions and suggested that the requisitions be canceled. On March 6, 1963, the MAAG took action to cancel the requisitions for the 50 1/4-ton truck engines valued at $25,800.

204. Need to limit material deliveries in accordance with the capability of the recipient countries to maintain and utilize equipment--In our March 1964 report we stated that tow target systems costing in excess of $1 million, designed for training pilots in the use of Sidewinder missiles, were unnecessarily or prematurely delivered to 11 foreign countries because responsible Department of Defense agencies had not given consideration to the countries' inability or unwillingness to use the systems. Six countries were unwilling to use the tow target systems for reasons of safety and cost, and five countries did not have the equipment, missiles, or test programs to enable them to use the tow targets at the time of delivery. An additional $240,000 had been expended by the Air Force for tow targets for which no firm requirement existed and which were never delivered under the military assistance program. These targets were still in storage at the time of our review.

In commenting on our findings and proposals, the Department of the Air Force advised us that action had already been taken or was under way to recover the excess equipment in six countries and that no immediate action was proposed in five countries because utilization had been planned.

With regard to the procurement of unneeded tow targets that were never delivered to recipient countries and are now in storage, we recommended that the Secretary of Defense require that an appropriate inquiry be made to determine the reasons for the

overprocurement and which persons were responsible so that appropriate corrective and disciplinary measures may be taken.

205. Need to phase down the staffs of the Military Assistance Advisory Groups in Western European countries--In our April 1964 report we stated that in our opinion the Department of Defense has not made a determined effort to phase down the staffs of the Military Assistance Advisory Groups in Western European countries to the extent warranted by the reduction in the scope of the grant aid programs in these countries.

We found that in 1962, when the value of grant aid deliveries to eight of the countries covered by our review was $190 million, the Military Assistance Advisory Groups in these countries were staffed in total with approximately 345 United States personnel or 56 percent of the level maintained to administer programs during the peak year of 1953 when the value of grant aid deliveries was $2.3 billion. The marked disparity in the value of decreases in deliveries and the assigned staff strongly indicates that maximum staff reductions have not been made. We believe that this disparity resulted from the failure of the Department of Defense to eliminate functions no longer required and to realign responsibility for the remaining functions by transferring these functions to other United States personnel in existing organizations and by reorganizing the Military Assistance Advisory Groups on an austere basis.

The failure to eliminate or reduce the Military Assistance Advisory Groups' functions and to make appropriate reductions in the number of personnel assigned, as the military assistance programs were accomplished or reduced, has resulted in the unnecessary expenditure of millions of dollars overseas; the ineffective utilization of highly skilled, highly trained personnel; and the continued but unnecessary support overseas of the dependents of many Military Assistance Advisory Group personnel.

The Department of Defense has informed us that a worldwide review is now being made of the missions and functions of Military Assistance Advisory Groups to determine the feasibility of reducing United States representation abroad. We believe that immediate personnel reductions can be made by eliminating or reducing functions now being performed by these Groups.

206. Unofficial use and overstated needs of commercial-type vehicles by United States military personnel--Our review of the utilization of commercial-type vehicles by the Military Assistance Advisory Group and the Headquarters, Support Activity, Taipei, Republic of China, disclosed that controls over the use of these vehicles were lax and that the vehicles were being used for unofficial purposes. We found that vehicles were being used for transportation to and from home and work, trips to private golf courses, officers' clubs, post exchanges and resort areas and that local national drivers were intentionally overstating mileage.

Responsible agency officials informed us that local national drivers were overstating mileage to cover up gasoline thefts. In our opinion the number of commercial-type vehicles assigned to the Military Assistance Advisory Group and the Headquarters, Support Activity are in excess of the number required for official purposes. Since requirements are largely predicated upon past mileage and the past mileage has been inflated due to the furnishing of transportation from and to home and work, unauthorized utilization of vehicles for personal business and overstatement of mileage by local national drivers, we estimate that there are about 152 unneeded vehicles on hand valued at about $341,000.

The Department of Defense stated in commenting on our findings, that the irregularities outlined in our report have been verified and that necessary corrective action had been or is in the process of being accomplished. Thirty-three vehicles already have been declared excess by the Military Assistance Advisory Group and Headquarters, Support Activity. We believe the corrective actions which have been or are being taken to improve the controls over the use of commercial-type vehicles will, if properly implemented, considerably minimize the recurrence of the conditions noted during our review.

However, subsequent to our review, the Assistant Secretary of the Navy (Installations and Logistics) authorized the use of Government vehicles for transportation of Military Assistance Advisory Group personnel from and to home and work. We believe the reasons advanced by the Military Assistance Advisory Group justifying this type of transportation and upon which the Assistant Secretary relied in authorizing home to work transportation are questionable.

Therefore, we recommended that the Assistant Secretary examine into the validity of the justification and reconsider his decision authorizing the Military Assistance Advisory Group to use Government vehicles for home to work transportation.

UNITED STATES COSTS FOR THE USE OF PRIVATE LONG-LINE TELEPHONE SERVICE IN JAPAN

207. Need to obtain lower rates for the use of private long-line telephone service in Japan--Our review disclosed that the United States Forces in Japan paid and are currently paying excessive amounts for the use of private long-line telephone service in Japan. Although equitable rates for telephone services have not been determined, payments for such services over the 10-year period ended on June 30, 1962, were about $50 million higher than would have been paid under the more favorable rates charged certain Japanese Government agencies for the same service. United States officials took little action during the period from 1952 until 1959 to obtain more favorable rates. Since 1959, however, numerous discussions have been held with representatives of the Japanese Government in attempts to obtain rate reductions. These discussions have been unsuccessful.

On June 25, 1963, the Department of Defense, in commenting on our preliminary report, stated that it fully concurred in our proposals that action be continued to obtain a lower rate for leased long-line telephone service for our Forces in Japan and possibly to obtain a rebate for charges already paid. The Department stated also that it was pursuing this matter in coordination with the State Department.

On August 30, 1963, the Department of State informed us that it concurred in general with the comments of the Department of Defense.

We are not making any recommendation at this time inasmuch as the Department of Defense and the Department of State are continuing their efforts to obtain lower rates and are considering the possibility of an adjustment for excessive charges already paid. We plan to follow up with these Departments and evaluate any action which is taken.

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GOVERNMENT-WIDE REVIEWS

AUTOMATIC DATA PROCESSING SYSTEMS

208. Problems relating to management and administration of electronic data processing systems in the Federal Government

Need for improvement in the management and administration of electronic data processing systems

In connection with our continuing studies of automatic data processing systems in the Federal Government, we submitted a report to the Congress on April 30, 1964, entitled "Review of Problems Relating to Management and Administration of Electronic Data Processing Systems in the Federal Government." In this report, we pointed out that a number of important problems exist in the area of management and administration of EDP facilities obtained and used by Federal agencies and their contractors. These problems pertain to the acquisition and utilization of EDP equipment; contracting for its procurement; need for continuously updated centralized information on the availability, uses, and needs for this equipment; cost aspects of the use of data processing facilities by Government contractors; and recording of machine use time for payment of rentals.

These problems have arisen largely because of the decentralized system of management used whereby each using agency makes its own decisions on the procurement and utilization EDP equipment without regard to the economies available from considering overall Government needs. It is our opinion that the financial results of this form of management are unnecessarily costly and that a system strengthened by more centralized management control should be established. It is our conviction that, unless some form of centralized management is established, the Federal Government will continue to spend unnecessarily substantial sums each year to obtain and use needed data processing equipment in its operations.

Other conclusions stated in this report are as follows:

As to acquisition

Decisions to lease equipment are usually made from the standpoint of use by an individual Government installation rather than from the standpoint of usefulness of the equipment to other parts

of the agency as well as to other Government agencies and contractors. Significant costs are being unnecessarily incurred by the Government and will continue unless the perspective of Government-wide needs is effectively brought to bear on decisions as to how needed equipment is to be acquired.

Decisions as to purchasing or leasing of data processing equipment should be based on consideration of all pertinent factors including the usefulness and need for the equipment from a Government-wide standpoint.

As a minimum, the needs of an entire department or agency--not just the needs of an individual using activity--should be considered in making lease-purchase decisions. Preferably, the needs of the entire Federal Government should be considered, but this is not always practicable in the absence of a central coordinating management office. Even under existing procedures, before lease-purchase decisions are made, the advice of the Bureau of the Budget or the General Services Administration should be sought as to possible use of needed equipment beyond the expected use of the requesting agency or installation.

Once the capital expenditure for the purchase of data processing equipment equals the rental payments that would have been made if the equipment had been leased, the equipment can continue to be used to provide data processing capability at a fraction of the cost of new equipment of equivalent capacity.

Government-owned equipment no longer required in one program can, in many cases, be used in other Federal programs in lieu of new procurement or to replace leased equipment.

The use of Government-owned equipment by many Government contractors would provide a basis for interchange of equipment between contractors and Government agencies with consequent economies.

At the present time, more of the EDP equipment in use in Federal agencies is still being leased rather than purchased. There

has been a significant increase, however, in purchasing or plans for purchasing of computers by Federal agencies.

A large part of the significant increase in purchasing resulted from purchase decisions made by the Department of Defense. While substantial savings should result from this action, it is our belief that the Department's study cannot be relied upon to have identified all the EDP equipment that, if purchased, would result in savings to the Government or that it necessarily identified particular items of equipment that, if purchased, would result in the greatest savings with the funds to be expended.

Specific factors to be considered in comparing lease-purchase cost alternatives should include expected usage rate of equipment, possibility of exercising purchase options or obtaining discounts, and the costs of alternative equipment systems.

The residual value of equipment at the end of the period used for comparing the relative costs of leasing and purchasing should be specifically considered. The value of owning the equipment at this point in time should be measured by the portion of the purchase cost that is reasonably applicable to the future period of useful service. Such value would, in most instances, be over 50 percent of the original purchase price even after the equipment has been used for 3 or 4 years.

As to utilization

Equipment installed in Federal agencies should be used as fully as practicable before additional equipment is acquired.

Equipment capacity on hand and paid for but not used is an irrecoverable loss.

Computer programs should be optimized, i.e., the best possible programs should be developed, if computer equipment is to be efficiently utilized.

Much installed data processing equipment in the Federal Government is not being fully utilized. This condition is a result of a system under which each agency is allowed to acquire its own equipment on the basis of its determination of its needs and desires without ascertaining whether its needs can be satisfied by use of equipment already installed elsewhere.

The dollar value of computer time paid for but unused amounts to many millions of dollars. The possible savings from making fuller use of leased equipment at lower extra-shift rates would be very significant on an annual basis.

The operation of computer-sharing arrangements and plans for expanding them are desirable steps toward improving computer utilization. But the use of other agency facilities is not mandatory, and it is doubtful that voluntary sharing will result in the maximum use of acquired computer capacity. Centralized direction and management are needed to achieve this objective.

As to contracting

The Federal Government receives no special rental rates or purchase prices based on quantity for equipment acquired regardless of the fact that numerous units of the same models are installed each year.

The Federal Government, although a large user of data processing equipment, pays the same prices as those paid by individual private customers who acquire single systems.

The General Services Administration has made significant gains in negotiating with the manufacturers for improved terms and conditions for equipment contracts. The prices in these contracts, however, are as set by the manufacturers. Price reductions have been sought without success. All possible efforts should be made to strengthen the Government's bargaining insofar as prices, which have the most direct effect on costs incurred by the Government, are concerned.

As to lack of current centralized information

Current procedures do not provide for obtaining a running inventory of EDP equipment installed in either Federal agencies or Government contractor facilities. Nor are data on agency requirements for such equipment accumulated currently and systematically at a central point. Thus, there is no effective way to screen new demands and requirements against available capacity already on hand.

Up-to-date information on computer capacity available and on new requirements should be readily available as a means of preventing unnecessary acquisitions of equipment, for promoting the fullest utilization of equipment already on hand, and for use in a national emergency.

As to use of data processing facilities by Government contractors

There is no readily available central information in any agency of the Federal Government as to the nature, extent, location, use, and cost of computers installed by Government contractors.

The predominant practice of contractors is to lease computer equipment. If by leasing instead of purchasing unnecessary costs are being incurred under Government contracts to the same degree as was illustrated in our March 1963 report for Government-operated equipment, the potential savings under contractor operations could run into many millions of dollars a year if conscientious attention is given to obtaining needed data processing services in the most economical manner.

Some Government contractors lease equipment from leasing companies rather than from manufacturers. Costs under these arrangements are lower, but the leasing companies acquire title to the equipment and the Government does not obtain the full benefits of ownership that it more than pays for.

Substantial unnecessary costs relating to computer use are being regularly incurred under Government contracts and will continue as long as there is no provision in the Government's management system for better coordination of computer equipment procurement and utilization by Government agencies and contractors. The complexity of this problem is such that it cannot be solved without centralized management direction with clearly assigned responsibility and commensurate authority.

As to machine use time

Machine use time information based on automatic time meters on EDP components is more accurate than that based on the most efficient manually kept records.

The manual recording and compilation of rented equipment use time for hours used in excess of the base shift may result in unnecessary overtime rental payments of as much as 10 to 30 percent over amounts payable on the basis of time meters.

The Federal Government has probably borne the cost of substantial amounts of overpayments based on inaccurate use time records.

Although the largest manufacturer of data processing equipment has arranged to install automatic time meters on all its leased EDP equipment, the Administrator of General Services should include in all future rental contracts the specific requirement that all rented machines be equipped with such meters.

Each Federal agency should review its overtime rental payment experience with EDP equipment, once meters are installed, and report to the Administrator of General Services as to the amount of probable overpayments. This information will provide a basis for negotiating on behalf of the Federal Government for appropriate recoveries.

The head of each Federal agency should require the use of such meters where computer equipment costs under Government contracts are directly reimbursed by the Government and encourage their use under other types of contracts. Also, each agency should take the necessary action to assure that Government contractors obtain appropriate refunds from equipment manufacturers for any machine rental overpayments made prior to the installation of automatic timing devices and that amounts recovered are properly credited to the cost of Government contracts.

As to need for stronger central management

From an organizational standpoint, effective arrangements do not now exist in the Federal Government for dealing with overall problems such as (1) obtaining and utilizing all needed EDP facilities at the least cost to the Government, (2) properly evaluating the financial advantages of purchasing over leasing of EDP equipment from a Government-wide standpoint, (3) providing for the transfer of used equipment between Federal organizations, between Federal agencies and Government contractors, or between Government contractors, and (4) providing positive direction and guidance on equipment utilization and procurement and on contract administration.

The assistance rendered by the Bureau of the Budget, the General Services Administration, and the National Bureau of Standards is helpful to other agencies. However, there is no centralized responsibility or direction over the management of the needs and resources of the numerous agencies of the Federal Government. Subject to budgetary review, procurement decisions are made by each agency and utilization patterns are determined largely by the organizations which have custody of acquired equipment.

Computer technology has developed rapidly in recent years and is still developing, and the full impact on Federal Government operations cannot be accurately predicted. While important strides forward have been made in utilizing these machines, they are costly and the methods of management of these facilities have not kept

pace with the expansion in their use. As a result, excessive costs are being incurred and unnecessary expenditures of public funds are being made.

The full economies that are possible without depriving any agency of needed data processing facilities cannot be obtained by the Federal Government unless an effective form of centralized management and control is established.

The traditional pattern of decentralized management responsibility cannot give the Government the degree of efficient and economical management of this costly equipment that will capture the savings that are available and eliminate waste, overprocurement, and unnecessary expenditures.

Cooperative programs, consultation, educational programs, and the issuance of directives, guidelines, and similar material are of value; but they are not substitutes for a coordinated management system based on assigned responsibility for bringing about efficient, as well as the maximum practicable, use of resources and eliminating unnecessary expenditures.

Management officials in individual agencies or installations can understandably be expected to consider decision factors primarily from the standpoint of their particular problems and needs and to make decisions in the light of their own interest and desires without necessary regard to broader Government-wide economic considerations.

To assure that Government-wide interests are properly considered in EDP management will require the appropriate assignment of responsibility and authority to a central point. The proper carrying out of this responsibility may involve some conflict with individual agency proposals in procuring and utilizing data processing equipment. It is not intended, however, that any legitimate needs for equipment be denied nor the efficient operation of any agency impaired through the operation of a central management office.

Although some improvements in procurement and utilization practices can be expected to occur under the existing management system, they will never produce the economies that are possible through a more effective centralized form of management control.

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SUMMARY OF FINANCIAL BENEFITS

SUMMARY OF FINANCIAL BENEFITS
ATTRIBUTABLE TO THE WORK OF THE GENERAL ACCOUNTING OFFICE
IDENTIFIED DURING THE FISCAL YEAR 1964

COLLECTIONS AND OTHER MEASURABLE BENEFITS:

Departments	Collections	Other measurable benefits	Total
Army	$ 1,055,000	$ 43,308,000	$ 44,363,000
Navy	1,583,000	84,896,000	86,479,000
Air Force	2,464,000	94,297,000	96,761,000
Defense	875,000	26,232,000	27,107,000
Agriculture	57,000	2,134,000	2,191,000
Army Corps of Engineers (Civil Functions)	1,000	1,531,000	1,532,000
Commerce	247,000	714,000	961,000
Health, Education, and Welfare	760,000	9,319,000	10,079,000
Interior	58,000	1,897,000	1,955,000
Justice	1,000	19,000	20,000
Labor	331,000	375,000	706,000
Post Office	5,000	1,840,000	1,845,000
State	352,000	10,315,000	10,667,000
Treasury	9,000	174,000	183,000
Agencies			
Atomic Energy Commission	231,000	2,811,000	3,042,000
Civil Service Commission	33,000	141,000	174,000
District of Columbia Government	4,000	4,000	8,000
D.C. Redevelopment Land Agency	270,000	-	270,000
Federal Aviation Agency	33,000	1,434,000	1,467,000
General Services Administration	7,000	456,000	463,000
Housing and Home Finance Agency	155,000	8,716,000	8,871,000
Interstate Commerce Commission	-	50,000	50,000
National Aeronautics and Space Administration	474,000	253,000	727,000
Panama Canal Company	31,000	2,001,000	2,032,000
Small Business Administration	-	46,000	46,000
Veterans Administration	1,216,000	1,358,000	2,574,000
Other agencies	5,000	2,000	7,000
Total for audit of departments and agencies	10,257,000	294,323,000	304,580,000
Transportation audit	10,499,000		10,499,000
General claims work	6,410,000		6,410,000
Total	$27,166,000	$294,323,000	$321,489,000

DETAILS OF OTHER MEASURABLE BENEFITS

Details of other measurable benefits attributable to the audit work of the General Accounting Office, totaling $294,323,000, are listed below. These financial benefits were identified during the fiscal year 1964 and 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 benefits 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 Benefits
SUPPLY MANAGEMENT	
Cancellation of plans to purchase materials for which there was no current need	$ 48,139,000
Reduction in procurement of spare aircraft engines needed as replacements during engine overhauls	45,000,000
Transfer of excess material to agencies or contractors for use in lieu of making new procurements	23,171,000
Conversion from central procurement, storage, and distribution of many low-volume items to procurement from local suppliers as needed	20,000,000
Return to active inventory excess or surplus material which was either unnecessarily held in reserve or was prematurely scheduled for disposal	10,722,000
Revision of policies and procedures on procurement of aircraft repair parts kits which provide for procurement of kits more economically suited to the overhaul activities	10,000,000
Adjustment of prices under existing contracts or proposed amendments	5,971,000

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SUPPLY MANAGEMENT (continued)

Reclamation of parts from excess aircraft engines	$ 2,139,000
Procurement of repair parts from commercial sources rather than manufacture of the parts in Government plants	2,100,000
Deferment or cancellation of the lease or purchase of equipment for which there was no immediate need or the need was not adequately justified	1,660,000
Deferring the purchase of certain equipment until a decision had been made on how the equipment would be used	1,345,000
Avoiding payment of storage charges on cotton for overlapping periods	1,200,000
Revision of a policy which had caused unnecessary overhaul of serviceable aircraft engine accessories	1,200,000
Use of Government-owned petroleum storage facilities in lieu of commercial storage	472,000
Reduction in milk procurement costs at hospitals and domiciliaries by purchasing in bulk quantities rather than half-pint containers	436,000
Reduction of supply items through standardization	272,000
Cancellation of MAP requisitions for supplies and materials not needed by the Spanish Army	178,000
Restoration to accountability inventories of supplies otherwise unavailable for use	138,000
Other items	306,000

COMMUNICATIONS

Increased use of the Federal Telecommunications System for long distance telephone calls	$ 696,000
Realignment of refile stations thereby reducing costs of long distance communications	563,000
Elimination of unneeded teletype circuits and replacement of leased teletype equipment with excess Government-owned equipment	153,000

PROFICIENCY FLYING

Savings in fiscal year 1964 in aircraft operating and maintenance expenses resulting from excusing certain rated officers from flying as authorized by Sec. 614, P.L. 87-144. (The estimated savings included in our annual reports for the fiscal years 1962 and 1963 were $13,300,000 and $32,600,000, respectively.)	39,400,000

PAYMENTS TO GOVERNMENT EMPLOYEES, VETERANS, AND OTHER INDIVIDUALS

Closing, consolidation, or reduction in staff of installations and offices in excess of actual needs	16,569,000
Revision of Joint Travel Regulations to prevent unnecessary per diem payments to prospective crews of nuclear powered submarines and surface vessels	9,200,000
Increase in rental rates for Government quarters furnished to civilian employees to a level comparable with private housing	1,432,000
Revision of regulations to preclude payments to reserve officers, on annual active duty training, for days on which no training or necessary travel was performed	1,220,000
Issuance of instructions designed to preclude unnecessary storage of household goods	1,200,000
Correction of erroneous pay and allowance computations and records	1,165,000

PAYMENTS TO GOVERNMENT EMPLOYEES, VETERANS, AND OTHER INDIVIDUALS (continued)

Correction of deficiencies in administration of the extra-hazard provision of veterans' insurance law	$ 578,000
Termination or reduction of improper awards for Veterans Administration compensation and pension benefits	305,000
Reduction of unemployment compensation benefits to retired Federal employees and members of the Armed Forces	256,000
Revision of regulations to provide more definite guidelines and control over claims for shipment of professional books and other items	250,000
Reduction in cost of living allowance payments to servicemen by requiring the use of Government quarters and messing facilities where available	201,000
Reductions in future payments for retirement arising from correction of erroneous awards	180,000
Realignment of instruction operations and elimination of 27 positions	155,000
Other items	167,000

LOANS, CONTRIBUTIONS, AND GRANTS

Reduction in need for borrowing by the Government with consequent decrease in interest cost resulting from new procedures for advancing Federal grant funds to State and local Governments and other institutions as needed rather than in advance of need for grant funds	8,000,000
Amendments to two loan agreements providing for repayments with maintenance of value	4,000,000

LOANS, CONTRIBUTIONS, AND GRANTS (continued)

Reduction in the Government's share of the cost of slum clearance and urban renewal projects resulting from reduction or elimination of non-cash grant-in-aid credits to local public agencies	$ 1,802,000
Including amounts of court judgments against the Government in the costs of revenue-producing water resources development projects which are to be recovered from project beneficiaries	1,800,000
Reduction in Federal contribution to the cost of a State irrigation district resulting from a reallocation of project costs	1,500,000
Reduction in Federal grants for school construction resulting from revised criteria for determining eligibility for construction grants	1,250,000
Additional interest income resulting from adoption of improved procedures	1,100,000
Reduction in Government's share of the cost of the Federal-aid highway program resulting from adjustment for unauthorized costs of relocating private utilities	235,000
Elimination of United States participation in the cost of fencing a section of the Inter-American Highway in the Republic of Costa Rica	153,000

LEASING AND RENTAL COSTS

Savings in rental costs resulting from purchasing rather than renting automatic data processing equipment	6,402,000
Installation of a "computime" device which registers actual automatic data processing machine usage	36,000

ADMINISTRATIVE COSTS

Increase in fees collected from applicants for mortgage insurance to cover the cost of processing applications	$ 6,000,000

MUTUAL EDUCATION AND CULTURAL EXCHANGE PROGRAM

Reduction in appropriation requests for the fiscal year 1964 resulting from giving effect to unobligated reserve funds from prior years	2,600,000
Erroneous exchange rate used in allocating funds to Finland resulting in a reduction of funds by using the proper exchange rate	166,000

TRANSPORTATION

Strengthening of controls exercised by the Department of Defense over weights stated by motor carriers in billing the Government for household goods shipments	5,000,000
Prevention of unnecessary expenditures by using less than first-class air accommodations and increased use of American flag air carriers	2,400,000

OTHER ITEMS

Utilization of the Treasury Department's electronic data processing equipment for processing paid postal money orders	840,000
Additional revenues resulting from increasing the sales price of Federal timber by including the value of by-products in appraisals and by revising the method of computing the allowance for logging costs	595,000
Recovery of improper expenditures from an appropriation for the construction of a bridge	380,000

OTHER ITEMS (continued)

Discontinuing the purchase of hazard insurance on multifamily project properties acquired by the Government	$ 290,000
Timely cancellations of insurance on cotton upon its acquisition by the Government under the price support program	278,000
Estimated annual earnings from transfer of foreign currency from a non-interest bearing account to an interest bearing account	268,000
Miscellaneous other items	1,089,000
Total other measurable benefits	$294,323,000

ADDITIONAL FINANCIAL BENEFITS NOT FULLY OR READILY MEASURABLE

Many significant financial benefits of a recurring nature are attributable to the work of the General Accounting Office which are not fully or readily measurable in financial terms. These benefits also 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. A few examples of such actions identified during the fiscal year 1964 are described below.

Procurement of materials and supplies

In recent years, we have issued numerous reports on unnecessary costs incurred by the military departments through failure to purchase supplies competitively or through failure to purchase directly from the actual manufacturer repair parts customarily ordered through the supplier of equipment for which the repair parts were ordered. As a result of our reports and subsequent congressional hearings on them, the Department of Defense entered into various programs to increase competitive procurements. During the fiscal year 1964, the Department of Defense reported to the Congress that, as a result of these efforts, both the proportion and the volume of competitive procurement have increased significantly. Savings achieved through converting sole-source procurements to price competition in the fiscal year 1964 are estimated by the Department of Defense to be over $350 million, as follows:

Army	$120 million
Navy	135 "
Air Force	92 "
Defense Supply Agency	3 "
Total	$350 "

Procurement of automatic data processing equipment

A number of our reports in fiscal years 1963 and 1964 pointed out the financial advantages to the Federal Government of purchasing over leasing of automatic data processing equipment. The Department of Defense studied this matter and determined that equipment costing over $225 million could be purchased at an economic advantage to the Government. We were advised by the Department of

ADDITIONAL FINANCIAL BENEFITS
NOT FULLY OR READILY MEASURABLE (continued)

Defense that in the fiscal year 1964 actual purchases of the equipment which would otherwise have been leased amounted to about $179 million. Based upon an assumed useful life of 10 years for each machine, we estimate that the savings from this action for the fiscal years 1964 through 1975 will approximate $281.7 million, as follows:

Army	$ 99,132,000
Navy	55,414,000
Air Force	127,153,000
Total	$281,699,000

Use of foreign currencies

As a result of our proposal in a report to the Congress in October 1962, our Office worked with the Bureau of the Budget and the Treasury Department to develop suitable legislation which would permit the United States to use United States-owned foreign currencies reserved for specific purposes but not currently needed for those purposes, with the provision that the dollar equivalent would be available to replace them when needed for the purposes for which they were originally reserved.

The proposed legislation was subsequently enacted as section 508, P.L. 88-257, approved December 31, 1963. The Treasury Department and the Bureau of the Budget have estimated that this legislation would immediately make available $75 million of administratively reserved foreign currencies. Purchases of foreign currencies for other purposes will thus be substantially reduced and the outflow of dollars curtailed.

Deposit of loan collections in Treasury

Collections of principal and interest on loans made by the Development Loan Fund, now abolished, were improperly retained by the Agency for International Development. As the result of our review, the collections through May 1964 of $44,300,000 were transferred to the miscellaneous receipt account of the Treasury Department. It is estimated that the ultimate amount of such collections and transfers of funds will exceed $500 million.

ADDITIONAL FINANCIAL BENEFITS NOT FULLY OR READILY MEASURABLE (continued)

Consolidation and reconfiguration of Department of Defense communications circuits

In July 1961, pursuant to our recommendation in a report to the Congress in November 1959, the Secretary of Defense established a central office within the Defense Communications Agency to order and pay for all leased private line communications as the only DOD customer. As a result, instead of being charged for communication services at rates applicable to 25 customers, the Department, as one customer, receives the advantage of reduced rates applicable to larger customers. Estimated savings for fiscal year 1963, included in our annual report for 1963, were $20 million. Estimated savings for fiscal year 1964 and future years are about $50 million a year.

Improvement of employer social security reporting

The Social Security Administration (SSA) has estimated that more than 20 million employee earnings items are reported improperly each year by employers and that the administrative cost to SSA in identifying or in attempting to identify these items has been as much as $5.8 million in one fiscal year. As a result of our recommendation, SSA has taken action to reduce administrative costs and to improve the accuracy of earnings reports by implementing an educational program directed toward employers who report employee earnings improperly. This action should result in substantial annual savings.

Revision of urban renewal regulations

As a result of our recommendation, the Urban Renewal Administration (URA) revised its regulations regarding demolition of buildings in project areas. In addition, the regulations were revised to require that local agencies (1) justify the acquisition for demolition of all expensive and basically sound properties and (2) document all considerations given to proposals for retaining a maximum number of such properties. Although we are not able to estimate the financial effect of URA's revised procedures, the savings to the Federal Government should amount to millions of dollars since it pays two thirds, and sometimes three fourths, of the cost of acquiring and demolishing properties in urban renewal areas.

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