REPORT TO

THE CONGRESS OF THE UNITED STATES

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

FISCAL YEAR 1963

BY

THE COMPTROLLER GENERAL
OF THE UNITED STATES

FEBRUARY 1964

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

MAR 3 - 1964

B-138162

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

Herewith for the information of the Congress is the fifth annual compilation of General Accounting Office findings and recommendations for improving Government operations. This compilation relates for the most part to the fiscal year 1963. 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 discloses the actions taken by the departments and agencies as a result of our recommendations. The financial savings and benefits resulting from these actions cannot always be measured. However, measurable financial benefits identified during the fiscal year 1963, which were directly attributable to action taken or planned by the departments and agencies on our findings and recommendations, amounted to $218,380,000. In addition, collections of $29,167,000 were made during the fiscal year 1963 through the efforts of our Office. A summary of these financial benefits appears on page 150 of this report.

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

A copy of this report is being sent to the President of the United States.

Comptroller General
of the United States

Contents

DEPARTMENT OF DEFENSE
AND DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

DEPARTMENT OF DEFENSE
AND DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

DEPARTMENT OF DEFENSE
AND DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

DEPARTMENT OF DEFENSE
AND DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

DEPARTMENT OF DEFENSE
AND DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

CIVIL DEPARTMENTS AND AGENCIES

CIVIL DEPARTMENTS AND AGENCIES

CIVIL DEPARTMENTS AND AGENCIES

CIVIL DEPARTMENTS AND AGENCIES

CIVIL DEPARTMENTS AND AGENCIES

CIVIL DEPARTMENTS AND AGENCIES

CIVIL DEPARTMENTS AND AGENCIES

CIVIL DEPARTMENTS AND AGENCIES

CIVIL DEPARTMENTS AND AGENCIES

CIVIL DEPARTMENTS AND AGENCIES

GOVERNMENT-WIDE REVIEWS

COMPILATION OF
GENERAL ACCOUNTING OFFICE
FINDINGS AND RECOMMENDATIONS
FOR IMPROVING GOVERNMENT OPERATIONS
FISCAL YEAR 1963

DEPARTMENT OF DEFENSE
AND DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

REVIEW OF PROCEDURES FOR DETERMINING SUPPLY REQUIREMENTS

1. Action taken to delete from the supply system electric lamps of types readily available from local commercial sources--The military departments were managing over 1,000 types of electric lamps that were readily available to using activities at local commercial outlets, generally at the same prices, and could be bought locally as needed rather than be bought centrally and stocked in large quantities for future use. We concluded that, if the procurement of such lamps were decentralized, substantial savings in supply management costs and significant reductions in supply inventories would result. We proposed to the Secretary of Defense that existing inventories of electric lamps be reviewed to delete readily available commercial items from the supply system and that specific criteria be developed and procedures be established for monitoring the entry of new items into the supply system. In reply, the Assistant Secretary of Defense (Installations and Logistics) advised us by letter dated November 20, 1962, that each of the military departments was making studies with the objective of buying electric lamps locally where possible. Our recent inquiries into the progress made by the military departments indicate that the actions taken by the military departments, when fully effective, should result in a reduction in supply management costs of about $2.2 million annually and in a reduction of supply inventories of about $9.4 million.

2. Action taken by the Army to make more reliable determinations of its needs for generators--The Army was planning to buy, at a cost of about $6.3 million, 1,365 unneeded generator sets as a result of failure (1) to provide for the continued use of acceptable substitute generators on hand, (2) to consider a reduction in need because of the conversion to commercial power sources, (3) to use the actual rather than the estimated wear-out rates in

determining need to procure replacements, and (4) to utilize generators available in the Navy. We brought our findings to the attention of Army officials and they canceled $4.8 million of the planned procurement. Procurement of an additional 316 generators, worth about $1.5 million, could have been avoided if disposition had not already been made of a like quantity of acceptable substitute generators.

We recommended that the Secretary of Defense take steps to assure himself that his policies for utilization of substitute items are effectively applied in determining need for new procurement. In reply, the Assistant Secretary of Defense (Installations and Logistics) informed us on May 1, 1963, that the Army Materiel Command had appointed a Generator Project Manager, with responsibility for managing all generators within the Army, and had taken other steps to improve reliability of determinations of its needs for generators.

3. Action taken by the Navy to reduce supply requirements for magnetos and distributors--The Navy followed the practice of permitting magnetos and distributors for reciprocating aircraft engines to remain attached to uninstalled engines. Had the magnetos and distributors been removed from the uninstalled engines, except those needed for quick change purposes, the requirements for them would have been reduced and unnecessary procurement totaling about $761,000 could have been avoided. The Navy agreed with us that savings could be achieved by removal and use of magnetos and distributors installed in spare engines and advised us on April 19, 1963, that a program to accomplish this had been put into effect.

4. Action to be taken to reduce supply requirements for mobilization purposes--The Navy purchased for mobilization purposes, a reserve stock of commercial-type vehicles despite the fact that the manufacturers of the vehicles had sufficient productive capacity to meet most of the mobilization requirements within the time period prescribed by the Navy. The Navy had 1,959 of such vehicles, valued at about $6.8 million, in its reserve stock at December 31, 1961. The estimated annual cost of maintenance and interest on the Government's investment to keep the reserve stock at that level was about $550,000. After we advised the Navy of our findings, representatives of the Department of Defense met with representatives of the automotive industry to explore the feasibility of entering into

firm agreements to assure timely delivery of vehicles in the event of mobilization. We were advised that the Navy had been assured by industry that 52 percent of the total vehicle requirements for mobilization purposes could be furnished within the required time period. As a result, the Navy released vehicles valued at $2.7 million from its reserve stock to operational use and continued its studies to determine whether further reductions in the reserve stock could be made.

We recommended that the Department of Defense inquire into mobilization reserves of other commercial-type items to determine whether adequate consideration had been given to industry's ability to meet the mobilization requirements for such items. On April 6, 1963, we were informed by the Assistant Secretary of Defense (Installations and Logistics) that such an inquiry had been undertaken.

5. Army regulations to be revised to preclude premature replacement of older models of supplies--The Army, on the basis of a general modernization program, planned to dispose of its unused or economically repairable stocks of 10-ton crane shovels and 25-horsepower outboard motors and to replace them with current models which offered no material technological improvements over the existing stocks. The Army had disposed of 25 of the crane shovels, in unused or economically repairable condition, costing about $541,200, while planning to spend about $12 million over the period 1965 through 1967 to replace them and others in the supply system with crane shovels of similar capacity. The Army also disposed of about $350,000 worth of repair parts for the crane shovels. An additional $146,000 worth of repair parts was recovered from various disposal stages as a result of our pointing out a continuing need for the parts. With respect to the outboard motors, the Army had spent $575,000 and was planning to spend an additional $321,000 to replace existing stocks of unused outboard motors. We proposed that the Secretary of the Army require (1) that determinations be made as to whether technological improvements warrant prompt replacement of items on hand and (2) that, when it is determined that the technological improvements are not sufficient to warrant prompt replacement, appropriate provision be made for utilization of the supplies in the system before planning for longer-range major replacements. The Assistant Secretary of the Army (Installations and Logistics) advised us that our proposals would be incorporated in a

revision of Army regulations and that, pending such revision, disposal of the crane shovels and outboard motors had been discontinued.

6. Requirements for equipment could be reduced and savings realized by establishment of consolidated construction equipment pools--According to the standards established for the use of construction equipment, the eight nontactical military units in Okinawa had about $725,000 worth of such equipment that was excess to their needs on a consolidated basis. Despite the excesses, the military services were ordering for these units additional equipment of identical types. Prior to the issuance of our report, we brought our findings to the attention of the Department of Defense and proposed to the Department that a consolidated construction equipment pool be established in Okinawa and in other geographical areas where similar military units are in close proximity and such consolidation would be feasible and economical. We proposed also that (1) the orders for additional equipment for nontactical use in Okinawa be reviewed and be canceled in all cases where existing stocks exceed needs on a consolidated pool basis and (2) the excess equipment in the hands of nontactical units be used to meet tactical requirements for such equipment. The Department of Defense commented that it was in general agreement with us on the desirability of pooling such equipment but pointed out that, because of climatic and other reasons, the situation on Okinawa was unique and was being studied. We inquired into the study and found that no provision had been made in the study for determining the savings in operating and maintenance costs that would in all liklihood result from the establishment of a consolidated pool. Therefore, we recommended that the scope of the study be broadened to include appropriate consideration of this matter.

REVIEW OF PROCUREMENT PRACTICES

7. Progress toward increasing competitive procurement--We submitted to the Congress, in a prior year, a report on our findings that the military departments purchased aeronautical replacement spare parts without competition under circumstances where competition could have been obtained. We pointed out that this not only gave rise to higher prices but ignored or circumvented a general policy of the Congress that all qualified suppliers have an equal opportunity to compete for the Government's business. The Assistant Secretary of Defense (Installations and Logistics), in commenting on our findings and proposals for corrective action, stated that failure of the military departments to obtain the maximum practicable measure of competition in procurement was of major concern to the Department of Defense. He cited various programs of the Department of Defense to increase competitive procurement.

During the fiscal year 1963 we made follow-up reviews in the Air Force and the Army for the purpose of examining into the progress made in the efforts of the military departments to increase competitive procurement of aeronautical replacement spare parts. We found that since our earlier review, both the Air Force and the Army had made considerable progress. The Air Force realized savings of about $41.8 million in fiscal year 1962 which appeared to be attributable in large part to increased competitive procurement. Similarly, the Army increased its competitive procurement from 3.8 percent noted in our earlier review to 17.6 percent during the last half of fiscal year 1962. We found, however, that more progress was needed in improving technical data files and in making greater use of engineering data in solicitation of competitive price proposals.

The Secretary of Defense expressed his views on the current and potential savings, through increased competitive procurement, in hearings held in February 1963 on the Department of Defense appropriations for fiscal year 1964. In testimony before the Subcommittee on the Department of Defense, House Committee on Appropriations, the Secretary stated that, based on the experience of the Department of Defense and the studies of the General Accounting Office, price reductions on the order of 25 percent were anticipated upon transfer of items to competitive procurement. He estimated that progress to date had saved about $190 million a year and that the annual rate of savings should reach $289 million by the end of fiscal year 1963 and $494 million by the end of fiscal year 1965.

He stated also that detailed records would be kept of the savings achieved by shifting from noncompetitive to competitive procurements and that reports of such savings would be made to the Congress.

8. Armed Services Procurement Regulation to be revised to protect rights to technical data developed at Government expense--The Government gradually lost its capability to use technical data necessary for competitive procurement of replacement spare parts for military gas turbine engines developed and produced by a contractor at Government expense. Under research and development contracts totaling hundreds of millions of dollars the Government acquired a massive amount of technical data together with the unrestricted right to use the data for any governmental purpose, including reprocurement. However, the Navy, in entering into and administering follow-on production contracts, failed to acquire unlimited rights to use current data which gradually replaced the unrestricted data. As a result, the Government lost its capability to solicit competition and the contractor was established as a virtual sole-source supplier of replacement spare parts for the engines used by more than 50 percent of the entire tactical and strategic air arms of the Armed Forces.

We proposed to the Secretary of Defense that he take appropriate action to assure that future production contracts for military hardware contain a suitable provision whereby technical data relating to changes and improvements to military hardware developed and produced under Government contracts will be furnished without limitation as to use. On February 28, 1963, the Deputy Assistant Secretary of Defense for Procurement informed us that the Armed Services Procurement Regulation was being revised to include "definitive guidance designed to deal with this matter."

9. Savings to result from more economical packaging of surgical dressings--The Defense Medical Supply Center (formerly Military Medical Supply Agency), in its procurements of surgical dressings, specified that they be packed for export even though large quantities of such supplies were destined for use within the continental United States and could have been procured at lower cost if packed for domestic use. We brought this matter to the attention of officials of the Defense Medical Supply Center and they revised their

procedures to require that domestic packaging be specified in procurements of supplies destined for domestic use. This action should result in annual savings of about $22,000.

10. Need for the Navy to assure itself that procurement practices are consistent with instructions--Instructions issued by the Chief of Naval Operations provided in pertinent part that, prior to initiating development of prototype radar equipment, the assignment of specific frequencies should be coordinated with the Director of Naval Communications to permit determination of a suitable frequency for the equipment. The Bureau of Aeronautics (now Bureau of Naval Weapons) did not follow these instructions in its procurement of AN/APS-82 radar. The radar was built to operate in an overcrowded frequency band, specified by the Bureau without obtaining approval for use of the band from the Director of Naval Communications. As a consequence, the Government subsequently incurred unnecessary costs of $367,000 to change the frequency band. The unnecessary costs incurred were directly attributable to failure to follow existing written instructions. Accordingly, we recommended that the Secretary of the Navy direct that, concurrently with the issuance of all instructions, Navy organizations establish the management controls and check points necessary to provide assurance that the instructions will be properly carried out.

11. Need for the Navy to reconsider its requirement that aircraft engine bearings be procured through the engine manufacturer--The Navy incurred additional costs of about $408,000 because it purchased certain aircraft engine bearings from the aircraft engine manufacturer on a noncompetitive basis rather than competitively from the producers of the bearings. The Air Force, which is responsible for the procurement of such bearings, had advised the Navy that the bearings could be bought for about one third less if purchased competitively. However, the Navy insisted on the purchase being made from the engine manufacturer in order to obtain the quality assurance services of the engine manufacturer. The Air Force had found that its own inspections of bearings at the bearing producers' plants were more extensive and thorough than those performed under the engine manufacturer's quality assurance program. Accordingly, there seemed to be no reason to believe that satisfactory bearings could not have been obtained at a lower price through competitive procurement methods.

We recommended that the Secretary of Defense direct that an evaluation and comparision be made of the inspection and quality

assurance procedures of the engine manufacturer and the Air Force to determine whether there is any need to obtain the engine manufacturer's services. On April 3, 1963, the Assistant Secretary of Defense (Installations and Logistics) commented on our findings and advised us that a review was being made of the quality control functions performed by Government and contractor personnel, in the plants of the producers of aircraft engines and the producers of bearings for the engine, and that we would be advised of the results of the review.

12. Savings could be realized if milk for the Guantanamo Naval Station were bought in bulk lots--The Naval Supply Center, Norfolk, Virginia, was purchasing milk in half-pint containers for general messes serviced by the Guantanamo Naval Station. Simultaneously, it was purchasing milk in bulk lots, at considerably lower prices, for use at other naval installations. We estimated that, if the Naval Supply Center purchased milk in bulk lots for the Guantanamo Naval Station, the Government could realize annual savings of about $130,000 after an initial expenditure of about $4,800 for milk dispensers. The Navy informed us that it was taking steps to obtain a bulk-shipment container suitable to withstand the rigors of ocean shipment and to develop a successful method of thawing, without spoilage, milk frozen in bulk containers. The Navy stated that, if these problems are successfully resolved, action would be taken to supply milk in bulk lots to the Guantanamo Naval Station and to other overseas areas.

REVIEW OF USE AND DISPOSAL OF SUPPLIES

13. Procedures strengthened to achieve fuller interservice and intraservice utilization of existing supplies in lieu of new procurement--Excess and surplus stocks generated by individual military departments were not adequately considered and used by other military departments which had need for such stocks. Military departments in short supply were buying material while the military departments in long supply were selling or otherwise disposing of their excess stocks of the same items. These deficiencies occurred primarily because the military departments failed to screen, or screened inadequately, the listings of available excess and surplus property for the purpose of identifying needed property, because the military departments failed to recognize listed items of excess and surplus property which were acceptable substitutes for the needed property and because the physical condition of excess property was incorrectly reported. We estimated that in the fiscal year 1961 as much as $65 million worth of excess and surplus property, over and above the $150 million worth claimed for use by the military departments, could have been and should have been claimed by them. Prior to issuance of our report on these findings, the Assistant Secretary of Defense (Installations and Logistics) commented on our findings and proposals for corrective measures and advised us of a specific program to be undertaken by the Department of Defense to improve the excess property utilization procedures. On November 5, 1962, the Assistant Secretary reported to us on the progress of that program. He stated that procedures had been established to provide (1) a mechanized screening of supply requirements against available stocks in long supply and stocks declared excess, (2) a more effective means for identification and use of available stocks which are interchangeable with, or acceptable substitutes for, required supplies, (3) a more realistic description of the physical condition of stocks declared excess, and (4) a closer coordination among the military services in the supply management of aircraft engines. He stated, in conclusion, that the Secretary of Defense recognized material utilization as one of the most fruitful areas for conserving procurement expenditures and that the Department had established a goal for interservice and intraservice utilization of long-supply inventory and excess property, in lieu of new procurement, in the amount of $2,381 million for fiscal year 1963.

REVIEW OF USE AND DISPOSAL OF SUPPLIES (continued)

14. Central agency established to provide coordinated and more economical management of idle production equipment--Idle production equipment consists of machine tools and related items held by the military departments in general reserve or in place in standby production lines. We submitted to the Congress, in a prior year, a report on our review of the management of such equipment. We had found that each of the military departments independently managed the production equipment it had acquired and that there was inadequate coordination among the military departments to preclude procurement of new equipment by one department when suitable and available idle equipment was on hand in the other departments. One of the contributing factors was the use of different identification numbering systems for common-use items which interfered with the interservice exchange of information on and use of available equipment. We found also that unnecessary costs were incurred because there were four independent organizations, and many supporting activities, which performed the same or similar management functions. Consolidation of the management functions could be expected to bring about significant reductions in administrative costs which then exceeded $3 million annually. Therefore, we proposed, in addition to certain interim corrective measures which the Department of Defense adopted, that the Secretary of Defense consider centralizing, under his direction and control, the management of production equipment.

The Assistant Secretary of Defense (Installations and Logistics) informed us on February 21, 1961, that a departmentwide study of the management of production equipment would be undertaken with special consideration of centralized management. Following completion of the study, the Secretary of Defense directed the Defense Supply Agency to develop a plan for establishment of an organization to provide centralized management of production equipment. Such a plan was developed and in March 1963 the Secretary of Defense approved the establishment of the Industrial Equipment Utilization Center within the Defense Supply Agency. It is expected that the Center will be fully operational by July 1964.

REVIEW OF USE AND DISPOSAL OF SUPPLIES (continued)

15. Action taken by the Air Force to assure more economical use of aircraft spark plugs--Users of aircraft spark plugs in the Air Force did not obtain the minimum desired service life from platinum electrode spark plugs. Relatively unused spark plugs were returned to the supply system for reclamation or disposal as scrap. Our review of three major types of platinum electrode spark plugs showed that if spark plugs removed from aircraft engines had been tested and reconditioned, rather than disposed of without consideration of further use, fiscal year 1963 requirements for these plugs could have been reduced by $4.6 million. At the time we brought this matter to the attention of the Air Force, $3.6 million worth of spark plugs had already been procured against the overstated requirement. Thereafter the Air Force took action to defer indefinitely the procurement of the remaining $1 million worth of the spark plugs. We found also that the Air Force used for certain test purposes new platinum electrode spark plugs, costing as much as $4 each, although there were on hand surplus stocks of less expensive, massive electrode spark plugs, costing about $1.25 each, which could have been used for the test purposes. Prior to completion of our review, the Air Force prescribed more widespread use of surplus stocks of massive electrode spark plugs for test purposes in lieu of the more expensive platinum electrode spark plugs. This action should result in savings of about $4.6 million in the 3-year period the Air Force estimated as the time required to consume the surplus stocks.

Because the uneconomical practices we found in the Air Force could also exist in the Army and Navy, we recommended that the Secretary of Defense direct a review of their practices in the use and disposal of spark plugs and advise us of the results of the review. In reply, the Assistant Secretary of Defense (Installations and Logistics) informed us on May 21, 1963, that such a review had been started.

16. Procedures strengthened by the Air Force to achieve more economical use of aircraft engines in ground training programs--The Air Training Command conducts ground training programs (courses for jet engine and jet aircraft mechanics) of the Air Force which require the use of jet engines. We found that in some instances the Command used engines of the type that were needed and were being procured for Air Force operations even though older types of

engines were in long supply and were suitable for training purposes. We also found instances where the Command failed to release engines no longer needed for training purposes. After we brought these conditions to the attention of appropriate officials, the Air Force (1) withdrew 15 engines from the Command and replaced them with engines of an older series that were suitable for training purposes, (2) withdrew 11 other engines without replacement, and (3) canceled 2 engines scheduled for delivery to the Command. As the result of these actions, the Air Force was able to reduce its planned procurement of new engines at an estimated net saving of $4.3 million.

The Office of the Assistant Secretary of the Air Force (Materiel) informed us that, as a result of our review, the Air Force had established a system for quarterly reports of engine requirements and had set up procedures for the exchange of supply status information between the Air Training Command and the Air Force Logistics Command. We were further informed that these actions, together with other changes in the Air Force management programs, should result in significant improvement in engine management.

17. Procedures strengthened to assure more equitable prices for sales of scrap--Military bases failed to identify and segregate from the less valuable scrap metals the high-temperature alloy scrap generated by them in their operations. Such scrap was generally commingled with and sold as "stainless steel" or "mixed metals" scrap at a fraction of its potential market value. Although we were not able to estimate on an over-all basis the monetary loss to the Government, the frequency with which we encountered deficiencies in identification, segregation, and disposal of scrap led to our conclusion that the loss was substantial. In commenting on our findings, the Assistant Secretary of Defense (Installations and Logistics) stated that since our review, significant actions had been taken by the Department of Defense to improve the administration, procedures, and operating practices in this area, and he cited seven such measures.

18. Need for the Navy to provide procedures for identifying excess spare parts and assemblies usable in production of aircraft--The Navy had about $2.3 million worth of excess spare parts and assemblies for F8U-type aircraft which could have been transferred

to a contractor as Government-furnished material for use in production of new aircraft of the same type. The Navy had no established procedures for identifying such excesses and arranging for their transfer and use. We found that about $2 million worth of the excess spare parts and assemblies could have been used in aircraft production during the fiscal years 1960, 1961, and 1962. After we brought this matter to its attention, the Navy transferred $893,000 worth of the excesses for use in production of aircraft ordered in fiscal year 1962 and planned to transfer about $789,000 worth for use in production of aircraft ordered in fiscal year 1963. The Navy stated also that instructions were being promulgated that would, in effect, provide a permanent program for identifying such excesses and using them in future aircraft production.

REVIEW OF STORAGE FACILITIES AND PRACTICES

19. Need for reconsideration of policies and procedures relating to purchase or lease of storage facilities--The Defense Petroleum Supply Center negotiated for the Air Force eight contracts for petroleum storage in commercial (contractor owned and operated) facilities. The costs the Government will incur under these contracts will be about $10.3 million higher than if similar Government facilities had been acquired. The increased costs will amount to almost one third of the Government's total expenditures for the fixed period of the contracts and the Government will not have title to the facilities unless an additional $9 million is paid. We found no evidence that the Air Force had compared the costs of commercial facilities with the costs of Government facilities before decisions were made to contract for commercial facilities. Had such comparisons been made, they should have disclosed that disproportionately higher costs would be incurred for storage in commercial facilities.

We recommended to the Secretary of Defense that the military departments be required to give appropriate consideration to the cost of Government ownership of needed storage facilities compared with commercial ownership of such facilities before decisions are made to acquire or lease such facilities. We also recommended to the Secretary of Defense that military departments requesting procurement of new commercial petroleum facilities be required to furnish comparative estimates for Government facilities to the Defense Petroleum Supply Center so that the latter can ascertain before contract prices are negotiated that costs for commercial facilities will in fact be lower than the estimates for Government facilities. Further, we recommended that the Secretary of Defense and the Director, Bureau of the Budget, amend existing policy regulations so that cost justifications will be required before decisions are made to contract for products or services requiring construction of either commercial or Government facilities. The Assistant Secretary of Defense (Installations and Logistics) advised us on April 30, 1963, that the Department of Defense agreed with our recommendations.

20. Need for coordination to achieve fuller utilization of storage space available in the Government--The Government incurred unnecessary costs of about $300,000 to recondition M35 trucks as a result of their having been stored by the Army in the open for

about three years despite the availability of covered warehouse space at a nearby Naval supply depot. The Army had failed to implement the policy of the Department of Defense to utilize to the maximum extent possible available covered storage space in the Department of Defense as well as in civilian agencies of the Government. Accordingly, we recommended to the Secretary of Defense that installations confronted with major storage problems be required to coordinate their needs with a central activity within the Department of Defense possessing current and accurate information on available covered storage space in the Government. The Assistant Secretary of Defense (Installations and Logistics) advised us on June 13, 1963, that the Department of Defense agreed with our recommendation and stated that the Directorate of Transportation and Warehousing Policy in his office would provide the necessary coordination for the utilization of warehouse space between and among military services as well as between military services and Federal civilian agencies.

21. Need for the Army to strengthen control over deteriorable supplies--The Government incurred unnecessary cost of about $5 million to rebuild unused deteriorated tracks for tanks and other combat vehicles because the Army allowed these tracks to deteriorate in storage. The deterioration of the rubber tracks was caused by failure to (1) issue oldest tracks first, (2) furnish tracks to contractors for use in production of new vehicles, and (3) protect the tracks by storing them inside.

We recommended that the Secretary of the Army require the Army Materiel Command to review supply items which are subject to deterioration and take the necessary actions to provide (1) that they are protected to the maximum extent practicable from the elements causing deterioration and (2) that the oldest stocks are issued before the more recently procured stocks. Where improvements have been made to the item, consideration should be given to making appropriate modifications to the stock in storage so that this stock can be issued before it deteriorates and before large quantities of the new version are procured. In addition, consideration should be given to issuing older stocks as Government-furnished property on new end items being procured.

REVIEW OF STOCK CONTROLS

22. Procedures strengthened to preclude loss of control over stock during realignment of supply management responsibilities in the Air Force--Between 1958 and 1962 management responsibilities for more than 250,000 items in the Air Force supply system were transferred among various item managers and installations in the Air Force Logistics Command. This realignment was made necessary by the conversion from the Air Force system of classifying commodities and assigning stock numbers to the Federal Catalog System prescribed for all military departments. The realignment required close coordination among the organizations involved and close supervision of the activities of those organizations by the Air Force Logistics Command to assure an orderly transition. However, the coordination was inadequate and the supervision was ineffective. We found that the Air Force lost management control of about $9.7 million worth of supplies during the period of transition. About $7.2 million worth of the material was found by the Air Force, after it had been lost for various periods, and restored to management control prior to our review. About $2.5 million worth was found by us and restored after we brought the matter to the attention of the Air Force. The Air Force agreed with our conclusion that the Logistics Command had not supervised the actions of its organizations sufficiently during the realignment of management and advised us that pertinent Air Force manuals have been revised to provide more specific instructions to insure orderly and efficient transfers of management responsibilities in the future. The Air Force stated further that compliance with the revised instructions would be assured through surveillance visits by Headquarters personnel and through investigations by the Air Force Logistics Command Inspector General.

23. Need for the Army to strengthen controls over spare parts procured to meet temporary requirements--The Army procured 301 spare transponders (basic component of the NIKE-HERCULES missile airborne guidance system) of a type that, in the event of need for maintenance to correct a malfunction, required removal and replacement of only those of its components (modules) in which the malfunction occurred. At the time of the procurement of spare transponders, spare modules had been procured, but the equipment for field testing and identifying malfunctioning modules was being modified and was not yet available. Factors considered by the Army in the procurement of complete transponders as spares were the lack of testing equipment, uncertainty of user capability to effect repair,

and the possibility that complete transponders would be needed in emergency situations. But the Army failed to recognize, and to indicate in its stock records, that many of the spare transponders procured represented a temporary requirement.

Modification of the test equipment was completed in January 1961 and reduced substantially the need for complete spare transponders. We estimated that of the 301 transponders procured only about 169 were needed after that date and that at least 132 were excess. The Army's stock records and supply control studies failed to disclose this fact. Had the Army been aware of the excess, the 132 transponders could have been transferred to the missile contractor for use in production and costs to the Government could have been reduced by about $1.4 million.

After we brought this matter to its attention, the Army took action and as of February 1963 had diverted, or was planning to divert, 124 of the excess transponders to missile production. This should result in a reduction of about $1.3 in the cost of the missiles.

We recommended to the Secretary of the Army that, for those cases involving the procurement and supply management of spare parts to satisfy needs that are temporary, procedures be established to provide specific identification of the unusual aspects of the need and availability of the spare parts to fill other requirements after the particular need has ceased.

24. Need for the Army to strengthen controls over repairable spare parts--The Army procured excess quantities of three repairable types of spare components for the NIKE-HERCULES missile airborne guidance set in an amount of about $800,000 and was planning to procure additional quantities of the same components amounting to over $1.9 million. This occurred because the Army lacked effective controls over repairable spare parts. Although Army regulations required that such parts be returned to repair units promptly when they became unserviceable, the Army had no effective method for assuring that this was done. As a result, although a substantial number of unserviceable but repairable components were being generated, only a small fraction were being returned for repair and reissue, thus needlessly increasing procurement requirements.

REVIEW OF STOCK CONTROLS (continued)

Similarly, users were requisitioning and maintaining stock quantities in excess of justifiable needs, which were being reported as issues to replace unserviceable components. Such transactions both understated assets and overstated usage, each of which further inflated future procurement needs. Here again, although Army regulations prohibited this practice, we found no effective controls established for preventing it.

We recommended that the Army (1) take immediate action to recover from using organizations all unserviceable components and those serviceable components which were in excess of their needs, (2) strengthen its controls over the supply operations of expensive repairable items, and (3) use more realistic data in computing supply requirements. On December 3, 1962, the Acting Assistant Secretary of the Army (Installations and Logistics) stated that the Army had in process certain management improvement actions which in his opinion were generally in line with the intent of our recommendations.

REVIEW OF STOCK FUNDS

25. Action taken to make stock fund supplies more readily available to consumers--Under authority contained in the National Security Act of 1947, as amended, the military departments have established "stock funds" to finance and control inventories of specified categories of material. The using organizations of the military departments purchase this material from the stock funds and reimburse the stock funds from appropriated fund allotments known as "consumer funds." The reimbursements provide funds for replenishment of stock fund inventories. One of the objectives of requiring reimbursement is to effect a control against wasteful use of material by providing consumers with stronger incentives for economy than would be the case if the material were issued to them without charge.

We found that the preparedness of combat troop units in the United States and in overseas areas and the preparedness of individual Navy combat and service ships of the Atlantic and Pacific Fleets was seriously affected by the requirement that they reimburse the stock funds for material issued to them. We found that they were unable to obtain repair parts and other material required for combat readiness even though such material was available in the stock fund inventories. The immediate cause for this was the insufficiency of consumer funds at the level of the troops or ships to purchase from the stock funds the required material. The inability to obtain the required material significantly contributed to or was directly responsible for combat vehicles and other equipment being in unserviceable condition, training of troops being seriously curtailed, and ships being operated without certain essential material on board that would be needed in an emergency. In some instances the military activities resorted to uneconomical practices either to assure that their consumer funds were obligated before expiration of the fiscal period for which they were provided or, conversely, to conserve or augment their funds, when it appeared that the amounts provided them were inadequate by returning for credit material previously requisitioned unnecessarily.

We proposed that the Secretary of Defense have the military departments discontinue the use of consumer funds for repair parts and other combat material at the combat and combat-support levels. The Department of Defense acknowledged that the matters identified in our review indicated areas for review and improvement of stock

fund and consumer fund operations and stated that the Secretary of Defense had established a project for the purpose of studying and taking appropriate action in these areas. On March 30, 1963, the Deputy Secretary of Defense advised us of the decisions reached and actions taken as a result of the studies. With respect to our proposal for discontinuance of consumer funds for repair parts and other combat material at the combat and combat-support levels, the Department of Defense decided that such method of funding be continued in the interest of over-all program management objectives. The Department agreed, however, to provide combat and combat-support levels with better guidance and more flexibility in the use of consumer funds. The Department decided also to revise its criteria for inclusion of items in the stock funds. Under the revised criteria, certain high-value items will be transferred out of the stock funds and will be issued to using organizations without charge to their consumer funds.

REVIEW OF PROCEDURES FOR ASSIGNMENT OF STOCK NUMBERS UNDER THE FEDERAL CATALOG SYSTEM

26. Need for strengthening of cataloging procedures--In 1952 the Congress directed the Secretary of Defense to develop a single cataloging system for the military departments, requiring that only one distinctive combination of numerals be used to identify the same item of supply throughout the Department of Defense. Prior to that time each of the military departments had its own methods of identifying, classifying, and numbering the items entering its supply system.

We found weaknesses in the cataloging procedures. The procedures (1) frequently permitted the assignment of two or more stock numbers to identical supply items, (2) failed to provide cross-references as a means of identifying interchangeable or substitutable supply items, (3) permitted cataloging of supply items not recurrently used that should not have been cataloged, and (4) permitted retention in the catalog system of stock numbers for hundreds of thousands of inactive supply items. These deficiencies reduced the effectiveness of utilization of supplies, caused unnecessary purchases of supplies, and increased administrative costs of supply management. We brought our findings to the attention of the Secretary of Defense and were advised by the Deputy Assistant Secretary of Defense (Supplies and Services) of measures which would be taken to correct these deficiencies. The Deputy Assistant Secretary stated that the Defense Supply Agency would (1) develop more specific criteria for application by the military services in requesting assignment of new stock numbers, (2) review the adequacy of existing procedures for assuring that cataloged items are appropriately described or identified, (3) conduct a study to determine the best means of centralizing all known data relating to interchangeability or substitutability of stock items, and (4) reappraise the necessity for retaining inactive stock numbers for which there is no stock on hand. The proper implementation of these measures should serve to improve the Federal catalog system.

REVIEW OF CONTRACTING POLICIES AND PRACTICES

27. Legislation enacted to strengthen contracting procedures--During the fiscal years 1957 through 1963, we reported to the Congress findings of excessive prices totaling over $74 million under contracts negotiated by the military departments. About $49 million of this amount had been recovered through June 30, 1963. In addition to obtaining price adjustments, the departments have made certain improvements in the negotiation and administration of contracts with regard to the deficiencies disclosed by our reviews. Despite these actions, our reviews continued to disclose instances of excessive negotiated prices.

To further strengthen contracting procedures, the Congress passed legislation, approved September 10, 1962, (Public Law 87-653), which amended the Armed Services Procurement Act of 1947. This legislation was based in large part on our findings and recommendations and we assisted the House and Senate Armed Services Committees in developing this legislation prior to its enactment. As stated by the chairman of the House Armed Services Committee, Public Law 87-653 does four important things: it requires more purchasing by formal advertised bidding; it requires clearer written justification when certain negotiating authority is used; it will require and produce more competition in negotiated purchasing; and it will safeguard the Government against inflated cost estimates on negotiated cost contracts.

28. Policy clarified on requesting voluntary price adjustments from contractors--Many of our findings that excessive prices had been negotiated and related recommendations that the military departments obtain appropriate adjustment of the prices are based on the inequities of the particular situation rather than on a legal basis to be found in the contract or in the law. The military departments did not have a uniform policy with respect to such cases. On December 12, 1962, the Assistant Secretary of Defense (Installations and Logistics) issued a policy statement to the military departments and the Defense Supply Agency which provides uniform criteria for their guidance in requesting voluntary price adjustments from Defense contractors in cases that do not involve legally enforceable claims. The policy statement provides, among other things, that (1) the decision to seek adjustment be made at a sufficiently high level of the military department or the Defense Supply Agency, (2) when the equitable position is sound, the case be pursued vigorously, (3) care be taken to avoid jeopardizing

effectiveness of legal remedies, and (4) where a recommendation of the General Accounting Office to seek an adjustment is not complied with, the decision be justified.

29. Policy clarified on allowability of costs incurred by contractors for relocation of short-term employees--In a review conducted at 28 plants of 21 major aerospace contractors of the Department of Defense and the National Aeronautics and Space Administration, we found that during a recent 12-month period, over 1,400 newly-hired individuals who had been relocated, largely at the expense of the Government, voluntarily terminated employment or were discharged for improper conduct before they had completed a year's service. Only a small portion of the $892,000 incurred in relocating these short-term employees was recovered by the contractors. Some of these individuals were shifting between Government contractors at their own discretion and receiving Relocating allowances for each move.

We proposed, and the Department of Defense and the National Aeronautics and Space Administration agreed, that a review of the adequacy of existing policy guidance was in order. The Department of Defense stated further that the Armed Services Procurement Regulation Committee, in cooperation with the National Aeronautics and Space Administration, had commenced a study to review this matter and, in particular, to consider a length-of-service requirement as a condition to the allowability of relocation costs incident to recruitment. We recommended that in connection with this study consideration also be given to prohibiting reimbursement to contractors for relocation costs of employees who previously were employed by other defense contractors, unless the employees met the agreed length-of service requirement or refunded any relocation costs previously paid.

Following the study, the Department of Defense revised the Armed Services Procurement Regulation. The revision, dated November 15, 1963, includes a provision that, where relocation costs incurred incident to recruitment of a new employee have been allowed either as an allowable direct or indirect cost and the newly hired employee resigns for reasons within his control within 12 months after hire, the contractor shall be required to refund or credit such relocation costs to the Government.

REVIEW OF ADMINISTRATION OF CONTRACT TERMS AND CONDITIONS

30. Need for protection of Government's rights in settlements under contract disputes clauses - -Because of an unreasonable decision by the Armed Services Board of Contract Appeals, the rental paid by a contractor for 9 years' commercial use of Government-owned facilities was understated by about $2.6 million. The ruling handed down by the Board allowed the contractor to compute rental due the Government on the basis that the full annual charge specified by the contract terms would be due only if continuous use were made of all the facilities 24 hours a day, every day of the year. According to experts in the field, as well as the contractor's own production planning records and major management decisions, such extreme use was neither expected nor possible. Furthermore, the record before the Board contained no evidence that the annual contract rental could be, or was intended to be, so applied. Had the rental been computed on the basis of the maximum practicable working time of the facilities, as determined by the contractor's own production planning records or by industry practice, the rental would have been more nearly comparable to the normal cost for the use of such facilities.

In response to our proposal that the contracting parties negotiate a more equitable rental, we were informed that the final settlement agreement executed by the contracting parties, pursuant to the decision of the Board, released the contractor from all further claims by the Government.

To prevent recurrence of this situation, on April 30, 1963, we directed all executive agencies of the Government to include, in any release or other contractual instruments entered into as a result of a decision under a contract disputes clause, a provision to the effect that the instrument is not binding on the Government if the decision under the disputes clause is later found to be in violation of the standards set forth in the Wunderlich Act (41 U.S.C. 321). This act provides standards that decisions on questions of fact under disputes clauses must meet if they are to be final and conclusive; that is, such decisions must not be capricious or arbitrary or so grossly erroneous as necessarily to imply bad faith and must be supported by substantial evidence.

In commenting on our directive, the General Counsel of the Department of Defense informed us that in his opinion the Wunderlich Act was self executing and that it was not necessary to amend either the form of the finding of the Armed Services Board of Contract Appeals or the form of settlement in order to give effect to the law. Our review of the comments of the General Counsel in support of his opinion disclosed no basis for a change in our position. Accordingly, we advised the Secretary of Defense on September 9, 1963, that our directive of April 30, 1963, would not be abrogated.

REVIEW OF MILITARY ASSISTANCE PROGRAM

31. Savings to result from revised policy relating to rehabilitation of military assistance equipment prior to delivery--The military departments were spending millions of dollars each year to rehabilitate materiel, given to foreign nations as grant aid under the military assistance program, to higher standards of serviceability and appearance than similar materiel furnished to United States forces overseas. These additional costs were directly attributable to a Department of Defense memorandum, issued in March 1957 to the military departments, specifying that materiel for the military assistance program must be new or completely rehabilitated so as to possess original appearance and serviceability. The high standards set by the military departments to implement this policy caused excessive work which has been very costly and, in some cases, clearly uneconomical. We proposed that, except in special circumstances, materiel given as grant aid under the military assistance program be overhauled, packed, and inspected to the same general standards of serviceability and appearance as those established for United States forces overseas. The Department of Defense agreed and in December 1962, revised its policy substantially in conformance with our proposals. At the completion of our review, the military departments were in the process of issuing implementing directives which, if properly complied with, should curtail the extra costs incurred in preparing materiel for delivery as grant aid.

32. Action taken to obtain reimbursement for expenses chargeable to recipients of military assistance--The United States Military Assistance Advisory Group (MAAG) failed to adequately review and analyze expenditures for administrative and related expenses and to obtain reimbursement for all expenses properly chargeagle to Japan in accordance with a Mutual Defense Assistance Agreement between the United States and Japan. As a result of our review, the MAAG examined prior expenditures and identified reimbursable expenses totaling $403,000. This amount was received from Japan and was deposited in the United States Treasury as miscellaneous receipts.

Our review further disclosed that United States officials had not arranged for Japan to reimburse the United States Government for certain other costs incurred in performing military assistance program functions in Japan, although (1) the Foreign Assistance Act of 1961 permitted the United States to receive reimbursement from

foreign governments for these costs and (2) the Mutual Defense Assistance Agreement with Japan did not contain any provisions which would exclude these costs from those eligible for reimbursement from Japan. For example, arrangements had not been made for Japan to reimburse the United States Government for costs of civilian and military pay, basic allowances of military personnel, and certain travel and transportation charges incurred for personnel and their household goods. The costs excluded from the amounts requested from Japan have amounted to several million dollars and will amount to as much as one million dollars annually in the future.

Subsequent to our review, the Department of Defense prescribed new definitive policies and procedures for acquiring, using, accounting for, and reporting of currencies and assistance-in-kind contributed by foreign governments for administrative and operating expenses of the military assistance program. If properly implemented, these policies and procedures will provide a basis for increasing the amount of administrative costs to be borne by Japan. However, these new policies and procedures do not require that Japan, or any other country receiving military assistance, be requested to reimburse the United States for the cost of civilian and military pay and the basic allowances of military personnel assigned to Military Assistance Advisory Groups.

The Department of Defense informed us that civilian pay and military pay and allowances had not been requested from Japan on the basis that such a request would be unauthorized and unprecedented. The Department further stated that negotiations to that end would have little or no chance of success and should not be undertaken unless to the clear advantage and in the evident best interests of the United States.

The President is permitted, under the Foreign Assistance Act of 1961, to arrange with countries receiving military assistance for reimbursement to the United States Government for costs of compensation and other benefits of officers and employees of the United States Government performing military assistance functions. Further, Japan agreed, in signing the bilateral agreement, to assume the costs of the administrative and related expenses incurred by the United States in providing military assistance. We recognize that requests for Japan to reimburse the United States for costs of administrative pay and allowances may not have been

realistic in the past because of economic and other considerations. However, Japan's remarkable economic recovery and the United States' current international balance of payments deficit warrant review of the present policy. Accordingly, we recommended to the Secretary of Defense and to the Secretary of State that the present policy of the United States with respect to obtaining reimbursement from foreign governments for administrative costs of the military assistance program be reappraised with the view of requesting Japan, and other recipient countries which are economically capable, to reimburse the United States for all costs, including pay and allowances of involved civilian and military personnel.

33. Need for improvement in planning, programing, and delivery of missile systems under the military assistance program--We reviewed the programing, delivery, and utilization of selected missile system equipment delivered to European countries as military assistance. Our report on the review, submitted to the Congress in February 1963, is classified "Secret" with respect to our specific findings. Our conclusions and recommendations, contained in that report and presented below, are not classified. We found deficiencies in equipment readiness and utilization which demonstrated the need for improvement in the planning, programing, and delivery of missile systems under the military assistance program to insure more complete, prompt, and efficient utilization of costly weapon systems by the recipient countries. Accordingly, we recommended that the Department of Defense consider taking the following actions:

1. Provide appropriate adjustments in overall planning and programing for missile production, training of personnel, and delivery of equipment when it can be reasonably expected that delays will occur in obtaining missile sites in foreign countries.

2. Coordinate the programing cycle with the ability of international organizations and user nations to fulfill their obligations to furnish equipment, facilities, and personnel in a timely manner. In this connection, delays experienced in the past should be considered.

3. Insure that all related equipment items and components are delivered concurrently.

4. Review equipment lists completely to determine whether all items are needed in the specific recipient countries for which destined and continue to encourage the recovery and redistribution of unneeded equipment and components in the hands of recipient countries.

34. Need for strengthening of controls over funds contributed for support of military budget of recipient country--The United States contributes local currency to the Republic of Korea for support of its military budget. The amounts to be contributed are set forth in annual agreements between the United States and the Republic of Korea. For calendar year 1961, the United States agreed to contribute 159.8 billion hwan ($123 million) or approximately 95 percent of the total Korean military budget of 167.9 billion hwan. This contribution was in addition to equipment and supplies valued at about $251 million, programed and funded in 1961, as grant aid under the military assistance program. We found weaknesses in the control of these funds by United States agencies and deficiencies in the administration of the funds by the Korean Army. The funds were made available to the Korean Army without designating specific projects for their use and without providing adequate controls over the expenditure of the funds. The Korean Army failed to utilize the local currency funds to adequately maintain military facilities; procured services and materials without approval of the United States Military Assistance Advisory Group (MAAG); and arbitrarily overstated requirements in the military budget or included requirements in the military budget which were not agreed to by the MAAG.

We recommended to the Secretary of Defense that efforts be made to identify the more important projects essential to the overall objectives of the military assistance program in Korea and that appropriate portions of the budget estimates and military budget support fund releases be based on such projects. We also recommended that project implementation be subject to careful surveillance and that involved portions of United States funds be withdrawn when evidence exists that either agreed upon projects are not being undertaken or earmarked funds are being used for nonapproved purposes.

REVIEW OF MANPOWER UTILIZATION

35. Procedures to be strengthened to preclude reenlistment of undesirable personnel--The military departments were paying about $15 million a year in pay, allowances, and reenlistment bonuses to personnel who were permitted to reenlist despite their records of continued misconduct and/or job inefficiency. In addition, the Government was unable to recover about $920,000 a year in unearned reenlistment bonuses because many of the individuals were discharged prior to completion of their reenlistment periods but were not financially able to repay the unearned portions of their bonuses. Additional costs, not readily measurable, were incurred unnecessarily by the military departments in courtmartials and confinement of prisoners, and by the military departments, the General Accounting Office, and the Department of Justice in efforts, largely unsuccessful, to recover unearned portions of reenlistment bonuses. The acceptance of undesirable personnel was due primarily to a lack of effective screening of personnel records of the applicants for reenlistment. In commenting on our findings, the Assistant Secretary of Defense (Manpower) stated that the military departments had been instructed to review their reenlistment procedures and to take necessary corrective action to preclude reenlistment of undesirable personnel. He stated also that the Office of the Secretary of Defense will review the actions to assure that they are effective. We recommended that, in addition to these corrective measures, the Secretary of Defense require (1) that commanding officers, when determining the advisability of permitting an individual to reenlist, request higher authority to review the decisions in doubtful cases and (2) that higher authority periodically review the decisions of the commanding officers to determine whether they are following prescribed criteria.

On April 16, 1963, the Assistant Secretary of Defense (Manpower) advised us of the actions taken by the military departments to strengthen their reenlistment procedures. The actions cited by the Assistant Secretary were generally in accord with our recommendations.

36. Savings to result from reductions in vehicle maintenance personnel of the Air Force and Army--Our review of maintenance, repair, and overhaul operations, discussed on page 33, disclosed uneconomical utilization of manpower by the Air Force and the Army in their maintenance of noncombat vehicles. Based on the number of men the Navy used to maintain its fleet of noncombat vehicles, we

estimated that the Air Force employed an excess of about 10,000 men and the Army an excess of about 2,000 men to maintain their fleets of similar-type vehicles. The wages and supplemental benefits, alone, for these 12,000 men accounted for annual costs of over $50 million. In commenting on our findings, the Assistant Secretary of Defense (Installations and Logistics) informed us on February 5, 1963, that the Department of Defense was taking positive measures to improve management and to effect economies in the maintenance of noncombat vehicles. He stated that as a result of these measures (1) the Air Force had already reduced its vehicle maintenance personnel by 900 and had been directed to make a further reduction of 1,200 by the end of fiscal year 1964, and (2) the Army had scheduled a reduction of 680 of its vehicle maintenance personnel by the end of fiscal year 1964. These reductions should result in an annual savings in maintenance wage costs of about $12.4 million by June 30, 1964.

37. Savings to result from reductions in labor personnel at military installations in Japan--The military departments had not developed complete and valid manning guides as to the number of personnel needed to maintain facilities and to operate utilities at military installations in Japan. However, on the basis of such manning guides as were available, we estimated that the installations we reviewed were overstaffed by about 1,800 Japanese nationals at an annual cost of about $2.7 million. Despite this overstaffing many of the facilities had not been adequately maintained and large backlogs of work had accumulated. Some of the factors which contributed to the inadequate management and inefficient use of personnel included the lack of adequate work standards and estimates, inaccurate work performance data, and failure of management to use such data as were available for measuring and evaluating work performance. The Assistant Secretary of Defense (Manpower) advised us of actions being taken by the military departments to improve their utilization of manpower. These included the development and application of staffing guides based on industrial engineering techniques, the establishment by the Air Force of a program for improvement of civil engineer maintenance management, and the imposition by the Army of more stringent controls over the performance of alterations, modifications, and construction work on installation facilities. As of June 30, 1963, the corrective measures taken by the Army and the Air Force had resulted in reductions

or planned reductions of personnel totaling 1,334 at an estimated annual savings of about $2.3 million. In September 1963, the Navy reported that its corrective measures had resulted in the absorption by its personnel of additional workload, equivalent to about 98 employees and theretofore performed by contractors, and in addition, a reduction of 60 employees was planned for fiscal year 1964.

REVIEW OF MAINTENANCE, REPAIR, AND OVERHAUL

38. Action taken to improve economy and efficiency of vehicle maintenance operations--Repair and maintenance of noncombat vehicles in the Department of Defense was costing about $66 million a year more than it should, primarily because the Air Force and the Army had not established and administered adequate controls over the level of maintenance activities nor provided a reasonable basis for directing and evaluating the efficiency of maintenance operations. Compared with the Navy, whose effective surveillance of vehicle maintenance resulted in costs that compared favorably with those experienced by private operators of motor vehicle fleets, the Air Force and Army practices were wasteful and inefficient. If their vehicle maintenance operations were conducted as efficiently as those of the Navy, the Air Force could save about $55 million a year and the Army could save about $11 million a year. As discussed under caption "Review of manpower utilization" (see p. 30), the major portion of these potential savings could be achieved by a more efficient utilization of manpower and the resultant reduction in vehicle maintenance staffs.

We recommended to the Secretary of Defense that he (1) direct the Air Force to centralize the technical direction and surveillance of vehicle maintenance, (2) direct the Air Force and the Army to install cost systems and other controls, (3) direct the Air Force to reconsider the need for a high proportion of military personnel in its shops, and (4) direct his Office to inspect the reorganization of Air Force and Army maintenance, and to consider establishing uniform standards and controls for noncombat vehicle maintenance for the military services. On February 5, 1963, the Assistant Secretary of Defense (Installations and Logistics) informed us that the Department of Defense was taking positive measures to improve management and to effect economies in the maintenance of noncombat vehicles. He stated that as a result of these measures, reductions in vehicle maintenance personnel had been made and further reductions had been directed to be made by the end of fiscal year 1964.

39. Need for consideration of all pertinent factors in decisions affecting maintenance of family housing--The Army incurred unnecessary expenditures of about $295,000 in connection with the rehabilitation and maintenance of family housing units at Fort Dix. Installation officials had authorized the construction of new

exterior storage spaces, for use of housing occupants, on the basis that existing interior facilities did not provide sufficient space and necessary security, and constituted a fire hazard. The authorization was made without a thorough investigation of the possibilities of modifying existing storage facilities. Had such an investigation been made it would have shown that existing storage facilities could have been modified at relatively small cost and would have provided equal or more space. We recommended to the Secretary of Defense that this instance be brought to the attention of officials responsible for the operation and maintenance of family housing to demonstrate the need for full investigation of all possible means to provide adequate facilities at the least possible cost to the Government.

REVIEW OF DUPLICATED FACILITIES

40. Savings resulting from partial consolidation of duplicated ocean terminal facilities--In a report, submitted to the Congress in a prior year, we pointed out that the military departments were operating three separate ocean terminals in the San Francisco Bay area, for passengers and general cargo, although the combined volume of current and foreseeable future operations was within the operating capacity of one of the installations. Furthermore, the capacity of many commercial terminal facilities in the area would presumably be made available for military operations in the event of an expanded need. We recommended to the Department of Defense that the military ocean terminal facilities for passengers and general cargo be consolidated and the Department took the matter under study.

Effective July 1, 1962, the Department of Defense discontinued passenger operations at Fort Mason and consolidated the operations with those of the Oakland Army Terminal. This action should result in annual savings of about $139,000. The action also eliminated the need for rehabilitation of pier facilities at Fort Mason which would have cost about $139,000. The Department of Defense also advised us that consolidation of the cargo operations is receiving further consideration.

41. Need for consolidation and joint use of hospital facilities of the military departments--In 1955 the Department of Defense adopted a policy of greater joint use of existing medical services and facilities. The military departments were directed to make every effort to reduce, consolidate, and eliminate facilities in those geographical areas where such action was feasible and economical and would provide efficient medical support for all Armed Forces personnel. The military departments were directed also to consider joint use in planning for new construction and major alterations of medical facilities. We found that this policy was not observed in the planning, being considered by the Department of Defense, for construction of replacement hospitals in the San Francisco Bay area.

There are three military specialty center hospitals in the San Francisco Bay area: (1) Letterman General Hospital, San Francisco (Army), includes many facilities which have been in use from 40 to 60 years; (2) United States Naval Hospital, Oakland, is a temporary frame construction built during World War II, and (3) Travis Air Force Base Hospital, Fairfield, is a modern facility constructed

REVIEW OF DUPLICATED FACILITIES (continued)

since World War II. The Department of Defense is considering plans for replacement of the Letterman Army and Oakland Naval Hospitals by construction of two new hospitals at the same locations.

We estimated that unnecessary costs of about $8.2 million would be incurred annually under the plan to continue separate operation of the two hospitals and that the plans being considered for construction of separate new hospitals would result in construction costs of about $10 million more than necessary to provide adequate hospital facilities for joint service use. These unnecessary expenditures could be avoided by constructing a single modern hospital in the Oakland-Alameda area and an addition to the Travis Air Force Hospital, and by effective joint use of these facilities. Effective joint use can be achieved through (1) eliminating the unnecessary transfers of patients to the San Francisco Bay area, (2) making greater use of available civilian hospitals for the care of dependents, and (3) eliminating the requirement for construction of facilities to care for retired personnel, their dependents, and others entitled to treatment only if space is available.

In view of the magnitude of the possible savings, we recommended that the Secretary of Defense take the necessary actions to consolidate military hospital services in the San Francisco Bay area into one modern replacement hospital of 1,000 beds in the Oakland-Alameda area and the modern facility at Travis Hospital with an addition of 200 beds. We recommended also that the Secretary of Defense require the military departments to improve the management of the patient workload to accomplish more effective joint use of existing hospital facilities and to assure realistic planning of military hospital construction on the basis of full joint use of all available military hospital facilities.

In reply, the Deputy Secretary of Defense advised us on August 23, 1963, that the Department of Defense intended to continue its plans for the replacement of the Letterman Army and Oakland Naval Hospitals by construction of two new hospitals of 550 beds and 650 beds, respectively. The Deputy Secretary agreed that the two separate hospitals would be more costly to construct and to operate than a single consolidated hospital but did not agree that the additional costs would be as great as we had estimated. He

stated further that the decision to construct two hospitals was based on consideration of other factors which outweighed the additional costs.

REVIEW OF RIGHTS OF GOVERNMENT TO RECOVER CERTAIN COSTS IN TORT CASES

42. Legislation enacted to provide legal right of action for recovery of Government costs of hospital and medical care resulting from injuries through negligence of third parties--In a report submitted to the Congress in May 1960, we pointed out that the Government did not recover several million dollars in costs each year for hospital care, medical treatment, and other benefits furnished to certain classes of eligible persons who were injured as the result of negligent or wrongful acts of third parties. This loss was sustained by the Government because some of the statutes authorizing such benefits did not enable the Government to assert a legal right of action to recover the costs either directly from the negligent third party or out of proceeds recovered by the injured person from the negligent party. We found that the statutes providing for care (1) by the Department of Defense to military personnel and their dependents, (2) by the Public Health Service to American seamen, Coast Guard personnel, and other classes of persons, and (3) by the Veterans Administration to veterans, were either silent or were not specific concerning the Government's right of action to recover the costs of such care from negligent third parties. We recommended in our report that the Congress consider enactment of legislation to provide the Government with the right of action to recover its costs of furnishing hospital and medical care to injured persons in all negligent third-party cases. The Congress passed such legislation (Public Law 87-693) which was approved September 25, 1962, and became effective January 1, 1963.

43. Savings in travel costs resulting from revision of Official Table of Distances--Reimbursements of travel costs incurred by military personnel and their dependents are required to be based on the mileages shown in the Official Table of Distances. We had observed some years ago that the distances shown in that table represented rail mileages primarily and in a signficant number of instances were substantially greater than the distances shown in the Rand McNally Standard Highway Mileage Guide. This observation and our suggestion that highway mileages be used as a basis for reimbursement of travel costs were brought to the attention of the Department of Defense on several occasions but the Department took the position that use of highway mileages would be unfair to those who actually traveled by rail.

Subsequently, the Department of Defense restudied the problem and, based on the restudy, revised the Official Table of Distances to show both rail (or common carrier) distances and highway distances. The revision became effective July 1, 1962. A concurrent revision in the Joint Travel Regulations requires use of highway distances for reimbursement of travel performed by automobile. We estimate that this action should result in annual savings of about $6 million.

44. Joint Travel Regulations revised to provide for recovery of shipping costs of household goods which exceed weight allowances--The Government bore unnecessary costs of about $190,000 annually because the Air Force, Navy, and Marine Corps did not charge servicemen a proportionate share of packing and unpacking costs when shipments of their household goods exceeded prescribed weight allowances. We found that the Army was charging such costs to its personnel. In response to our proposal, the Joint Travel Regulations of the uniformed services was revised. Effective July 1, 1963, a proportionate share of packing costs will be recovered from service members whose household goods shipments exceed weight allowances.

45. Savings in travel costs resulting from more direct routing of Navy personnel in permanent change of station--Excessive travel costs were incurred by the Government in transfers of Navy personnel and their dependents between Adak, Alaska, and Kami Seya, Japan, in connection with permanent change of station. The excess costs

resulted from routing of the travel by way of the United States. Air transportation schedules showed that more direct routing was available to effect the transfers. We brought this matter to the attention of the Navy and subsequently were advised that the official routing for such transfers was changed in January 1963. Based on the travel claims paid in fiscal year 1962, we estimated that this action would result in annual savings of about $18,000.

46. Need for continuity of assignment and proper training of personnel engaged in administration of military pay and allowances --Selective audits by the General Accounting Office and the military departments detected about 1,250,000 overpayments totaling over $100 million made to servicemen during the fiscal years 1957 through 1961. The Government was unable to recover about $18 million, or 18 percent of the detected overpayments. In addition to this loss, substantial costs were incurred in correcting and collecting the overpayments but the amount is not readily determinable because of the volume of transactions and administrative actions involved.

The major cause of overpayments is the high turnover rate and lack of training of military personnel engaged in the administration of military pay and allowances. The complexity of the military personnel compensation structure requires an intimate knowledge of legislation, regulations, and decisions of the Comptroller General before a proper determination of entitlement can be made. Training and continuity of assignment are therefore essential. The high turnover rate apparently is due primarily to the rotation policy of the military departments. Also, an unusually high percentage of the enlisted men, running as high as 80 percent of the staff, have not received formal training in disbursing or personnel functions. We recommended to the Secretary of Defense that he consider ways and means of providing continuity of assignment and proper training and supervision of personnel, including the possibility of requiring the military departments to substantially increase their use of civilian personnel in administrative functions connected with military pay and allowances. On June 14, 1963, the Assistant Secretary of Defense (Manpower) advised us that the Department of Defense generally concurred in this recommendation and that the courses of action we proposed were being pursued.

47. Need for simplification of legislation governing military pay and allowances--The number, variety, and complexity of entitlements provided by legislation make the administration of military pay and allowances a difficult task. Many problems are generated in the promulgation of adequate, uniform, and understandable regulations, and in the interpretation of laws. Compensation for military personnel consists of many items of pay and allowances depending upon rank or status in the service, family status, the duties performed, and the conditions under which duties are performed. The Career Compensation Act of 1949, the basic act governing military pay and allowances, has been amended by 41 separate statutes and implemented by 14 Executive orders and 12 Department of Defense directives. We proposed, and the Assistant Secretary of Defense (Manpower) agreed, that a study be undertaken which would include as primary objectives the submission of legislative proposals to the Congress encompassing a complete revision and simplification of the entire military pay compensation structure.

48. Need for legislative and administrative action to make personnel officers responsible for their acts--Personnel officers are not legally liable for overpayments made as a result of errors made by them. Under present law, disbursing officers of the military departments are legally and financially responsible for the propriety of military pay and allowances payments but do not have the authority or responsibility to review many of the basic documents, most of which are on file in the personnel offices, in support of the payments. We believe that if personnel officers were held legally liable for overpayments made as a result of errors committed by them, the administration of pay and allowances would be improved. Accordingly, we recommended to the Congress that consideration be given to enacting legislation making military personnel officers financially liable for overpayments resulting from their actions perhaps similar to that provided in the Certifying Officers Act (31 U.S.C. 82 c-d). We recommended also that the Secretary of Defense take positive steps to assure that emphasis is placed upon official and personal responsibility of personnel office staff members engaged in the administration of pay and allowances and that a continuing high overpayment error rate be an important factor in evaluating the work performance of the individuals assigned to these duties. The Assistant Secretary of Defense (Manpower) advised us on June 14, 1963, that the action we recommended to the Secretary of Defense was being initiated.

REVIEW OF ADMINISTRATION OF CIVILIAN PAY

49. Action taken by local management to strengthen control over civilian pay at military installations--Our reviews, at various installations, bases, and station, of matters relating to civilian pay disclosed many deficiencies in local policies, procedures, and practices. During the fiscal year 1963 we issued to local management officials, 177 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.

REVIEW OF UTILIZATION OF COMMERCIAL COMMUNICATIONS FACILITIES

50. Savings to result from more economical transmission of long-distance messages--The military departments incurred unnecessary costs for transmission of long-distance message communications by commercial means. We estimated that more than a million dollars, about one third of the annual cost of such messages, was being unnecessarily expended each year. This occurred because the military departments did not make the fullest utilization of existing military communications networks and, in those instances where commercial transmission was necessary, did not use the most economical type of message. We proposed that the regulations of the military departments dealing with message handling and routing be clarified and contain specific instructions for the use of all military networks and for the transmission of commercial messages by the most economical means. The regulations were revised to emphasize use by one military service of the networks of the other military services but they did not provide the specific instructions which would enable communication personnel to easily route messages by the most economical means. Therefore, we recommended that the Secretary of Defense issue instructions which would (1) designate commercial refile points (points at which messages are transferred from military networks to commercial facilities) for various geographical areas and require the military services to use the designated refile points for messages to addresses within the applicable area, and (2) furnish specific guidance for the transmission of commercial messages by the most economical means. The Assistant Secretary of Defense (Installations and Logistics) informed us on June 17, 1963, that the Defense Communications Agency had prepared a plan, to be made effective on October 1, 1963, which the Department of Defense estimates should result in annual savings of about $750,000.

REVIEW OF ACQUISITION AND UTILIZATION OF AUTOMATIC DATA PROCESSING EQUIPMENT

51. Action being taken to effect savings through purchase of leased automatic data processing equipment--Our study of the financial advantages of purchasing over leasing of automatic data processing equipment in the Federal Government showed that very substantial amounts of money could be saved if the Federal Government purchased, rather than leased, more of its data processing equipment needs. Our study showed that to fully realize these savings a small, highly placed central management office would be needed in the executive branch of the Government. Such an office would assure that financial advantages of purchasing would be considered from the standpoint of the Government as a whole, rather than from the standpoint of individual using agencies as has been the practice in the past, and would provide the coordination necessary to obtain more complete utilization of the equipment acquired. Accordingly, we recommended to the President of the United States that he establish such an office in his organization. We also made a general recommendation to the heads of all using departments and agencies that they arrange for a prompt and complete reappraisal of their current plans to lease data processing equipment and take such action as is possible to realize the financial savings that may be available from purchasing such equipment and fully utilizing it.

In addition to the Government-wide study cited above, we examined into selected aspects of the management of data processing equipment in the Air Force and the Navy.

Our review of 14 electronic data processing systems leased by the Air Force revealed that about $1.3 million would be unnecessarily expended by June 30, 1963, because the Air Force failed to take advantage of reduced sales prices, offered by the manufacturers in 1961 and 1962, to buy the systems. The Assistant Secretary of the Air Force (Financial Management) agreed that savings could have been realized by purchasing the systems and stated that the Air Force was taking steps to identify data processing systems of all manufacturers which it would be advantageous to purchase.

Similarly, the Navy failed to take advantage of reduced sales prices offered by the manufacturer for certain leased components of the automatic data processing systems installed at two of its

shipyards. Had the Navy purchased the components at the time the offer was made in 1961 it would have realized savings of about $339,600 over the period the shipyards intended to retain them. At the time of our review, a major portion of the potential savings had been lost. However, as a result of our bringing this matter to the attention of the Navy, the Navy purchased the components being used at one of the shipyards. This action should result in savings of about $70,300. The Navy also stated that the Department of Defense was conducting a Defensewide study of automatic data processing systems to determine whether leased systems should be purchased and whether additional controls were needed in lease versus purchase situations. The Navy further stated that, upon completion of the study and issuance of policy guidance by the Department of Defense, it would establish promptly any additional controls which may be required.

CIVIL DEPARTMENTS AND AGENCIES

REVIEW OF CONTRACTING PROCEDURES

52. Need to strengthen contracting procedures and negotiation practices to eliminate unjustified costs--In carrying out the objectives of the helium conservation program, the Bureau of Mines, Department of the Interior, negotiated four fixed-price contracts that provide for private companies to finance, construct, and operate a total of five plants for extracting helium from their natural gas supplies. Our examination of the procurement of the helium disclosed that the negotiation procedures and practices employed by the Bureau were seriously deficient. The fixed-price contracts did not contain any provision for price redetermination, although they were to cover a 22-year period, were for a product that had not been previously produced on an extensive scale, and prospective participants were not requested to submit price proposals. Further, the negotiation records disclosed that the Bureau did not request or obtain detailed estimates of costs from the four selected contractors.

On the basis of our review of the Bureau's estimates of the contract unit prices, it appeared that the Government would incur unjustified costs of at least $155 million over the life of the contracts. Of the $155 million of unjustified costs, $144 million represents special allowances for the helium content in the natural gas, which are in addition to allowances of about $27 million included in the Bureau's estimate for shrinkage in the volume of natural gas resulting from the extraction of helium. The remaining $11 million of unjustified costs represents excessive allowances for construction and related costs of one of the five plants, and overestimates of a similar nature could well exist for the other plants.

In a report issued in January 1963, we pointed out that the special allowances for helium were included in the Bureau's initial estimates without establishing that any associated costs would be incurred by the contractors, and the negotiation records did not show that the contractors requested or required the special allowances as added profit payments for the value of the contained helium.

After the findings contained in our report were brought to the attention of the Department of the Interior, we were advised that

the Department would immediately take the steps necessary to strengthen the contracting procedures and negotiation practices of the Bureau of Mines by requiring the submission by contractors of detailed cost and pricing data and the certification by contractors of the completeness and accuracy of such data. With regard to the existing contracts, the Department advised us that the Secretary of the Interior had sent each contractor a letter proposing that the Department and contractor representatives meet to discuss the feasibility of amending the contracts to provide for price redetermination. However, the Department did not agree that the allowances for helium in the natural gas (about $144 million over the life of the contracts) should be considered as unjustified special allowances or as profit to the contractors and therefore does not anticipate any adjustment for the allowances in the subject contracts.

Since we believe that the special allowances for helium represent unjustified costs to the Government, we recommended that the Secretary of the Interior make every reasonable effort to amend the existing contracts to effect price reductions to eliminate these unjustified costs. With regard to future contracts, we recommended that, where allowances are made in excess of costs, the Secretary require contracting officials to clearly identify such allowances as part of the total estimated profits to be allowed in the contract unit prices.

53. Need to adopt the single contracting concept in joint agency programs--In a report issued in February 1963 on our review of the joint Atomic Energy Commission and Department of Defense Manned Aircraft Nuclear Propulsion Program, we pointed out that the benefits of the organizational arrangement for the program were not fully realized because AEC and the Air Force each awarded separate contracts to the same contractors for work on the development of the propulsion system. As a result, AEC was in an unfavorable position in negotiating contracts with the contractors because the Air Force had previously awarded contracts containing certain provisions and providing for fees that were not acceptable to AEC. Also, the long delay in reaching an agreement with a contractor apparently delayed certain reactor work on the system.

We expressed the belief that the extension of the single-job concept to the use of single contracts with each contractor would have resulted in a reduction in the dual-control aspects inherent

in the separate AEC and Air Force contractual arrangements, in the elimination of certain inconsistencies in the provisions of the contracts, and in expediting negotiations with the contractors. We also expressed the belief that, in future projects of this nature, the feasibility of awarding a single contract to each contractor should be considered early in the program. The General Manager, AEC, in commenting on this matter, expressed agreement with our views and stated that, wherever feasible and economical, AEC would make every effort to arrange for single contracting in future jointly funded projects where a contractor will be performing similar work for each of the agencies.

54. Need for adequate cost data in evaluating bids--We noted that contractors were not required to submit supporting cost data for use by Coast Guard contracting officers at the 1st Coast Guard District in evaluating price proposals for negotiated contracts. Instead, the contracting officers evaluated the reasonableness of these proposals in light of contract prices previously paid for similar work. Also, contracting officers in the 1st and 8th Districts did not always have the benefit of realistic Government cost estimates when evaluating the reasonableness of the bids on advertised contracts. After we reported the need for obtaining reliable cost data from the contractors, the Coast Guard engineering staff and agency officials stated that corrective measures would be taken.

55. Need to obtain and analyze cost data from subcontractors--Our review of purchase orders issued by an Atomic Energy Commission operating contractor showed that prices had been negotiated with six suppliers without an adequate evaluation of the suppliers' cost estimates either by the contractor or by AEC contracting officials. An appropriate evaluation of the cost data available at the time the prices were negotiated might have resulted in lower prices which would have reduced AEC's costs.

Our review of another AEC operating contractor's procurements from a sole source supplier disclosed that the supplier's proposed prices under purchase orders involving repetitive procurements of aluminum caps and cans for use in the production of plutonium had been accepted by the contractor and AEC without either the contractor or AEC having obtained the supplier's analyses of its actual or estimated costs as a basis for determining the reasonableness of

the proposed prices. Our review of the supplier's records disclosed that the amount of $7.9 million paid for the caps and cans was about $2.9 million more than it would have cost the supplier to produce the caps and cans at the average costs previously experienced by the supplier in producing similar items in similar quantities. Knowledge of the supplier's cost experience would have put the operating contractor in a position to negotiate lower prices. Also, AEC would have been in a better position to determine whether the procurements should have been approved.

In accordance with proposals we had made in connection with other reviews, AEC issued procurement directives reemphasizing the use of price and cost analyses in price negotiations and requiring the inclusion of a provision in negotiated fixed-price contracts and subcontracts permitting an audit by AEC of the pertinent records. The directives also provide that audits shall be made when necessary to obtain reliable cost data before negotiating fixed prices for follow-on orders for the same procurements. The directives provide further that contractors and subcontractors shall be required to certify that the cost data furnished is the most current, complete, and accurate information available.

56. Subsequent negotiations because of material changes in specifications could nullify benefits of competitive bidding--In our review of Post Office Department leasing procedures we found several cases involving the construction of major facilities to be leased for basic 30-year terms where the amount to be paid for material changes in specifications made shortly after contracts had been awarded under bidding procedures was determined by negotiation. The Department's records showed that during the time two of the contracts were advertised the Department changed its policy in regard to the type of building to be leased and that prior to the award of another contract consideration was being given to major changes in specifications. In our opinion, the subsequent negotiations could have nullified the benefits of competitive bidding. We noted other instances where the accepted low annual rent bid was subsequently reduced by about 5 to 15 percent by negotiations with the lowest bidder. However, the Department's records did not show the reasons for the rental reductions or the extent of concessions made by the Government in construction requirements and specifications.

We recommended that when, prior to bid awards, the Department contemplates material changes from the advertised specifications all bids be rejected and the contract be readvertised. In those cases where no final decision as to the changes has been made, the Department should request alternate bids. When negotiations are considered beneficial, particularly for minor contract changes, the Department should justify and adequately document the negotiated changes.

The Postmaster General by letter dated July 17, 1962, advised us that the present policy of the Department is to negotiate with low bidders only as to price, that is without material changes to specifications; and that, where material changes are found necessary prior to bid closings, the present practice is to notify all bidders so that their bids may reflect the changes.

57. Justification for contract changes not adequately documented--In our review of Post Office Department leasing procedures we found that two lease contracts which initially assigned the maintenance responsibility to the lessor were subsequently amended to provide for Government maintenance of the postal facilities, although the negotiated reduction in rent was not adequately documented to support the assumption by the Government of the maintenance responsibility.

We recommended in our report of November 1962 that the Department document and support all negotiations and amendments to contracts and accept maintenance responsibility only if it can be demonstrated that the Government will be fully compensated. The Postmaster General advised us that current changes in contracts are supported and documented by briefs and justifications for the action taken.

58. Need for adequate documentation, criteria, and standards for evaluating reasonableness of rents--Our review of the Post Office Department's analyses for determining the reasonableness of the rent to be paid for facilities disclosed that these analyses were not adequately documented or supported in sufficient detail and that the Department does not have adequate criteria and standards for evaluating the reasonableness of rents. Accordingly, we recommended in a report issued in November 1962 that the Department (1) document and support in adequate detail the estimated costs

used in its analyses of the bid rents and (2) establish criteria and standards against which bid annual rents can be compared so as to provide an adequate basis for determining the reasonableness of bid rents and whether space is being acquired at the lowest cost possible.

The Department stated that in determining the reasonableness of rents the recognized principles, practices, and techniques of the appraisal profession were used. However, we believe that these techniques involve a great degree of personal judgment and opinion which should be adequately documented so that contract awards can be reasonably supported.

REVIEW OF PROCUREMENT PROCEDURES AND PRACTICES

59. Contract specifications to be improved.--Our audit work at the Coast Guard's 1st and 8th District Offices disclosed the omission from basic contract specifications of work subsequently determined necessary but which reasonably could have been anticipated. We also noted ambiguous language used in describing specification terms. Deficiencies of this nature may not only result in increased procurement costs but may also deprive the Cost Guard of competition for the additional work and place contracting officials in an unfavorable position when prices are negotiated.

We reported these weaknesses to Coast Guard officials and were subsequently informed that action would be taken to minimize the need for separate negotiations for work which can reasonably be anticipated and included in the original contract.

60. Change to be made in evaluating bids.--Our examination of bids submitted to the Post Office Department for procurement of the "700" series lock boxes showed that they were not, in most cases, evaluated on the basis of delivered prices as required by Government procurement regulations. Thus, there was no assurance that the contracts would be awarded to the lowest responsible bidder or that the lock boxes were being purchased at the most economical price. In a report issued in January 1963, we recommended that the Postmaster General institute procedures under which bids for procurement of "700" series lock boxes would be evaluated on the basis of delivered prices as required by Government procurement regulations and that the evaluation be made a matter of record in the abstract of bids or procurement files. We were informed that action would be taken in line with our recommendations.

61. Changes made to consolidate purchase requirements.--In our review of selected Post Office Department open-market purchases of postal lock boxes, we noted a number of transactions in which the purchase requirements were not consolidated although consolidation is required by Federal procurement regulations. If these requirement had been consolidated, advertised procurement would have been required and lower prices might have been obtained. Federal procurement regulations provide that supplies and services which would properly be grouped together should be purchased as one transaction and if the aggregate amount exceeds $2,500 the procurement must be by formal advertisement rather than by negotiation.

In a report issued in January 1963 we recommended that the Postmaster General clarify the Department's policy regarding the use of open-market purchases to assure consolidation of small purchases and procurement by formal advertising as required by the procurement regulations. We were informed that steps were taken to ensure complete compliance with the regulations.

62. Action being taken to preclude award of contracts to vendors with poor delivery records.--Our examination of Post Office Department contracts for the procurement of lock boxes disclosed that contracts were awarded to vendors who had poor delivery records and who, in our opinion, did not meet the minimum standards of a "responsible contractor" as set forth in the Federal procurement regulations. To enable the Department to determine that contracts are awarded only to vendors who meet the responsibility standards set forth in the regulations, we recommended in a report issued in January 1963 that the Postmaster General require the establishment of adequate records regarding contractor performance. The Postmaster General informed us that action was being taken in line with our recommendation.

63. Changes being made to correct overstocking.--In a report issued in January 1963 on our examination of lock box procurement by the Post Office Department we pointed out that there was an overstocking of certain "700" series lock boxes which we estimated to amount to about $1.1 million. We also estimated that the cost of carrying the overstock was about $100,000 a year. The overstock was attributed primarily to the Department's estimating stock needs on the basis of incomplete inventory records. We recommended that the Postmaster General adjust procurement of lock boxes to realistic requirements and institute procedures to provide complete and accurate inventory records at headquarters. The Postmaster General stated that the Department was taking corrective action in line with our recommendations.

64. Greater use to be made of facilities of Government Printing Office.--Our review at a research laboratory of the Public Health Service, Department of Health, Education, and Welfare, disclosed that the laboratory did not always determine before contracting with commercial firms for printing whether the Chicago field service of the Government Printing Office could provide the required printing service. As a result, there was not adequate

assurance that the printing was always done in the most economical manner. Government Printing and Binding Regulations urge the executive departments and agencies to utilize the GPO field printing services whenever practicable.

We were informed in December 1962 that subsequent to our review a concerted effort had been made to utilize the GPO field printing plant services and that determinations of urgency or necessity for use of commercial printing facilities were being documented as part of the procurement files.

65. Testing articles before purchasing large quantity may result in savings.--Additional costs were incurred in the Federal Aviation Agency's semiautomatic flight inspection (SAFI) program for the intermediate altitude flight inspection of ground station air navigational facilities because certain Government-furnished receiver-transmitters provided by FAA for use in the program had a high failure rate. In its budget request for fiscal year 1963, FAA requested $1,345,000 to purchase additional receiver-transmitters of a new design for use in the SAFI systems. During the fiscal year we recommended that FAA purchase only a limited number of the receiver-transmitters and test their performance in a prototype SAFI system before purchasing large quantities of the unit. The Administrator of FAA stated that the procurement of the additional receiver-transmitters would be handled in accordance with our recommendation.

66. Need for requirement contracts and direct delivery.--In January 1963 we reported that the Post Office Department was not, in our opinion, utilizing the most economical method of procuring lock boxes. We believe that substantial savings could be achieved in the procurement of lock boxes by (1) utilizing requirement contracts--contracts for specific periods during which the Government may place orders for required quantities at specific prices--in lieu of making numerous purchases of small quantities and (2) utilizing the direct-delivery method for all lock box purchases rather than having some deliveries made to Department warehouse.

We recommended that the Postmaster General have lock boxes procured by means of requirements contracts and the stocking of

lock boxes in warehouses eliminated by procuring them on a direct-delivery basis. We also recommended that a study be initiated to determine the feasibility of purchasing all capital equipment on a direct-delivery basis. The Postmaster General cited several factors such as possible reduction in the number of suppliers and delays or premature deliveries which the Department felt should be taken into consideration in determining whether lock boxes should be procured under requirement contracts and on a direct-delivery basis. He stated, however, that our recommendations would be studied and given careful consideration.

REVIEW OF CONTRACT ADMINISTRATION

67. Action being taken to assure that shipments of household goods are made on Government bills of lading -- Our review of motor carrier shipment practices of an Atomic Energy Commission operating contractor disclosed that, on the basis of an erroneous interpretation of a Bureau of the Budget Circular, an AEC Operations Office had issued instructions which placed unnecessary restrictions on its operating contractors' use of Government bills of lading for the shipment of new and transferred employees' household goods. As a result, the operating contractor had made such shipments on commercial bills of lading at increased costs to the Government. After we brought this matter to its attention, the AEC Operations Office issued revised instructions which require its operating contractors to ship their employees' household goods on Government bills of lading when such shipments for the Government can be made at reduced rates authorized under section 22 of the Interstate Commerce Act.

Also, we recommended to AEC that a review be made of the practices of its other operating contractors to determine whether the shipments of their employees' household goods are being made in the most economical manner and that, as a general practice, AEC require its operating contractors to make such shipments on Government bills of lading. AEC informed us in July 1963 that the recommended review of its other operating contractors would be made to assure that the shipments of household goods of their employees are being made in the most economical manner.

68. Action taken to recover penalties not assessed for late payment of power bills -- Employees of the Bonneville Power Administration, Department of the Interior, misinterpreted the penalty provisions of contracts with customers purchasing electric power from the Government. Consequently, no penalties were assessed for late payment of power bills. During the course of our audit in fiscal year 1963, we brought this matter to the attention of Administration officials who subsequently advised us that the accounting personnel had been instructed as to the correct interpretation of the late payment penalty provisions in the power contracts. Unassessed penalties totaling $6,425, disclosed by our review, were recovered from seven customers.

REVIEW OF STRATEGIC AND CRITICAL MATERIALS STOCKPILING

69. Action being taken to reduce amount of excess aluminum in stockpile--In a report issued in October 1962 we commented on the final contract negotiated by the General Services Administration to expand the primary aluminum production facilities in the United States. We pointed out that, although the contract had been successful in achieving its basic purpose, all the aluminum purchased under the contract was excess to the Government's needs because the national stockpile objective for aluminum had been reduced in 1958, about 3 years after the contract had been signed and about 4 months before production had started. Through March 1962 GSA purchased about 264 million pounds of aluminum under this contract at a cost of about $66.6 million and at that time was obligated to buy about 170.7 million additional pounds at a cost of about $42.7 million. We recommended that the President consider requiring Government agencies and Government contractors to use, whenever practicable, excess primary aluminum in the stockpile in filling the Government's needs for fabricated aluminum. After consulting with members of the aluminum industry, the Office of Emergency Planning in May 1963 authorized the direct sale of 270 million pounds of stockpiled aluminum to industry over a 2-year period as an alternative means of reducing the stockpile.

70. Copper stockpile objective to be reexamined--In September 1962 we reported our doubt that the 1,000,000 short ton stockpile objective for copper, unchanged since March 1959, was based on a reasonable estimate of the availability of copper and of military and essential civilian requirements for copper in a 3-year emergency period. We also noted that the Office of Civil and Defense Mobilization (succeeded by the Office of Emergency Planning (OEP)) did not determine the proper proportions of each grade or quality of copper planned for the stockpile. We recommended that the Director, OEP, reexamine the determination of the quantity of copper needed to be stockpiled on the basis of all pertinent factors and that he provide more specific instructions for development of stockpile objectives. Subsequently, OEP revised the stockpile objective for copper to 775,000 short tons by following the planning guidelines for conventional war requirements as set forth in a new policy statement dated July 11, 1963. Under this new policy, OEP will also study stockpile requirements for a general nuclear war and reconstruction. Thereafter each stockpile material will have an objective based on the requirements for either conventional war or nuclear war, whichever need is greater.

71. Action being considered to avoid acceptance of higher-priced, premium-grade aluminum--In our report of October 1962 regarding the final General Services Administration aluminum expansion contract we pointed out that GSA may have accepted or might accept more premium-grade aluminum than required under the terms of the contract. In response to our recommendation that GSA establish procedures to (1) limit acceptance of premium-grade aluminum to the quantities produced in the contract facilities which the contractor is otherwise unable to sell or use and (2) obtain appropriate price adjustments for any excess quantities accepted, GSA agreed that such procedures were desirable and stated that it was looking into the matter.

72. Consideration should be given to disposing of manganese ore in excess of stockpile requirements--In a report issued in April 1963 we commented on the fact that, in order to comply with a storage plan issued in November 1959 by the Office of Civil and Defense Mobilization, the predecessor of the Office of Emergency Planning, the General Services Administration had incurred and might continue to incur transportation costs to ship certain manganese ore to storage areas other than those closest to the port of entry into the United States. Existing stocks at the inland locations already met the stockpile requirements as set forth in previous instructions issued by OCDM in August 1958. Also, reports had been submitted to the Congress showing that the stockpile objectives under the 1958 instructions had been met. Therefore, we expressed the belief that the ore in question, which was acquired overseas through barter of surplus agricultural commodities, could be stored at locations closest to the port of entry and that the transportation costs being incurred could possibly be deferred or saved.

The Office of Emergency Planning took the position, however, that the additional transportation costs were justified because the imported ore was of higher grade than other ore in the stockpile and thus would upgrade the stockpile to meet the higher quality standards established in 1959. We recommended that if OEP continued to believe that transportation of the ore was justified to upgrade the stockpile, OEP should consider disposing of the lower grade ore to the extent it is replaced by the higher grade ore.

REVIEW OF STRATEGIC AND CRITICAL MATERIALS STOCKPILING (continued)

In June 1963, following the issuance of our report, the General Services Administration informed us that all area deficits for metallurgical-grade manganese ore had been eliminated and that receipts of this ore were being stored at a depot close to the port of entry with a view to minimizing transportation and other expenses. However, we believe that consideration should be given to disposing of the lower grade ore to the extent it was replaced by the higher grade ore.

REVIEW OF AVIATION FACILITY REQUIREMENTS

73. Savings of $3.4 million to be realized from revised plans for relocating air unit facilities--Our review of Coast Guard aviation facility requirements disclosed that the selection of the Logan International Airport, Boston, Mass., as the site for a Coast Guard air unit to replace the air unit at Salem, Mass., was made without sufficient consideration of alternative sites in the Boston area where an air unit might be established at less cost. We proposed that the Commandant of the Coast Guard reconsider the selection of Logan International Airport as the relocation site for the Salem air unit. Aside from the cost, relocating at the Logan site would have involved other disadvantages such as heavy commercial air traffic and jet engine noise. After we presented our observations to top management officials, the Coast Guard made a further study and, in February 1963, the Commandant directed that the air unit be constructed at Hanscom Air Force Base in the Boston area. The Coast Guard's study indicated that relocation of the Salem air unit at Hanscom Air Force Base instead of the Logan airport site should result in estimated savings of $3.4 million in construction costs.

74. Need to consider other plans for proposed air units--Search and rescue activity in the vicinity of Rockland, Maine, appeared insufficient to warrant the proposed establishment of an air unit with two helicopters at an estimated cost of $1.5 million. Our review indicated also that the planned consolidation of the two air units located at Biloxi, Miss., and New Orleans, La., into a new $4.7 million facility to be constructed at the Naval Air Station, New Orleans, La., would increase operating costs without resulting in a significant operational advantage.

We proposed that the Commandant reconsider the need for establishing the proposed air units at Rockland and New Orleans. The Commandant informed us in February 1963 that the validity of the need for the Rockland air unit would be thoroughly tested before inclusion in short-term funding plans. The Commandant further stated that because of the economical considerations involved in relation to operational requirements, location of a new Cost Guard facility at the Naval Air Station, New Orleans, was still under study and that our comments would be fully weighed before a final decision was reached.

REVIEW OF PROCUREMENT OF EQUIPMENT

75. Installation of $2.5 million electronic marine traffic control system postponed indefinitely--The Panama Canal Company could not reasonably justify the electronic marine traffic control system which it proposed to install to handle future canal traffic. Reports prepared by a consulting engineering firm, ship transit statistics, and other data did not demonstrate that the existing system of scheduling and monitoring canal traffic had become outmoded or that the proposed electronic system, estimated to cost about $2.5 million, would result in economic benefits to the Company and the users of the canal commensurate with its cost. In addition, we noted that the canal improvement program--particularly the widening of Gaillard Cut--should materially aid in the task of transiting ships with minimum delay.

We recommended that the Company completely reevaluate the need for the system before any further work was undertaken on the project. In June 1963, the Company informed us that it agreed that the proposed electronic marine traffic control system would not be required until traffic increased materially, probably not before 1970, and that installation of the system had been deferred indefinitely.

REVIEW OF UTILIZATION OF AUTOMATIC DATA PROCESSING EQUIPMENT

76. Overpayment of rentals for automatic data processing equipment recovered--Our review of automatic data processing activities at the Goddard Space Flight Center, National Aeronautics and Space Administration (NASA), disclosed that during fiscal years 1961 and 1962 and part of fiscal year 1963 the Center had made rental overpayments which we estimated to be in excess of $1 million because operational use time had not been determined or consolidated in accordance with contract provisions. In accordance with proposals we made in January 1963, the Center reviewed its use records and negotiated with the lessor for a refund of the overpayments. NASA later informed us that the negotiations resulted in the lessor refunding $1.1 million. NASA also informed us that, in further accord with our proposals, procedures and controls were being installed to provide for the accurate accumulation of operational use time so that rental charges would be correctly computed in the future.

77. Action taken to avoid delays in decisions or actions that could result in unnecessary expenditures of Government funds--Our review of selected automatic data processing activities of two Atomic Energy Commission contractors engaged in research activities showed that AEC could have saved about $200,000 in rental costs if certain automatic data processing equipment had been purchased in a more timely manner. As a result of our bringing this matter to its attention, AEC now requires that special attention be given to avoiding similar delays in decisions or actions that could result in the incurrence of unnecessary expenditures of Government funds.

78. Release of excess electrical accounting machines facilitated by periodic machine utilization studies--In a review of automatic data processing operations at the Chicago, Illinois, Regional Disbursing Office, Treasury Department, we noted that periodic machine utilization studies were not made during the period of transition from electrical accounting machines to automatic data processing equipment. Because of the benefits obtainable through the timely identification and release of excess equipment, we recommended that the Chief Disbursing Officer require each regional disbursing office converting to an automatic data processing system to review and analyze electrical accounting machine requirements monthly during the period of transition to the new system

until such time as the inventory of electrical accounting machines had been reduced to minimum requirements. The Fiscal Assistant Secretary of the Treasury informed us in July 1963 that our recommendation had been implemented with beneficial results in the conversion to automatic data processing systems at the San Francisco and Birmingham regional disbursing offices.

79. Records and reports relating to equipment utilization being improved--In a report issued in November 1962 on our review of automatic data processing activities at selected regional offices of the General Services Administration, we pointed out that records and reports relating to the utilization of electrical accounting machines and ADP components did not provide management with information necessary to determine whether the equipment was being tilized in the most effective manner. Also, the format of the records made it difficult for GSA to take advantage of the lowest possible rental charges. This resulted in the payment of additional rental charges which could have been avoided. GSA informed us that its operating instructions would be revised to provide further guidance for maintaining the necessary records.

80. Rental costs reduced by eliminating electric accounting machines at warehouses--Our review of the Maritime Administration's warehousing activities disclosed that the continued rental of certain accounting machines for use at three warehouses was not justified by the workload. As a result of our bringing this matter to their attention, Maritime officials decided to release the machines at the three warehouses and to centralize warehouse stock control in Washington through the use of electric accounting equipment employed primarily in other Maritime activities. Savings resulting from the release of the machines will amount to about $18,000 annually.

81. Controls over use of automatic data processing equipment to be improved--The replacement of rented automatic data processing equipment at the National Bureau of Standards' Laboratories at Boulder, Colorado, was approved by the Department of Commerce without adequate consideration being given to the potential savings that could have been realized by exercising an option to purchase the rented equipment for possible use within the Department or by

other Government agencies. At the time the equipment was replaced, the Government had paid rental costs of more than $460,000 which could have been applied toward the purchase price of that equipment. We suggested that, to effect economies in the rental of ADP equipment, the Secretary of Commerce revise current departmental policy governing the acquisition and disposition of data processing equipment to require central planning, review, and coordination of the needs of all agencies within the Department. In line with our suggestion, the Department stated that it proposed to establish a top-level review committee to provide needed internal control over the acquisition and utilization of such equipment within the Department.

32. Need for thorough studies before installing automatic data processing systems--In a report issued in November 1962, we pointed out that GSA's planning for an automatic data processing system later installed in five regional offices did not (1) provide for taking sufficient advantage of the capabilities of the ADP equipment selected, (2) give adequate consideration to ADP equipment components required for the data processing system, and (3) include an adequate estimate of savings or increased costs related to acquiring and operating an ADP system. We expressed our belief that if these factors had been adequately evaluated and if the results of the evaluation had been considered in the ADP system installed, the increased data processing costs amounting to more than $200,000 which occurred during the period covered by our review could have been substantially avoided. GSA stated that action had been taken to provide for thorough studies before other ADP systems are installed.

83. Consideration should be given to adopting a policy of Government ownership of major postal facilities and certain other postal facilities--Our review of fund requirements for 85 postal facilities under 20- and 30-year leases showed that the total rental costs to be incurred under the lease arrangements substantially exceed the Post Office Department's estimated costs of constructing these facilities. Although larger Government expenditures would be required during the period of construction if the facilities were being constructed for Government ownership, overall fund requirements for the facilities would be substantially less than total rent payments over the terms of the leases. In addition, under the lease arrangements the Government is committed to large annual rental expenditures for long periods of time without acquiring any equity in the leased facilities.

Accordingly we recommended in a report issued in November 1962 that, in view of the significant savings available to the Government by ownership of postal facilities, the Department consider a policy of ownership except in specific cases where the cost of leasing is clearly justified by other identified factors.

The Department stated that the leasing program is a valuable instrument in providing postal facilities and that although the costs of leasing may exceed the costs of Government ownership the merits of leasing cannot be determined solely on the basis of the cost differential. In support of this position the Department referred to certain economic and budgetary considerations and claimed certain operational advantages in regard to the leasing program. We recognize that there are economic and budgetary considerations which should be weighed in determining the method of acquiring postal space. We believe, however, that the Department did not adequately support its position regarding the operational advantages of the leasing program.

84. Unnecessary costs for hazard insurance on multifamily project properties eliminated--The Federal Housing Administration (FHA) followed the policy of purchasing hazard insurance on every acquired multifamily project. Our review showed that the premiums paid for the insurance were far in excess of the claims collected and, in our report of March 1962, we expressed the view that the purchase of hazard insurance should be limited to certain acquired properties.

FHA terminated the purchase of hazard insurance as of June 30, 1963, on acquired multifamily housing project properties and adopted a policy of assuming its own risks on those properties. We estimate that as a result of this action the cost of handling acquired properties will be reduced by at least $290,000 a year.

85. Design standards established for ambassadors' representation and living quarters requirements--A newly constructed Embassy residence at Rabat, Morocco, in which the Government had invested about $453,200, had never been used for its intended purpose. Dissatisfaction with the residence's proximity to the Embassy office building and various other functional and esthetic aspects were expressed by the incumbent ambassadors to Morocco who chose to continue residing in the old residence. Plans for utilizing the residence as an office building were subsequently developed by the Embassy in consultation with the Department of State's Office of Foreign Buildings. In July 1962, a year after the residence had been completed and furnished, the matter of using the residence for office space was being held in abeyance pending the arrival of a new ambassador.

We stated in our report that the nonuse of the ambassadorial residence was indicative of significant deficiencies in the conception and execution of the Rabat project. We suggested that there was an apparent need for clearer and more definitive criteria as to the representational and living quarters requirements which must be satisfied in the planning of an ambassadorial residence, and we proposed that the Department reexamine its building layout and design review processes. We also urged that the Department exert every effort toward maximum use of the Rabat residence.

The Department informed us in May 1963 that the Office of Foreign Buildings had established standards for ambassadors' representational and living quarters requirements for the four different classes of Embassy posts and also for residences of other officers with representational duties, and that the newly instituted policies, standards, and stricter review measures would result in practical and economic buildings abroad and should eliminate any possible recurrence of the experience of the Rabat project. The Department further informed us that the Embassy residence at Rabat was being converted to office space at a cost of $7,400.

86. Elimination of payment of excess sales proceeds to defaulted FHA home mortgagors would be desirable--In a report issued in January 1963 on a review of the Federal Housing Administration's policies and procedures for the settlement of certificates of claim on small home properties, we expressed the view that it would be desirable to eliminate from the National Housing Act the provision for the payment of excess sales proceeds to defaulted home mortgagors upon resale of foreclosed properties by FHA. In brief, excess sales proceeds are sales proceeds in excess of FHA's costs. We were advised by FHA that defaults and foreclosures usually occur in the first few years of the life of a mortgage and that for the past several years properties conveyed to FHA were those in which little equity was acquired either at the date of purchase or by the time of default. Our opinion was based on the belief that any excess amounts realized on the sales of defaulted properties are the result of FHA's efforts and not the efforts of the mortgagors and on the desire to eliminate the costly administrative burden placed on FHA in maintaining detailed records of the settlements. The FHA Commissioner subsequently informed us that the agency planned to seek legislation to eliminate such payments.

87. Action to be taken to preclude transfer of excess personal property to State cooperating agencies when Federal need exists--In a report issued in November 1962, we commented on the fact that the General Services Administration had transferred excess personal property to Federal agencies for retransfer to State cooperating agencies, at little or no cost to the State agencies, although the property had been requested by Federal agencies for their use. We recommended that GSA operating procedures be revised to specifically provide that no transfers of excess personal property be made to any State cooperating agencies if there is a Federal need for the property and until the expiration of the GSA 60-day utilization screening period. In January 1963, GSA informed us that it would revise its operating procedures in line with our recommendation.

88. Controls over disposition and use of surplus property strengthened--In October 1962 we reported that the Office of Civil and Defense Mobilization, Executive Office of the President, administered the Federal surplus property program in a manner which resulted in the acquisition of Federal surplus property by States and their political subdivisions for normal governmental activities

rather than for civil defense purposes as intended by the Congress. In addition, we reported that many donated items were not maintained by the recipients in operating condition, some had been converted to private use, and some could not be located. During the five years of program operations through July 1961, OCDM did not establish adequate standards for determining the eligibility of donees to participate in the program, did not make adequate reviews of program operations at the State and local levels, and did not make adequate and effective compliance inspections of donated property.

The responsibility for the administration of this program was transferred from OCDM to the Secretary of Defense, effective August 1, 1961. The Department of Defense informed us that it agreed with our proposals for action to correct the deficiencies we noted. Actions taken and instructions issued by the Department, if carried out effectively, should substantially overcome the deficiencies disclosed by our review.

89. Proper use to be made of minimum prices for sale of surplus personal property--In our November 1962 report we pointed out that at five General Services Administration regional offices, minimum (upset) prices were not being effectively used in the sale of Government surplus personal property. An upset price is a predetermined minimum acceptable price at which a lot of Government property will normally be sold to prevent its sale at unnecessarily low prices. At two offices, upset prices were not being properly established and, at three other offices, upset prices were not recorded although such prices were reportedly established. GSA informed us that the proper use of upset prices by regional offices would be achieved through the divisional inspection of regional operations.

90. Rental rate for use of Government-owned property increased --We noted that about 70 acres of land at the former Castroville, California, Radio Direction Finder Station had been licensed by the Coast Guard for private farming since 1945 at an annual rental of $5 an acre. This property had not been used for Coast Guard purposes since 1946. Although the acquisition cost of the property was recorded at $52,000, its value was estimated by the Coast Guard in 1958 at $360,000. Despite the increment in property value, the rental rate initially established had not been increased. We

recommended that, if the property was to be retained, the Commandant of the Coast Guard take action to establish a rental rate commensurate with the use value of the land. We were informed in June 1963 that the annual rental for the Castroville property was increased, effective December 1, 1962, from $350 to $3,500 and that transfer of the property to another agency was under consideration.

91. Need to strengthen property management and accountability practices--At 8 of the 9 Bureau of Prisons institutions we reviewed during fiscal year 1963, we noted one or more weaknesses in control over Government property including deficiencies in physical inventory procedures, accountability practices, and stock disposal procedures. After we reported these weaknesses along with recommendations for corrections to the wardens of the institutions involved, we were informed that corrective action had been taken or would be taken in line with our proposals.

REVIEW OF CONCESSION MANAGEMENT ACTIVITIES

92. Need for reexamination of Park Service policy of granting concessioners permanent possessory interest at current fair value--Under present National Park Service policies, concessioners are granted beneficial ownership--referred to as possessory interest--in the facilities which they construct. In most cases the possessory interest is granted for the physical life of the facilities, and, under certain circumstances, the interest may have to be purchased by the Government at current fair value. The fair value of concessioners' possessory interests is determined on the basis of replacement cost less observed depreciation as determined by appraisal.

In our June 1963 report to the Congress, we noted that when concessioners have substantial possessory interests, the Park Service may have to contend with the concessioners insisting on highly favorable renewal contract terms, delaying negotiations, or refusing to construct needed visitor facilities. Otherwise, the Park Service must find private buyers to purchase the concessioners' interests at current fair value or, as an alternative, the Park Service could request appropriations to permit direct acquisition of the concessioners' possessory interests by the Government, but it has not been the general practice of the Park Service to make such requests. The contractual provision for payment of "fair value" enables the concessioner to place an unreasonable price on his interest in the facilities and thus may discourage prospective purchasers.

We expressed the belief that the Secretary of the Interior should reexamine the Park Service policy of granting concessioners possessory interests at current fair value. We recommended that future contracts provide that, if a concessioner's right to operate is terminated for any reason during the contract period, the Government, or a third party acceptable to the Secretary, can at that time purchase existing possessory interests at the concessioner's cost of constructing the facilities less amortization computed on the basis of a realistic estimate of the facilities' useful life. With regard to existing contracts, we recommended that the Secretary propose to the Congress a long-range program for the acquisition of existing possessory interests if the concessioners do not desire, at the time of contract renewals, to continue operations under the policy recommended for future concessions contracts.

93. Need for more stringent administrative action to require concessioners to provide the facilities determined necessary for the accommodation of the visiting public--The stated policy of the National Park Service is that it is more efficient to have a single concessioner rather than to have two or more concessioners operating the major facilities in each national park area. This policy is incorporated in Park Service concession contracts by a provision which grants the concessioners a preferential right to provide additional facilities determined necessary by the Secretary of the Interior. In our June 1963 report to the Congress, we pointed out that the Park Service adhered to this policy even in instances where it was detrimental to operations of the parks.

We believe that the primary responsibility of the Park Service with respect to concession operations is to assure that the visiting public is provided adequate service and accommodations at reasonable costs. We believe that the preferential rights to operate in park areas, generally to the exclusion of others, and to construct additional facilities should be granted concessioners only to the extent that they agree to provide the needed facilities required by the Government. We recommended that, when new facilities are needed in park areas, the Secretary of the Interior require the concessioners to finance their construction in accordance with the provisions of the concession contracts. Where the Secretary determines that a concessioner is financially unable or is unwilling to construct the needed facilities, the Secretary should contract with another concessioner. If an interested party cannot be found, the Secretary should request direct appropriations from the Congress to build the facilities needed to accommodate the visiting public.

94. Need to adjust franchise fees reduced in violation of statute--The National Park Service, Department of the Interior, since about 1954 has reduced the franchise fees charged concessioners upon the condition that they construct buildings or make other capital improvements on Government-owned real property. The reduction in franchise fees has been accomplished both in renewal contracts and by amending existing contracts. In our opinion the reduction of franchise fees under such circumstances violates section 321 of the Economy Act of 1932 (40 U.S.C. 303b) which provides generally that the leasing of buildings and properties of the United States shall be for money consideration only. By reducing the franchise fees as consideration for building commitments, the

appropriation process has been circumvented and indirectly there has been, without the specific authorization of the Congress, an expenditure of funds that should have been deposited into the Treasury as miscellaneous receipts. The reduction in franchise fees also results in the Government indirectly subsidizing a substantial portion of the construction cost of facilities which become beneficially owned by the concessioners.

We recommended in our June 1963 report that, for those contracts in which the franchise fees were illegally reduced in consideration of the construction of additional facilities by the concessioners, the Secretary of the Interior promptly undertake to negotiate an adjustment in the franchise fees to an amount commensurate with the business opportunities granted each concessioner.

95. Need for provision in concession contracts to settle disputes arising during renegotiation of franchise fees--Although National Park Service concession contracts generally contain a provision for the renegotiation of the franchise fees at 5-year intervals during the terms of the contracts, the contracts entered into since March 1962 do not provide for the settlement of disputes between parties; if the Park Service and the concessioner cannot agree on the amount of the new fee, neither party can require a revision and the effect of the renegotiation provision is nullified. We recommended to the Secretary of the Interior, in a report issued in June 1963, that the renegotiation provision provide that any dispute shall be decided by the Government contracting officer. In the event the findings are not satisfactory to the concessioner, he should have the right of appeal to the Secretary whose decision made in good faith and supported by substantial evidence would be final and conclusive.

96. Need to establish adequate criteria for setting franchise fees in relation to the business opportunities granted concessioners--In a report submitted to the Congress in June 1963 we pointed out that the National Park Service, Department of the Interior, had negotiated concession contracts without requiring concessioners to submit adequate financial information or projections of estimated cost and had granted reductions in franchise fees without apparent financial justification. We also noted that certain concessioners who reported significant income were charged minimum fees or fees that were less than the minimum prescribed as a guide by the Park Service.

Franchise fees paid by concessioners are often agreed upon by the Park Service without adequately reviewing and evaluating the past and potential value of the concession operation. We believe that all factors affecting the value of the concession operation should be taken into consideration by the Park Service in establishing franchise fees. To better protect the interest of the Government in negotiating new or renewal concession contracts or in renegotiating existing franchise fees, we recommended to the Secretary of the Interior that concessioners be required to submit certified current financial information, including projections of cost and income.

97. Need for further action to adjust fees for special-use permits for summer-home sites--In our review of recreation and other selected land use activities of the Forest Service, we noted that fees charged by the Forest Service for permits for summer-home sites were often less than fees computed, in accordance with Forest Service instructions, on the basis of the estimated values of comparable privately owned lands used for the same purpose in the same areas. We found this condition at four of the six national forests where we made such comparisons. At the remaining two national forests, the fees charged by the Forest Service to some permittees were lower than the minimum fees prescribed by the Forest Service regional office. We also noted that at two other national forests, the Forest Service was following a policy of not adjusting fees on nonrenewable term permits at 5-year intervals, although governing instructions provided that adjustment of fees at such intervals may be made to place the charges on a basis commensurate with the value of the use authorized by the permit.

In a report issued in March 1963 we recommended that the Chief, Forest Service, reemphasize to regional foresters the need to determine the reasonableness of existing summer-home-site permit fees charged in their respective regions and, where warranted, to adjust existing fees as soon as possible under the provisions of the permits. We stated that in making such determinations, particular attention should be given, where possible, to the values of comparable private sites in the area used for similar purposes.

REVIEW OF CONCESSION MANAGEMENT ACTIVITIES (continued)

Our follow-up review at four Forest Service regions to ascertain the nature and extent of Forest Service corrective actions disclosed that permit fees on summer-home sites had been increased in two of these regions since the time of our previous review, and that increased fees were to be established effective January 1, 1964, in the third region. However, in the California Region, we were informed that while new rates were being computed, the region did not plan to adjust the rates for any nonrenewable permits which are due to expire before 1974. This plan is contrary to the advice previously furnished us, as described in our audit report, that adjustments in fees would be made on nonrenewable term permits due to expire after 1969. In our opinion, this plan does not provide for timely adjustment of fees for nonrenewable term permits where such action is permissible and warranted, and will result in less revenue to the Government than would have accured under the plan previously announced by the Forest Service.

98. Weaknesses in the administration of special-use permits to be corrected--In our review of recreation and other selected land use activities of the Forest Service, we noted that the Forest Service failed to require some concessionaires in national forests to maintain adequate records to enable the Government to determine whether it was receiving the full amount due under the terms of the governing permits. Our review also disclosed that the Forest Service was not making timely and effective audits of the records of some concessionaires. In commenting on these matters, Forest Service officials stated in December 1962 that they were preparing instructions for minimum internal controls and accounting records and that additional emphasis had been put on audit requirements and guidelines for auditing concessionaires' records. These actions, if properly implemented, should result in improved administration of concessionaire operations.

REVIEW OF MANAGEMENT OF GOVERNMENT-FURNISHED HOUSING

99. Action to be taken to improve control over expenditures for maintenance, repair, and renovation of employees' quarters--The Veterans Administration spent about $73,000 and used an estimated 5,000 hours of labor donated by patients to renovate and modernize a dwelling over 80 years old used as a station director's residence at the Veterans Administration Center, Log Angeles, California. In view of the age, seriously deteriorated condition, and obsolete design of this dwelling, we believed that the decision to restore it to acceptable condition was unsound. We noted that the alternatives to renovating this building were not adequately explored to determine whether the most effective use of Government funds would be made. Also, the renovation was erroneously classified as maintenance and repair work and was financed with station operating funds rather than being classified as a construction project which would have required review and approval by the VA Central Office and the Bureau of the Budget.

In commenting on this matter in September 1962, the Veterans Administration agreed that the renovation of the residence was an unwise expenditure and an apparent circumvention of requirements concerning construction or renovation of projects of this magnitude. The Veterans Administration also agreed that there was a need for tightening policies and procedures to assure more effective management controls and stated that policies and procedures for controlling total financing of repairs, maintenance, improvements, alterations, and renovations from station operating funds would be improved.

100. Need for improved management of housing operations--Our review of housing operations at the Nevada Test Site, Atomic Energy Commission, disclosed that lodging rates were not increased for improved accommodations, dormitories were not utilized in an effective manner, and varying rates were charged for use of similar house trailers. We made proposals to correct these practices and to place the operation on a financially self-sustaining basis to the extent possible.

AEC officials informed us that the responsibilities for the housing operations have been centralized, the accomodations and prices have been standardized, and that the need to conduct the

housing operations on as economical a basis as possible has been and will continue to be a matter of prime consideration to AEC.

101. Rental rates revised for housing furnished employees--Employees of the Division of Indian Health, Public Health Service, Department of Health, Education, and Welfare, were furnished housing at rental rates which were lower than those authorized under the Bureau of the Budget and Department instructions. The lower rates resulted from an adjustment for the intangible disadvantages of isolation which, in effect, duplicated allowances already made for unusual transportation costs.

We proposed that the Secretary of Health, Education, and Welfare require the rental adjustment for isolated quarters to be limited to that allowed for unusual transportation costs as specified in the Department instructions. We were subsequently informed that, effective January 1963, both Department and Division of Indian Health instructions were revised to eliminate the duplication of adjustments and that the resultant revised rental rates would increase annual rentals by about $96,000.

REVIEW OF CHARGES FOR GOVERNMENT-FURNISHED SERVICES

102. Additional revenues to be realized by increasing the number of areas in national forests in which charges are made for the use of recreational facilities--Our review of recreation and other land use activities of the Forest Service disclosed that the Forest Service did not, except in certain areas of California and Oregon, charge forest visitors for the use of campsites, picnic grounds, and other special recreational facilities developed, maintained, and operated by the agency. Forest visitors were being charged in all regions for the use of special facilities operated by concessionaires. The policy of the Congress that the recipients of special benefits should pay a reasonable charge was set forth in the Independent Offices Appropriations Act of 1952.

In a report issued in March 1963 we recommended to the Chief of the Forest Service that definite plans for recovering the costs of rendering special services to users of Federal recreational facilities on national forest lands be formulated and placed in effect as soon as practicable and that Forest Service officials actively work with the Bureau of the Budget and other interested officials in an effort to achieve uniform recreation fee policies for Federal land-managing agencies. Subsequent to our review, the Forest Service expanded the number of areas at which charges are being made for use of special recreational facilities from 23 areas in 2 States to a total of 75 areas in 4 States We were informed that this action was taken on an experimental basis so as to enable identification and solution of problem areas associated with a policy of charging fees for use of recreational facilities.

103. Rate charged for dredging to be increased to recover costs--The Savannah District, Corps of Engineers (Civil Functions), was charging commercial interests $75 an hour for dredging material which the latter deposited in the navigation channels. Our review disclosed that the rate was computed on the basis of the costs of operating the Government dredge; however, the costs of mobilization, towing to and from location, and demobilization were not considered in the rate computation. Inclusion of these other cost factors in the rate charged during the period of our review would have increased the rate to about $100 an hour. We recommended that the existing rate be revised to include all costs of the services rendered. In January 1963, the Corps advised us that the District

Engineer was being instructed to increase the dredging rate charged local interests to include costs of mobilization, towing, and demobilization.

104. Hospital reimbursement rates for inpatient care to be reviewed--We observed that the maximum inpatient charge rate for medical services furnished to Indians by the Division of Indian Health, Public Health Service, Department of Health, Education, and Welfare, was less than the average cost of rendering the services. For example, during fiscal year 1961, the maximum inpatient charge rate was $17 a day while the average cost of providing medical services was $27.65 a day. Thus, where charges had been made under existing regulations, the Government sustained a loss to the extent of the difference between the amount charged and the cost of services rendered.

We proposed that the rates for inpatient services rendered at Indian health facilities be adjusted to reflect current costs and that cost reviews be made annually to determine whether further rate adjustments are warranted. In February 1963 the Department advised that it would annually review and establish maximum rates commensurate with actual costs.

105. Savings to result from adjustment of inadequate rental charges to occupants of Government-owned quarters--Rental charges to occupants of Government-owned quarters at certain Veterans Administration stations were significantly lower than the rentals charged in nearby communities for comparable private housing. The lower rentals for quarters resulted from the VA policy of permitting reductions based on restrictions or extra health hazards attributable to residing on hospital grounds and not inherent in the occupancy of comparable private housing. In a report issued in January 1963 we recommended that these factors be eliminated in establishing rental rates because applicable Bureau of the Budget instructions do not include such conditions as reasons for deviating from the principle that rents should be set at levels similar to those prevailing for comparable private housing in the area.

Based on our recommendation, the Veterans Administration eliminated these factors from consideration in establishing rentals and planned to reappraise all VA quarters for the purpose of establishing rental charges consistent with the Bureau of the Budget's expressed policy.

REVIEW OF RECORDS MANAGEMENT

106. More effective leadership to be 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. In June 1963, we were informed by the National Archives and Records Services that it had started a review of this type and planned to utilize the experience gained to conduct other reviews in fiscal year 1964 and thereafter.

107. Need for regulations providing 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. GSA informed us that it would issue the necessary regulations as soon as possible except in the area of records maintenance where it believes that meaningful standards have not yet been developed.

108. Need to relieve critical record storage problem.--The large quantity of permanent archival records on hand and being

accumulated each year has presented the National Archives and Records Service with a difficult storage problem. After a review of the situation, we concluded that greater use of microfilming, especially of those permanent records identified as not having a retention value in their original form, would help relieve this storage problem. We found that substantial quantities of permanent records were susceptible of disposal after microfilming, and substantial benefits could be derived by microfilming these records.

In a report issued in October 1962, we recommended that the Administrator of General Services consider the possible advantages of large-scale microfilming, particularly of those permanent archival records identified as not having a retention value in their original form; that the possibility of large-scale microfilming be tested; and that reliable cost data be developed with a view to reducing the requirements for additional storage space.

We were informed in June 1963 by the National Archives and Records Service that it had planned to initiate a more extensive disposal microfilming program. However, in July 1963, the Administrator of General Services informed us that because of a recently discovered and unsolved deterioration problem in processed microfilm, GSA had suspended all planning for a large-scale microfilming program that would have had as its objective the disposal of the original records. He also stated that the National Bureau of Standards was engaged in research on the problem.

109. Need to review for disposal those records being held indefintely 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 have 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 films.

110. Microfilm service to be strengthened.--Under the Federal Property and Administrative Services Act of 1949, as amended, the General Services Administration is authorized to establish and operate a centralized microfilming service for Federal agencies. Our review of this activity indicated that GSA had conducted this service on only a limited scale, that agency programs had been initiated on an individual basis, and that experiences gained had not been disseminated for guidance of other agencies. In a report issued in October 1962 we recommended that the Administrator of General Services consider strengthening its microfilm service to promote uniformity in standards and exchange of information, minimize duplication of effort, and provide expert assistance to agencies. We were subsequently informed of certain steps being taken by GSA to improve its microfilm service.

REVIEW OF RESEARCH AND DEVELOPMENT PROGRAMS

111. Need for stability in objectives and timely decisions in administering research and development programs--In a report issued in February 1963 on our review of the joint Atomic Energy Commission and Department of Defense Manned Aircraft Nuclear Propulsion Program, we commented on deficiencies in the administration of the program for the information of the Congress and for consideration by executive agencies so that appropriate steps could be taken to minimize the possibility of similar situations in future research and development programs.

The deficiencies included the incurrence of costs for facility designs that were not used and for the construction of facilities that were never used, or used very little, for their intended purposes because of program reorientations; a delay in formalizing a contractor's work agreement after a reorientation of the program; the failure to fully realize the financial benefits attainable under a unified organization arrangement; the ineffectiveness of frequent program reviews by temporary groups; and certain uneconomical procurement and contracting practices. Also, there were indications that the Department of Defense did not furnish sufficient and timely guidance for the program and that program reorientations were not formalized in a timely manner.

We expressed the belief that a research and development effort of the complexity and magnitude of this program could not reach its goal in an effective and efficient manner unless a certain degree of stability in objectives was accorded to the program. The Department of Defense expressed general agreement with our comments and observations and stated that, for the purpose of minimizing the impact of such conditions in the future, it had instituted many new management procedures in the Department.

112. Need to make timely adjustments of health research facilities construction grants--Our review of the health research facilities construction program administered by the National Institutes of Health (NIH), Public Health Service, Department of Health, Education, and Welfare, indicated a need for NIH to strengthen its post-award grant administration so that grants awarded under the program can be adjusted, when warranted, in a more timely manner. We noted situations in which grants were not reduced by NIH in a timely manner although such reductions should have been made. In a report

issued in December 1962 we recommended that NIH more effectively carry out its prescribed procedures for post-award site inspections of grant facilities, especially during the course of construction, and that NIH take timely action to reduce grant amounts on the basis of information obtained during the inspections as to the cost and intended use of the facilities, and make the savings available for use in awarding additional grants, if appropriate. We were informed in March 1963 that NIH concurred with our recommendation and would take corrective action.

113. Need for criteria relating to use of multipurpose facilities for health research--In awarding grants for the construction of health research facilities, the National Institutes of Health had not prescribed adequate criteria for differentiating between space to be used for research, teaching, and patient care and for allocating space used on a multipurpose basis between these activities. In a report issued in December 1962 we stated that while we recognized that a sharp differentiation might sometimes be difficult, we believed that criteria for this purpose were necessary because (1) grants were authorized for only that part of a facility to be used for health research and (2) the Public Health Service Act authorized the Surgeon General to recover part of a grant if, within 10 years after completion of construction, the facility ceased to be used for the research purposes for which it was constructed.

We recommended that NIH develop adequate criteria for determining the proportionate use of multipurpose facilities for research purposes. We were informed in March 1963 that NIH would review and codify the criteria used by its review groups so that the criteria would be available for guidance to its auditors and to appropriate personnel at grantee institutions.

REVIEW OF THE ADMINISTRATION OF FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

114. Further action needed to deter overinsurance in order to reduce costs and prevent increases in premium rates.--Our review of the Federal employees health benefits program, administered by the Civil Service Commission, disclosed a need to deter overinsurance, i.e., coverage under one or more policies in addition to coverage under the Federal employees health benefits program, which permits duplicate and multiple benefits or indemnities. Because an overinsured person can collect indemnities in excess of his actual expenses for health care, unnecessary occupancy of hospital beds and unnecessary consumption of medical supplies sometimes results. The costs related to any such overuse increase the total claim costs and thereby contribute to the need for increased premium rates.

The Government program presently includes certain restrictions against double coverage. Employees may not enroll in more than one of the various plans offered under the Government program. Also, contracts for the Government-wide plans permit the carriers of these plans to restrict benefits in the event double coverage exists because an employee or spouse is enrolled in a group plan provided by a second employer. There are no restrictions, however, against double coverage which exists because an employee has additional coverage under individual policies. Consequently, an employee can purchase an unlimited number of such policies and collect indemnities under these policies as well as under the Government program.

We recommended in our report of May 1963 that, to minimize possible overinsurance abuses, the Commission consider negotiating with the health insurance contractors to obtain certain revisions to the present contract restrictions against overinsurance.

115. Need to curtail free health benefits coverage of persons no longer in Government service.--In our report of May 1963 we stated that in our opinion the regulations of the Civil Service Commission are not in consonance with authorizing legislation concerning the extension of health benefits coverage without requiring payment of premiums. The act provides that the Commission may, by regulation, allow such a free extension of coverage for as long as 1 year to employees who are on leave without pay. The Commission regulations provide that the period of free coverage is applicable to all employees in a nonpay status. This would include employees

who have abandoned their jobs but who have not been removed from the rolls of active employees and others who are granted leave without pay for reasons which do not benefit the Government.

Benefits provided during the period of free coverage add to the costs of the program and have the ultimate effect of either reducing the benefits available to those employees who remain in the Government service or increasing the cost of the program to the Government and to the employees. We recommended to the Commission that free extension of coverage be granted only to an employee who is on leave without pay for a reason which is of benefit to the Government or because of illness and that agencies be provided guidelines with respect to the reasons to be considered as being of benefit to the Government.

REVIEW OF PAYMENT OF UNEMPLOYMENT BENEFITS

116. Change needed to prevent the payment of more than one series of benefits to former Federal workers on the basis on one separation from Federal service--Federal claimants under the unemployment compensation program receive benefits generally in accordance with applicable State laws. The benefits are fully financed by Federal funds. Although State laws do not contain provisions expressly providing for a second series of unemployment benefits based on one employment termination, we pointed out in our report issued in June 1963 that in 22 States former Federal civilian employees and ex-servicemen, as well as former employees in private industry, are receiving a second series of unemployment compensation benefits because of the method used by these States in obtaining earnings information from employers. We estimated that the cost to the Federal Government of the second series of unemployment benefits could be as much as several million dollars a year.

Although the Department of Labor has revised its policies to more actively encourage the States to adopt legislation to prevent the payment of the second-year benefits, such remedial action is dependent on the State legislatures. Accordingly, in view of the practice of paying second-series benefits in the 22 States, we suggested that the Congress may wish to consider the advisability of enacting remedial Federal legislation pending corrective legislative action by these States. Also, we recommended that the Secretary of Labor publish information which would fully disclose the extent of benefits paid in successive benefit years on the basis of one separation from employment.

117. Change needed in interpretation of the unemployment compensation law to preclude additional overpayments--In our report of May 1963 we pointed out that the interpretation by the Department of Labor of a provision of Federal law concerning treatment of terminal leave resulted in paying former Federal civilian employees and ex-servicemen unemployment benefits for which they were not eligible. Under the Department's interpretation, which we do not believe is supported by the language of the law, periods of disqualification imposed for voluntarily quitting employment were allowed to start and claims for benefits were accepted during the terminal leave period although the law provided that such former employees were to be considered as being employed during periods of terminal leave. These practices, which were followed for more than five years, resulted in overpayments to former Federal civilian employees which could have been as much as $460,000.

The practices of the Department relating to terminal leave for civilian employees were subsequently ratified by the Congress when it repealed the section of the law that considered the terminal leave period as a period of employment. However, the law continues to provide that ex-servicemen shall be considered employed during terminal leave periods. If the Department's interpretation with respect to ex-servicemen remains unchanged it will result in continued overpayments which, in the past, are believed to have been significant. Accordingly, we recommended that the Secretary of Labor revise the Department's policy on terminal leave practices relating to unemployment benefits to ex-servicemen to conform to Federal law.

118. Subsidization of post exchanges and similar activities of the Armed Forces through the payment of Federal unemployment benefits--In a report issued in June 1963 we pointed out that about $900,000 annually in unemployment compensation benefits is paid by the Department of Labor through State employment security agencies to former employees of post exchanges and other activities of the Armed Forces which operate with nonappropriated funds. The payment of these unemployment compensation benefits from Federal funds in effect constitutes a subsidization of these activities by the Federal Government since they do not pay Federal or State unemployment taxes or reimburse the Department of Labor for the benefits paid from Federal funds and their profits do not accrue to the Federal Government. We suggested in our report that the Congress may wish to consider whether it is desirable to continue to subsidize these activities through the Federal unemployment compensation program.

REVIEW OF COAST GUARD RETIREMENT PROVISIONS

119. Limitation on retirement of Coast Guard enlisted men repealed.--The number of Coast Guard enlisted men who could be retired in any one year by reason of length of service was limited by law to a maximum of one percent of the active enlisted force on January 1 of each year. We pointed out in a report issued in January 1963 that many enlisted men who would otherwise become eligible for retirement in the next few years through completion of 20 years' service would not be able to retire because of the one percent limitation. The limitation was inconsistent with the retirement provisions of the other military services which have no such limitation. We recommended, therefore, that the Commandant of the Coast Guard give consideration to suggesting repeal or revision of the legislation limiting the number of retirements. The Commandant concurred with our recommendation, and bills were introduced during the 1st session of the 88th Congress to remove the limitation. The limitation was then removed by the Congress through the enactment of Public Law 88-114, approved September 6, 1963.

120. Additional retirement pay for good conduct of Coast Guard enlisted men discontinued.--In our report issued in January 1963 on certain unusual aspects of retirement provisions for Coast Guard enlisted personnel, we pointed out that the retirement pay for enlisted men of the Coast Guard was on a more favorable basis than that of the other military services because the Coast Guard was authorized to pay enlisted retirees additional retirement pay in the form of a reward for good conduct during their active service in the Coast Guard. These payments were authorized by a 1939 law which tended to equalize Coast Guard retirement pay with that of the Navy. However, as a consequence of subsequent changes in retirement pay legislation, the reward gave an eligible Coast Guard retiree a monetary advantage averaging about $12,600 during the span of his retirement over a member of any other military service. The reward was being granted to about 92 percent of Coast Guard enlisted men retiring by reason of service. We estimated that at January 31, 1962, costs relating to the good conduct awards were accruing at the rate of $6,000,000 a year. We recommended in our January 1963 report that the Congress consider repealing the legislation which authorized the reward for good conduct.

The Commandant of the Coast Guard concurred with our recommendation, and subsequently bills were introduced during the

1st session of the 88th Congress proposing a change in legislation in conformity with our recommendation. By Public Law 88-114, approved September 6, 1963, the Congress repealed the provision of law authorizing the reward for good conduct. The repeal was made applicable to enlisted personnel other than those in service at the date of the act.

121. Policy adopted establishing limits of Federal participation in costs of temporary road connections--In one State we noted that substantial unnecessary costs had been incurred because of the construction of numerous temporary road connections which will be excess to the needs of the Interstate System as adjoining sections of the System are constructed. We reported that better State and Bureau scheduling of projects and the selection of construction project limits that coincide with existing intersecting roads would substantially reduce the need for temporary connections and would result in substantial savings. We recommended that, to minimize the use of temporary connections, the Federal Highway Administrator issue a policy statement on this subject for application to all States and issue appropriate guidelines for the benefit of engineers of the Bureau of Public Roads in their consideration and review of State planning and programing actions in developing Interstate highways. In September 1962 the Bureau issued a statement of principles and bases for determining the limits of Federal participation in the cost of temporary connections in line with our recommendation.

122. Procedures revised to reduce project costs for value of materials salvaged from dismantled bridges--The Bureau of Public Roads, Department of Commerce, participated in the cost of dismantling bridges which were being replaced on Federal-aid highway projects, but did not require reduction of project construction costs when a State sold salvaged bridge materials to counties within the State. Because existing Bureau policy did not require project credit in such cases, we proposed in January 1963 that the Federal Highway Administrator issue an appropriate policy statement which would require reduction of project costs in the amount of the estimated value of the salvageable materials or any proceeds derived by a State from the sale of materials acquired incident to the construction of Federal-aid highways. In August 1963 the Bureau established a policy with respect to the disposal of existing highway bridges on Federal-aid projects which was substantially in line with our proposal.

123. Procedures revised to increase liquidated damage rates to cover additional engineering costs--In several reports to the Congress and to the Federal Highway Administrator, we pointed out that the amounts of liquidated damages established by a number of States to recover additional engineering and inspection costs

incurred by reason of avoidable delays in contract performance were not uniform among the States and were often considerably less than the rates used by the Bureau of Public Roads in direct Federal highway construction contracts. We recommended that the Administrator encourage the States to increase their liquidated damage rates to a level more commensurate with present-day engineering costs incurred by the States. We recommended also that a study of the adequacy of State liquidated damage rates be made with a view toward development of rates that reflect current costs for uniform adoption and application by the States. In November 1962, the Federal Highway Administrator issued a directive requiring that Federal-aid project agreements contain a provision setting forth specific liquidated damage rates to be assessed against contractors who fail to complete their work within the contract time. The rates established for inclusion in the agreements are generally in line with the liquidated damage rates used by the Bureau in direct Federal construction of highways.

124. Method of compensating fee appraisers revised to require predetermined lump-sum fee--Fee appraisers employed by one State were being compensated at per diem rates of $50 or $100 depending, for the most part, upon the geographic area in which the appraisal was to be made. The Bureau of Public Roads did not require the State to establish time limits on appraisers when their services were requested. Therefore, the cost of any particular appraisal was not determinable by the State until a bill was received from the appraiser. We proposed that the Bureau encourage the State to adopt a method of compensating fee appraisers which would permit an evaluation of the reasonableness of proposed fees prior to performance of the appraisal work. In February 1963, the Bureau issued a policy statement prescribing requirements relating to Federal reimbursement of appraisal fees. In line with our proposal, Bureau policy was changed to require that appraisal agreements between a State and fee appraisers generally provide for reimbursement on the basis of a lump-sum fee established in advance of the appraisal assignment.

REVIEW OF ADMINISTRATION OF MINING CLAIMS
LOCATED ON NATIONAL FOREST LANDS

125. Action to be taken to abate unauthorized uses of unpatented mining claims--Our review of Forest Service administration of mining claims located on national forest lands had disclosed that numerous unpatented mining claims were apparently being used for purposes not related to mining. Such use is not in accord with court decisions relating to the intent of the mining laws nor is it in accord with the act of July 23, 1955 (30 U.S.C. 612a), which specifically prohibits the use of unpatented mining claims for purposes other than mining. We pointed out the need for the Forest Service to institute as soon as practicable a program for determining the legal status of doubtful occupancies of unpatented mining claims and to take timely trespass or other appropriate action to resolve the problems arising from their unauthorized use.

In February 1963, the Forest Service in commenting on this matter stated that it had determined that there are about 10,000 cases of occupancy on mining claims in the national forests, most of which are believed to be unauthorized and therefore in trespass. The Forest Service estimated that about 1,000 of these cases would fall under the act of October 23, 1962 (P.L. 87-851), which provides relief for certain residential occupants of unpatented mining claims upon which valuable improvements have been placed if the claim has been determined to be invalid or if the occupant has relinquished his rights after notice that the claim is believed to be invalid. According to the Forest Service, the remaining 9,000 cases are to be processed under the general mining laws and Department of Agriculture trespass regulations at the rate of 1,000 a year until the backlog is eliminated.

126. Need to correct adverse effects of certain mining claims on national forest resources--Our review of Forest Service administration of mining claims located on national forest lands disclosed that effective administration of the national forests was being hindered because certain mining claims were preventing access to Forest Service timber and other resources. In some of the cases we reviewed, planned sales of many millions of board feet of timber--some of which was overmatured, diseased, and insect-infested--had been postponed for long periods of time because of lack of rights of way across mining claims.

We pointed out also that, in many instances, owners of claims had apparently done little or no mining after obtaining patents

REVIEW OF ADMINISTRATION OF MINING CLAIMS
LOCATED ON NATIONAL FOREST LANDS (continued)

(title) to claims but they had sold timber from the claims for amounts far in excess of the prices paid to the Government for the patented land. A patent may be obtained by paying the Government $2.50 or $5 an acre, irrespective of the value of timber or other nonmineral resources on the claim. Forest Service records showed that patented lands frequently contained large volumes of merchantable timber to which the claimants obtained title when they patented the lands.

We suggested that the Congress might wish to consider the desirability of legislation which would (1) reserve to the United States title to the nonmineral surface resources on mining claims and rights of way across mining claims when patents are issued in the future for national forest lands, and (2) permit patentees to use the surface and surface resources to the extent needed for mining activities as determined by the Secretary of Agriculture. It was our opinion that such legislation would tend to minimize right-of-way access problems in the future and discourage the patenting of claims primarily for nonmining purposes. It would also enable the Forest Service to manage the timber and other nonmineral surface resources to which patentees now obtain ownership without payment of fair market value to the Government.

In June 1962, the chairman, Senate Committee on Interior and Insular Affairs, requested the Secretaries of Agriculture and the Interior to prepare at the earliest opportunity and transmit to the Congress whatever legislation they desired and deemed appropriate to deal with this subject. The chairman was informed by the Secretary of Agriculture in July 1962 that the Department of Agriculture was working with the Department of the Interior in an effort to develop desirable changes in the mining laws and that the Department of Agriculture hoped to transmit its recommendations to the Congress before January 1, 1963. As of September 1963, such legislative proposals had not been submitted.

RE/IEW OF CHARGES BY COTTON WAREHOUSEMEN

127. Requirement for producers to pay fees to warehousemen for unnecessary services eliminated.--Under the 1959 and 1960 cotton purchase programs of the Commodity Credit Corporation producers were usually required to pay warehousemen up to $0.25 a bale for certain services performed by the warehousemen. These services consisted principally of the execution of an Agreement of Warehouseman on each sales agreement, containing representations as to the cotton stored, the correctness and accuracy of certain data in the sales agreement, and the agreement of the warehouseman to the terms and conditions of storage specified by CCC. In our opinion, there was no need for CCC to have permitted warehousemen to charge producers fees for the execution of the Agreement of Warehouseman since the CCC cotton purchase program regulations had provided through other means for the verification and controls intended to be achieved through these agreements.

Provision for an Agreement of Warehouseman also had been included for many years in documents used by producers in obtaining cotton price support under the loan programs. After we discussed this matter with an agency official, CCC revised its requirements in July 1962, effective with the 1962 crop of cotton, to eliminate provision for the Agreement of Warehouseman. This change should result in significant annual savings to producers inasmuch as an average of over 5 million bales of cotton have been placed under price support annually in recent years.

128. Recommendation for eliminating inequities in cotton storage agreements.--In a report issued in January 1963 on our review of 1959 and 1960 cotton purchase programs of the Commodity Credit Corporation, we pointed out that in CCC's cotton storage operations, storage charges for overlapping periods are paid when CCC-owned cotton is sold and when CCC moves or reconcentrates cotton from one warehouse to another. We questioned the equitableness of the provisions of CCC's storage agreement for cotton which, on CCC sales, permit 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, result in CCC's paying two separate warehousemen storage charges on the same bales of cotton for the same periods of time.

We recommended in our report that CCC review the provisions of the existing CCC storage agreements for cotton and determine the

need for revisions aimed at eliminating the apparent inequities described above. The Acting Administrator, ASCS, advised us that ASCS was considering the possibility of establishing daily rates for storage of cotton in future storage agreements in order to eliminate storage payments for overlapping periods. Subsequently, by letter dated July 29, 1963, the Administrator advised us that, after careful consideration of all matters pertaining to cotton storage rates and their effect on the over-all operations of CCC, it was determined to be in the best interest of CCC to pay storage charges on a monthly basis, as generally provided for in warehousemen's tariffs, but to reduce such charges, effective August 1, 1963, by 5 cents a bale per month.

129. Cancellation of questionable contracts resulted in eliminating conservation reserve payments of about $955,000--In a report issued in May 1963 we pointed out that the subdivision of two large tracts of land and the subsequent sales of the resulting parcels may have been a scheme or device to circumvent the annual payment limitation of $5,000 per producer established for the conservation reserve program and, in some instances, the payment limitation of $3,000 per producer established for the 1958 acreage reserve program. As a result of the subdivision and sales, soil bank contracts covering 36 individual farm units were entered into under the conservation reserve program, calling for payments totaling about $1.6 million over the 10-year term of the contracts.

We furnished information to the Department of Agriculture on these questionable transactions in May 1959. After investigating the cases, the Department canceled the conservation reserve contracts in September and October 1961 prior to making payments for the 1961 crop year, on the basis that they were a part of a scheme or device to exceed the annual payment limitation to any individual producer. The Department of Agriculture referred these cases to the Department of Justice for any legal action considered appropriate.

After certain of the parties filed suits challenging the legality of the cancellations, compromise settlements covering 30 of the contracts were agreed to. The settlements provided for payment of about $111,000 by the Government, representing soil bank payments for 1961 on 24 of the 30 contracts, with no payments to be made on 6 of the 30 contracts. As part of the settlement, the parties involved agreed to withdraw from the soil bank program as of the end of the 1961 crop year.

Cancellation of the 36 contracts resulted in the elimination of conservation reserve payments totaling about $955,000 that otherwise would have been made for 1961 and subsequent years. However, conservation reserve payments made for 1960 and prior years plus the amounts to be paid for 1961 under the compromise offer will total $685,000.

REVIEW OF FOREIGN ECONOMIC AND TECHNICAL ASSISTANCE PROGRAMS

130. Need for reforms in Korean economic structure and for better management of assistance program for Korea--Measured in relation to the financial outlay by the United States Government, the progress achieved in the economic development of Korea during the period 1957-1961 was considerably less than was reasonable to expect. A variety of interconnected causes account for this disparity, at the center of which were (1) a level of aid averaging more than $200 million annually which the Korean economy could not absorb productively nor the Korean Government administer efficiently, (2) limited technical skills in Korea, and (3) failure of the responsible United States agencies to recognize sufficiently these limitations in the annual programming of aid. The availability of such relatively large resources was a disincentive to fiscal prudence and tended to encourage personal and governmental standards out of proportion to economic realities.

In a report issued in September 1962 we stated that the direct causes of the aid program's poor economic showing were attributable mainly to deficiencies in certain sectors of the Korean economic structure, lack of cooperation by the Korean Government, and poor program planning and administration by the International Cooperation Administration, predecessor of the Agency for International Development. We emphasized that only if these causes are eliminated or greatly minimized is it logical to expect that economic development in Korea and the productive utilization of aid funds will be attainable in any degreee reasonably commensurate with the amount of aid. We stated further that the United States agencies should take an active part and have a meaningful voice in the policies, practices, and operations of those segments of the Korean economy which bear significantly on the country's economic stability and development.

The Agency for International Development, although not agreeing with all aspects of our findings, expressed the over-all view that our report represented a competent study of the Korean program and that our recommendations were in accord with the Agency's policy although some of them would not prove readily feasible. Most of the difficulties and deficiencies affecting the Korean program had long been recognized; and while remedies were being actively pursued, considerable time will be required to resolve them.

REVIEW OF FOREIGN ECONOMIC AND
TECHNICAL ASSISTANCE PROGRAMS (continued)

Subsequent to our review the aid level was sharply reduced and its content and the size and character of the Agency's overseas Mission staff were revised to provide greater selectivity in the uses of aid and to give closer attention to Korean Government practices in the management of economic affairs.

REVIEW OF SLUM CLEARANCE AND URBAN RENEWAL ACTIVITIES

During fiscal year 1963, we continued to review selected activities under the slum clearance and urban renewal programs administered by the Housing and Home Finance Agency (HHFA) and by the Urban Renewal Administration (URA), a constituent unit of the Housing and Home Finance Agency. Local public agencies (LPAs) administer the programs in each locality.

The cost of the slum clearance and urban renewal programs is shared by the Federal and State or local governments. The Federal Government's share is generally two-thirds but, under certain circumstances, is three-fourths. The State or local government may contribute its share of net project cost in the form of cash or noncash local grants-in-aid, such as donations of land, installation of streets and utilities, and construction of schools, recreation areas, and parking facilities. A proper evaluation of local grants-in-aid is important because excessive credits and credits for ineligible grants-in-aid result in additional costs to the Federal Government. Also, excessive costs incurred in acquiring land for a project, in acquiring buildings or residences to be demolished, or in demolishing buildings unnecessarily, adds to the Federal Government's share of the cost.

131. HHFA repeatedly recertified cities' programs for eliminating and preventing slums and blight although no appreciable progress had been made in correcting program deficiencies--A regional office of the Housing and Home Finance Agency repeatedly recommended that the Administrator, HHFA, recertify workable programs for eliminating and preventing slums and blight and such programs were recertified even though they were seriously deficient and the cities had shown no appreciable progress toward correcting the deficiencies. The Housing Act of 1949, as amended, requires that, as a prerequisite to the receipt of Federal financial assistance for certain housing programs, a community must present a workable program to the Administrator, HHFA. These programs must be certified and then be recertified periodically by the Administrator. The programs recommended for recertification contained evidence of uncorrected weaknesses in substance and enforcement of codes and ordinances and in relocating families displaced by governmental action. We also found that regional office officials had neither budgeted funds for nor made visits to the communities whose programs they had reviewed.

In a report issued in December 1962, we expressed the view that recertification of programs under such circumstances was not consistent with the objectives of urban renewal legislation because the cities were not required to provide the means of preventing the spread or recurrence of slums and blight. We suggested that the Administrator, HHFA, require more meaningful evaluations of all elements of the cities' programs and that recertification be withheld if the cities' do not make progress in meeting program goals. We suggested also that the Administrator require that field visits be made by the regional office program staff. The Administrator informed us that the agency endorsed these suggestions and was employing and would continue to employ every means for carrying them out.

132. Need for uniform standards in evaluating communities' housing codes and ordinances--A regional administrator of the Housing and Home Finance Agency accepted a city's housing code as being satisfactory in meeting a condition to a loan and grant contract although the code was ineffective because its provisions were not made applicable to properties existing at the date the code was adopted. Inasmuch as all existing properties were exempt from the provisions of the code, the code did not provide a means of eliminating or preventing slums and blight in neighborhoods in existence when the code was enacted.

In our report issued in December 1962 on our review of selected phases of community programs for eliminating and preventing slums and blight, we expressed the belief that the Congress intended that the problem of slums and blight be approached on a community-wide basis--rather than on a project basis--and that HHFA's approval of housing codes containing recognized significant deficiencies indicated that there was a need for uniform HHFA standards in evaluating communities' codes and ordinances. We expressed the belief also that the intent of the urban renewal legislation necessitates that an HHFA evaluation be made, as a requisite for executing loan and grant contracts, of the extent to which local communities have adopted codes. Accordingly, we recommended that the Administrator establish minimum standards for use by regional officials in evaluating the adequacy of housing codes and that these standards be applied uniformly by all HHFA operating groups.

133. Federal financial assistance should not be extended to cities not making reasonable progress in correcting significant deficiencies in their programs for eliminating and preventing slums and blight--An HHFA regional office executed a planning and survey contract with a city without reevaluating the city's seriously deficient program for eliminating and preventing slums and blight. We expressed the view that the execution of this contract negated HHFA and congressional requirements that Federal financial assistance be extended to only those communities that utilize their own resources to combat, on a community-wide basis, the problem of slums and blight. We proposed that a city's progress in correcting recognized significant deficiencies in its program be considered by HHFA before executing a contract with the city.

The Administrator stated that our suggestion would require an unnecessarily burdensome administrative operation. However, we believe that the adoption of our proposal is essential to an effective administration of the Housing Act of 1949, as amended, and, if applied to only those cities that have recognized and significant program deficiencies, should not unduly burden the HHFA regional office staff. Accordingly, we recommended that, prior to entering into a contract with a city whose program contains recognized significant deficiencies, the Administrator, HHFA, require that an evaluation be made of the city's progress in correcting the deficiencies. We expressed the view that, in the absence of reasonable progress, additional Federal financial assistance should not be extended to the city.

134. Need for improved administration of the relocation phase of programs for eliminating and preventing slums and blight--The Housing and Home Finance Agency's procedures and practices were not adequate to provide reasonable assurance that cities could provide decent, safe, and sanitary housing for displaced families, as intended by section 105(c) of the Housing Act of 1949, as amended. The procedures did not require cities to present specific plans for relocating displaced families. In certain cities whose programs had been certified and recertified as acceptable by the Administrator, HHFA, families displaced by slum clearance projects were relocated permanently into substandard housing.

REVIEW OF SLUM CLEARANCE AND
URBAN RENEWAL ACTIVITIES (continued)

We found that there was a need for effective coordination between the regional office staff dealing with the relocation of displaced families under the slum clearance and urban renewal program and the staff dealing with the relocation of displaced families under the programs for eliminating and preventing slums and blight. We expressed the belief that a major factor contributing to the lack of coordination was a tendency of HHFA operating officials to consider the requirements of the Housing Act relating to programs for eliminating and preventing slums and blight as being separate and distinct from the urban renewal requirements of the act. As a result, separate objectives and criteria were established for implementing the act, and coordination between operating staffs was deficient.

The Administrator, HHFA, agreed that there was a need for effective coordination, and outlined several actions taken in this regard. He emphasized, however, that he considered the provisions of the act relating to a community's continuing plan to be separate and distinct from the urban renewal provisions of the act. Nevertheless, we believe that these provisions must be applied in a coordinated and consistent manner in order to effectively fulfill the requirements of the entire act.

We recommended that the Administrator require that HHFA procedures be revised to provide that, as a prerequisite to certification and recertification of a city's program, the city must demonstrate that it has determined its need for and the supply of decent, safe, and sanitary relocation housing for displaced families. We recommended also that the Administrator require that certification or recertification of the programs be withheld from cities that have demonstrated an inability to make available such relocation housing.

135. Revisions made to eliminate ineligible and excessive costs from noncash grant-in-aid credits--The Urban Renewal Administration had tentatively allowed noncash grant-in-aid credits amounting to about $4.7 million for five schools to be provided in connection with certain urban renewal projects. We pointed out that four of these schools did not appear to be eligible as noncash grants-in-aid because the urban renewal areas involved were

not expected to receive the required minimum of 10 percent benefit from the schools and that the amount of credit for the fifth school was excessive. We recommended that URA reduce the grant-in-aid credits allowed for these five schools by $4.2 million. By December 1962 URA had reduced these credits by about $3.4 million.

136. Regulations for use in evaluating the adequacy of relocation programs submitted by LPAs revised--In June 1961 we pointed out that the Urban Renewal Administration had not received adequate evidence that sufficient standard housing would become available for displaced nonwhite families in an urban renewal project which was estimated to cost the Federal Government $10.6 million. We pointed out also that, at the time of our review, about 40 percent of the nonwhite families relocated had moved into substandard housing which had been classified by the local public agency as permanent relocation housing, indicating that the LPA considered that it had discharged its responsibilities with respect to the relocation of these families. We expressed the view that inadequate relocations of project families decreased the effectiveness of the projects and was not in conformity with the objectives of the slum clearance and urban renewal program and we proposed that no further projects be authorized by the Commissioner, URA, unless URA receives adequate evidence from the local public agencies that sufficient standard housing will become available for relocating all project families.

In February 1963 the Administrator, HHFA, revised the regulations to provide specific guidelines for use in evaluating the adequacy of relocation programs submitted by LPAs and to provide that no recommendation for approval of a relocation program shall be submitted to the Administrator unless there is reasonable assurance that the relocation requirements will be met.

137. Need for effective review of claims for noncash grant-in-aid credits--We reported in October 1962 that a regional office of the Housing and Home Finance Agency had not effectively reviewed the data submitted by local public agencies in support of claims for noncash grant-in-aid credits. We expressed the opinion that certain cited ineligible and excessive grant-in-aid credits were attributable in considerable part to the lack of effective reviews.

The Commissioner, URA, informed us that he did not consider it necessary to verify data submitted by LPAs in support of claims for tentative grant-in-aid credits and that the development of written procedures for the various types of verifications of noncash grant-in-aid claims is impracticable. Nevertheless, we reaffirmed our belief that the large amounts of excessive noncash grant-in-aid credits cited in our report pointed up the need for effective examinations based on written procedures, and we recommended that the Commissioner, URA, establish such procedures.

138. Need for procedures to preclude the improvement of properties in areas designated for slum clearance--The costs of acquiring certain residential properties in an urban renewal project area were increased because extensive alterations had been made to the properties after the area had been designated as a slum clearance and urban renewal project area. Since the cost of acquiring project land is included in project costs of which the Federal Government generally bears two-thirds, any increases in land prices attributable to such alterations would be largely borne by the Federal Government.

In a report issued in October 1962 we recommended that, in the future, the Commissioner, URA, not approve an LPA's planning application for a project unless the governing body of the locality has made provision to (1) prohibit the issuance of permits, subsequent to the designation of the project area, for the improvement of properties which are to be acquired and demolished and (2) revoke any existing permits authorizing improvements which have not been started and which involve properties intended for acquisition and demolition. Such provision would not preclude normal repair work or minor improvements which are determined to be necessary to avoid undue hardships to owners or occupants of the property, nor would it affect improvements related to the rehabilitation program. We also recommended that, after the preceding recommended procedures become effective, URA disallow any increased land acquisition costs resulting from the issuance of permits or the failure to effect timely revocation of permits for the improvement of properties intended for clearance.

139. Need to establish clearly defined policies, responsibilities, and criteria governing the eligibility of areas for large-scale demolition--The Urban Renewal Administration 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 assista e for the project. A detailed reinspection made at our requ y an HHFA specialist then showed that only about 20 percen the buildings in the project area were substandard because uilding deficiencies which could not be corrected by normal . ntenance.

We expressed the belief that since demolition is generally the most expensive form of urban renewal treatment, and the intent of the urban renewal legislation is to encourage less costly forms of urban renewal treatment such as rehabilitation and spot clearance, URA should have fully investigated whether the extent of demolition proposed by the city was warranted. We expressed the view that the basic cause for the premature approval of the project for large-scale demolition was URA's vague criteria for determining whether buildings are substandard to a degree requiring clearance. Under URA's criteria, as applied to the project, a city might, with URA approval, designate any of its buildings as "substandard" and schedule such buildings for demolition even though far less costly methods of renewal might accomplish the objectives of the urban renewal legislation. In a report issued in June 1963, we recommended that the Administrator, HHFA, and the Commissioner, URA, take the necessary steps to revise the criteria governing the eligibility of areas for large-scale demolition to more clearly define the condition "substandard requiring clearance" and to relate this condition solely to the structural condition of the specific buildings being considered.

REVIEW OF SLUM CLEARANCE AND
URBAN RENEWAL ACTIVITIES (continued)

We recommended also that steps be taken to clarify the criteria for Federal participation in proposed large-scale demolition to provide that, if an area does not have a significant number of structurally substandard buildings, expenditure of Federal funds shall be limited to other feasible but less costly forms of urban renewal such as rehabilitation and spot clearance. In addition, we recommended that HHFA and URA (1) obtain more effective administration, at all levels, of URA's established policy that the Government will not share in the cost of acquiring and demolishing properties which can be improved and successfully integrated into a project, and (2) require thorough examinations by qualified HHFA personnel of the condition of structures in proposed project areas before such areas are approved for large-scale demolition. With respect to the cited urban renewal project, 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 Commissioner, URA, 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.

REVIEW OF LOW-RENT HOUSING PROGRAM ACTIVITIES

The Public Housing Administration (PHA), a constituent agency of the Housing and Home Finance Agency (HHFA), is responsible under the United States Housing Act of 1937 (42 U.S.C. 1401) for administering the low-rent housing program. PHA provides financial and technical assistance to local housing authorities (LHAs) in the planning, construction, and operation of the projects for families of low income. Federal contributions to the LHAs are increased to the extent that the LHAs make unnecessary expenditures or do not realize all possible revenue.

140. Action taken to preclude installation of unnecessary equipment for measuring consumption of electricity and gas--In June 1963 we reported on our review of the installation of unnecessary checkmetering equipment for measuring consumption of electricity and gas by tenants in low-rent public housing projects. This review disclosed that, because of a PHA requirement that checkmetering equipment be installed at all low-rent public housing projects, such equipment had been installed for thousands of dwelling units in projects where metering and surcharging for excess use of utilities either was prohibited by utility regulations or was opposed by LHA management. After we reported this situation, the PHA Commissioner issued instructions providing that checkmetering equipment not be installed in new low-rent housing projects unless there is a reasonable probability the equipment will be used. In addition, checkmetering equipment, which was to have been installed, was omitted from about 9,000 dwelling units under development or authorized for future construction in one PHA region. This reduced the development costs of these projects by about $225,000. No estimate is available of the effect of PHA's action on the development costs in areas administered by other PHA regional offices.

141. Limitations established on LHA expenditures for participation in housing organization activities--In December 1962 we reported that the Public Housing Administration had no regulations, guidelines, or limitations on the amounts or types of expenses for participating in the activities of private nonprofit housing organizations that the LHAs could charge to their federally subsidized low-rent housing projects. After reviewing the expenditures of 31 LHAs, we estimated that the total amount charged to the low-rent housing projects for participation in housing organization activities generally exceeds $560,000 a year.

We suggested that consideration be given to establishing policies for the LHAs' guidance regarding the types and limitations on the amounts of such expenditures that may be charged to the projects. We were informed that in March 1963 PHA established limitations on travel expenses and now requires attendance at conferences to be limited to the number of officials necessary to adequately cover the meetings. HHFA also established consistency between the policies of the Public Housing Administration and the Urban Renewal Administration which also administers federally subsidized programs through local agencies that participates in housing organization activities.

142. Need for regulation to require insurance to be purchased at lowest available cost--Our reviews disclosed that some local housing authorities had purchased fire and extended coverage insurance at costs in excess of the lowest net costs available with the result that the Federal subsidies may have been increased. These purchases were permitted by Public Housing Administration policies, which allowed the LHAs to negotiate for their insurance coverage provided that the costs obtained through negotiation were reasonably within range (not more than 25 percent in excess) of the lowest net cost known to be available from any other financially sound and responsible insurer licensed to do business in the State.

We believe that insurance in the low-rent housing program should be purchased at the lowest possible net cost and we had recommended that PHA revise its regulations to provide that (1) contracts for insurance be awarded to qualified low bidders and (2) after an LHA receives competitive bids, the negotiation procedure be invoked only when it will result in a lower premium cost. PHA did not revise its regulations, and some LHAs had awarded new contracts for insurance to other than qualified low bidders. Accordingly, in a report issued in August 1962, we restated our opinion that insurance in the low-rent housing program should be purchased at the lowest possible cost in order to reduce the amount of Federal subsidy to the program.

143. Need for guidelines for determining which families are in the lowest income group--In a report issued in April 1963, we pointed out that families with relatively high incomes were occupying units in low-rent housing. This condition was permitted to exist because a number of LHAs, with PHA approval, had established

eligibility policies which permitted occupancy by families with total incomes greater than the median family incomes in their communities. Some of these policies provided for such liberal deductions and exemptions from income that families with total incomes greater than the median family incomes were considered eligible to reside in the projects; others provided for maximum income limits greater than the median family incomes. Since the United States Housing Act of 1937 requires that occupancy of low-rent housing be limited to families in the lowest income group, it would seem that, except in unusual circumstances, a family with total income greater than the median family income in the community should not be considered as a family in the lowest income group so as to be eligible to occupy low-rent housing.

The act does not specifically state which families are in the lowest income group, and PHA has not established adequate criteria for the LHAs to use in making a determination. We believe that PHA has a continuing responsibility for providing the LHAs with guidelines for maintaining the low-income character of the projects. Accordingly, we recommended that the PHA Commissioner establish guidelines for use by the LHAs in determining which families are in the lowest income group in order to maintain the low-income character of the projects.

144. Need to eliminate incentive for families with relatively high incomes to remain in low-rent housing--In our April 1963 report, we pointed out that some LHAs had established low rent ceilings which provided incentives for families with relatively high incomes to continue living in the projects instead of seeking private housing. At several LHAs the rent ceilings were so low that families with relatively high total incomes paid a much smaller proportion of their incomes for rent than other tenants in the project. In one instance, a tenant with total annual income of about $11,000 was charged the ceiling rent of $61.50 a month for his 4-bedroom unit.

We pointed out also that some LHAs were charging ceiling rents to families whose income had increased beyond the maximum income limit for continued occupancy. We believe this practice is contrary to the provision of the 1961 amendment to the Housing Act which provides that a family whose income has increased beyond the approved maximum income limit for continued occupancy may be permitted to remain in a project if it pays an increased rent consistent with the family's increased income.

In order to carry out the objectives of the act, one of which is the housing of families in the lowest income group, we recommended that the PHA Commissioner instruct the PHA regional directors to make periodic reviews of LHA rent schedules to assure that the rent ceilings do not provide an incentive for families with relatively high incomes to remain in the low-rent housing projects instead of seeking private housing.

145. Need to consider assets in determining eligibility for occupancy of low-rent housing--In our April 1963 report we also pointed out that some families were permitted to live in low-rent housing projects although they appeared to have sufficient assets to afford private housing. The United States Housing Act of 1937, as amended, does not specifically require that a family's assets be considered in determining eligibility. PHA encourages but does not require the LHAs to place limitations on the assets that applicants and tenants may have and still be considered eligible for occupancy.

In commenting on our report, the PHA Commissioner stated that PHA has not required the LHAs to establish asset limitations because it believes such action would be pointless unless PHA has the right to approve them. Accordingly, we recommended that the Congress consider amending the United States Housing Act of 1937 to provide that PHA require the LHAs to establish limitations, subject to PHA approval, on the amount of assets that may be owned by a family that is to be considered eligible for admission to and continued occupancy of low-rent public housing.

REVIEW OF FISCAL PROCEDURES

146. Advances of funds in excess of grantees' current requirements to be curtailed.--As a result of the policy of advancing grant funds in quarterly installments on the basis of costs anticipated by grantees, the National Institutes of Health (NIH) made funds in excess of current requirements available to some health research facilities grantees. Excessive advances occurred when cost estimates were higher than actual c sts or were based on construction schedules which were not met. In our December 1962 report concerning construction of health research facilities, we pointed out that the practice of making excessive advances was undesirable since it tended to unnecessarily accelerate Government borrowings and might have increased related interest costs. NIH informed us in March 1963 that it would carefully screen all future requests for payment to insure that, as far as possible, advances of funds are in keeping with actual needs.

147. Action taken to eliminate excessive grants for nurse placement services--We noted that for several years the Bureau of Employment Security, Department of Labor, had granted more funds to one State agency than were needed to provide an employment service for nurses. The excess amounted to about $185,000 in one fiscal year. The extra funds were spent for other employment service purposes. After we brought this matter to its attention, the Department of Labor informed us in November 1962 that, in order to correct this situation, funds were being provided in amounts sufficient to cover only the salaries of employees engaged in nurse placement services.

148. Savings resulting from consolidation of Assistant Disbursing Officers' positions.--During our review of the economic and technical assistance program in Guatemala we noted that a proposal by the Mission to consolidate its Assistant Disbursing Officer function with that of the Embassy had not been acted upon. We then recommended that the Assistant Disbursing Officers' functions in all Latin American countries be transferred to the Embassies unless exceptional circumstances required otherwise. In reply to our recommendation the Agency for International Development stated that

such action would be taken in those countries where warranted. Shortly thereafter the Mission disbursing function at Guatemala was transferred to the Embassy and, through June 30, 1962, thirteen other Mission disbursing functions were transferred. Two additional transfers were planned when Embassy space became available. Agency officials stated that in addition to the increase in efficiency through the combined operations, the consolidation of disbursing functions would result in savings of approximately $9,000 a year for each country, or a total of $144,000 a year.

149. Action taken to obtain proper reimbursement for interagency work performed.--In our reviews at six State offices of the Soil Conservation Service, Department of Agriculture, we noted that these offices had either not billed the Agricultural Stabilization and Conservation Service to the full extent permitted by governing agreements for reimbursable work performed under the agricultural conservation program (ACP) or had not taken all possible action to amend the agreements to provide for reimbursement to the extent permitted by law. This permitted ASCS to retain additional ACP funds while SCS appropriations absorbed about $87,000 of costs chargeable to the ACP. If the reimbursements had been obtained, a significant portion, if not all, of the $87,000 would have been restored to the general fund of the United States Treasury as unobligated funds.

We brought these matters to the attention of State office officials. Subsequently, two State offices billed ASCS for about $37,500 for reimbursable ACP work, and funds totaling that amount were restored to the general fund of the United States Treasury in fiscal year 1963. Also, SCS State office officials advised us that all possible action would be taken wherever appropriate to provide for reimbursement to the extent permitted by law.

150. Proposal adopted to recompute amount of excess funds to be transferred to the general fund of the Treasury.--The Veterans Canteen Service is required by law to transfer to the general fund of the Treasury funds which are excess to its requirements for the ensuing fiscal year. The Veterans Canteen Service computed that $40,039 of the funds available at June 30, 1962, were excess to its requirements for fiscal year 1963. In determining this amount, the

Service reserved funds of about $2.5 million for payment of most of its current liabilities recorded at June 30, 1962, without regard to the funds to be generated by fiscal year 1963 operations.

We proposed that, to conform with the requirements of the enabling legislation, the Veterans Canteen Service consider funds to be generated in the ensuing fiscal year when computing the excess funds to be transferred to the general fund and that this revised method be used to recompute the amount of funds to be transferred from funds available at June 30, 1962.

The Deputy Administrator of Veterans Affairs concurred in our proposal, and $1.5 million was transferred to the general fund of the Treasury in April 1963 as the amount which, at June 30, 1962, was excess to Veterans Canteen Service requirements for fiscal year 1963.

151. Action taken to reduce number of commercial depository accounts maintained by Farm Credit banks.--In a report issued in January 1963 on our audit of the Farm Credit Administration we noted that Farm Credit banks had substantial amounts of cash in depository accounts with commercial banks. Many of these accounts were inactive, nearly inactive, or had excessive balances. We pointed out that closing the inactive or nearly inactive accounts and reducing excessive balances would release funds for other bank purposes. We were advised that, since the issuance of our report, six depository accounts maintained with commercial banks have been closed by Farm Credit banks.

152. More aggressive action to be taken to collect old accounts receivable.--Our review of the 1st Coast Guard District's accounts receivable showed that $19,000 of the total of $29,000 outstanding at November 30, 1962, had been outstanding for more than 6 months. We found that in many cases no billings had been sent the debtors or no follow-up of the original billings had been made. Accounts receivable balances at the 3rd District as of August 31, 1962, included about $16,000 which had been outstanding from one to four years. After we reported our findings, District officials stated that more aggressive action would be taken to collect these accounts.

153. Effective action needed to recover disallowed expenditures of State employment security agencies.--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 has disallowed as not necessary for proper or efficient administration. Over $1 million of the expenditures were made by State agencies during fiscal years 1942 through 1956. Our review of the Bureau's procedures for obtaining restoration of the amounts disallowed indicated that the Bureau had taken little affirmative action beyond addressing a letter to the State agencies stating that the expenditures had been disallowed and requesting restoration.

In a report issued in May 1963 we recommended that the Bureau take action to recover disallowed expenditures and to revise and strengthen its policies and procedures so that restoration of future disallowances may be achieved within a reasonable time. The Department informed us that the Bureau would attempt to recover the disallowed expenditures.

154. Need for comprehensive evaluation of States' requests to use for the purchase of equipment funds granted for personal services.--In our May 1963 report we stated that the policies and procedures of the Bureau of Employment Security, Department of Labor, were not adequate to assure that Federal grants were used for the purpose for which they were made available to the States. During fiscal years 1958 through 1961, about $8 million of funds originally budgeted and made available for personal services and other purposes were used by State employment security agencies to purchase equipment. The commitments for most of these purchases were made from funds transferred from other budgeted categories in the closing quarter of the respective fiscal years. In authorizing these year-end transfers, the Bureau did not always require careful evaluation and sufficient justification of the need for the equipment. Approval of transfers of funds for this purpose at the end of a fiscal year may result in unnecessary expenditures which increase the cost of the employment security program.

The Department of Labor advised us that a review of the policies and procedures governing equipment purchases by State agencies would be made, that plans were being made to develop a method of

replacing overage and obsolete equipment on a scheduled basis, and that the results would be used in formulating appropriation requests to the Congress.

Pending completion and acceptance of the Bureau's plans, we recommended that State agency requests for the transfer of grant funds between categories be evaluated as comprehensively as the original budget requests are evaluated. We stated that such requests should be especially scrutinized when they are made near the end of the fiscal year.

155. Adjustment made to record transfer of fixed asset at book value.--Restatement by the Panama Canal Company of the amount of accumulated depreciation on one of its vessels which was removed from active service resulted in an increase of $873,478 in the book value of the vessel. When the vessel was transferred to another Government agency in June 1962, the interest-bearing net direct investment of the United States Government in the Panama Canal Company was excessively reduced by a similar amount. This reduction would have resulted in a decrease of about $25,000 in the Company's annual interest payment to the United States Treasury. We expressed the view that the only sound accounting method to follow in recording the transfer of a fixed asset to another Government agency is to reduce the interest-bearing net direct investment of the Government by the book value of the asset, that is, the capitalized cost less the accumulated depreciation that had been written off as an operating expense.

We recommended that the Company adjust its equity accounts to record the transfer of the vessel at its book value instead of its restated value and that the equity accounts be adjusted also for all other transfers of fixed assets to Government agencies which were treated in a similar manner. In June 1963, the Company adjusted its equity accounts for the transfer of the vessel. Also, we were informed that the accounting for future transfers of fixed assets to other Government agencies would be in accordance with our recommendation.

156. Improved procedures adopted for computing and recording interest during construction.--Procedures of the Bureau of Reclamation, Department of the Interior, for computing and recording interest during construction on the portion of the Federal investment allocated to interest-bearing purposes (power and municipal water) of certain reclamation projects, provided for the exclusion of certain significant costs from the interest base. As a result, the amount of the Government's investment in various projects, to be repaid by power and municipal water users, was understated. In our report submitted to the Congress in January 1960 we recommended that the procedures for computing interest be revised so that no significant amounts of reimbursable Government investment are excluded from the computations. The Bureau subsequently revised its procedures to conform to our recommendation and to provide for

retroactive adjustments to interest. In our audit of the Colorado River Storage Project, which was started in fiscal year 1963, we noted that interest during construction had been adjusted and the Federal reimbursable investment increased by $1.6 million.

157. Costs of land, land rights, and relocations to be amortized over economic life of project.--In a report issued in May 1963 on our audit of the Southwestern Power System and related activities, we proposed, as in previous reports, that the Corps of Engineers (Civil Functions), Department of the Army, and the Southwestern Power Administration, Department of the Interior, amortize the costs of land and land rights (except land acquired in fee simple), relocations, clearing land and rights-of-way, and roads and trails. Unlike the cost of land owned in fee simple, other costs associated with land, such as for easements, rights-of-way, submersion rights, relocations, and clearing, are ordinarily incurred for requirements that, in themselves, retain no value upon expiration of the economic life of a project. The amounts involved are often significant and failure to amortize these costs results in an understatement of operating costs and an overstatement of asset values.

The Department of the Army advised us in July 1963 that the Corps of Engineers had issued instructions requiring the records to be maintained in accordance with our recommendation, and the Department of the Interior advised us that our recommendation was being considered.

158. Need for State agencies to establish adequate financial control over equipment.--The Bureau of Employment Security, Department of Labor, did not require State employment security agencies to maintain adequate financial control over equipment purchased with Federal grant funds. Our review showed that accounting records for equipment were generally inadequate for disclosing property owned and available for use.

In a report issued in May 1963 we recommended that the Bureau require State agencies to establish and maintain adequate records and financial control over equipment and pointed out that the principles, standards, and procedures for Federal agencies issued by the Comptroller General could be used as a guide. The value of the

equipment held by the States agencies, which was estimated to be at least $50 million, emphasizes the need for the Bureau to provide guidelines for the State agencies.

The Department advised us that the Bureau would study our recommendation with the objective of establishing adequate equipment records and controls.

159. Accounting and reporting procedures to be improved.--In a review of the accounts and financial statements of the Commodity Credit Corporation at selected commodity offices of the Agricultural Stabilization and Conservation Service, Department of Agriculture, we noted a number of accounting inaccuracies, recording delays, and other weaknesses in the performance of fiscal functions. These deficiencies, which were reported in fiscal year 1963 to the directors of the commodity offices, resulted generally in misstatements of year-end balances of certain asset, liability, and expense accounts. Commodity office officials subsequently advised us of certain corrective action that had been or would be taken with a view toward minimizing recurrence of these deficiencies.

160. Accounting system approved.--In accordance with our responsibility for assisting in the development of agency accounting systems and approving them when deemed appropriate, we reviewed the Atomic Energy Commission's accounting system and tested it at several AEC locations. Several deficiencies disclosed during our review were corrected to strengthen central accounting control and improve procedures and internal reporting.

By letter dated March 8, 1963, the Chairman of the Commission was informed that the AEC accounting system was now deemed to be adequate and in conformity with the principles, standards, and related requirements prescribed by the Comptroller General and accordingly was approved.

161. Need for improving accounting systems to provide financial data for use in effective control and management of agency operations--During fiscal year 1963, we completed reviews of accounting systems for several of the agencies within the Department of Agriculture. The systems reviewed pertained to the National Agricultural Library, Office of the Secretary (exclusive of the

Working Capital Fund), Office of the General Counsel, Office of Information (exclusive of the Working Capital Fund), Agricultural Marketing Service, Agricultural Research Service, Farmer Cooperative Service, and Federal Extension Service. We were unable to approve any of these systems because major aspects were not in conformance with the objectives of section 113 of the Budget and Accounting Procedures Act of 1950, as amended by section 2(b) of Public Law 863, 84th Congress, approved August 1, 1956 (31 U.S.C. 66a), or with the principles, standards, and related requirements for accounting prescribed by the Comptroller General. We pointed out the need for the agencies to improve their systems by proper application of the accrual basis of accounting in order to provide the means for effective use of financial data in the management of operations. Also, where appropriate, we expressed the need for providing management with cost information by major operating activities and for associating these costs with the planned costs for each of the activities.

162. Need to deposit and record collections in a timely manner.--We pointed out that cash collections were not recorded and deposited promptly upon receipt and that collections received by the Housing and Home Finance Agency regional offices for transfer to Washington, D.C., were not placed under accounting control until several days after they had been mailed to and deposited by the Washington office. In order to assure better internal control over cash we recommended that collections be deposited and recorded promptly at the office of initial receipt.

REVIEW OF FINANCIAL REPORTING PROCEDURES

163. Southwestern Power Administration to prepare consolidated financial statements of the Southwestern Power System--The financial statements of the Southwestern Power System and related activities for the fiscal year 1961 were prepared, as in past years, by the General Accounting Office. In our audit report issued in May 1963 we stated that the continued preparation of these financial statements is desirable in order to disclose fully, on an integrated system basis, the financial position and the results of operations of the various activities that make up the Southwestern Power System. As, in our opinion, the preparation of the financial statements is more properly a function of the executive branch of the Federal Government, we proposed that the Southwestern Power Administration be assigned this responsibility. The Department of the Interior subsequently advised us that our proposal had been adopted.

164. Status of repayment of Government investment allocated to power to be correctly disclosed--In our review of the Southwestern Power System and related activities for fiscal year 1961, and in previous reviews, we noted that the repayment schedules prepared by the Southwestern Power Administration, Department of the Interior, did not show accurately the status and proposed plans for repayment of the Government's investment because of the inclusion of amounts that had not been and would not be received. At June 30, 1961, these amounts included in the repayment schedules totaled about $4 million. In January 1963, the Department of the Interior informed us that future repayment studies would be adjusted to exclude such amounts.

165. Financial statements do not disclose properly the results of operations at the Washington National Airport--The statement of revenue and expenses for fiscal year 1961 prepared by the Federal Aviation Agency shows that the operation of the Washington National Airport resulted in a net revenue when actually a loss was sustained. This resulted from several deficiencies in the Agency's accounting practices, including (1) nonrecording as operating expenses the full amount of depreciation on fixed assets and the full amount of interest on the Government's investment and (2) the recording as revenue amounts for services furnished other Federal agencies for which they were not required to pay.

REVIEW OF FINANCIAL REPORTING PROCEDURES (continued)

The Agency does not record depreciation on that part of the recorded cost of the depreciable fixed assets or interest on that part of the Government's investment equal to the grants-in-aid that could have been obtained if the Washington National Airport had been eligible for grants that are available to public airports. The Agency omitted these amounts and included the imputed revenue to show what the operating results of the airport would be if the airport were eligible for such grants-in-aid. However, this does not result in full disclosure of the actual operating results.

Accordingly, we recommended that FAA revise the system of accounting in use at the airport to provide for recording as operating expenses the full amount of depreciation on fixed assets and the full amount of interest on the Government's investment and for recording as revenues only those fees and rentals that are assessed against the users of airport facilities.

REVIEW OF FINANCING POLICIES AND PROCEDURES

166. Increase in interest income resulting from adoption of improved procedures.--During our audit of accounts and financial statements of the Agency for International Development (AID) loan programs, we noted that AID had been charging interest on certain foreign currency loan disbursements from the date that its Washington office sent formal notification of disbursements to foreign borrowers rather than charging interest from the date of disbursements. The overseas Missions report disbursements to AID/Washington monthly, and AID/Washington prepares the advice of disbursement to borrowers after receipt of the Missions' reports. AID used the date of notification as the date of commencement of interest because of its interpretation of the provisions of the loan agreements.

By letter dated October 1, 1962, we requested AID to obtain a legal interpretation of the provisions of the loan agreement affecting the billing of interest. Moreover, we advised AID that if the Agency determined it could charge interest on these loans only from the date of notification to the borrower, it should consider the feasibility of having the Missions send advices to the borrower on the date of disbursement. By letter dated May 7, 1963, the Controller, AID, informed us that overseas Missions had been instructed to notify borrowers directly of disbursements and that interest would commence as of the end of the month for disbursements made during the month. We estimated that, as a result of this action, the dollar equivalent of interest earnings on disbursements under existing loan agreements will be increased about $1.9 million.

167. Savings resulting from reduction in service fees paid to lending institutions.--In a report issued in April 1962 we commented on the effect of changes made in the Small Business Administration's loan commitment and loan servicing fee arrangements with lending institutions which became effective April 1, 1958. We found that the new fee arrangements had cost the agency about $1.8 million on new loans made during the first 3 years the new fees were in effect. Further, we estimated that the new fee arrangements would increase SBA's operating loss by an amount which would reach $1.1 million annually by fiscal year 1963. Because of the continuing high cost of these new fees and other adverse effects, we recommended that the Administrator, SBA, reconsider all phases of the agency's fee policy and make such changes as would be appropriate.

REVIEW OF FINANCING POLICIES AND PROCEDURES (continued)

In April 1963 the Loan Policy Board of SBA authorized a reduction in service fees paid to lending institutions servicing SBA immediate-participation loans to become effective on new loans made after July 1, 1963. We estimate that, as a result of the change, SBA will realize savings of about $46,000 during the first year and that annual savings will increase to about $230,000 during the fifth year after the reduced fees were put into effect.

REVIEW OF BUDGETING PROCEDURES

163. 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 $1,100,000, 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 brought this matter to the agency's attention the Assistant Secretary of State for Administration notified the chairmen 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.

REVIEW OF TRAVEL POLICIES AND PRACTICES

169. Action taken to reduce use of first-class air accommodations.--Employees of the District of Columbia Government and other persons traveling at District expense had made extensive use of first-class air accommodations although suitable and less costly accommodations were generally available. This practice was inconsistent with the Federal Government's policy of encouraging the use of less-than-first-class air accommodations to the extent practicable. We recommended that the Board of Commissioners require District personnel and others traveling for the District to utilize less-than-first-class accommodations to the extent possible and to fully justify all first-class travel. In June 1963 the Board of Commissioners issued instructions in line with our recommendations.

Our review of travel by Department of State employees and their dependents disclosed various instances in which first-class accommodations were used without apparent justification for travel within the continental United States, for jet flights across the North Atlantic, and for other travel. It appeared that potential annual savings could amount to more than $1 million. We recommended that appropriate steps be taken to avoid the continued use of first-class air accommodations when more economical air transportation will adequately serve the Government's needs. By letter dated June 5, 1963, the Department advised us that (1) an internal circular was issued admonishing authorizing officers and travelers to abide by the letter of the Department's new regulations and the intent of the policies upon which the regulations are based and (2) a continuing review would be made of the practices of individual areas of the Department for the purpose of pinpointing weaknesses for appropriate corrective action.

Among other agencies that took steps to reduce the use of first-class air accommodations following reviews made by this Office were the Maritime Administration, the Rural Electrification Administration, the Housing and Home Finance Agency, the Federal Housing Administration, and the Public Housing Administration.

170. Policy of utilizing less-than-first-class air accomodations not fully implemented.--At the time of our review, the Agency for International Development (AID) had not fully implemented the overall Government policy of using air accommodations less costly then those designated as first-class. We found that in many instances AID employees and other persons associated with AID

programs, including contractor personnel and foreign participants, utilized first-class accommodations although less costly accommodations were offered by the airlines. Our review disclosed also several instances wherein foreign-flag airlines were utilized when American-flag airlines were available, although Agency regulations provide that American carriers should be used whenever practicable.

Although the agency took corrective action in October 1962 which should result in substantial savings in travel costs and prevent recurrence of many of the above conditions, it did not require the utilization of less-than-first-class air accommodations by contractor personnel. In a report issued in July 1963, we recommended that the agency require that all cost-reimbursement-type contracts authorizing air travel limit such travel to accommodations designated as less-than-first-class where such accommodations meet reasonable and adequate standards for convenience, safety, and comfort.

171. Administrative control over official travel strengthened --Our review of official travel by employees of the Social Security Administration, Department of Health, Education, and Welfare, disclosed that central office employees traveling on propeller-driven planes generally used first-class accommodations and field employees used privately owned vehicles to travel long distances to perform short periods of temporary duty, thus increasing nonproductive official time spent going to and from the temporary duty station. We also noted the use of general travel orders to authorize certain types of travel when the circumstances of travel reasonably would permit the use of specific orders.

In a report issued in March 1963 we proposed certain corrective actions for strengthening administrative control over and achieving economies in the performance of official travel. The Administration later issued a revised policy on the use of air accommodations and informed us that it was curtailing the use of general travel orders and reemphasizing the need for persons traveling to make greater use of faster modes of transportation. Also, the Administration's internal audit staff began a comprehensive review of the agency's travel practices.

172. Procedures revised to provide for less than maximum per diem allowances when applicable--Employees of a regional office of the Housing and Home Finance Agency were paid per diem allowances in excess of their reimbursable expenses in cases where the travel did not involve overnight stays requiring lodgings. We recommended that provision be made for paying less than the maximum allowable per diem rate in cases where the maximum rate is in excess of the travelers' needs. In September 1962 the HHFA revised its procedures to require the lowering of per diem rates whenever the actual expenses do not warrant the established rates.

173. Savings to be obtained by better planning and coordination of travel at field offices--In a report transmitted to the Interstate Commerce Commission (ICC) in October 1962, we pointed out that field employees of two ICC bureaus travel extensively by automobile in performing their duties. The Bureau of Motor Carriers (BMC) uses Government-owned automobiles for this travel while the Bureau of Safety and Service (BSS) uses privately owned automobiles on a mileage reimbursement basis. Our review showed that privately owned automobiles were used extensively by BSS employees at times when BMC Government-owned automobiles at the same offices were idle. Furthermore, privately owned automobiles were used frequently when at the same time and at the same offices Government-owned automobiles were used to only a limited extent. We stated our belief that, by better planning and coordination of field employees' travel so as to utilize Government-owned automobiles assigned to BMC instead of using privately owned automobiles whenever possible, ICC could achieve considerable savings in travel expenses because of the lower cost of operating Government-owned automobiles.

We were subsequently informed by the Chairman of the Commission that corrective action, including arrangements with the General Services Administration to obtain rental vehicles, had been or was being taken, which should meet most of the travel requirements of the BSS field staff utilizing privately owned vehicles. ICC estimated that this phase of the program may ultimately produce annual savings in excess of $50,000.

174. Action taken to reduce travel advances outstanding in amounts in excess of travelers' needs--We noted that revolving-type

travel advances issued to employees of the Federal Housing Administration (FHA) were in excess of travelers' needs and that such advances were issued to employees who were not traveling frequently. We expressed the view that revolving-type travel advances should be issued only to those employees whose duties necessitate frequent travel and that advance balances should remain outstanding in only such amounts as are necessary to meet the travelers' reimburseable expenses expected to be incurred during the period pending reimbursement. Accordingly, we suggested that FHA review all travel advance balances and recover all amounts found to be in excess of the travelers' needs and all amounts held by employees who do not travel frequently.

We were later advised by the FHA Commissioner that an analysis had been made of outstanding travel advances and that as a result, travel advance balances outstanding at April 30, 1963, were reduced about $50,000 or about 26 percent.

175. Procedures for closing out travel advances to be strengthened--Our review of the effectiveness of the Department of State's administration of travel advances disclosed that (1) in many instances, balances of travel advances remained open for extended periods after travel was completed, (2) the balances of certain advances shown in the Department's records were not correct, and (3) several travel advances appeared to be improper as to amount or purpose. The conditions were in part the same as those reported by us on a previous review. Advances outstanding at the time of our examination totaled about $529,000.

We recommended that the Department institute appropriate control techniques designed to assure that its pertinent regulations are effectively implemented on a continuing basis. The Department subsequently advised us in March 1963 that new mechanical procedures for more effective accounting, control, and collection of travel advances were being implemented, and that the revised system would provide faster recording of data and automatically print out billings for delinquent travelers.

176. Rental of aircraft to be approved by responsible official --Personnel of the Federal Aviation Agency were renting aircraft without an adequate advance administrative determination either of

the need for the aircraft or of the type of aircraft to be rented. In December 1962 we proposed that agencywide procedures be established requiring a written advance determination justifying the need for each flight and the type of aircraft to be used to avoid unnecessary rental of aircraft and excessive costs of aircraft flight operations. The Administrator of FAA subsequently informed us that action in accordance with our proposal would be taken.

177. Written justification and approval to be provided for use of agency-operated aircraft for transportation--The Federal Aviation Agency's transportation of personnel by use of owned and rented aircraft instead of by available commercial airline services has resulted in additional costs to the Federal Government. In December 1962 we proposed to FAA that procedures be established to require that, in the absence of overriding factors, flights for administrative purposes be authorized only when it has been determined that the cost of using FAA-operated aircraft will be less than the cost of commercial transportation.

The Administrator of FAA informed us that, while factors other than the comparative costs of using airline service and FAA-operated aircraft must be considered in authorizing modes of travel, the present orders, policies, and procedures would be revised to require written justification and approval by designated responsible officials for the use of FAA aircraft for administrative travel.

178. Record of passengers transported on agency-operated aircraft to be maintained--The names of passengers traveling on aircraft operated by the Federal Aviation Agency were not being recorded on aircraft flight plans or maintained on file as required. In December 1962 we advised FAA that the failure to prepare and retain a listing of passengers precluded any subsequent administrative review and determination that only authorized personnel were carried on agency-operated aircraft.

The Administrator of FAA informed us that procedures for the preparation and maintenance of passenger manifest records would be charged to provide for recording the date, aircraft number, name of passenger and organization, purpose of flight, reason for passenger on flight, name of official requesting transportation for the passenger, and the duration of the flight.

REVIEW OF UTILIZATION OF FOREIGN CURRENCIES

179. Action taken to conserve dollars by the maximum use of United State-owned foreign currencies--In a report issued in October 1962, we pointed out that dollar expenditures abroad could be reduced if better use were made of United States-owned foreign currencies. In countries where the United States had excess currencies, such currencies were not being used to a maximum extent in lieu of dollar expenditures. In countries where the United States did not own excess currencies and had to spend dollars to buy foreign currencies for its requirements, the purchases could have been postponed for appreciable periods if use had been made of currencies on hand earmarked for specific purposes but not needed currently or in the near future.

The Bureau of the Budget agreed that (1) excess foreign currencies should be used wherever possible in lieu of dollars and cited action taken to achieve this objective and (2) the practice of reserving nonexcess currencies was inconsistent with the best utilization of such currencies and results in dollar payments which could be made in the reserved currencies. Other agencies agreed in principle with the desirability of using excess currencies but pointed out that use of these currencies under some circumstances would tend to defeat the purposes of the aid program and that some governments resist replacement of dollar expenditures with such currencies.

We recommended that the Bureau of the Budget and the Department of State undertake jointly a study to develop measures which would permit the use of reserved nonexcess foreign currencies under arrangements by which the dollar equivalent would be available to replace the foreign currencies when they were needed for the purposes for which they were reserved. It was subsequently determined that legislation would be required to permit use of those foreign currencies which are reserved for specific United States uses. Our Office collaborated with the Bureau of the Budget and the Treasury Department in drafting the required legislation for submission for consideration by the Congress.

180. Action to be taken to maximize interest earnings on deposits of United States-owned foreign currencies--In a report issued

in October 1962, we pointed out that significant amounts of interest income had been lost because of inadequate interest arrangements for deposits of United States-owned foreign currencies. During recent years in Germany and Italy alone, the United States might have earned about $1.5 million a year in additional interest, which could have been used to reduce dollar expenditures in these countries.

The Department of State advised that it had collaborated with the Treasury Department in the management of funds through recommendations for increased interest earnings whenever it appeared to be in the best United States interest in the countries involved, with due regard to political and economic situations in each country. The Agency for International Development also cited political and economic factors as considerations but stated it would seek wherever feasible, after consultation with the Treasury Department and Departments of State and Defense, to secure necessary host country approvals to permit the United States to secure optimum interest rates on idle balances under AID's control.

REVIEW OF PERSONNEL UTILIZATION

181. Savings resulting from reduction in personnel costs--Our limited survey of the activities of the Department of Veterans' Affairs, District of Columbia Government, disclosed that many of the services provided to veterans could also be obtained locally from other Federal agencies or from one of the several private veterans' organizations and that 30 percent of the veterans for whom services were provided were residents of jurisdictions other than the District of Columbia. We brought this situation to the attention of District officials in December 1962. Subsequently we were advised that the Department made a reduction in force of three employees, abolished one authorized but unfilled position, and established a policy of encouraging nonresidents to use the facilities of the Veterans Administration or State facilities.

182. Need for elimination of duplicate appraisal functions--Our review in fiscal year 1963 showed that appraisals of small homes proposed for construction which would satisfy the objectives of both the Veterans Administration and the Federal Housing Administration could be made by one agency. If FHA were to perform these appraisal functions for the VA, the VA could eliminate functions which currently cost about $520,000 annually and which duplicate FHA functions.

The principal argument advanced by both the VA and FHA for making separate appraisals of the same properties, even though they may accept one another's subdivision analysis and compliance inspections, is that there is an essential difference in the purpose for which each agency makes its appraisals. The National Housing Act does not permit FHA to insure any mortgage which involves a principal obligation in excess of a stipulated percentage of the appraised value of the mortgaged property and the Servicemen's Readjustment Act of 1944, as amended, provides that VA may not guarantee a loan unless the price paid by the veteran does not exceed the reasonable value of the property as determined by the Administrator.

Our review disclosed that the values established by the VA and FHA for the same properties, when appraisals were requested from both agencies, varied as much as a thousand dollars. It would be difficult to determine if the differing concepts of the two agencies affected the valuations established. We observed no specific procedures or techniques used by either agency that would give

effect to the differences in valuation concept. Rather, the differences in the values established appeared to be differences that could occur in two independent judgments made from a given set of facts. We found that the appraisal techniques applied by VA fee appraisers and FHA staff appraisers in establishing property values are substantially the same and that similar information is developed by both agencies. We believe that, with minor changes in procedures and perhaps a small amount of additional work, the data used in making FHA determinations of value could be used in making determinations of value for VA purposes.

Although both agencies agree that a consolidation of functions is feasible, they question whether the move would result in savings to the Government because of the many problems of supervision and the differing concepts of appraisal. In view of the opposition and doubts expressed by the agencies involved, an administrative agreement to achieve a consolidation of functions does not seem probable. Therefore, we pointed out in a report issued in April 1963 that if the appraisal functions are to be combined, it appears that congressional consideration and action will be required.

REVIEW OF ORGANIZATION

183. Savings might result if Federal highway construction operations in the East were realigned--In a report issued in July 1959 we expressed the view that the transfer of Federal highway construction and maintenance operations of the Bureau of Public Roads, Department of Commerce, under the jurisdiction of the Bureau's Region 15, headquartered at Falls Church, Virginia, to the existing Federal-aid regions in the East in which these operations are concentrated might result in significant savings in administrative costs and improved utilization of engineering manpower. The Bureau agreed to our recommendation that a study be made of its operations in the East. However, the Bureau's study was limited in scope, no report on the results of the study was issued, and no sound basis could be found for the Bureau's conclusion that its organization in the East was more economical than the integrated type of organization we had suggested for consideration.

Following hearings by a congressional committee in August 1962, the Federal Highway Administrator had another study made. We were subsequently informed that a reorganization of Region 15 had been undertaken and that savings of about $150,000 a year would result. However, the study which led to the reorganization was not fully responsive to our recommendations in that a detailed study was not made of the advantages that might accrue from transferring Federal highway operations in Region 15 to the existing Federal-aid regions in the East. The Department of Commerce has requested the Administrator to pursue this matter in greater depth to assure that properly supported conclusions are established.

184. Need to evaluate proposals for decentralized payment of State unemployment benefits--For a number of years the Bureau of Employment Security, Department of Labor, has encouraged decentralization of unemployment benefit functions from State central offices to local offices, provided that State agencies safeguard employment service operations and carefully plan the organization, staffing, space, equipment, and timing required for decentralization. We noted, however, that additional costs had been incurred by paying benefits through local offices because the Bureau did not always insist on compliance with these requirements.

REVIEW OF ORGANIZATION (continued)

In our report issued in May 1963 we recommended that the Bureau of Employment Security require adequate justification based on a comparison of costs and of services rendered under alternate methods of operation before authorizing additional funds to a State for installation of a decentralized payment system.

The Department advised us that the Bureau would attempt to reduce the cost of operating decentralized payment systems to a minimum and that further proposals for installation of such systems would be carefully evaluated from a relative cost standpoint.

185. Reorganization of the administrative functions of the Department of Occupations and Professions, District of Columbia Government, would be desirable--Our review disclosed a lack of standardization of the procedures, methods, and forms pertaining to the processing of applications, examinations, and licenses for the 21 Boards responsible for regulating the various occupations and professions. We expressed the belief that this lack of standardization resulted principally from the organization of the Department's Office of Administration into separate sections, each one performing functions for a particular Board. We stated that standardization of procedures, methods, and forms could not be attained without a reorganization of the Office into sections with the assigned responsibility of performing specific administrative and clerical functions for all Boards, and suggested in October 1962 that consideration be given to such a plan.

The President of the Board of Commissioners expressed the opinion that the Department could be operated more efficiently and stated that it was anticipated that the new Director, who was appointed on July 1, 1962, would propose organizational improvements at an early date.

186. Corrective action being taken to effectively consolidate certain field inspections of railroad activities--In 1954 the Interstate Commerce Commission consolidated all its activities relating to inspections of railroad operations, then being performed by three independent bureaus, and placed them in the newly created Bureau of Safety and Services (BSS) to make more effective use of headquarters and field personnel and travel funds. To further implement this consolidation, the ICC established in 1957 a new class

of field positions (Safety and Service Agents) which combined the work previously performed on a specalized basis, in many instances at lower grades, by different classes of inspectors in separate organizational units.

In a report transmitted to ICC in October 1962 we pointed out that, notwithstanding the forementioned measures, field inspections had not been effectively consolidated, and the anticipated benefits of the consolidation had not been fully realized because (1) the agents generally continued to perform their duties on a specialized basis, and (2) control over the agents was divided among several organizational units of the BSS. We suggested that, to achieve the benefits contemplated, the Commission take appropriate action, including necessary organizational changes, to have agents perform all three types of inspections in specified geographical areas.

The Commission advised us that a new BSS field organization would be established to provide control over all BSS field activities and that individual agents would be responsible for all Safety and Service Agent activities to the maximum extent possible in their assigned territories. In our opinion, the Commission's reorganization of BSS field staff should provide a means for carrying out these field activities on a more effective basis and, to the extent implemented, should lead to a more efficient use of manpower and travel funds.

REVIEW OF OPERATING ACTIVITIES

187. Continuing field investigation program instituted to determine the eligibility of recipients of welfare payments--At the requests of the chairman of the Subcommittees on the District of Columbia, Senate and House Committees on Appropriations, our Office participated with the Department of Public Welfare, District of Columbia Government, in investigations of selected cases administered by its Public Assistance Division under the Aid to Dependent Children Program and the General Public Assistance Program. The purpose of the investigations was to determine the facts having a bearing on the eligibility of the recipients of financial assistance and to establish whether, on the basis of the District's criteria, the recipients were eligible for such assistance.

The results of the investigations led us to the conclusions that (1) in its determinations of the recipients' eligibility for payments under the Aid to Dependent Children Program, the Public Assistance Division either had not adequately verified facts represented by recipients as entitling them to financial assistance or had not maintained sufficiently close contact with the recipients to be aware of changes in their conditions or circumstances affecting their continued entitlement to financial assistance, (2) the Division had not taken the required actions necessary to determine whether recipients of payments under the General Public Assistance Program were eligible for continued assistance under that program or were eligible for assistance under another public welfare program, (3) reliance cannot be placed on recipients to inform the Division of actual conditions or circumstances which have a bearing on their eligibility for financial assistance, and (4) the cases not covered in the investigations of the two programs should be investigated to determine whether the recipients are eligible for the financial assistance they are receiving.

We expressed the opinion that a continuing field investigation should be instituted to determine the eligibility of the recipients and the effectiveness of the Public Assistance Division's administration of the programs. We also stated that such a continuing field investigation program should be conducted by an investigative unit organizationally placed outside the Division with a reporting responsibility not only to the Division but also to the Director, Department of Public Welfare. In its report on the District of Columbia Appropriation Bill, 1963, the Senate Committee on Appropriations stated that "Based on the GAO reports and recommendations for a complete review of Aid to Dependent Children and General

Public Assistance cases, the Committee has provided funds for additional personnel to consummate such an investigation and at the same time to strengthen and improve the services of the Welfare Department."

188. Need for improved policies and procedures relating to appraisals of forest land and timber involved in proposed exchanges --As part of our review of selected land use activities of the Forest Service, we noted two land exchanges in which Federal land and timber conveyed to private parties were sold by these parties shortly after the exchanges for about $207,000 more than the appraised values, as established by the Forest Service, of the lands and timber received by the Government. Furthermore, the amounts received by the private parties from the sales of the lands totaled about $222,000 more than the values at which the Forest Service had appraised these same lands. The act of March 20, 1922, as amended (16 U.S.C. 485), the legal authority for the exchanges, requires that the value of Federal land or timber given in an exchange may not exceed the value of the private land received by the Government.

A major factor contributing to the differences between the sales price and appraised values of the lands was a significant underestimate by the Forest Service of the volume and value of merchantable timber on the lands. The appraisals on both exchanges were made more than a year before the exchanges were consummated. We stated that the propriety of relying on an appraisal made over a year before an exchange takes place in meeting the equal value requirement of the law governing land exchanges would appear to be questionable.

We recommended in a report issued in December 1962 that the Chief of the Forest Service reexamine agency procedures with a view toward obtaining improved appraisals of lands being exchanged. Our report contained specific suggestions to help achieve such improvement.

189. Need for more economical management of chartered bus service--Two Atomic Energy Commission contractors operated chartered bus services for transporting employees between Las Vegas and the AEC Nevada Test Site. Our review disclosed that fares were established without consideration of costs, that the fares were not

uniform, and that the chartering of a bus for swing-shift employees was not economically feasible. Also, the collection of the fares, which was accomplished through payroll deductions, could be simplified by having the drivers of the buses collect cash fares from the employees using the buses.

We recommended to the General Manager, AEC, in February 1963 that, to provide for improved administration of the chartered bus service, all functions relating to the buses be consolidated into a single operating unit. AEC later informed us that the two bus services had been consolidated and that operating responsibility had been centralized, but pointed out that, although the operation had thereby been improved, achieving a financially self-sustaining operation was not possible.

190. Need for improved management of feeding operations--Our review of the feeding operations conducted by an operating contractor at the Atomic Energy Commission's Nevada Test Site disclosed a need for improvement in establishing food prices, determining staff requirements, managing food warehouse operations, and furnishing operating information to management. Losses from these operations had increased from $299,000 in fiscal year 1957 to about $904,000 for the 8-month period ended February 28, 1962.

After we discussed this matter with AEC, the food prices were increased about 25 percent and plans were made for semiannual surveys of prices and costs. Also, AEC officials informed us that certain actions had been taken to improve the financial reporting and the evaluation of the feeding operations and that several changes had been made in the warehousing operations to improve the control over the food inventories.

In a report issued in February 1963 we recommended that, in addition to the corrective action taken or planned, a more critical analysis of staffing requirements be made by performing manpower utilization studies and comparing the results with accepted restaurant standards.

191. Need to revise criteria on discontinuance of postal-savings depository offices--In our report of May 1963 on our audit of the Postal Savings System, we commented on the fact that the Post Office Department maintained postal-savings depository offices

at some locations where there was relatively little postal-savings activity and stated that there was a need for the Department to include minimum levels of activity in its criteria for the discontinuance of depositories. The Department's present criteria is based on the number of accounts maintained without regard to the activity of the accounts.

So that certain efficiencies in the operation of the Postal Savings System could be realized, we recommended that the Department consider revising its instructions to include minimum levels of postal-savings activity in its criteria for discontinuance of depositories. We believe that adoption of our recommendation would help the Department in achieving its stated objective of reducing postal-savings reporting and control operations in line with the continuing decline of postal-savings business.

192. Need for better utilization of experimental mail-processing plant or for disposition of excess equipment--Our review of the operations of the experimental mail-processing plant, Providence, Rhode Island, disclosed that the plant was not being used for the geographic area it was designed to serve. At the time of our review, only mail for the Providence postal district was being processed with the result that the full capacity of the facility was not being used and certain mail-handling machines, which cost $138,000 a year to rent, were excess to needs. Because the mail-handling equipment is included in the 20-year lease for the facility, the excess rental costs will continue unless (1) additional mail is processed by the facility as a result of enlarging the area served, if warranted, or (2) arrangements can be made to amend the lease to permit the transfer of the excess machines to other postal installations.

Accordingly, we recommended in our report issued in September 1962 that the Postmaster General initiate a study of the use of the mail-handling equipment at the New Providence facility and that, if indicated by the results of this study, the Department take steps necessary to (1) enlarge the area now served by the facility, if economically feasible, thereby increasing the volume of mail being processed or (2) make arrangements to amend the lease to permit transfer of excess mail-handling equipment to other postal installations.

The Postmaster General indicated general agreement with our recommendation and stated that a study would be made to determine

whether efficiency could be increased by channeling large volumes of mail through the Providence post office. He also informed us that if the study indicates that the handling of large volumes of mail in the facility is not possible the Department would give consideration to having legislation enacted for the outright purchase of the mechanized post office so that certain machinery could then be transferred to postal units where the volume of mail would warrant its use.

193. Need for appropriate studies to determine suitability of mail-handling equipment and systems, economies of mechanized mail-handling operations, and contractors' capabilities--Our review of the operations of the experimental mail-processing plant, Providence, Rhode Island, disclosed that the Department did not make appropriate surveys and studies and, as a result, had committed the Government to expenditures in excess of $40 million over the life of the lease without having determined whether the proposed mail-handling equipment and system would be adequate to process mail efficiently, whether savings could be expected from the mechanization of mail-handling operations, and whether the contractor was technically capable of designing and constructing a mail-handling facility and mechanized mail-handling system. Accordingly, in our report of September 1962, we recommended to the Postmaster General that the Department undertake and utilize appropriate surveys and feasibility studies before executing future contracts.

In commenting on this recommendation the Postmaster General stated that the Department had benefited from the mistakes at Providence, they had not been repeated in postal facilities constructed or planned since that time, and that the lessons learned at Providence were helpful in developing new approaches to mechanization, including the establishment of mail volume standards for justifying the assignment of various mail-processing machines.

194. Need for contract provision to permit use of postal facility as experimental postal laboratory--In our report issued in September 1962 we commented that the usefulness of the new Providence post office as an experimental postal laboratory was limited in view of certain restrictions in the lease agreement regarding the placement of additional, upgraded, or modified mail-handling equipment in the facility. One of the primary purposes for which this facility was authorized was to serve as an operating postal

laboratory where experimentation with new machines and technological advances in mail handling could be conducted, allowing the upgrading of equipment to perfect better mail-handling systems. Under the present lease agreement, the United States Government does not have the contractual right to purchase and install in the facility other manufacturers' postal equipment for postal experimentation or to install its own equipment for that purpose.

We recommended that the Postmaster General consider entering into negotiations with the contractor to amend the lease agreement regarding the placement of additional, upgraded, or modified mail-handling equipment in the facility. In commenting on our recommendation the Postmaster General stated that, if the results of a contemplated study regarding the handling of larger volumes of mail in the facility indicated that efficient operations was not possible, the Department would then give consideration to having legislation enacted for the purchase of the mechanized post office so that certain machinery could then be transferred to postal units where the volume of mail would warrant its use. This action would also permit the Department to test any type of mail-handling machine in the facility.

195. Savings to result from greater use of leased lines for long distance telephone calls--Our selective review of the use made by Forest Service personnel in Washington of leased line telephone facilities operated by the General Services Administration disclosed that approximately 75 percent of the long distance calls made to locations serviced by GSA facilities were placed over the more costly commercial lines. We discussed this matter with a Forest Service official who stated that appropriate directives would be issued emphasizing the need to use GSA facilities instead of commercial facilities whenever possible and that periodic inspections would be made to determine the extent of compliance with the directives. Our follow-up review in April 1963 showed that corrective action resulting in annual savings of about $11,150 had been taken.

We noted in another review that employees of the National Aeronautics and Space Administration's Goddard Space Flight Center also were using commercial lines when GSA leased line facilities were available. Thereafter, officials of the Space Flight Center took steps to have the leased line facilities used when appropriate.

REVIEW OF OPERATING ACTIVITIES (continued)

196. Steps taken to keep number of telephones in use to a minimum--We noted that the total number of telephones in use at the Washington headquarters office of the Rural Electrification Administration appeared to be excessive when compared to the number of full-time employees. Since REA pays a rental charge for each telephone in use, telephones which are in excess of reasonable requirements result in the needless expenditure of funds. Following issuance of our report in November 1962, the Administrator, REA, informed us that a procedural change had been made to correct this deficiency.

197. Savings resulting from reductions in future operating-differential subsidy payments--In computing subsidy wage rates for certain subsidized ship operators, the Maritime Administration did not recognize all port leave to which personnel of the steward's department on Norwegian vessels were entitled. The Norwegian union agreement applicable to personnel in the steward's department provides that such personnel shall receive compensatory time or payment for up to one day a week. Maritime personnel computed port leave costs incorrectly on the basis of compensatory time or payment for one day per month thereby understating Norwegian port leave costs. As a result, subsidy payments to the affected United States operators were overstated.

In August 1962, we brought this matter to the attention of Maritime officials who subsequently informed us that full effect would be given to port leave of personnel in the steward's department on Norwegian vessels in future computations of subsidy wage rates. We estimate that the savings in subsidy payments will amount to about $16,000 annually.

198. Responsibility for maintenance of access highway transferred to county--In a report issued in October 1962 on our review of selected activities at the National Science Foundation's Kitt Peak National Observatory, we recommended that consideration be given to transferring the responsibility for maintaining the access highway to the Observatory to Pima County, Arizona. The Federal Government had been spending about $25,000 a year in maintaining the highway. Subsequently, the Director of the Foundation informed us that the access highway right-of-way and the responsibility for the highway maintenance had been transferred to the county.

REVIEW OF OPERATING PROCEDURES

199. Action taken to improve reporting of employee inventions for determinations of ownership and patentability--Reports of employee inventions of devices and processes developed in a research laboratory of the Public Health Service, Department of Health, Education, and Welfare, were not submitted to the Surgeon General for his review and disposition. Such reporting is necessary so that the Surgeon General may determine and protect the Government's interest in patentable inventions developed at Government expense and having possible commercial use. In December 1962 in response to our proposals for improvement, we were informed that the laboratory initiated an educational program for its employees regarding inventions and was developing an operating procedure and instructions for determining and reporting employee inventions.

200. Need to adequately evaluate the relocation of local offices--In approving additional funds required to carry out relocations of local offices as proposed by State employment security agencies, the Bureau of Employment Security, Department of Labor, usually accepted, without adequate evaluation, the figures submitted by the State agencies regarding the number of employees needed at the proposed local office locations. Because the amount of space for which the Bureau grants funds for rent is determined primarily according to the estimated number of persons to be employed by the State agency and so that unnecessary rental costs may be avoided, we recommended in a report issued in May 1963 that the Bureau require State agencies to fully justify the need for additional office space or relocation of local offices and that, in evaluating State agencies' requests for relocations, the Bureau consider past and estimated future local office workloads and the staff necessary to perform the work.

201. Need to develop policies, regulations, and procedures--In a review of the Department of Occupations and Professions, District of Columbia Government, we noted a lack of policies, regulations, and procedures governing the operations of the Department and its various Boards. This was contrary to Board of Commissioners Reorganization Order No. 59, dated June 30, 1953, as amended, which requires the Director of the Department and each of its 21 Boards to develop policies, regulations, and procedures relating to their assigned responsibilities and to submit them to the Commissioners for approval. By May 31, 1962, policies, regulations, and procedures had been developed and approved for only two Boards.

We believe that approval by the Board of Commissioners of policies, regulations, and procedures for all organizational components comprising the Department of Occupations and Professions is an essential step toward achieving the objective of Reorganization Plan No. 5 of 1952, namely, bringing all functions relating to the licensing, registering, and regulation of certain occupations and professions under the Commissioners control. We believe also that formalization of policies, regulations, and procedures would be helpful to the members of the various Boards, particularly newly appointed members, in carrying out their assigned functions in an effective manner. Accordingly, we suggested in October 1962 that the Board of Commissioners direct the Director of the Department and the members of each Board to comply with the requirements of the reorganization order.

202. Reduction in the types of application-license forms being considered--The Department of Occupations and Professions, District of Columbia Government, uses 30 different two-part application-license forms in issuing about 40,000 annual renewal licenses to practititoners of various occupations and professions in the District. Since a renewal license merely grants the practitioner the right to continue to practice the occupation or profession for which he had previously been issued a certificate of proficiency, we recommended in October 1962 that the same standard form for renewal licenses be used for each of the various occupations and professions, thus avoiding the printing of individual forms. The President of the Board of Commissioners concurred in our recommendation and stated that a study to determine the feasibility of the suggested changes would be made.

203. Aircraft maintenance schedules established to provide maximum utilization of manpower and aircraft--The optimum utilization of manpower and aircraft in the Federal Aviation Agency was not being fully attained because of the establishment of concurrent working hours for both flight and maintenance personnel at certain aircraft maintenance bases. Aircraft often remained inoperative because periodic inspections and necessary maintenance work were performed during the working hours of flight personnel.

We suggested to FAA in December 1962 that alternate day and night shifts for aircraft maintenance employees be established to eliminate or reduce the concurrent working hours of maintenance and flight personnel in order to improve manpower utilization and

increase the utilization of aircraft for the flight inspection of air navigational aids and for other programs utilizing FAA aircraft. The Administrator of FAA subsequently informed us that maintenance shift schedules were established and would be adjusted periodically to provide maximum utilization of aircraft and manpower.

204. Requirements for flying aircraft to maintain proficiency to be established--The Federal Aviation Agency had not established an agencywide policy prescribing the minimum and maximum number of flight hours an FAA pilot is required to fly to maintain his proficiency in flying FAA-operated aircraft. In the absence of such a policy, additional costs may be incurred because of the authorization of unnecessary proficiency flying or, conversely, insufficient proficiency flying may result in the taking of unnecessary risks to life and property. We suggested to FAA in December 1962 that agencywide standards and requirements be established specifying the minimum and maximum number of flight hours necessary for pilots to maintain proficiency in flying FAA-operated aircraft. The Administrator of FAA informed us that an agency order would be issued in line with our recommendation.

205. Effective, comprehensive compliance-enforcement program to be provided--The Federal Aviation Agency did not have an effective, comprehensive program for enforcing compliance by local public agencies with their continuing obligations under agreements with the Federal Government in connection with the surplus airport disposal program and related programs of Federal aid to airports. The FAA had not adopted clearly defined enforcement standards and procedures, had not made periodic inspections of the airports to determine compliance, and had not obtained information necessary for effective compliance enforcement.

In a report issued in October 1962 we recommended the establishment of a selective compliance-enforcement program which would recognize the varying circumstances and conditions affecting each airport and the degree of compliance necessary. The Administrator of FAA subsequently informed us that the FAA had developed a manual of policies and procedures to be followed in the enforcement of obligations under various agreements with local public agencies defining the enforcement standards and the rights and obligations of both the local public agencies and the FAA.

REVIEW OF OPERATING PROCEDURES (continued)

206. Postal employee groups to be charged for utilities furnished for vending machines--In a report issued in March 1963 we pointed out that the Post Office Department did not follow the General Services Administration practice of charging for utilities furnished for vending machines operated by employee welfare groups in Government-owned or leased buildings. We proposed that the Department require employee groups operating vending machines in Government-owned or leased buildings under the control of the Department to reimburse the Government for the utility costs. The Postmaster General informed us that the Department would require these organizations to reimburse the Department. The revised policy should result in substantial savings to the Government which may be as much as $200,000 a year.

GOVERNMENT-WIDE REVIEWS

STUDY OF FINANCIAL ADVANTAGES OF PURCHASING OVER LEASING OF ELECTRONIC DATA PROCESSING EQUIPMENT IN THE FEDERAL GOVERNMENT

207. Desirability of purchasing rather than leasing equipment --As an outgrowth of our continuing studies in this field, on March 6, 1963, we submitted a report to the Congress entitled "Financial Advantages of Purchasing over Leasing of Electronic Data Processing Equipment in the Federal Government." In this report, we pointed out that the cost comparisons made in our study demonstrated that substantial amounts of money could be saved by the Government in the years to come if, in acquiring the use of needed data processing equipment, proper cost comparisons were made in advance, action were taken to purchase equipment when such comparisons indicated the financial advantages of such action, and effective procedures were established to obtain the fullest practicable utilization of such equipment by Government agencies.

The cost comparisons with respect to the 16 machine models studied during our review indicated potential savings of approximately $148 million over a five-year period. The 16 models used for our study represented 523 of the approximately 1,000 electronic data processing systems installed or planned for installation on a lease basis by June 30, 1963. For additional use of the 523 machines after five years, there would be further savings at the rate of over $100 million annually.

208. Need for more effective management of the procurement and utilization of data processing equipment--We further pointed out that under the present system of decentralized management in the Federal Government, each agency makes its own decisions as to whether data processing equipment should be acquired by lease or purchase. There is no effective coordinating machinery at work to give consideration to these alternatives from the standpoint of benefit to the Government as a whole. Because of the very substantial financial savings that can be realized through more extensive purchasing of such equipment and the related need for directing and coordinating its utilization throughout the Government, we recommended that the President of the United States establish within his

STUDY OF FINANCIAL ADVANTAGES OF PURCHASING OVER LEASING OF ELECTRONIC DATA PROCESSING EQUIPMENT IN THE FEDERAL GOVERNMENT (continued)

organization a central management office suitably empowered with responsibility and authority 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. Our report expressed the conviction that the establishment of a central management office for this function is the only practicable way to provide the kind of management that will make possible the realization of savings of hundreds of millions of dollars in the years to come.

The report also contained a general recommendation to the heads of all using departments and agencies that they arrange for a prompt and complete reappraisal of their current plans to lease data processing equipment and take such action as is possible to realize the financial savings that may be available from purchasing such equipment and fully utilizing it.

FINANCIAL BENEFITS RESULTING

FROM THE WORK OF THE

GENERAL ACCOUNTING OFFICE

IDENTIFIED DURING THE FISCAL YEAR 1963

Collections of $29,167,000 were made through the efforts of the General Accounting Office during the fiscal year 1963.

Other financial benefits of $218,380,000 resulting from the work of the General Accounting Office are listed below. These financial benefits were identified during the fiscal year 1963 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 examinations of agency and contractor operations. In most instances, the potential savings are based on estimates and for some items the actual savings to be realized are contingent upon future actions or events.

The list does not include other benefits resulting from the work of the General Accounting Office that are not readily measurable in financial terms nor does it generally include repetitive benefits from actions taken on General Accounting Office findings prior to the fiscal year 1963.

SUPPLY MANAGEMENT

Savings resulting from procuring competitively or directly from the actual manufacturers items previously purchased noncompetitively from sole source suppliers	$ 55,106,000
Savings resulting from cancellation of plans to purchase materials for which there was no immediate or foreseeable need	38,946,000
Savings resulting from the transfer of excess material to agencies or contractors for use in lieu of making new procurements	15,054,000

Savings resulting from prevention of premature disposal of equipment and cancellation of the planned purchase of replacement equipment	12,400,000
Savings resulting from adjustment of prices under existing contracts or proposed amendments	4,754,000
Savings resulting from conversion from central procurement, storage, and distribution of electric lamps to procurement from local suppliers as needed	2,233,000
Savings resulting from acquiring title to or establishing accounting control over Government-owned material in hands of contractors	1,220,000
Other savings in supply management	28,000

PROFICIENCY FLYING

Savings in fiscal year 1963 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 previous annual report for the fiscal year 1962 was $13,300,000.)	$ 32,600,000

COMMUNICATIONS

Savings resulting from the consolidation and reconfiguration of Department of Defense communications circuits. 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	22,500,000

PAYMENTS TO GOVERNMENT EMPLOYEES, VETERANS, AND OTHER INDIVIDUALS

Annual savings resulting from use of highway mileage in lieu of rail mileage in computing distances traveled for purposes of reimbursing military personnel and their dependents for travel costs	6,000,000

Annual savings resulting from change in basis and method of determining compensation for substitute and temporary postal employees	2,190,000
Savings resulting from reductions in future payments for retirement, disability, and old-age insurance benefits arising from correction of erroneous awards	760,000
Annual savings resulting from revision of allowances for housing and packing and unpacking shipments of household goods	753,000
Savings resulting from reduction in future payments for Veterans Administration compensation benefits arising from discontinuance of erroneous claims	129,000
Savings resulting from correction of erroneous pay and allowance computations and records	68,000
MANPOWER UTILIZATION	
Savings in manpower resulting from the closings, consolidation, or reduction in staff of installations and offices staffed in excess of actual needs	$ 6,858,000
CONSTRUCTION COSTS	
Savings in construction costs resulting from relocation of a site for an aviation facility ($3,400,000) and cancellation of construction of cottages for employees ($109,000)	3,509,000
LOANS, CONTRIBUTIONS, AND GRANTS	
Reduction in Government's share of cost of slum clearance and urban renewal projects resulting from reduction or elimination of non-cash grant-in-aid credits to local public agencies	2,300,000

Increase in interest income under foreign currency loan agreements resulting from change in method of computing interest	1,900,000
Reduction in Government's contributions for construction of low-rent housing resulting from reduction in cost of construction	229,000
Reduction in Federal matching funds for public assistance programs resulting from revision of plan for allocating administrative expenses between matchable and non-matchable programs	264,000
MILITARY ASSISTANCE PROGRAM	
Reduction in overall program requirements due to withdrawal of dollar credits to NATO countries for procurement of supplies in excess of countries' need	2,554,000
MULTIPLE PURPOSE WATER PROJECTS	
Increase in the recoverable cost of multiple-purpose water resource projects due to change in basis of computing and recording interest during construction on the Government's investment in such projects	1,690,000
MAINTENANCE COSTS	
Savings from maintaining certain mobilization reserve production facilities in a lower state of readiness than the unnecessarily high state of readiness previously maintained	$ 970,000
Savings in maintenance and management of properties acquired under Veterans Administration loan guaranty program resulting from revised procedures and controls	603,000

MUTUAL EDUCATIONAL AND CULTURAL EXCHANGE PROGRAM	
Reduction in appropriation requests for the fiscal year 1964 for the mutual educational and cultural exchange program resulting from giving effect to unobligated reserve funds from prior years	1,100,000
LEASING AND RENTAL COSTS	
Savings in cost of leased space due to consolidation of offices occupying Government-owned space thus increasing the amount of Government-owned space available and reducing requirements for leased space	300,000
Savings in rental costs for automatic data processing equipment (ADP) resulting from the installation of a timing device to more accurately record ADP equipment time usage on which rental was based	175,000
Savings in ADP equipment rental resulting from elimination of depreciation charges from rental rates	60,000
OTHER ITEMS	
Additional revenues due to increase in permit fees for summer-home sites in national forests ($114,000), changes in rates for housing, quarters, and subsistence ($112,000), and correction of errors involving sales prices of Government-owned timber ($62,000)	288,000
Savings resulting from consolidation of ocean terminal operations	278,000
Miscellaneous items under $1,000,000	561,000
Total other benefits	$218,380,000

Index