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RESULTS FROM RECOMMENDATIONS MADE DURING THE 88TH CONGRESS IN REPORTS OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

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NOTE.—Changes in full committee during 89th Congress:
Clarence J. Brown, Ohio, deceased August 23, 1965.
Delbert L. Latta, Ohio, resigned from committee August 31, 1965.
Robert Dole, Kansas, came to committee August 31, 1965.
Clarence J. Brown, Jr., Ohio, came to committee January 12, 1966.
Robert P. Griffin, Michigan, resigned from committee May 10, 1966.
Jack Edwards, Alabama, came to committee May 24, 1966.

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RESULTS FROM RECOMMENDATIONS MADE DURING THE 88TH CONGRESS IN REPORTS OF THE COMMITTEE ON GOVERNMENT OPERATIONS, HOUSE OF REPRESENTATIVES

INTRODUCTION

This report summarizes the results realized to date in fulfilling the recommendations made by the Committee on Government Operations of the House of Representatives in 22 investigative reports during the 88th Congress. Many of these reports pointed out inadequacies and defects in the operation of the Government and contained recommendations for remedying those deficiencies. Most of the recommendations called for administrative action, and some of them for legislative action.

Since the committee's reports were made soon after the completion of the investigations on which they are based, the reports seldom contained information concerning the results of the committee's recommendations. For that reason, Chairman William L. Dawson, at the close of the 88th Congress, requested the chairmen of each of the subcommittees of this committee to compile the results of the committee's recommendations, as of approximately January 1, 1966. The following summary of the accomplishments thus far resulting from the committee's work is a heartening demonstration of the increased efficiency and economy, and the large savings of money, already achieved through the committee's efforts. This summary indicates that even greater benefits will accrue as action is completed on the committee recommendations not yet fulfilled.

It should be noted that the work with which the committee was concerned in these 22 investigative reports comprises only one portion of the committee's activities during the 88th Congress. In addition, the committee issued 10 committee prints and 3 subcommittee prints.

In the 88th Congress, 176 bills and resolutions were referred to the committee and were studied. Of these, the committee reported 15 and 13 were enacted into law. In addition, one reorganization plan was referred to the committee. After study and hearings, the plan was approved by the committee and permitted by the House and Senate to become effective. The reorganization plan provided for the reorganization of certain functions relating to the Franklin D. Roosevelt Library. The plan became effective July 27, 1963.

Pursuant to its duty of studying reports of the Comptroller General, the committee received officially and studied 674 such reports during the 88th Congress. These reports and certain other executive communications were referred to the committee under clause 2 of rule XXIV of the House of Representatives.

The following is a list of committee prints issued by the Committee on Government Operations:

Federal Real and Personal Property Inventory Report (Civilian and Military) of the U.S. Government Covering Its Properties

Located in the United States, in the Territories, and Overseas, as of June 30, 1962.

Activities of the House Committee on Government Operations, Eighty-seventh Congress, First and Second Sessions, 1961–1962.

Summary of the Objectives, Operations, and Results of the Commissions on Organization of the Executive Branch of the Government (First and Second Hoover Commissions).

Reorganization by Plan and by Statute, 1945–1962.

Federal Real and Personal Property Inventory Report (Civilian and Military) of the U.S. Government Covering Its Properties Located in the United States, in the Territories, and Overseas, as of June 30, 1963.

Availability of Information From Federal Departments and Agencies (Index and Bibilography).

Interim Report of the Activities of the House Committee on Government Operations, Eighty-seventh Congress, First Session, 1963.

Use of Polygraphs by the Federal Government (Preliminary Study).

Results From Recommendations Made During the Eighty-seventh Congress in Reports of the Committee on Government Operations, House of Representatives.

Government News From Anonymous Sources.

The committee engaged in considerable investigative work on many topics which did not eventuate in printed reports, and also extensively reviewed many cases of the Government's utilization of excess property and its disposal of surplus property. The sum total of these efforts resulted in savings of many millions of dollars.

In order to perform its functions and to carry out its duties as fully and as effectively as possible, the committee, under the leadership of its chairman, the Honorable William L. Dawson, of Illinois, at the beginning of the 88th Congress, established seven regular subcommittees, which cover the entire field of executive expenditures and operations. The names and chairmen of these subcommittees are as follows:

Executive and Legislative Reorganization Subcommittee, Hon. William L. Dawson, chairman.

Military Operations Subcommittee, Hon. Chet Holifield, chairman.

Government Activities Subcommittee, Hon. Jack Brooks, chairman.

Intergovernmental Relations Subcommittee, Hon. L. H. Fountain, chairman.

Natural Resources and Power Subcommittee, Hon. Robert E. Jones, chairman.

Foreign Operations and Government Information Subcommittee, Hon. John E. Moss, chairman.

Legal and Monetary Affairs Subcommittee, Hon. Dante B. Fascell, chairman.

In addition, a Special Federal Home Loan Bank Board Subcommittee was organized under the chairmanship of Hon. John E. Moss. This special subcommittee completed its work with the filing of the sixth report of the committee.

The following three subcommittee prints were issued during the 2d session of the 88th Congress by the respective subcommittees. The prints were subsequently approved by the full committee during the 1st session of the 89th Congress:

Satellite Communications (Military-Civil Roles and Relationships). (Military Operations Subcommittee.)

Operations of Billie Sol Estes. (Intergovernmental Relations Subcommittee.)

U.S.-Owned Foreign Currencies. (Foreign Operations and Government Information Subcommittee.)

EXECUTIVE AND LEGISLATIVE REORGANIZATION SUBCOMMITTEE

[H. Rept. No. 916, 88th Cong., 1st sess.]

MILITARY CONSTRUCTION PROJECTS (MARINE CORPS AIR STATION, BEAUFORT, S.C.) (AIRSTRIP AT FORT CARSON, COLO.) (AIRFIELD AT SHARPE GENERAL DEPOT, LATHROP, CALIF.)

Twelfth Report by the Committee on Government Operations

(Submitted to the Speaker November 21, 1963)

This report resulted from an investigation continued cooperatively by the subcommittee and the staff of the full committee. The report detailed illegal activities or other deficiencies on the part of military officials at the bases referred to and headquarters officials in the departments concerned, in the construction of airfields and other facilities. The report indicated that a number of steps were taken by the military departments to avoid a recurrence of such actions but additional detailed recommendations were made by the committee.

The chief findings and conclusions are—

(i) at the Marine Corps Air Station, Beaufort, S.C., careless planning and poor communication within the Navy led to the building of almost 99,000 square feet of excessive warehouse space at an unnecessary cost of $730,000;

(ii) at Fort Carson, Colo., an airfield runway and a large amount of aircraft parking space were built in violation of law and regulations, the Army having expended more than $640,000 beyond the legal limitations;

(iii) at Sharpe General Depot, an aircraft runway and related works were built contrary to law and regulations. Records at the depot were falsified to disguise the illegal expenditures; and

(iv) the current report and the earlier Fort Lee report reveal a general tendency of Army officers to put the desire for getting a job done ahead of the need to follow statutory and regulatory limitations and procedures.

The committee recommended that changes made and to be made in the Department's directives and regulations relating to minor construction projects be reviewed by the Comptroller General, and a report submitted on their effectiveness in improving accounting and fiscal controls.

The committee also recommended that the Department and the Attorney General review the record and take appropriate action regarding the illegal actions disclosed by the investigation, including possible perjury before the committee.

RECOMMENDATIONS

REVIEW BY COMPTROLLER GENERAL OF DIRECTIVES OF THE DEPARTMENT OF DEFENSE AND THE THREE MILITARY DEPARTMENTS (*Recommendation No. 1*):

In view of the above, the committee recommends that the Comptroller General review the Department of Defense directives and instructions and the implementing regulations and directives of the three military departments along with the changes that have already been made and report to the committee regarding the effectiveness of these revisions and changes in improving the accounting and fiscal controls related to minor construction projects.

RESULTS.—The Deputy Secretary of Defense, by letter dated July 8, 1964, furnished copies of DOD Directive 7040.2, as amended, which embodied changes to improve accounting and fiscal controls related to minor construction projects. Copies of the directive were also forwarded to the Comptroller General for his review. The review by the Comptroller as requested in the recommendation was made and a report was furnished the committee.

REVIEW, REPORT, AND RECORD FOR POSSIBLE PERJURY ACTION (*Recommendation No. 3*):

The committee recommends that the report on and the record of the Fort Carson and Sharpe General Depot matters be reviewed by the Secretary of Defense, the Secretary of the Army, and the Attorney General with a view to taking appropriate action regarding perjury committed before the committee, falsification of records, and other criminal actions uncovered by the committee's investigation.

RESULTS.—The Deputy Secretary of Defense advised that the committee's report on and the record of the Fort Carson and Sharpe General Depot matters had been reviewed by officials within the Department of Defense and the cases in question were referred to the Department of Justice. A similar review was made by the Department of the Army but we were advised by the Secretary of the Army that the running of the statute of limitations precluded criminal prosecution by the Department of the Army.

STATUTORY LIMITATIONS ON THE EXPENDITURE OF FUNDS (*Recommendation No. 4*):

The committee has been informed that in various conferences and meetings, the Department of the Army has, since the Fort Lee case, emphasized to responsible military and civilian officials the necessity for observing approval limits, and regulatory and statutory limitations on the expenditure of funds. The committee recommends that this emphasis should be continued and,

under the general supervision of the Secretary of Defense, be extended to the other military agencies.

RESULTS.—The committee was informed by the Deputy Secretary of the Army that the committee recommendation on continued emphasis to responsible military and civilian officials for observing approval limits and regulatory and statutory limitations on the expenditure of funds had been extended to other military agencies. Each of the military departments had been provided copies of the committee report and of DOD Directive 7040.2.

ESTIMATED COST OF NEW CONSTRUCTION PROJECTS IN TROOP RELOCATION (Recommendation No. 5):

The Department of Defense should take appropriate steps to insure that decisions to relocate major troop units from one permanent headquarters to another are not made without consideration of the extent and estimated cost of all new construction and maintenance and repair projects which proper performance of the transferring unit's mission will necessitate.

RESULTS.—The Deputy Secretary of Defense reported as follows:

During the past 3 years, the Department of Defense has conducted a program for the closure of unnecessary military installations in order to reduce expenditures and achieve maximum economic utilization of our best defense facilities. This program conforms to the President's instructions to maintain the required military readiness and force levels at the lowest possible cost. Under this program, when bases are selected for closure, relocation of troop units to other installations becomes necessary. Troop unit relocations are also required because of other considerations, such as the need for collocating certain units so as to make joint use of training facilities, or for other operational reasons.

In all these instances, a careful evaluation is made of all costs involved, including new construction, maintenance, and repair, before reaching a decision on the proposed relocation. In some instances, the need for the relocation is mandatory to meet overriding operational requirements, and in those cases, relocation costs for the troop units involved must be met, despite the apparent lack of justification on strictly economic grounds.

However, in the case of relocations which result from base closures, evaluations of the costs involved are subjected to a most thorough and searching review, so as to assure that these costs are adequately covered by the savings to be achieved from the base closure. In most base closures, the relocation costs, including all new construction, maintenance, and repair work required, are recouped in less than 1 year by the savings achieved from the base closure. Also, in addition to these savings, substantial returns to the Treasury are obtained from the sale of the excess base properties.

The Department of Defense will continue to devote careful attention to the evaluation of all costs before reaching decisions on the relocation of troop units and other activities.

REALISTIC ESTIMATES OF MINOR CONSTRUCTION PROJECTS (Recommendation No. 6):

The committee recommends that the Secretary of the Army review the procedures involved in the approval of minor construction projects to assure that the responsible officials do not approve such projects which are proposed on the basis of unrealistically low estimated costs. For example, when estimates are cut down to one-half or one-third of earlier estimates for the same projects, it should be obvious that the projects will be in difficulty from the time they are started.

RESULTS.—The procedures involved were reviewed by the Secretary of the Army, a revised minor construction policy was adopted along with revised cost accounting procedures, and these were contained in new Army regulations AR–415–35 and AR–37–115.

JOINT DEFENSE-CIVIL SERVICE REVIEW OF REPRIMAND PROCEDURE (Recommendation No. 7):

The committee recommends that the Secretary of Defense and the Civil Service Commission jointly review the manner in which reprimands are issued and recorded, and the effect given them, with respect to civilian employees and to military officers with a view to eliminating or minimizing the inequities found in the Sharpe case.

RESULTS.—The Deputy Secretary of Defense advised that the review requested had been made and that insofar as it is practicable the current regulations of the military departments provide substantially the same treatment of military officials and civilian employees in the matter of reprimands. The record of a punitive reprimand is permanent and is maintained in the officer's personnel records at the department level. Civilian reprimands are maintained as permanent records by the Civil Service Commission. He further advised:

An administrative reprimand or admonition may be issued to a military officer as a corrective measure pursuant to paragraph 128c of the Manual for Courts-martial. The record of an administrative reprimand is of transitory nature and is destroyed after serving its purpose. Army civilian personnel regulations since December 1962 have provided for issuance of a written temporary admonition to civilian employees when the circumstances of the case indicate that a permanent reprimand is not warranted. The record of the admonition is transitory and can be retained in the recipient's file not to exceed 2 years.

In the Sharpe case, the statute of limitations precluded imposition of a punitive reprimand on the military officers, so that the commander's only reasonable recourse was to issue them administrative reprimands. The only available action which the commander could take against the civilian employee offenders at that time was to issue to each an official letter of reprimand, which he did. The result, of course, was that for substantially the same misconduct the military offenders received "temporary" reprimands and the civilian offenders "permanent" reprimands. Had the December 1962 change in civilian personnel regulations been in effect, the commander could have accorded the offenders substantially equal treatment. The Secretary of the Army has directed that the letters of reprimand issued to the four civilian employees at Sharpe General Depot be removed from their files and destroyed. The effect is the same as if they had received only "temporary" reprimands and thus the inequity has been corrected.

Although current regulations have eliminated insofar as practicable the distinction that existed in the Sharpe case, equitable treatment of the two categories of personnel will not be achieved automatically. Commanders and supervisors must exercise sound judgment, fairness, and discretion in administering regulations. In order to emphasize the importance of this precept of management, the Secretary of each military department has been requested to initiate such measures as may be necessary to insure that commanders at every echelon place proper and continuing emphasis on achieving and maintaining substantial equity in administering regulations governing discipline of military officers and civilian employees.

PRESERVATION OF TELEPHONE RECORDS (Recommendation No. 8):

> The committee recommends that the Department of Defense review the adequacy of its practices concerning the preparation and preservation of documentary records of official telephone conversations, with a view toward minimizing gaps in the administrative history of significant decisions and actions.

RESULTS.—The amended DOD Directive 7040.2 contained the following guidance:

> The project files will represent a complete historical record of the project from inception to completion. Correspondence and other documentation pertinent to the project will be incorporated in the project files at all appropriate levels. This will include memorandums for record pertaining to decisions resulting from discussions, meetings, and telephone conversations.

INVENTORIES OF EXISTING ASSETS (Recommendation No. 9):

With respect to the excessive construction at the Marine Air Station at Beaufort, S.C., the committee recommends that in connection with the implementation of the Navy Department's new shore facilities planning system, care should be taken to insure that inventories of existing assets are kept current and accurate and that they are taken into account each time the programing of facilities for an installation is reviewed.

RESULTS.—The committee was advised by the Department of the Navy as follows:

The following action has been taken to preclude excessive construction in the future. Navy now has in effect a regularized procedure which has, among other goals, the purpose of avoiding situations of the type which the committee revealed at the Marine Air Station, Beaufort, S.C. The procedure is set out in Navy's shore facility planning and programing system introduced in April 1960, and updated by issuance of OPNAV instruction 11010. ID dated 30 July 1962; this provides a definite step-by-step procedure whereby latest inventories of existing usable assets are taken into consideration in determining facility deficiencies and excesses reported for programing review. A copy of this instruction is enclosed herewith.

The new system first determines basic facilities requirements for each activity; then records all available facilities by means of an engineering evaluation on location; and by comparing the requirements with the available facilities, establishes the need for new construction. The results of the engineering survey are compared with plant record cards and with the inventory of military real property in order to exclude any possibility of omission of existing facilities from evaluation. Any change in an activity's mission initiates a reevaluation of its basic facilities requirements by the activity's sponsor bureau, which immediately stops the processing of all affected construction projects. If a construction project is in an advanced stage at the time of change in mission, the activity's commanding officer is charged with responsibility to stop the project and inform his sponsor bureau.

The Department of the Navy is taking continuous action to accelerate the implementation of this system. The collection of the necessary planning data has now progressed to a point where the evaluation and review of fiscal year 1967 military construction projects for major activities can be conducted in accordance with this system. The Navy Inspector General will conduct on-site inspections of the effectiveness of the Navy's shore facilities planning and programing procedures at activity level.

MILITARY OPERATIONS SUBCOMMITTEE

[H. Rept. No. 599, 88th Cong., 1st sess.]

MILITARY AIR TRANSPORTATION—1963

Tenth Report by the Committee on Government Operations

(Submitted to the Speaker July 17, 1963)

This report examines the history and development of efforts to improve military air transportation policy and procedures, with particular reference to the procurement of airlift from civil carriers to support military requirements. It also reviews the development of the organization and present capacity of the Military Air Transport Service and its projected plans and policies as they affect the procurement of airlift services. It recognizes that MATS has a vital role and that military needs must be filled by modern jet transport aircraft. However, it urges that the planning and execution of airlift procurement not only be performed in such a way that the Department of Defense can procure the desired services when they are needed, but also so that the industry will not be completely unbalanced or upset by variations in this procurement.

The report also urges coordinated attention by the Department of Defense, the Civil Aeronautics Board, and the Federal Aviation Agency to assure not only that Government can procure its needs, but that the regulation of civil carriers will not be working at cross purposes with procurement policies. While both the military air fleet and the civil air carrier fleet will soon be composed of high-capacity jet aircraft, the inventory of older lower capacity aircraft is an industry problem which must be taken into account in both regulatory and procurement policies.

The report is based on committee hearings, studies, and reports beginning in 1958, on extensive staff investigations, and on public hearings held on April 24, 25, and 30, 1963.

The report includes eight committee recommendations. These urge that MATS continue to fill "hard core" military requirements with its own fleet and to plan for continued civil air carrier participation, possibly with greater participation in channel cargo traffic. Although the committee has previously urged longer term contracts for civil air carriage, the report points out that for certain purposes, consideration also must be given to flexibility, for example, in procurement of short-term hauls and in insuring sufficient competition by means of a broad contractor base among the civil air carriers. As in prior reports, the committee urges consideration by MATS and by the CAB of the needs of carriers which have heavily committed themselves in support of the modernization policies urged by the Government. At the same time, the report recommends that the CAB consider the advisability of lower minimum rates for military

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airlift in view of the greater economies being experienced by carriers in the operation of the newer and higher capacity aircraft.

RESULTS.—The committee's continuing surveillance of the subject matter has stimulated modernization of air fleets in both military and civil areas, stabilized the whole procurement setup for military airlift, and improved procurement procedures and planning for emergency requirements. The report also brings together many facts and facets of military air transportation and is a useful reference and background document for Members of Congress and the interested public.

The Department of Defense agreed to virtually all of the committee's recommendations, and indicated that it was proceeding with appropriate action under each recommendation.

RECOMMENDATIONS

PLANS FOR "HARD CORE" AND CIVIL CARRIER ROLES (Recommendation No. 1):

MATS should continue to emphasize its hard-core role and to plan for continued substantial participation by civil carriers in military airlift business within its purview.

RESULTS.—The Military Air Transport Service, by act of Congress, has been renamed the Military Airlift Command to emphasize its important military support functions. The Military Airlift Command has strongly emphasized its hard-core role, particularly in conjunction with plans in support of the Strike Command. Continued substantial participation by civil carriers in military airlift has been evident in fiscal years 1965 and 1966 procurements. For several years, acting on the basis of a prior recommendation by our committee, the Appropriations Committee has designated in appropriation acts dollar amounts which were to be available only for procurement of commercial transportation service from air carriers participating in the Civil Reserve Air Fleet. In the fiscal year 1966 act the designated amount was increased from $80 million to $100 million. In fiscal year 1965, actual expenditures for commercial augmentation airlift were $231.3 million.

SHARE IN CHANNEL TRAFFIC (Recommendation No. 2):

Consideration should be given to expanding the civil carrier share of MATS channel cargo traffic.

RESULTS.—Since the issuance of the committee report, the percentage of total channel traffic carried by commercial carriers has increased substantially. The Military Airlift Command has participated in an increased number of military exercises and has placed additional emphasis on airlifting cargo peculiar to the capabilities of military aircraft.

In addition, the Military Airlift Command has been faced with two continuing factors—increased capacity in new Department of Defense aircraft being delivered, such as the C–130 and C–141 aircraft, and

increased requirements due to Vietnam and other crises. The current result has been an increase in procurement of airlift for the civil carriers for channel traffic and the use of the increased military capacity for increased commitments. The recommendation has thus been fully complied with in substance.

FLEXIBLE CONTRACTS FOR SPECIAL NEEDS (Recommendation No. 3):

> In procuring airlift services beyond the yearly "fixed buy," flexibility should be created to permit short-term awards in special circumstances to qualified carriers not holding annual contracts.

RESULTS.—The Department of Defense and the Air Force have developed policies to provide flexibility in contracts for special needs or circumstances. In general, the policy provides for allocating additional contract needs among the carriers selected in the long-term buy program. Thus, while the DOD policy provides for flexibility, it does not include use of short-term contracts with carriers other than those selected for 3-year military airlift contracts.

MAINTAINING CONTRACTOR BASE (Recommendation No. 4):

> In the new 3-year cycle of airlift procurement commencing in fiscal year 1965, MATS should maintain a broad contractor base, taking into account carriers' past performance and new equipment acquisitions.

RESULTS.—The new Department of Defense policies have resulted in maintaining the interest of contractors in bidding at times open to new contractors for the 3-year buy. The 3-year buy policies and criteria, as developed, did take past performance and acquisition into account as central factors in evaluating bids. Airlift procurement policies have also emphasized maintenance of good performance records and the fulfillment of acquisition commitments.

While the CAB has denied renewal of some certificates to carriers who formerly participated in military airlift business, thus reducing the potential contractor base, some additional carriers have become interested in this business and have been awarded contracts. The net result has been the maintenance of a sufficiently broad contractor base to fulfill military requirements.

CRITERIA FOR CONTRACTOR INDEPENDENCE (Recommendation No. 5):

> While continued excessive dependence by civil carriers on military airlift revenues is to be discouraged and their promotion of commercial business encouraged, MATS should be careful not to apply arbitrary criteria in evaluating these factors for future contract awards.

RESULTS.—The DOD, Air Force, and MATS policy with respect to the degree of financial independence required of civil air carriers has been firmly applied, but carefully considered. Policy governing fiscal year 1966 contracts requires that at least 30 percent of each carrier's air transportation revenues be derived from commercial sources. In general, carriers who have qualified on other grounds have not been arbitrarily excluded from bidding and participating by this standard.

PREFERENCE FOR CONTRACTORS OFFERING COMMITMENTS FOR EMERGENCY USE (Recommendation No. 6):

> The CAB should give full consideration to the Department of Defense interest in a broad contractor base to support military airlift requirements and to MATS obligations to assist carriers who have acquired new equipment for military work and have committed substantial resources for military emergencies.

RESULTS.—The CAB has given appropriate consideration to DOD interests in consideration of individual carriers' certificates and regulatory exceptions required in performance of military contracts. Carriers who have acquired new equipment have generally received certificate renewals.

LOWERING MINIMUM RATES (Recommendation No. 7):

> The CAB should give prompt consideration to a downward revision of minimum rates for military airlift in the light of new equipment acquisitions by civil carriers.

RESULTS.—The recommendation for downward revision of minimum rates for military airlift has been put into effect. On September 11, 1963, the CAB announced proposed amendments reducing minimum rates for all MATS charters, subject to its rulemaking procedure. The CAB release of that date quoted from the committee's report and included this statement:

> The review of minimum rates by the CAB is one of the periodic reviews conducted by the agency and is in keeping with recommendations of Department of Defense and the House Committee on Government Operations in order to insure that the rates charged the military are the minimum reasonable levels at which the carriers can economically operate.

The CAB-imposed reduction in minimum rates became effective January 1, 1964 (CAB Economic Regulation No. 401). It resulted in savings during the remaining half of fiscal year 1964 of approximately $4.4 million.

In 1964, the CAB again reviewed the cargo portion of the rate structure and ordered a further reduction in that category, effective July 1, 1964 (CAB Economic Regulation No. 403). However, one of the cargo carriers petitioned the Board to reconsider the reduction with respect to operations in the North Pacific area and to allow a higher rate for cargo operations in that area. After further considera-

tion, CAB did order such an increase, effective September 1, 1964 (CAB Economic Regulation No. 414). Even so, the effect of these latter two actions will result in a savings of approximately $2.8 million during fiscal year 1965.

Together, the savings derived from the three rate adjustments noted above will be approximately $11.6 million for fiscal year 1965, and a similar amount for each succeeding year barring further rate adjustments. The identified savings for fiscal years 1964 and 1965 were $16 million.

After further review, the CAB imposed still another reduction effective July 1, 1965, which is estimated to result in savings of $19.9 million under fiscal year 1966 contracts, additional to the savings obtained from the first three rate reductions.

COOPERATION BETWEEN DOD AND OFFICE OF EMERGENCY TRANSPORTATION (Recommendation No. 8):

> The Office of Emergency Transportation in the Department of Commerce needs to be properly informed of MATS' airlift expansion activities and CRAF-operational plans, and a memorandum of understanding to those ends should be executed between the two agencies at the earliest possible date.

RESULTS.—The committee was informed in a letter dated August 30, 1963, by Secretary of Commerce Luther H. Hodges, that a memorandum of understanding had been signed on August 8, 1963, by Secretary of Defense Robert S. McNamara and Acting Secretary of Commerce Franklin D. Roosevelt, Jr., providing for a definition and division of responsibilities between the Department of Defense and the Department of Commerce, and designating the officials and offices responsible for coordinating requirements, planning, and contracting for the Civil Reserve Air Fleet.

[H. Rept. No. 917, 88th Cong., 1st sess.]

AVOIDING CONFLICTS OF INTEREST IN DEFENSE CONTRACTING AND EMPLOYMENT

Thirteenth Report by the Committee on Government Operations

(Submitted to the Speaker November 22, 1963)

The report reviews and examines policies concerned with the avoidance of conflicts of interest within and outside the Government in several categories. First, it reviews the manner in which recent changes in conflict-of-interest statutes have been implemented by the executive branch.

Second, it reviews a series of administrative actions aimed at regulating the activities of persons who are profit or nonprofit contractors with the Department of Defense and who serve in close conjunction with Government agencies to provide technical or expert assistance. Such regulatory restrictions include "hardware bans"

to prevent a technical advisory company from influencing or entering into certain production activities, and restraints on other contract or advisory work undertaken by the contractor "adjuncts" of Government agencies.

The report states that most Government agencies have undertaken to promulgate and apply the new standards expressed in statutory revisions and Presidential memorandums relating to potential conflict-of-interest situations. These reviews and regulations have been accompanied by wider publication of standards of conduct, the writing of more inclusive, detailed, and comprehensive regulations, and new emphasis on information and training for personnel. Most agency personnel have been given the benefit of increased access to information and advice on their personal situations and circumstances. Most standards-of-conduct regulations urged personnel to consult either agency legal counsel or private legal counsel if there is any doubt as to the propriety of their individual financial or work circumstances.

At the same time, reduced restrictions now apply to "special Government employees," a category which includes part-time, temporary, or intermittent advisers, consultants, and experts. Many new discretionary powers have been given to the responsible superiors of such personnel. They can decide upon the propriety of participation by such personnel in specific activities where they may have some direct or indirect interest. Special Government employees are now being required to furnish statements of their financial interests in areas of possible conflict of interest. The report recommends that the same reporting requirement be applied to regular Government employees who have major procurement and contracting duties.

In connection with profit and not-for-profit and adjunct corporations which provide expert and technical services, restrictions have been imposed on the entry of such companies into production contracts in the fields in which they provide advice. A so-called code of conduct has been developed by the Department of Defense to avoid organizational conflicts of interest. The report points out that there are several aspects of the code which may result in future difficulties. It recommends the gathering of data and the development of further standard policies with respect to the imposition of "hardware bans" in the situations described in the code of conduct.

The report further notes that the code of conduct contains a policy statement on the development of new nonprofit corporations or the continuation of contract services of these corporations already in existence. It criticizes the brevity and vagueness of this statement, and urges the Department of Defense to define and state its policy in more concrete terms.

Another category of potential conflict-of-interest is the situation where the personnel of contractor organizations are not subject to statutory restrictions applying to Government personnel, not necessarily covered by attempts to regulate contractor adjuncts as organizations. The report suggests further study of the means of providing standards of conduct for such personnel who are performing quasi-governmental work.

The report is based on part of the material contained in hearings on systems development and management held in 1962 and 1963,

and in hearings on military communications satellite program held in 1963; a total of 33 days of public hearings.

RESULTS.—The subcommittee's hearings and ensuing report have served to clarify many points in official directives which were troublesome and confusing to defense contractors. Informal expressions of appreciation from both Government and industry sources were received.

RECOMMENDATIONS

FINANCIAL STATEMENTS BY REGULAR EMPLOYEES

(*Recommendation No. 1*):

> To accord the same administrative treatment and protection in the matter of avoiding conflicts of interest to full-time (regular) Government employees and part-time, intermittent, or temporary (special) Government employees, we recommend that the Department of Defense require senior employees and military personnel whose work affects procurement and contracting to file statements of private financial and business interests.

RESULTS.—In Executive Order No. 11222, dated May 8, 1965, President Johnson issued new conflict-of-interest orders superseding those described in House Report No. 917. The order provided, in part IV, as follows:

> SEC. 401. (a) Not later than 90 days after the date of this order, the head of each agency, each Presidential appointee in the Executive Office of the President who is not subordinate to the head of an agency in that Office, and each full-time member of a committee, board, or commission appointed by the President, shall submit to the Chairman of the Civil Service Commission a statement containing the following:
>
> (1) A list of the names of all corporations, companies, firms, or other business enterprises, partnerships, nonprofit organizations, and educational or other institutions—
>
> (A) with which he is connected as an employee, officer, owner, director, trustee, partner, adviser, or consultant; or
>
> (B) in which he has any continuing financial interests, through a pension or retirement plan, shared income, or otherwise, as a result of any current or prior employment or business or professional association; or
>
> (C) in which he has any financial interest through the ownership of stocks, bonds, or other securities.
>
> (2) A list of the names of his creditors, other than those to whom he may be indebted by reason of a mortgage on property which he occupies as a personal residence or to whom he may be indebted for current and ordinary household and living expenses.

(3) A list of his interests in real property or rights in lands, other than property which he occupies as a personal residence.

(b) Each person who enters upon duty after the date of this order in an office or position as to which a statement is required by this section shall submit such statement not later than 30 days after the date of his entrance on duty.

(c) Each statement required by this section shall be kept up to date by submissions of amended statements of any changes in, or additions to, the information required to be included in the original statement, on a quarterly basis.

SEC. 402. The Civil Service Commission shall prescribe regulations, not inconsistent with this part, to require the submission of statements of financial interests by such employees, subordinate to the heads of agencies, as the Commission may designate. The Commission shall prescribe the form and content of such statements and the time or times and places for such submission.

UNIFORM FINANCIAL STATEMENTS (Recommendation No. 2):

We recommend that the Bureau of the Budget and the Civil Service Commission develop a uniform requirement for the filing of such financial statements by all senior Government personnel whose work affects procurement and contracting, whether they are "regular" or "special" Government employees under the conflict-of-interest statutes.

RESULTS.—In implementation of Executive Order No. 11222, referred to above, the civil service system promulgated a new set of conflict-of-interest regulations applying to all agencies. These regulations were published in the Federal Register on October 1, 1965. In subpart D, the regulations reflect the view expressed by the committee in its recommendation:[1]

Subpart D—Agency Regulations Governing Statements of Employment and Financial Interests

§ 735.401 Form and content of statements.

The statements of employment and financial interests required under this subpart for use by employees and special Government employees shall contain, as a minimum, the information required by the formats prescribed by the Commission in the Federal Personnel Manual.

§ 735.402 Specific provisions of agency regulations for employees.

Agency regulations issued under this subpart for employees, as a minimum, shall contain provisions covering the reporting requirements set forth in §§ 735.403 through 735.411.

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[1] See 5 CFR Part 735.

§ 735.403 Employees required to submit statements.

Except as provided in § 735.404, each agency head shall require statements of employment and financial interests from the following employees:

(a) Employees paid at a level of the Federal Executive Salary Schedule established by the Federal Executive Salary Act of 1964, as amended.

(b) Employees in grade GS–16 or above of the General Schedule established by the Classification Act of 1949, as amended, or in comparable or higher positions not subject to that act.

(c) Employees in hearing examiner positions as defined by § 930.202(c) of this chapter.

(d) Employees in positions specifically identified in the agency regulations as positions the basic duties and responsibilities of which require the incumbent to exercise judgment in making or recommending a Government decision or in taking or recommending Government action in regard to:

(1) Contracting or procurement;

(2) Administering or monitoring grants or subsidies;

(3) Regulating or auditing private or other non-Federal enterprise; or

(4) Other activities where the decision or action has an economic impact on the interest of any non-Federal enterprise.

However, employees in positions that meet these criteria may be excluded from the reporting requirement when an agency head determines that the duties of a position are at such a level of responsibility that the submission of a statement of employment and financial interests by the incumbent is not necessary because of the degree of supervision and review over the incumbent and the remote and inconsequential effect on the integrity of the Government.

(e) Employees in positions specifically identified in the agency regulations as positions determined by the agency head as requiring the incumbent thereof to report employment and financial interests in order to carry out the purpose of law, the Executive order, this part, and the agency regulations.

§ 735.404 Employees not required to submit statements.

A statement of employment and financial interests is not required by this subpart from an agency head, a Presidential appointee in the Executive Office of the President who is not subordinate to the head of an agency in that Office, or a full-time member of a committee, board, or commission appointed by the President. These employees are subject to separate reporting requirements under section 401 of the Executive order.

§ 735.405 Time and place for submission of employees' statements.

An employee required to submit a statement of employment and financial interests under the regulations of his

agency shall submit that statement to the office designated in the agency regulations not later than:

(a) Ninety days after the effective date of the agency regulations issued under this part if employed on or before that effective date; or

(b) Thirty days after his entrance on duty, but not earlier than ninety days after the effective date, if appointed after that effective date.

§ 735.406 Supplementary statements.

Changes in, or additions to, the information contained in an employee's statement of employment and financial interests shall be reported in a supplementary statement at the end of the quarter in which the changes occur. Quarters end March 31, June 30, September 30, and December 31, except when the Commission authorizes different dates on a showing by an agency of necessity therefor. If there are no changes, or additions in a quarter, a negative report is not required. However, for the purpose of annual review, a supplementary statement, negative or otherwise, is required as of June 30 each year.

Since October 1965, all Federal agencies have been preparing and submitting new regulations governing standards of conduct. Most agency regulations have now been published in the Federal Register.

REGISTRY OF HARDWARE BANS, ETC. (*Recommendation No. 3*):

To promote uniformity of treatment and self-enforcement among contractors, we recommend that a single central register of contracts which include hardware or similar restrictions imposed under Department of Defense Directive No. 5500.10 be maintained in the Office of the Secretary of Defense for the information of contracting officers and defense contractors.

RESULTS.—The Department of Defense did not maintain a central listing of all such contract clauses used or imposed by all divisions and offices as recommended. In January 1965, the subcommittee requested and received a listing of all such contracts, and this information was promptly submitted by the Department of Defense.

In so responding, it was learned by the Department that Army commands had written some 218 such contracts, while the Navy had written only 19 and the Air Force only 14. The Department of Defense thus discovered that the Army implementation of the regulations had been mistakenly applied too broadly in inappropriate cases.

STANDARD CONTRACT CLAUSES (*Recommendation No. 4*):

We recommend that the information in the central register be studied and collated by the appropriate procurement policy authorities in the Department of Defense, and that standard contract provisions to effectuate the purposes of Directive No.

5500.10 be developed as soon as experience and information warrant.

RESULTS.—The Department did attempt to keep abreast of current developments for a period of 6 months, with informal submissions of language used in contract clauses to the Armed Services Procurement Regulation Committee in the Office of the Secretary of Defense. It was decided at an early stage that it would be inappropriate to develop standard contract language, on the grounds that such contracts would be too infrequent to warrant this.

PROTECTION OF PROPRIETARY DATA (Recommendation No. 5):

We recommend that the Department of Defense study further the need for protection of contractor proprietary data, which is the purpose of rule 4 of Directive No. 5500.10. The Department should take steps to require contractors covered by this rule to convey to contracting officers (1) copies of contract clauses or agreements made with the owners of proprietary data, and (2) information on measures taken by the contractor to protect such data.

RESULTS.—The Department of Defense has continued to review the problems of handling and protecting proprietary data for the past 2 years. In 1964 and 1965, a new system for identifying, marking, handling, and negotiating for proprietary data was instituted. The policy was announced in Defense Procurement Circular No. 6, dated May 14, 1964. It contained changes to section 9 of the Armed Services Procurement Regulation which were made optional until October 1, 1964, after which they became mandatory.

The policy created new categories of limited rights and unlimited rights in data, technical and other kinds related to or developing from contracts. It provided for a balancing of the Government and contractor interests in data rights, and predetermination and specific acquisition of data and rights arising from contracts.

In Defense Procurement Circular No. 12, dated October 16, 1964, the date for mandatory applications of the new rights in technical data regulations was deferred until January 2, 1965. In Defense Procurement Circular No. 20, dated December 18, 1964, the mandatory applications was further modified, in order to provide for a period of transition, to procurement solicitations dated on or after January 2, 1965, and in all contracts dated after March 31, 1965. In Defense Procurement Circular No. 24, dated February 26, 1965, the policy was slightly modified to clarify certain points, but the basic form of the new provisions remained the same.

The committee believes that the steps taken by the Department of Defense indicate full consideration of the problems indicated. For instance, the ASPR provisions contain specific declaration that it is against DOD policy for prime and higher-tier contractors to use the economic leverage of their power to award subcontracts to acquire rights in the data of subcontractors for themselves.

UNIFORMITY IN CONTRACTOR CODES OF CONDUCT (*Recommendation No. 6*):

To achieve all feasible uniformity in contractor codes promulgated by other agencies and modeled on the Department of Defense directive, we recommend that the Bureau of the Budget and the Department of Justice undertake to coordinate such codes prior to their further promulgation.

RESULTS.—After a year of study, the National Aeronautics and Space Administration adopted the contents of DOD Directive No. 5500.10 as a code of conduct for its contractors. The code was issued as a NASA regulation in December 1963. In this way, uniformity among contractors of the two largest Government agencies in research and development contracts was assured. In addition, the Atomic Energy Commission has recently issued substantially the same code of conduct for its contractors, bringing a third major agency into conformity.

CONDUCT OF CONTRACTOR EMPLOYEES (*Recommendation No. 7*):

We recommend that the Department of Defense and other Federal departments and agencies recognize a need to avoid conflicts of interest among contractor organizations and their personnel. Contract clauses requiring the personnel of contractors to meet conflict-of-interest standards more closely approaching those applied to Government employees should be considered.

RESULTS.—The committee believes that policies concerning regulation of potential conflicts of interest have been carefully considered in the course of writing new Federal regulations. While no new Department of Defense regulations similar to those used by the Atomic Energy Commission have been formulated, personnel conduct standards of contractors working under hardware ban contracts have been examined.

POLICY TOWARD NONPROFIT ORGANIZATIONS (*Recommendation No. 8*):

The importance of objectivity in key technical services needs explicit statement. The preamble to the rules in Department of Defense Directive No. 5500.10 is an inappropriate place to declare policy relating to the role of nonprofit organizations in the performance of such services. We recommend that a new policy statement relative to contracting with nonprofit organizations for technical support be issued by the Department of Defense. Steps already taken by Government-sponsored nonprofit organizations to insure objectivity and impartiality should be evaluated and made uniform where appropriate.

RESULTS.—The Department of Defense has undertaken a review of nonprofit corporations engaged in defense work. Also, the De-

partment of the Air Force is reviewing major nonprofits engaged in Air Force contract work on a continuing basis. These reviews are an attempt to respond to varying expressions of congressional concern about the role of nonprofit organizations in Government contract work. It is expected that the findings and actions resulting from these studies will take account of this committee's recommendations and comply with them in essence.

[H. Rept. No. 1425, 88th Cong., 2d sess.]

PROCUREMENT OF EQUIPMENT FOR MARINE CORPS TACTICAL AIRFIELDS

Nineteenth Report by the Committee on Government Operations

(Submitted to the Speaker May 25, 1964)

This report gives an account of development and production of equipment for the short airfield for tactical support (SATS) system, an expeditionary airfield complex designed for the use of Marine Corps assault divisions. It is, in essence, an extension of the carrier flight deck concept to shore operations. Under this system, airstrips can be laid down by military personnel using prefabricated aluminum mats, which are hooked together so as to form a continuous strip. Launching and arresting gear enable the attack aircraft to take off and land on these short strips, placed on beachheads, offshore islands, or other locations close to the area of ground combat action. The matting and other equipment are removable and therefore can have repeated use.

Although the concept and equipment requirements seem fairly simple, there have been in fact some rather difficult development and production problems, an elaborate array of proposed components for full system operations, and substantial money outlays in the SATS program.

The staff of the Military Operations Subcommittee was directed to study the SATS program because of allegations made by one of the development contractors that there were various deficiencies in the procurement of certain categories of equipment. With the help of 2 defense audit specialists from the General Accounting Office, the staff examined 44 contracts covering the development and production of landing mats, earth anchors, catapults, and arresting gear, which are among the major items of SATS equipment. Documentary research was supplemented by staff interviews with responsible policy and procurement authorities, including personnel of the Marine Corps as the user, the Bureau of Naval Weapons (and the Naval Air Engineering Center) as the procuring agency, and the Air Force Logistics Command as owner of key production presses. A preliminary staff report was prepared for the use of the subcommittee and made available to the interested Government agencies as a basis for public hearings, which were held on March 10 and 11, 1964.

Information developed in the hearings and additional data requested by the subcommittee were considered in preparing the final

report. This report is not confined to a consideration of specific complaints. In view of the military importance of the SATS program, the substantial costs, the lack of readily accessible public information on the program, and its intrinsic interest for policymakers in the Congress and the executive branch, the report sets forth in broad scope the evolution of the SATS concept, the major program developments, and some of the procurement problems which have been encountered. It also makes a special analysis of transportation costs to show that a proper consideration of this factor in certain production contracts could have yielded substantial savings to the Government.

RESULTS.—The report contained seven recommendations. Comments were received from the Assistant Secretary of Navy (Installations and Logistics), the Commandant of the Marine Corps and, in instances where the recommendation could have possible bearing on Government-wide procurement policy, comments also were solicited from the Administrator of the General Services Administration. The seven recommendations and the pertinent comments thereon are printed below.

RECOMMENDATIONS

REEVALUATION OF THE SATS PROGRAM (Recommendation No. 1):

The SATS program has been the subject of relatively extensive research and development, with procurements of production quantities of items overlapping the development phases. The substantial money outlays to date, the large number of component items designated for ultimate full field operation, the extended period for future development, and the difficulty of determining whether various component development and production programs are in proper phasing, dictate a reappraisal of the SATS program.

We recommend that the SATS program be reevaluated (*a*) to achieve, if possible, greater austerity without sacrificing military capabilities; (*b*) to determine whether an extended period of SATS development is justified in the light of other tactical aircraft developments such as VTOL; (*c*) to weed out less promising R. & D. contract efforts; and (*d*) to integrate the various development and production programs into a coherent properly time-phased effort.

DEPARTMENT OF THE NAVY COMMENTS

(*a*) The SATS program is a high priority research and development program, involving parallel efforts on many components, designed to bring into being a major limited war system in the minimum of time. Since the committee hearings on March 10–11, 1964, all final components of the SATS system have been selected and prosecution of competing research and development components has been terminated. All components of the SATS system are under contract or will be shortly.

(*b*) SATS is a major achievement and upon receipt of full allowances of equipment in the near future will be a reality. VTOL is not a reality today and must await engine development and a satisfactory

means of obtaining stability and contrcl. When VTOL is a reality, in possibly 10 years, the VTOL aircraft must inevitably be a heavier, more complex, and costly machine than a conventional aircraft to accomplish the same mission. SATS greatly extends the usefulness of high performance conventional aircraft and gives the free world mobility and rapid dispersion in the employment of these weapons. While an extended period of SATS development is not anticipated, the edge that SATS gives us will be maintained by further development in the next few years.

(*c*) All research and development contracts not involving final components selected for SATS have been or are being terminated.

(*d*) Since selection of all final components of the SATS system has been made, phasing of research and development and production contracts is no longer a problem. An orderly program of phased production deliveries of the final components is in being and will be followed. This plan takes into account lead times, training requirements, costs, and destinations.

Marine Corps Comments

(*a*) Although the SATS program is proceeding very satisfactorily, the Marine Corps concurs in any reevaluation which offers the opportunity for improvement in the SATS program and stands ready to provide any assistance necessary toward this end.

(*b*) It is considered appropriate that any reevaluation include all new tactical aircraft developments. The VTOL development is one which the Marine Corps monitors closely. At this time it is not anticipated that a combat VTOL aircraft will be in the hands of the operating forces within at least the next 5 years. The SATS satisfies an existing requirement, i.e., to provide expeditionary facilities for Fleet Marine Force aviation units in support of the Marine ground forces in any combat area where approximately 2,000 feet of relatively level land can be obtained. It is expected that the SATS concept will require revision and updating to meet the special requirement for VTOL as its development progresses satisfactorily toward becoming an operational reality.

(*c*) and (*d*) It is agreed that every effort should be made to weed out less promising R. & D. contract efforts and that maximum coordination of development and production programs should be effected. The major portion of the SATS R. & D. effort has been completed or is in the final stages of completion. The remaining modest R. & D. effort is confined to equipment modification and product improvement.

MANAGEMENT IMPROVEMENT NEEDED (Recommendation No. 2):

User-buyer relationships and internal management of the SATS program need improvement. We found disconcerting differences of opinion and judgment as between the Marine Corps (user) and the Naval Air Engineering Center in Philadelphia (designer), with the Bureau of Naval Weapons in Washington, D.C. (cognizant bureau), siding now with one, now with the other. As one flagrant example, the Center spent $2.6 million

for expensive tooling and the buildup of a production resource which has little prospect of future use, since the Marine Corps did not want, and will not use, even for training purposes, the type of landing mat available from that source. Where differences of opinion and judgment result in lines of research and development of procurement not desired by the using service, there ought to be a systematic means of resolving these differences by appropriate higher authority. The testimony also indicated that substantial sums of money could have been saved by better coordination and a fuller and more timely exchange of information between buyer and user and between the technical and contracting units of the buyer organization.

We recommend that (*a*) the Marine Corps, as the user of SATS, be fully consulted in connection with research and development and production programs; (*b*) in cases where Marine Corps disapproval is found, the matters be resolved at the level of the Secretary of the Navy and the Commandant of the Marine Corps; (*c*) the Bureau of Naval Weapons redefine its supervisory relationships with the Naval Air Engineering Center, to insure more integrated technical decisions; and (*d*) the technical and contracting elements of the Center be more closely coordinated and be directed to exchange full and timely information between themselves and with the Marine Corps to insure more economies in procurement.

Department of the Navy Comments

(*a*) It was always intended that the Marine Corps be fully consulted on all matters concerning them as the user. Since early March 1964, the means of doing this has been formalized and the rapport between the Marine Corps and the Bureau of Naval Weapons complex has improved to a highly satisfactory state.

(*b*) Differences of opinion continue to exist and always will, but these differences have been systematically resolved. Resolution of differences by the Commandant of the Marine Corps and the Secretary of the Navy is always available should it be required.

(*c*) The Naval Air Engineering Laboratory (Ship Installations) (SAEL(SI)) is under the management control of the Bureau of Naval Weapons and this relationship has been reiterated to the NAEL(SI) personnel. A major program such as SATS demands strong management and technical personalities in order to assure success. There will be disagreement. However, the means of resolving these differences has been made clear.

(*d*) A very close working relationship between the Bureau of Naval Weapons, NAEL(SI), and contracting elements of the Naval Air Engineering Center now exists for the purpose of a full exchange of information.

Marine Corps Comments

(*a*) The Marine Corps is satisfied that appropriate consideration is being given to the interests of the user in all SATS research and development and production programs.

(*b*) It is not anticipated that resolution of SATS decisions at Secretary of the Navy level will be required. However, should it

become necessary, the required procedures for the accomplishment of such action are presently in existence and will be utilized.

In addition, the committee has been advised that in August 1964 a Triservice Airfield Matting Committee was formed. The Committee consists of representatives from the Army, Navy and the Air Force and is aimed at exploring the possibility of reaching an agreement on a mat or family of matting which satisfy the requirements of all three services. The services then would be in a position to meet their requirements at less cost. A number of meetings of the Committee have been held and it is their intent to field test those mats which pass development tests and thereafter to submit recommendations to higher authority for adoption of a true multiservice, common, interchangeable family of airfield landing mats.

TRANSPORTATION COSTS SHOULD BE CONSIDERED IN MAKING AWARDS (Recommendation No. 3):

To meet Marine Corps requirements, the Naval Air Engineering Center recently (in 1963) awarded a $7.8 million contract for 14 million pounds of aluminum matting and pallets in the SATS program to Washington Aluminum Co., the successful low bidder. The sought-for savings through award of the contract to Washington Aluminum as the lowest bidder were somewhat illusory, however, in that the Navy procuring agency did not consider the transportation costs for delivery of finished mats from fabricator to point of use or storage. If the transportation factor had been incorporated in the bid invitation and evaluation, another bidder would have been selected as low, and we estimate that the Government could have realized a minimum savings of about $104,000.

Alternatively, if the transportation factor had been analyzed more closely in relation to the three intended destinations of the aluminum matting, and transportation costs minimized by making split awards instead of a single contract, we estimate that minimum savings to the Government could have been increased to about $248,000.

We recommend that (*a*) in future SATS competitive procurements, which involve significant transportation costs and f.o.b. origin quotations, a determined effort be made by the using and purchasing activities to establish firm or proposed destinations prior to issuance of bid invitations (this would enable contract personnel to incorporate estimated transportation costs to the Government in the bid evaluation and to select the contractor(s) whose price, together with estimated transportation costs, would result in the lowest delivered cost to the Government); (*b*) in all instances where transportation costs will be significant, the contracting agency notify the Defense Traffic Management Service of the quantities and destinations involved as soon as possible after award of the contract(s) so that appropriate action can be taken to negotiate with transportation companies.

61-207—66——3

Department of the Navy Comments

(*a*) and (*b*) All SATS procurements involving significant transportation costs are now bid two ways; that is, f.o.b. destination and f.o.b. at the plant. The U.S. Marine Corps as user furnishes a schedule delineating time and place for final delivery. Prior to awarding the contract these methods are examined and the contracts are awarded so as to reflect a transportation plan which results in the greatest saving to the Government. It is now required that the Defense Traffic Management Service (DTMS) be advised on all procurements involving significant transportation costs although their services are not always required. A determined effort will be made by the using and purchasing activity to establish firm or proposed destination prior to issuance of an invitation for bids.

Marine Corps Comments

(*a*) As to the delivery of SATS equipment, it is clearly the responsibility of the Marine Corps to provide timely information as to firm destinations therefor. This can and will be done.

(*b*) The Marine Corps in certain instances acts as procurement agency for the Bureau of Naval Weapons on SATS equipment. In these cases, and where appropriate, the Defense Traffic Management Service will be notified of significant transportation costs in order that it may enter into negotiation with transportation companies.

General Services Administration Comments

With respect to recommendation 3(*a*), the General Services Administration now has in the final stages of development a revision to the Federal Procurement Regulations (FPR) prescribing policies and procedures designed to assure that proper consideration is given to transportation factors in every phase of the procurement of personal property for the Government. The regulations include transportation considerations in procurement planning, transportation factors in solicitations for bids (or offers), and transportation factors in evaluation of bids (or offers). Regarding recommendation 3(*b*), the transportation costs on volume procurements of specific commodities are examined by the General Services Administration to determine whether such costs are fair and reasonable. The yardsticks by which the costs are measured are those commonly used by commercial firms in their supply operations. Where these measurements justify, negotiations are conducted with the transportation companies for reduction of the costs to fair and reasonable bases. Publication of the FPR material mentioned above will emphasize the procurement and transportation assistance that GSA can provide other agencies.

(The committee subsequently was advised that the above described revision to the FPR was issued September 1964 and appears in sections 1–19.202 and 1–19.203 thereof.)

MATTING EXTRUSIONS AS GOVERNMENT-FURNISHED MATERIAL AND AN EXAMINATION OF THE HEAVY PRESS PROGRAM (Recommendation No. 4):

In the aluminum matting procurement, extrusions will account for up to 90 percent of the contract dollars. Only three companies in the United States can supply the required extrusions. These three companies have four presses, three of which are leased from the Air Force. The Air Force gets a return in the form of use charges based on a designated percentage of company sales; consequently a sizable portion of Air Force revenues from extrusion press operations is derived from Navy and other Government contracts.

Although the Air Force arrangements for leasing, the provisions for use charges, the renewal options, Government priority rights, and other factors were not a major part of our review of the SATS development and procurement programs, we note that the leasing arrangements and terms vary among the several contractors, and questions arise as to the long-term usefulness of these machines to the Air Force. If they do, and will continue to, supply materials for important Government programs, and the rental operations yield more revenue than the costs to the Government for administration and maintenance, there is justification for retaining Government ownership. In such cases, consideration might be given to the exercise of Government-wide priorities and direct contracting with the press operators for extrusions to be supplied as Government-furnished equipment. If, on the other hand, future Government requirements for the output of any or all of these presses will be minimal, negotiated sales to present operators at fair prices should be considered.

We recommend that (*a*) where extrusions fabricated by private firms using Government-owned presses account for a major part of the dollars in Government contracts for end items, the Government should consider direct contracts for the extrusions to be supplied as Government-furnished material to the end item contractor; (*b*) Government priority rights under existing lease arrangements be reviewed to determine if all Government agencies are covered; and (*c*) the General Accounting Office make an audit of the lease terms, arrangements, and returns to the Government from extrusion press operations.

Department of the Navy Comments

(*a*) Consideration will be given to direct purchase by the Government of extrusions. If such procedure is determined to be technically feasible, the extrusions will be supplied as Government-furnished material to the end item contractor.

(*b*) In regard to the Government's priority rights under the heavy press leases, a clause in the lease requires first priority in the utilization of the presses for Air Force and other Government work, as against commercial business insofar as utilization of production capacity of the presses.

DEPARTMENT OF THE AIR FORCE COMMENTS

(*a*) and (*b*) The Air Force has carefully reviewed the recommendations contained in the subcommittee's report. We believe that the recommendation to evaluate procurement of extrusions from the standpoint of acquisition as Government-furnished equipment in lieu of contractor-furnished equipment is entirely valid. We will insure that Air Force procuring activities accomplish evaluations of this type wherever feasible and practical from an economical standpoint. With respect to the Government's priority rights under the heavy press leases, a clause in the leases requires first priority in the utilization of the presses for Air Force and other Government work, as against commercial business insofar as utilization of production capacity of the presses.

On June 17, 1964, the subcommittee staff held a conference with representatives of General Accounting Office at which time recommendation No. 4 was discussed. The staff was advised that GAO was, at that time, making a survey into the procurement, utilization, and disposal of Government-owned facilities furnished to Air Force contractors. It was agreed that, as part of its audit activity in this area, the GAO would initiate a preliminary review of the circumstances under which extrusion presses are leased to contractors. The review would be directed primarily to identifying whether there are any significant areas in the Air Force administration of extrusion press operations where the Government's interest is not adequately protected and which may merit more detailed examination. Subsequently, the subcommittee staff was advised that GAO's preliminary inquiry had been completed and that they had found no significant areas in which the Government's interest was not protected.

BIDDER RESPONSIBILITY (*Recommendation No. 5*):

The circumstances of the aluminum matting procurement suggest this dilemma confronting bidders: Without a contract in hand, they cannot get firm commitments or prices or quantities of material from the three extrusion sources; and without firm commitments they cannot assure the Government that they are qualified producers. Consequently, there is high risk and great uncertainty in the bidding, and the competitive situation is a kind of facade behind which the three extrusion sources operating the Government-owned presses wield the controlling influence.

The lack of assured sources of supply of the material critical for production of the end item also poses a dilemma for the Government procuring agency. In an advertised competitive procurement, an award must be made to the low bidder, providing he has, or can promptly get, the requisite production and financial resources. In determining whether the low bidder has these resources—that is, whether he is a responsible bidder—can the Government take into account, and to what extent, the availability of the material components which comprise the bulk of the contract cost? The procurement regulations on this point are unclear, and the Navy has decided it has no authority to

reject a low bid even when the supply commitment is partial and tentative.

We recommend that the Armed Services Procurement Regulation be clarified as to the requirements for establishing bidder responsibility in special circumstances where subcontract sources for major components or material are limited and timely contract performance is urgent.

Department of the Navy Comments

The Armed Services Procurement Regulation (ASPR), section 1–903, requires in part that the contracting officer make an affirmative determination that the proposed contractor is a responsible source which includes the finding that the proposed source has adequate facilities or the ability to obtain adequate facilities to perform the proposed contract.

The extent of subcontracting in the aluminum matting procurement is unusual and the record discloses that the contracting officer conducted a rather extensive inquiry as to the subcontracting for the extrusions. It was for such a situation that ASPR 1–906 was developed. This ASPR coverage on subcontractor responsibility is admittedly broad, but necessarily so, in order to retain to the contracting officer the maximum flexibility that may become necessary as was the case with the aluminum matting procurement. However, this matter will be sent to the ASPR Committee for consideration.

Subsequently, the subcommittee was advised that the present ASPR provisions related to subcontracting do not specifically require that firm commitments be obtained from subcontractors. The contractor must demonstrate, however, his ability to obtain all the resources and supplies necessary to meet contract requirements. In the subcontracting area this may be done by a showing of a testing of the market, receipt of firm quotations, and delivery commitments, or, in the absence of firm price quotations and delivery commitments, the availability of adequate industrial capacity to supply the necessary items or services. It is not always possible to obtain firm commitments, as was the case in the SATS program, or not always necessary, as in cases where an abundance of either commercial capacity or "shelf" items exists. The ASPR coverage is flexible in this regard so as to allow well reasoned decisions depending on the nature of the procurement and the market affected. The ASPR Committee concluded that changes in that area were not necessary.

Marine Corps Comments

Approval of this recommendation will provide additional assurance that the user will receive equipment and material in accordance with contract schedules and is wholeheartedly supported.

COMPETITIVE PROCUREMENTS FAVORED (Recommendation No. 6):

Harvey Aluminum, Inc., has been a successful developer of aluminum matting and earth anchors in the SATS program.

However, Harvey has been consistently underbid in competitive procurement of production quantities of these items, even in the case of aluminum matting, where Harvey controls its own extrusion supply through operation of a Government-owned extrusion press.[2] In view of its successful development work, Harvey has contended that it should have been awarded the initial follow-on production contracts in accord with a general policy statement in the armed services procurement regulation. While the decision to introduce competitive procurement as early as possible is understandable and in line with prevailing Department of Defense policy and congressional enactments, we note that procurement decisions in the SATS program have not been altogether consistent. For example, a sole source production contract was let to Convair Division of General Dynamics Corp. for a certain type of aluminum matting—even in the face of strenuous Marine Corps objections to this item. In some instances, procurements were advertised; in others, procurements of the same types of items were negotiated. The usual excuse for negotiating instead of advertising is the need to save time. It appears to us that, in the instances of negotiation which came to our attention, the asserted urgency was less a matter of military need than of spending funds before the fiscal year ran out; or, otherwise, negotiations simply was more convenient and less troublesome for the procurement authorities.

We recommend that (*a*) the Navy Department establish a more consistent procurement policy in the SATS program which will define the circumstances in which procurement will be competitive or sole source; (*b*) if the conditions are suitable for advertised procurement, negotiated procurements should be resorted to only in cases that are exceptional and compelling, as contemplated by law, and not on the basis of superficial, routine, or unverified declarations.

Department of the Navy Comments

(*a*) We believe that present ASPR guidance including ASPR 3–101 and 3–108 provides adequate guidance in defining when procurements should be competitive or sole source. This guidance is by necessity not rigid but flexible since each procurement must be evaluated and processed on its individual circumstances. While most procurements may have seemingly general similarity, all of them, nevertheless, have significant individual idiosyncrasies which affect their processing.

(*b*) This recommendation appears to be based upon the conclusion that procurements under the SATS program were negotiated on the basis of superficial, routine, or unverified declarations of urgency. It is respectfully submitted that a review of the hearings does not substantiate this conclusion. Further, such conclusion does not give consideration to the fact that Navy operates a control system under which each decision as to procurement by negotiation is reviewed at levels higher than the contracting officer prior to initiating negotiation.

In addition, ASPR 2–102.1 and 3–102 require that procurements shall be made by formal advertising pursuant to 10 U.S.C. 2304(a)

[2] In a negotiated procurement of aluminum matting made after the subcommittee hearings, Harvey Aluminum obtained the contract award as low, successful offeror.

whenever such method is feasible and practicable under the existing conditions and circumstances even though such conditions and circumstances would otherwise satisfy the requirements for negotiation. The purpose of this regulation is to require in consonance with the law that reasons for negotiation a procurement must be compelling. Navy technical and procurement personnel involved in the SATS program have been reminded of this regulation.

Since all final components of the SATS system have been selected, procurements have been or are in the process of being awarded in a competitive atmosphere with one exception. The one exception is the powerplant for the catapult which is procured sole source from the General Electric Co., the only company tooled for manufacture. Creation of additional sources of production for this item would cause unacceptable delay and cost which is unwarranted for the limited production planned at this time.

General Services Administration Comments

The FPR have long stressed the use of formal advertising in lieu of negotiation and have been recently revised (due for early publication) to emphasize this point more strongly. The recommendation seems to deal primarily with the application of the general principle and, as such, can be applied effectively only through agency implementing regulations.

AVOIDING POSTAWARD CONTRACT CHANGES (Recommendation No. 7):

Our review of the contracts for procurement of SATS equipment shows various changes in specifications after contract award, leading, in some cases, to substantial price increases. In one case, a change in the matting specifications increased the total contract price by $346,000. The Naval Air Engineering Center directed the price increase without consultation with, or approval by, the Bureau of Naval Weapons, which regarded the original specifications as adequate and the revisions unnecessary. In another case the Center changed a specification to require a higher grade steel tubing, which resulted in an estimated extra cost of at least $30,000, even though the Marine Corps and the Bureau of Naval Weapons did not deem the change necessary. And despite its insistence on the higher specification, the Center later permitted the contractor to revert to commercial-grade steel with no price adjustment in favor of the Government.

The committee emphasizes the importance of firm and timely specifications, particularly in advertised procurements. If specifications are loose, or belatedly introduced, and numerous specification changes are permitted in the course of contract performance, the bidding process is undermined and the advantages of competition lost. Initial bid prices then are not taken seriously, and opportunities are created for deliberate underbidding in the expectation of attaining upward price adjustments after award. Maneuvers of this kind must be constantly

watched and resisted to protect the integrity of competitive procurement and the bidding process.

We recommend that special attention be given by Navy technical and contracting personnel to SATS specifications in order to minimize postaward changes, prevent "gold plating," and discourage unnecessary contractor claims for price adjustments.

Department of the Navy Comments

In some cases, amendment after contract award is unavoidable. However, Navy contracting and technical personnel have been directed to give additional special attention to SATS specifications to insure that they are adequate and specific. Contractor claims under recent contracts have been denied in most cases and the few cases involving cost escalation have been thoroughly documented.

General Services Administration Comments

We believe the present Federal Procurement Regulations are explicit on this point, needing only careful application by technical and contracting personnel when making contracts under specialized programs.

[Subcommittee print, October 9, 1964]

SATELLITE COMMUNICATIONS (MILITARY-CIVIL ROLES AND RELATIONSHIPS)

This print was issued as a subcommittee report in the 88th Congress with the approval of Chairman Dawson. It was approved by the full committee early in the 89th Congress.

This report identifies and examines the various public policy issues which have emerged during the 6 years of Government effort in promoting and developing satellite communications. Chief attention is given to military-civil roles and relations, involving the Department of Defense, the National Aeronautics and Space Administration, and the Communications Satellite Corp.

The report reviews the problems of high program costs, overlap and duplication, interagency coordination, the extent of Government assistance to the commercial sector, and the justification for separate systems. In analyzing these complicated issues the report uncovers a more fundamental concern: What must be done to establish workable satellite communications systems which will enhance the security of the United States and best promote its national objectives?

The Military Operations Subcommittee conducted 18 days of public hearings in 1964, which are printed, under the title of "Satellite Communications—1964," parts 1 and 2. In addition, 2 days of executive session hearings were held in 1964, which have not been printed. In 1963, the subcommittee conducted 1 day of public hearings, the transcript of which is printed under the title "Military Communications Satellite Program." In 1962 the subcommittee conducted 29 days of public hearings under the title "Systems Development and Management," which were printed as documents of the 87th

Congress, 2d session. Six days of these hearings included testimony on communications satellite matters.

The report concludes that there was unwarranted delay in the development of a military communications satellite system, occasioned in large part by protracted discussions between the Department of Defense and the Communications Satellite Corp., looking toward a single system to serve both military and commercial needs. After the subcommittee held public hearings on this matter, the Department of Defense abandoned negotiations with the commercial corporation and proceeded with a separate satellite system to fulfill urgent Government requirements. The President of the United States affirmed this decision in a statement issued on August 8, 1964.

In addition to pressing for timely fulfillment of military requirements, the report also contains specific recommendations for improving DOD–NASA relations and for strengthening Government-wide telecommunications management. The recommendations of the report can be briefly summarized as follows:

(1) That the Department of Defense proceed without delay to establish a separate military communications satellite system for operational use.

(2) That emphasis should be given to tactical military needs, and to this end, gravity gradient and other experiments to enhance the capability of satellites and permit the use of small mobile stations should be encouraged.

(3) That all Government resources and capabilities be fully coordinated and exploited in the interest of a more efficient and economical satellite communications program.

(4) That the Defense Communications Agency be given a stronger role in technical management of the communications satellite program of the Department of Defense.

(5) That the Directorate of Telecommunications Management in the Office of Emergency Planning be adequately staffed and be constituted by Presidential reorganization plan as a separate office within the Executive Office of the President to carry out policy coordination.

(6) That a study be undertaken of the national communications system and of the long-range requirements and policies of the United States in the telecommunications field.

The report also provided, in its annexes, listings of current communications satellite experiments, and a history of the Advent program.

RECOMMENDATIONS

ESTABLISHING AN OPERATIONAL SYSTEM (Recommendation No. 1):

The committee recommends that the Department of Defense proceed without further delay to establish a medium-altitude, random-orbit satellite communications system for operational use. To achieve this objective in the most expeditious way, planning and design work already accomplished to date should be carried forward and Atlas-Agena launch vehicles employed.

RESULTS.—The Department of Defense is currently proceeding with the development and deployment of a separate military com-

munications satellite system rather than relying on the commercial Communications Satellite Corp. The Department estimates that its separate system will achieve $70 million in savings in contrast to earlier plans.

In addition, the National Aeronautics and Space Administration has turned over the Syncom II and Syncom III satellites to the Department of Defense, which is currently using them to send message traffic to southeast Asia in addition to performing extensive experimentation with them. This use is equivalent to leasing cable circuits at approximately a half million dollars a year. These satellites were previously classed as only experimental vehicles for NASA use and had not been allocated for full exploitation of their operating life.

SUPPLEMENTAL CAPABILITY FROM EXPERIMENTAL LAUNCHES (Recommendation No. 2):

To achieve additional experimental and practical benefits from the Titan III development launches, designated Titan development vehicles should be used to launch communications satellites either in synchronous stationary orbit or in near-synchronous random orbit to supplement the capability of the medium-altitude system recommended above.

RESULTS.—Since the Department of Defense has determined to use the Titan III developmental launches as the vehicles to put up the Initial Defense Communications Satellite System, these launches will not be used to provide supplemental capability.

BUYING SUFFICIENT SATELLITES (Recommendation No. 3):

Since delayed decisions in the Defense Department have caused satellites rather than boosters to be the pacing item in establishing satellite communications systems, and since the satellites are relatively inexpensive, sufficient satellites should be procured to permit timely system establishment and maintenance.

RESULTS.—The Department of Defense has procured enough satellites to establish the Initial Defense Communications Satellite System.

TECHNIQUES TO IMPROVE EFFICIENCY AND TACTICAL USE (Recommendation No. 4):

The Department of Defense should give emphasis and attention to tactical military needs and to this end should aggressively support experiments in gravity gradient and other techniques to improve the efficiency of satellite performance and thereby permit the use of small mobile land, shipboard, and aircraft stations. As immediate steps, the Department of Defense should (*a*) immediately request the National Aeronautics and Space Administration to perform the early gravity gradient experiment for which funds were authorized in the fiscal year

1965 budget; and (*b*) design and procure very small mobile land and shipboard terminal stations for test purposes.

RESULTS.—NASA and DOD have arranged and agreed to proceed with gravity gradient experiments using available funds. The potential benefits of this technology lie in greater power, reduced weight, and lower costs for communications satellites. In addition, the Department of Defense has initiated a tactical satellite communications program for use with small surface stations and aircraft.

ROLE OF DEFENSE COMMUNICATIONS AGENCY (Recommendation No. 5):

The Secretary of Defense should reexamine the role of the directorate of Research and Engineering to insure that it does not get involved in detailed program direction. The Defense Communications Agency should be made clearly responsible for technical management of the communications satellite program and be enabled to exercise its full responsibility and competence in cooperation with appropriate elements of the military services.

RESULTS.—The role of the Defense Communications Agency in the development of a military communications satellite system has been clarified and strengthened.

REORGANIZE OFFICE OF TELECOMMUNICATIONS MANAGEMENT (Recommendation No. 6):

At the earliest practicable date, the President should submit to the Congress a reorganization plan to reconstitute the functions and responsibilities of the Director of Telecommunications Management in a separate office in the Executive Office of the President, and take steps to insure that the office is adequately staffed.

RESULTS.—The Office of Telecommunications Management has been strengthened with the addition of more staff, but has not yet completed its staffing to a level considered adequate to meet current needs. The administration is considering a reorganization plan which would make this a separate office in the Executive Office of the President.

ROLE OF OFFICE OF TELECOMMUNICATIONS MANAGEMENT (Recommendation No. 7):

The Office of the Director of Telecommunications Management when reorganized and properly staffed, should undertake a study of the National Communications System and the long-range requirements and policies of the United States in the telecommunications field.

RESULTS.—While the staffing of the Office of the Director of telecommunications has not been staffed to a level adequate for full studies, certain actions have been taken and studies made of the

National Communications System and the long range telecommunications requirements and policies of the United States. NCS plans have been reviewed and guidance has been provided. Guidance has also been provided for the executive departments and agencies with respect to use of satellite systems, and to providing technical information and assistance to other countries. Other work has been accomplished on the problems of frequency management and specific new programs in telecommunications.

IMPROVE NASA/DOD COOPERATION (Recommendation No. 8):

> Instead of the inadequate cooperation that has characterized the NASA/DOD efforts to date in communications satellite research and development programs, we recommend that military and civil agency programs be defined and planned in complementary fashion. There are sufficient coordinating instruments to effect better integration of these activities.

RESULTS.—Both NASA and DOD have reported efforts to improve cooperation in communications satellite research and development programs. At present, however, the Applications Technology Satellite program of NASA and the Defense communication satellite programs are being pursued with different objectives.

GOVERNMENT ACTIVITIES SUBCOMMITTEE

[H. Rept. 456, 88th Cong., 1st sess.]

SURVEY OF SELECTED ACTIVITIES (PART 1—EFFICIENCY AND ECONOMY IN THE DEPARTMENT OF COMMERCE)

Eighth Report by the Committee on Government Operations

(Submitted to the Speaker June 25, 1963)

During the 88th Congress, the Government Activities Subcommittee submitted a series of reports to the full committee concerning selected activities of certain of the departments and agencies under its jurisdiction. In the report on the activities of the Commerce Department were certain general recommendations applicable to all Federal agencies. The remainder of this report, as well as the five other reports in the series, dealt with specific activities in the agencies subject to the investigations.

RECOMMENDATIONS OF GENERAL APPLICATION TO DEPARTMENTS AND AGENCIES

NEED FOR EFFECTIVE INTERNAL AUDIT SYSTEMS (Recommendation No. 1):

Especially in the larger Federal agencies, the most promising means of obtaining efficient management control has been the establishment of effective internal audit systems. The head of a large executive department or agency must have his own "eyes and ears" within the organization, responsible solely to him, independent of operations, and with unlimited jurisdiction to review any and all functions in which waste or inefficiency might exist.

RESULTS.—The issuance of the report had a salutary effect upon internal audit activities throughout the Government. However, last fall the subcommittee instructed the General Accounting Office to undertake a detailed review of the internal audit function on a Government-wide basis. This review is in progress and when it is completed the committee will take whatever action is necessary to see that any deficiencies revealed by the GAO are corrected.

NEED FOR DEPARTMENT AND AGENCY PRODUCTIVITY STANDARDS AS A MEANS OF DETERMINING EFFICIENCY OF OPERATIONS (Recommendation No. 2):

The Congress and the Comptroller General, as well as executive leaders, do not have the most reliable means of locating and

identifying the nature and extent of waste and inefficiency in Government operations. A systematic measurement of efficiency levels of department and agency activities can aid in this purpose. Such a system would offer department and agency heads an effective management tool, making it easier for them to improve efficiency levels. It would also afford Congress and the Comptroller General a more reliable means of reviewing the economy and efficiency of the executive branch.

RESULTS.—Subcommittee development of this subject has moved steadily ahead since the issuance of this report towards the development of a program auditing system. This system would be compatible with and part of the program budgeting concept which the President has ordered implemented beginning with fiscal year 1967. Development of such a system would make it possible for a far more comprehensive evaluation of an agency's operation than is now possible.

NEED FOR IMPROVING THE CONTENTS OF THE ANNUAL REPORTS (Recommendation No. 3):

Annual reports to Congress which are designed to provide information concerning the economy and efficiency of operations would be of vital importance to the Members of Congress, the substantive committees, the Appropriations Committees, and to the Government Operations Committees.

RESULTS.—As a result of this study there were many significant improvements made in the annual reports submitted to Congress. Work on a program budgeting and auditing system however has progressed to the point where much of the information contained in annual reports might be made continuously available to Congress through the use of data processing capacity. This would change significantly the makeup of printed annual reports. As a result, further improvements in these reports as well as changes in them must be considered in the light of overall development and improvement of legislative data and information acquisition systems.

RECOMMENDATIONS OF SPECIFIC APPLICATION TO THE DEPARTMENT OF COMMERCE

DUPLICATION IN WEATHER FORECASTING (Recommendation No. 1):

A serious duplication of weather forecasting activities was found at the Navy's fleet numerical weather facility, Monterey, Calif. The segment of Navy weather forecasting carried on at this center either duplicates activities at, or can be supplied by, the National Meteorological Weather Center at Suitland, Md. In this report, it was recommended that this unnecessary duplication be ended.

RESULTS.—The Department of Commerce has advised the subcommittee that:

> The Weather Bureau of the Environmental Science Services Administration is continuing efforts, reported to the committee earlier, to coordinate its work programs in numerical weather prediction with the Navy.
>
> In addition, a more comprehensive approach to the coordination of meteorological activities is being taken as the result of Bureau of the Budget Circular No. A–62 of November 13, 1963, which established guidelines to improve organizational arrangements and procedures for the planning and conduct of Federal meteorological services and supporting research. Besides reaffirming Commerce's central role with respect to basic meteorological services, the circular assigned to Commerce the responsibility of coordinating, with the advice and assistance of other agencies concerned, Federal meteorological activities. To carry out this responsibility, we established the Office of the Federal Coordinator for Meteorological Services and Supporting Research, and subsequently assigned it to the Environmental Science Services Administration (ESSA). The Administrator of ESSA serves as the Federal Coordinator. As a part of its coordination work, the Office of the Federal Coordinator has initiated a review of activities of the Fleet Numerical Weather Facility in Monterey, Calif., and other major meteorological centers.
>
> We believe the coordinating mechanism established under Bureau of the Budget Circular No. A–62 holds promise of eliminating any unnecessary duplications of meteorological activities and of assuring maximum utilization of basic weather prediction facilities and resources.

"INPUT AND OUTPUT" STANDARDIZATION OF AUTOMATIC DATA PROCESSING EQUIPMENT (Recommendation No. 2):

> The Department of Commerce, working through the professional groups and interested private organizations, should determine appropriate "input and output" standards for automatic data processing equipment. Further, if these efforts prove unsuccessful, then the Bureau of Standards should establish standards applicable to equipment to be leased or purchased by the Federal Government.

RESULTS.—The Department of Commerce has advised the subcommittee that:

> Public Law 89–306 of October 30, 1965, which you (Subcommittee Chairman Jack Brooks) sponsored, places important responsibilities in the Secretary of Commerce with respect to automatic data processing equipment in the Fed-

eral Government, including the making of recommendations to the President relating to the establishment of uniform Federal automatic data processing standards. As you know, we have established the Center for Computer Sciences and Technology in the National Bureau of Standards to carry out these important responsibilities. The program of the Center currently includes a number of projects aimed at the kinds of standardization in automatic data processing recommended in the committee's report.

The new legislation and the strengthened research and advisory services within Commerce with respect to automatic data processing will enable the Department to pursue the objectives of the committee's recommendations much more vigorously than has been possible in the past.

DUPLICATION IN MAINTENANCE AND PRODUCTION OF AERIAL MAPS AND CHARTS (Recommendation No. 3):

The Secretary of Commerce, in conjunction with the Administrator of the Federal Aviation Agency, the Director of the Bureau of the Budget, and the Secretary of Defense, should determine some speedy and effective means to end needless duplications in the maintenance and production of aerial maps and charts already produced by the Coast and Geodetic Survey.

RESULTS.—The Department of Commerce has advised the subcommittee that:

Major steps to eliminate duplication involved in the production and maintenance of charts have been taken. A Memorandum of Agreement is now in effect concerning coordination of air cartographic materials between the Department of Commerce, the Federal Aviation Agency, and the Department of Defense. Under the agreement, an Interagency Air Cartographic Committee (IACC), chaired by the Federal Aviation Agency, has assumed the continuing tasks of (1) developing and updating specifications for flight information materials produced or used by Government agencies, and (2) ensuring that these materials are produced at minimum cost and with no unnecessary duplication.

COORDINATION IN GOVERNMENT SURVEY ACTIVITIES (Recommendation No. 4):

To expedite completion of the national net of geodetic controls, the Secretary of Commerce should submit recommendations to the Director of the Bureau of the Budget outlining an effective program for coordinating Government survey activities.

RESULTS.—The Department of Commerce has advised the subcommittee that:

The joint plan on geodetic controls worked out by the Geological Survey and the Coast and Geodetic Survey, and

which was submitted to the Bureau of the Budget in March of 1963, is still in a deferred status at the request of the Bureau of the Budget. The Bureau of the Budget indicated in a letter dated October 3, 1963, to the committee several alternatives of a more basic nature that it was considering.

DUPLICATION IN ROAD CONSTRUCTION ACTIVITIES (Recommendation No. 5):

The Secretary of Commerce and the Secretary of the Interior should determine a logical distinction between road construction work to be undertaken by the Park Service and that which should properly be delegated to the Bureau of Public Roads based upon the size and nature of the project. Following this agreement, funds covering projects to be performed by the Bureau of Public Roads should be transferred to that agency, under the express proviso that they not be expended without specific Park Service approval of overall project design and location.

RESULTS.—The Department of Commerce has advised the subcommittee that:

We had previously advised you of the revised agreement between the Bureau of Public Roads and the National Park Service, which was entered into to utilize to the fullest extent possible the professional engineering skills of the Bureau in the planning and construction of parkways and major park roads. In line with this agreement, the Bureau of Public Roads and the Park Service began work on a number of identified operating problems, including such matters as design standards, service and landscape standards, preliminary engineering, funds, and programing procedures. At least two of the working groups have completed studies of their assigned problems and progress has been made on others. While we are not satisfied with the rate of progress on these matters, the collaboration of the Park Service has been encouraging and we are hopeful regarding the prospects of working out the standards and guidelines that will make possible the most efficient working relationships between the Bureau of Public Roads and the National Park Service.

ABOLISHMENT OF PUBLIC ROADS REGION 15 HEADQUARTERS OFFICE (Recommendation No. 6):

Region 15 headquarters office at Falls Church, Va., should be abolished and the supervisory functions transferred to Public Roads' regional offices in Hagerstown, Md., and Atlanta, Ga.

RESULTS.—The Department of Commerce has advised the subcommittee that:

In our earlier report to the committee on this item, we advised that after thorough study of the matter the Department concluded that region 15 of the Bureau of Public Roads

should be retained. A copy of the evaluation report made by the Department's Office of Management and Organization was forwarded to the committee. The Department's conclusion was based, in part, on the internal reorganization of region 15, then underway.

The reorganization resulted in a reduction of 25 positions. In January 1965, a further reduction of 30 positions was accomplished by the transfer of the Pentagon Network and Shirley Highway maintenance responsibility to the Commonwealth of Virginia. Also, through continuing regional observations of field operations, we were able to eliminate the Roanoke District Office under region 15, and transfer the active projects to the jurisdiction of adjacent districts. This change resulted in the reduction of three positions.

THE GREAT LAKES PILOTAGE ADMINISTRATION (Recommendation No. 7):

The Secretary of Commerce should consult with the Secretary of the Treasury and the Secretary of State for the purpose of recommending to Congress the transfer of the functions of the Great Lakes Pilotage Administration to the Coast Guard and the State Department at the earliest possible date.

RESULTS.—Under pending legislation, recommended by the President, to establish a separate Department of Transportation, the activities of the Great Lakes Pilotage Administration would be transferred to the new Department.

[H. Rept. 206, 88th Cong., 1st sess.]

SURVEY OF SELECTED ACTIVITIES (PART 2—EFFICIENCY AND ECONOMY IN THE SMALL BUSINESS ADMINISTRATION)

First Report by the Committee on Government Operations

(Submitted to the Speaker April 10, 1963)

The Small Business Administration was the subject of the second hearing in the "survey of selected activities." As in the case of other departments and agencies, management control functions, efficiency measurement, and the agency's annual report were reviewed. Particular attention was also given to the SBA loan program, the operation of SBA field offices, and the assignment of SBA procurement representatives.

The committee was particularly pleased to note the rising trend in bank participation in the small business loan program and in Federal procurement contract set-asides.

RECOMMENDATIONS

GOVERNMENT-WIDE POLICY ON FEES (Recommendation No. 1):

An appropriate office of the executive branch of Government should review the program of the various agencies making or guaranteeing loans to determine whether a fair, reasonable, and more consistent Government-wide policy on such fees can be established.

RESULTS.—The Small Business Administration has advised the subcommittee that:

It is our understanding that the Bureau of the Budget plans to initiate a study to determine the feasibility of a consistent Government-wide policy on application and other fees charged by agencies making or guaranteeing loans. Needless to say, SBA is prepared to participate actively with BOB, in conjunction with the other Federal credit agencies, in the early development of criteria for applying user charges to loan programs.

REVIEW OF FIELD OFFICE OPERATIONS (Recommendation No. 2):

The SBA Administrator and the Secretary of Commerce should review field office operations to determine the possibility of a closer working relationship aimed at saving office overhead and extending greater service and convenience to small businessmen desirous of assistance.

RESULTS.—The Small Business Administration has advised the subcommittee that:

A review of field office operations was conducted by a survey team consisting of Small Business Administration, Department of Commerce, and Bureau of the Budget personnel during calendar year 1964. The report of this survey, dated June 24, 1965, was transmitted to the SBA Administrator by the Director, Bureau of the Budget, on July 13, 1965. The Executive Administrator replied to the Director, Bureau of the Budget, on September 26, 1965, stating the Agency's position concerning the recommendations made by the survey team.

The recommendations of the survey team supported in most respects the earlier recommendations of the committee and have resulted in a closer working relationship between SBA and the Department of Commerce.

DUPLICATION IN PAMPHLETS AND BOOKLETS (Recommendation No. 3):

There should be closer liaison with the Commerce Department and tighter control within SBA to avoid unnecessary duplication in pamphlets and booklets.

RESULTS.—The Small Business Administration has advised the subcommittee that:

The survey team included a similar recommendation in its report. SBA has continued to advise the Office of Marketing and Services, Business and Defense Services Administration, Department of Commerce, of proposed publications by means of an annual "Survey of Prospective SBA Publications," last conducted on August 25, 1965.

INTERNAL MANAGEMENT FUNCTIONS (Recommendation No. 4):

SBA internal management functions should be reorganized to av id overlapping in responsibility, duplication in effort, and generally so as to conform with the basic criteria recommended by this committee.

RESULTS.—The Small Business Administration has advised the subcommittee that:

The audit functions of this agency have been reorganized as recommended in the report. The Office of Audits plans and directs comprehensive audit, program analysis and investigations programs for the agency, reports to the Administrator on findings resulting from audits, inspections, and investigations, and makes recommendations for changes in policies and procedures for the improvement of programs of assistance to small business and improvements in the administrative operations of the agency.

MEASUREMENT OF OVERALL EFFICIENCY OF OPERATIONS (Recommendation No. 5):

SBA, along with other departments and agencies of Government, should undertake the development of effective means to measure the overall efficiency of operations.

RESULTS.—The Small Business Administration has advised the subcommittee that:

For a number of years SBA has used a work measurement system for the purpose of determining and evaluating employee performance in the field offices. The system covers all technical employees assigned to the financial assistance programs, procurement and management assistance programs, and attorneys in the field offices. The data developed

from the system has been used in the preparation of budgetary requests and the staffing of field offices. Substantial savings have been achieved through the application of standards developed under the work measurement system. Productivity has been increased and our budgetary workload standards have been adjusted accordingly. For example, a comparison of standards in effect at the time of the hearings with those in effect today shows an increase for processing regular business loans from 6½ to 10 per man-month, and for loan administration from 150 to 245 per man-month for bank-serviced regular business loans. SBA is conducting a feasibility study to revise the accounting system and program reporting to present to management more meaningful data for decision making. One aspect of this study is to determine unit costs for the various loan programs by field office.

CONTENTS OF ANNUAL REPORT TO CONGRESS (Recommendation No. 6):

In keeping with the criteria established by this committee, the SBA should review the contents of its annual report to Congress for the purpose of including information indicative of the efficiency and economy of operations.

RESULTS.—The Small Business Administration has advised the subcommittee that:

Pursuant to the committee's recommendation, additional information has been included each year in the agency's annual report, beginning with the report for the year ended December 31, 1962, as follows:

(1) Use of administrative expense funds by activity within each of the major programs such as business loans, disaster loans, investment and development company loans, and procurement and management assistance. The breakdown has been modified from year to year as necessary to recognize new programs and modifications in existing programs.

(2) Assignment of employees by office in Washington and the field, distributed as applicable by program or job category.

(3) Data concerning actual and projected losses under each of the respective loan programs based on an annual evaluation of loss experience in relation to the rates used to establish loss reserves.

(4) Historical data on revolving fund income and expense by major program for comparison with current year figures.

[H. Rept. 306, 88th Cong., 1st sess.]

SURVEY OF SELECTED ACTIVITIES (PART 3—EFFICIENCY AND ECONOMY IN THE DEPARTMENT OF THE INTERIOR)

Third Report by the Committee on Government Operations

(Submitted to the Speaker May 20, 1963)

In the third hearing in the "survey of selected activities," more than a score of various operations in the Department of the Interior were reviewed. These investigations revealed a number of deficiencies and duplication of work in varying degrees within the Department.

RECOMMENDATIONS

NATIONAL PARK SERVICE'S CONCESSIONAIRE POLICIES (*Recommendation No. 1*):

The Secretary of the Interior should thoroughly reexamine the National Park Service's concessionaire policies, seek to develop a more coherent concessionaire policy, and eliminate the weaknesses disclosed in this report.

RESULTS.—The Department of the Interior has advised the subcommittee that:

> After issuance of our previous progress report, legislation in the form of Public Law 89–249, relating to the establishment of concession policies in the areas administered by the National Park Service, was approved October 9, 1965. As a result of this act, most of the policies heretofore employed by the National Park Service were enacted into law.
>
> A statement issued by the President when he signed Public Law 89–249 directed the Bureau of the Budget to make a study of concession policies with a view to recommending a common approach to the granting of concessions by all Federal agencies. He also directed the Secretary of the Interior to limit the terms of concession agreements to 1 year whenever practicable pending the outcome of the new study so as to give the Administration and the Congress an opportunity to examine the desirability of new legislation affecting all publicly owned lands. The results of the study have not as yet been published.
>
> As a result of the interest of the several committees of Congress in the franchise fees contained in concession contracts, a new franchise fee formula was established providing for a weighted fee so as to give recognition to the various types of operations. This formula, which provides minimum fees ranging from three-fourths of 1 percent for food and lodging to 5 percent for souvenirs, is used in negotiating franchise fees in connection with new concession contracts and in renegotiating franchise fees at appropriate times in connection with existing contracts. The National Park Service has been directed, that when negotiating a concession

contract proposing a lower total fee than that reflected in the formula, such lower fee shall be fully documented and the proposed deviation justified by the circumstances existing in each particular case.

FREE OR REDUCED RATE ACCOMMODATIONS TO GOVERNMENT EMPLOYEES (Recommendation No. 2):

The Park Service should not require concessionaires to furnish free or reduced rate accommodations to Government employees which may inure, or be thought to inure, to the personal benefit of such employees, in order to avoid creation of possible conflict-of-interest situations.

RESULTS.—The Department of the Interior has advised the subcommittee that:

Concessioners are no longer required to furnish free accommodations to Government employees.

With respect to a conflict of interest on the part of Government officials engaged in Government business, such conflict could develop from circumstances where a Government official is placed under obligation to an individual or firm doing business with the Government. However, where a specified service to an employee is required by Government contract or regulation, no such obligation is created. So long as the rates charged by concessioners to Government employees on official business relate reasonably to the travel allowance, the employee gains no advantage and the performance of the public's business is facilitated. We will see that rates charged Government officials by concessioners remain reasonably within the travel allowances, and adjustments will be made as appropriate.

EXPENDITURES FOR EMPLOYEE HOUSING (Recommendation No. 3):

The Interior Department should exercise greater care to prevent incurring expenditures for employee housing exceeding the cost limitations imposed on the expenditures for such purposes.

RESULTS.—The Department of the Interior has advised the subcommittee that:

Every reasonable safeguard has been, and is being, applied to prevent expeditures in excess of congressional cost limitations for employee housing. Interior agencies are sensitive to the limitations and the need for every effort to comply with it. There have been certain instances in which the National Park Service, Bureau of Indian Affairs and the Bureau of Sport Fisheries and Wildlife have found it necessary to seek congressional approval to permit contract awards at prices above the limitation. In none of these instances has the excess cost been significant. The problem

underlying these cases is not a lack of internal control nor disposition by the contracting agencies to exceed the limitation. The fact is that since our construction is done through contract rather than force account, we have encountered difficulty in obtaining bids within the limitation. At times we have used extreme measures such as actually writing into the bid specification a specific fund limitation. We do not believe, however, that this is a generally practicable procedure.

The bids we obtain will inevitably reflect the upward cost trend nationally. The construction limitation was imposed in 1959. From reliable sources of economic data we find that general construction costs have increased more than 24 percent since that time. Thus, in theory, a house estimated to cost $20,000 in 1959 would now cost $24,800. This situation has imposed a special burden upon our design engineers and there is a limit to which housing design can be cheapened while remaining economically feasible. All of our agencies are doing the best they can to cope with this adverse situation.

The National Park Service, for example, has completed studies underway at the time of the 1963 report. These studies have produced four new standard housing plans, all of which are well within the total area of 1,300 square feet described by the Bureau of the Budget for three-bedroom houses. That Bureau has also established a committee for advance review of employee housing proposals to assure compliance with statutory regulations. Other agencies, such as Bureau of Reclamation, are also giving top level reviews to all housing proposals.

As previously recorded, the Department has undertaken to test the adequacies of compliance procedures in the housing limitation through internal audit activity. We believe this effort has had a beneficial effect. By Secretarial Order, internal auditing is now being consolidated at the departmental level. We shall make the audit effort even more incisive as it relates to the housing limitations. None of these efforts however effective, will dispose of the economic realities at the heart of the matter.

LONG-TERM HELIUM CONTRACTS (Recommendation No. 4):

The existing long-term helium contracts should be amended so as to include price redetermination clauses and to obtain price reductions for the Government which would eliminate all unjustified costs allowed in those contracts. In addition, all future long-term helium contracts should contain price redetermination clauses and should be based on careful and comprehensive price analyses including ascertainment of all possible cost estimates.

RESULTS.—The Department of the Interior has advised the subcommittee that:

Consideration has been accorded to the performance of cost audits which should serve as the basis for a more productive

discussion with the contractors. To date one cost audit has been performed by the Defense Contract Audit Agency for the Department, and the report is being evaluated by departmental personnel. Legal actions were brought some time ago by royalty interests against the contractors for the recovery of value on all helium produced and sold by the contractors. After several postponements these suits are presently scheduled for trial during the coming summer.

FRACTIONIZATION OF INDIAN INTERESTS (Recommendation No. 5):

> Pending enactment of legislation to deal with the problem of fractionization of Indian interests in tract lands, the Bureau of Indian Affairs should intensify its efforts to minimize the costs of administration and bookkeeping with respect to such fractional interests.

RESULTS.—The Department of the Interior has advised the subcommittee that:

> An effort is being made to minimize the increasing cost of administration and recordkeeping on the fractionated Indian trust interests.
>
> Title plants which have been established at Aberdeen, S. Dak.; Billings, Mont.; Portland, Oreg.; and Phoenix, Ariz., are now expected to serve all of the Bureau's title needs. The creation of electronic tape records of all Indian trust lands will have been substantially completed by the end of fiscal year 1966. At that time, the feasibility of further economies in land records management through consolidation of title plants and the use of automatic data processing in connection with other Bureau activities will be studied. During the appropriation hearings for fiscal year 1967, congressional witnesses before the Committee on Appropriations were also concerned about the difficulty of maintaining accurate records of Indian lands which have been fractionated into many parcels due to the numerous heirs involved. It was stated that with the advent of automatic data processing, accuracy and ease of maintenance of these records could now be achieved.
>
> We wish to bring to your attention the fact that the cost of managing heirship properties is included in the activity "Management of Indian Trust Property," which appropriation includes all land management activities, including the operation of title plants and consolidations, and represents 3 percent of the total Bureau appropriation. In spite of the heirship complication, the Realty Branch, by an expenditure of $3.9 million in fiscal year 1965, obtained for the Indian owners $41.5 million in oil and gas income, $3 million from mineral leases other than oil and gas, and $15.5 million from surface leases. The cost of management includes the cost of distributing this income to the Indian owners, including the individual heirship interests.

DISTRIBUTION OF ROYALTIES BY LESSEES OF INDIAN OIL AND GAS LANDS (*Recommendation No. 6*):

The Interior Department should have lessees of Indian oil and gas lands distribute royalties directly to competent Indians entitled to such royalties in order to minimize Bureau of Indian Affairs bookkeeping costs on the handling of such accounts.

RESULTS.—The Department of the Interior has advised the subcommittee that:

A special survey group, organized to determine the feasibility of resolving the above problem, concluded in the spring of 1965 that the extension of the direct payment procedure to other areas under the jurisdiction of the Bureau of Indian Affairs (BIA) would produce some improvements in manpower utilization due to the elimination of the need to record oil and gas payment transactions in some IIM accounts. However, because of (1) differences in organizational structure within the respective BIA areas, e.g., in the Muskogee area one consolidated office administers the oil and gas leasing and accounting activities while in the Anadarko area these functions are performed at an area office and five agency offices, (2) composition of the types of income recorded in the IIM accounts, (3) state of cultural development of the various tribes receiving oil and gas income, and (4) some increase in the workload of the BIA agency realty specialist who would become responsible for verifying the accuracy of direct payments, there would be no immediate elimination of personnel.

The survey group made two recommendations which, if carried out over a reasonable period of time, would improve operations. These recommendations have to do with compliance of reporting requirements by producers and the verification of the accuracy of payments being made to Indian lessors through expansion of computer procedures.

It mentioned that after the two recommendations had been satisfactorily implemented the direct payment procedure could be gradually extended to those restricted Indian lessors that the Bureau of Indian Affairs determines are capable of handling the lease payments. It was recommended that the extension of this procedure should be accomplished on a selective basis as to lessees and purchasing companies which experience has shown submit acceptable reports of direct payments. The acceptability of such reports could be mutually determined by BIA and Geological Survey. Within general limits prescribed by BIA, consideration could be given to authorize payments directly to all Indians for amounts not in excess of that which BIA feels would not constitute a breakdown in the supervision of the financial affairs of the affected Indian.

Consideration then could also be given to extension of the direct payment procedure to payment of annual rentals on nonproducing leases. There are over 8,600 nonproducing Indian leases. The largest number, about 4,000, are in Oklahoma.

PROMPT PAYMENT OF RENTALS AND ROYALTIES DUE THE GOVERNMENT ON OIL AND GAS LEASE ACCOUNTS (*Recommendation No. 7*):

The Geological Survey should intensify its efforts to obtain prompt payment of rentals and royalties due to the Government on oil and gas lease accounts in order to minimize delinquencies in payment. The committee believes that interest should be charged on delinquent accounts.

RESULTS.—The Department of the Interior has advised the subcommittee that:

Collection of delayed payments of rentals and royalties due the Government on oil and gas lease accounts have been accelerated through the use of new collection procedures and a new electronic data processing system.

DUPLICATION AND UNNECESSARY CLERICAL WORK (*Recommendation No. 8*):

The Department should promptly determine whether duplication and unnecessary clerical work exists and can be eliminated in the following activities: (*a*) The Atlantic Area Topographic Division of the Geological Survey, (*b*) the Anadarko and Muskogee area offices of the Bureau of Indian Affairs, and (*c*) the western offices of the National Park Service.

RESULTS.—The Department of the Interior has advised the subcommittee that:

Atlantic Area Topographic Division of the Geological Survey.—The following actions represent the total effort taken by the Topographic Division of the Geological Survey in regard to the recommendations of a committee which studied cost reporting and accounting procedures in the Atlantic area office.

1. Individual employee operational reports have been eliminated in the Cartography Section.
2. The preparation of individual production records for the Field Surveys Section has been eliminated.
3. Individual leave records have been eliminated.
4. The detail in the area summary reports has been eliminated.
5. Two GS–5 positions have been eliminated.

Annual savings resulting from the foregoing actions are now believed to be about $12,000.

Anadarko and Muskogee Area Offices of the Bureau of Indian Affairs.—The matter of consolidating the above area offices is still under study by the Department. However, we have encountered strong opposition to this consolidation from congressional and local interests. While certain real problems exist, therefore, we will continue to give the consolidation proposal full consideration.

The Western Offices of the National Park Service.—Following the housing, in early 1964, of both the Western Regional Office and the Western Office of Design and Construction in the new Federal Office Building in San Francisco, the personnel, procurement, and property management functions of the two offices were consolidated. This action standardized the procedures that were already being followed in Philadelphia where the Northeast Regional Office and the Eastern Design and Construction Office were being served by a consolidated operation.

There is no duplication of effort under the present arrangement; the work for both offices is being handled by one administrative unit.

BACKLOG OF APPEALED CASES PENDING IN BRANCH OF LAND APPEALS OF OFFICE OF THE SOLICITOR (Recommentation No. 9):

The Office of the Solicitor should intensify its efforts to reduce the backlog of appealed cases pending in its Branch of Land Appeals, without impairing the substantive rights of the parties. The procedures already adopted to deal with the backlog problem should be supplemented by temporary assignment of additional personnel, shifting nonlegal types of appeals (such as those involving only issues of land classification) to units responsible for such matters, simplifying procedures in typing and mimeographing decisions and headnotes, etc.

RESULTS.—The Department of the Interior has advised the subcommittee that:

The appeals backlog situation has improved substantially. The backlog of appeals pending dropped from 705 on January 1, 1963, to 113 as of March 1, 1966. A procedure adopted on June 7, 1963 (28 F.R. 6079) for handling land classification cases involving a flexible system of administrative review rather than a formal appeals system has eliminated all such cases from the appeals channel, thus contributing to the reduction of appeals. The reduction in the backlog also has been caused by the Bureau of Land Management's completion of its accelerated program of settling the backlog of appeals to its Director. During the accelerated program, the Bureau's output of decisions was unusually high, creating a sharp surge of appeals to the Secretary. With the Bureau operating now on an almost current basis, the number of appeals to the Secretary has leveled off.

An enlarged staff in the Branch of Land Appeals, totaling seven attorneys, was a significant factor in coping with the backlog situation. With two retirements and a transfer, the staff is now down to four attorneys. It is believed that with one replacement the staff will be able to cope with the present workload and to further reduce the backlog.

[H. Rept. 307, 88th Cong., 1st sess.]

SURVEY OF SELECTED ACTIVITIES (PART 4—EFFICIENCY AND ECONOMY IN THE CIVIL SERVICE COMMISSION)

Fourth Report by the Committee on Government Operations

(Submitted to the Speaker May 20, 1963)

Civil Service Commission operations were the subject of the fourth in a series of hearings covering activities of departments and agencies within the jurisdiction of the Government Activities Subcommittee.

The Civil Service Commissioners expressed their fullest cooperation in efforts to achieve greater economy and efficiency not only within the organization of the Commission, but also in Commission programs affecting Federal departments and agencies as a whole. They expressed a clear understanding of the continuing need for highly qualified supervisory personnel and the importance of fair promotional opportunities in Government for capable and deserving employees. Statements of some executive leaders that civil service laws and regulations hampered them in achieving effective manpower levels and discharging unsatisfactory employees, were effectively rebutted. Deficiencies in Federal "job descriptions" were also acknowledged and efforts to improve them announced.

Yet, it is with regard to manpower utilization that the work of the Commission in recent months has been most significant. In September 1961, the Commission began a survey of department and agency manpower utilization practices. The preliminary results indicate grave deficiencies in the methods used to determine manpower levels. More recently the Commission has participated in the Bureau of the Budget pilot program aimed at the development of productivity measurement techniques for Federal use. (See, "Measuring Productivity of Federal Government Organizations," October 1964.) Knowledge of efficiency levels, the ability to recognize changing trends as they develop, and to note specific trouble spots of inefficiency, are of vital importance in efforts to increase and maintain governmental efficiency.

Primary responsibility for the determination of efficiency levels through productivity measurement techniques, for the establishment of proper manpower levels, and for the institution of necessary corrective action, should remain with the various departments and agencies, as the Civil Service Chairman recommended. But the Commission is ready to assume permanent authority to oversee, coordinate, and review these functions as part of a Government-wide effort to increase the economy and efficiency of operations and the quality of the services rendered the taxpaying public.

RECOMMENDATIONS

EFFICIENCY MEASUREMENT PROGRAMS (Recommendation No. 1):

Permanent authority to coordinate and review efficiency measurement programs of the various departments and agencies should be extended to the Civil Service Commission.

RESULTS.—The Civil Service Commission has advised the subcommittee that:

The Commission has not sought specific authority to implement the subcommittee recommendation. It is our belief that guidance and direction in this area should come from the Bureau of the Budget rather than the Civil Service Commission. Much has been accomplished, however, since the House report was issued in furthering related objectives. These activities fall into three well defined categories:

Adjustments in the nature and content of the Commission's inspections of agency personnel management programs, particularly as concerns position management and manpower utilization.

Increased participation with the Bureau of the Budget in making joint surveys of agency effectiveness in manpower utilization and management control.

Leadership activities in improving communications and service to the public—a new program of the President which seeks among other things to focus agency productivity more directly on the needs of the public.

CLASSIFICATION STANDARDS FOR INTERNAL AUDIT PERSONNEL (Recommendation No. 2):

Civil Service Commission classification standards for internal audit personnel should be reviewed with the Comptroller General.

RESULTS.—The Civil Service Commission has advised the subcommittee that:

In June 1965, we published new classification and qualification standards which are applicable to internal auditing positions. During our study of those positions we worked closely with audit management officials of the General Accounting Office. The new standards are consistent with the concepts of the Government Operations Committee and the General Accounting Office that internal audits should not be limited in scope and the responsibility for them should not be diffused. Moreover, the new standards provide positive assurance that internal audits of financial and accounting records are to be performed by properly trained and fully competent professional auditers.

In addition to conferring in detail with the professional audit staff of the General Accounting Office we asked them to review a tentative draft of the standards prior to their final

approval. They offered a number of suggestions for further improvement of the standards and also said: "Members of our professional staff are of the opinion that the standards as proposed are generally good—that they are brief and usable and give appropriate weight to qualitative characteristics of professional auditing." Other agencies reviewed the standards and concurred in their appropriateness.

CONCISE AND REALISTIC JOB DESCRIPTIONS (Recommendation No. 3):

Commission efforts to obtain concise and realistic job descriptions should be increased.

RESULTS.—The Civil Service Commission has advised the subcommittee that:

The Commission has continued to stress the need for concise and realistic position descriptions by all the means at its disposal. As an example of our approach to this problem the following statements are quoted from the section on Position Classification Writing (Unit VIII–A of Part 3) of our Basic Training Course in Position Classification which is used by the other Federal agencies as well as the Commission:

(1) In describing skills and style we state: "What is required is that facts and reasoning be presented accurately, clearly and simply, and as briefly as is consistent with adequate treatment of any issues involved." (Page 19)

(2) In describing responsibilities of position description writers we state: "He should be brief. Unnecessary length is objectionable to managers, among others, and reduces the usefulness of position descriptions. Positions vary too greatly to permit a hard and fast rule limiting the length of position descriptions. Many positions, however, can be described adequately in two pages or less." (Page 22)

EFFICIENCY MEASUREMENT OF CSC OPERATIONS (Recommendation No. 4):

The Civil Service Commission must place particular emphasis on the development of effective means to measure the efficiency of its own operations.

RESULTS.—The Civil Service Commission has advised the subcommittee that:

The Commission has had, for a number of years, a work reporting system which is designed to measure workload and output. Since the House report, we have continued to strengthen our work reporting system. This measurement of

efficiency, together with several reviews and studies, has frequently led to the identification of areas where efficiency could be improved or economies made.

Production standards for individual employees have been established in several areas. As we uncover areas during management audits or special studies where it appears that production standards can be developed, we are directing their establishment.

We have initiated a program of management audits of our staff offices to determine whether they can be more efficiently organized and whether their procedures can be improved. We shall continue to look for ways and means of improving our efficiency.

CONTENTS OF ANNUAL REPORT TO CONGRESS (Recommendation No. 5):

In keeping with the criteria established by this committee, the Civil Service Commission should review the contents of its annual report to Congress for the purpose of including information indicative of the efficiency and economy of operations.

RESULTS.—The Civil Service Commission has advised the subcommittee that:

Consistent with this recommendation, since 1964, the annual report has included statements outlining important accomplishments relating to greater efficiency of operations. These statements reflect the Commission's activities in establishing effective management manpower utilization programs.

[H. Rept. 207, 88th Cong., 1st sess.]

SURVEY OF SELECTED ACTIVITIES (PART 5—EFFICIENCY AND ECONOMY IN THE POST OFFICE DEPARTMENT'S METHODS OF TRANSPORTING MONEY)

Second Report by the Committee on Government Operations

(Submitted to the Speaker April 10, 1963)

On the evening of August 14, 1962, a light panel postal truck was hijacked on Route 3 on its way to Boston from Hyannis, Mass. In this lightly guarded panel truck was $1,551,277 in unmarked, unserialized, used United States and Canadian currency. A virtual primer was written by the gang of six to eight criminals who planned and executed this complex and daring attack on a U.S. mail truck.

The Postmaster General was invited to appear before the committee for the purpose of reviewing Post Office methods of shipping large sums of currency. He testified in a most forceful manner that the lapse in security in Massachusetts was unique and was not an indictment of overall Post Office procedures used to maintain the security of currency shipments. The Department's outstanding rec-

ord speaks for itself. Over a 10-year period prior to the Plymouth hijacking, billions in currency were shipped with losses from all causes less than $200,000.

RECOMMENDATIONS

PROTECTION OF LARGE CURRENCY SHIPMENTS (Recommendation No. 1):

> The Post Office should use commercial armored vehicles, when, in the opinion of responsible postal officials, traditional security arrangements may prove inadequate for the protection of large currency shipments.

RESULTS.—The Post Office Department has advised the subcommittee that:

> The Department has secured the cooperation of all Federal Reserve Banks in diverting to commercial armored vehicles the transportation of currency shipments in high density areas. Where it is necessary within cities to use postal vehicles for transportation of high value shipments emergency precautions have been taken. Security arrangements are reviewed by regional and Inspection Service officials from time to time and special arrangements are made for shipments needing extra protection.

TRANSPORTATION OF FEDERAL RESERVE SHIPMENTS OF CURRENCY (Recommendation No. 2):

> The Post Office should continue to transport Federal Reserve shipments when more efficient and economical alternatives are not available.

RESULTS.—The Post Office Department has advised the subcommittee that:

> The Department has continued to transport Federal Reserve shipments when more efficient and economical alternatives are not available. The Federal Reserve has contracted for the use of commercial armored car service generally in and between large metropolitan areas, with the Postal Service handling the balance.

REVIEW AGREEMENTS WITH STATE AND LOCAL POLICE AUTHORITIES (Recommendation No. 3):

> The Post Office should review agreements with State and local police authorities so as to avoid, to the greatest extent possible, any future misunderstandings as to convoy responsibility as occurred in Massachusetts prior to the Plymouth hijacking.

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RESULTS.—The Post Office Department has advised the subcommittee that:

> These agreements and understandings have been reviewed. Changes are made as required due to requests of local authorities or revision in transportation. This protection is in addition to armed postal employees and is used only when assurance can be given that the police convoys will continue with the shipment until delivery has been made at the postal facility to which it is being transported.

POSTAL EMPLOYEES CARRYING FIREARMS (Recommendation No. 4):

> Postal employees carrying firearms should be fully trained and qualified in their use.

RESULTS.—The Post Office Department has advised the subcommittee that:

> A comprehensive firearms training program was initiated designed to give maximum assistance to postal employees in affording security to mails while in postal custody. Employees assigned to convoy valuable shipments of registered mail must be selected from a group previously designated by name for this important duty. Such employees are required to be proficient in the handling, care, and firing of the revolver, and must qualify in the use of firearms.

SHIPMENT OF WORNOUT CURRENCY (Recommendation No. 5):

> Federal Reserve and Treasury Department officials should study and review possible means by which local banks could "devalue" wornout currency prior to shipment.

RESULTS.—The Post Office Department has advised the subcommittee that:

> The shipments of currency moving from commercial banks to Federal Reserve Banks do not necessarily involve wornout or unfit bills. It has been estimated that currently only about half of the bills so shipped are determined by the Federal Reserve Bank to be unfit. Authority for the determination of the fitness of currency for further circulation rests with the Federal Reserve Banks and it is doubtful at least whether it could be delegated to 14,000 commercial banks.
>
> In any event, the security problem attending currency shipments from commercial banks would not be changed materially by the proposed cancellation of some portion of the currency since the shipment of surplus or excess currency would continue as at present.
>
> There has been a very considerable diversion of these shipments from the Postal Service to private carriers and this has, of course, somewhat reduced the protection problems for the Postal Service.

[H. Rept. 457, 88th Cong., 1st sess.]

SURVEY OF SELECTED ACTIVITIES (PARTS 6 AND 7—EFFICIENCY AND ECONOMY IN THE CIVIL AERONAUTICS BOARD AND THE FEDERAL AVIATION AGENCY)

Ninth Report by the Committee on Government Operations

(Submitted to the Speaker June 25, 1963)

Review of selected CAB operations indicated significant improvements in economy and efficiency. An improved class-type subsidy plan has been instituted which CAB officials believe will benefit local service airlines and at the same time make possible substantial reductions in subsidy payments.

Testimony indicated, however, that local service airline operations continued to be handicapped by the widespread use of obsolete DC–3-type aircraft.

Testimony further indicated that the CAB expects to achieve a 25-percent increase in administrative efficiency by June 30, 1963.

Substantial reductions in case backlog and the time required for the processing of route, rate, and other applications have already been made.

Review of selected FAA operations indicated serious deficiencies in contract procedures and accounting methods. Agency officials testified, however, that corrective action has been taken. The testimony further indicated deficiences in the FAA internal audit system. It is believed that the Administrator will continue to experience difficulty in the economical and effective operation of his Agency until he establishes a strong, centralized internal management system with Agency-wide jurisdiction, as recommended by the Comptroller General and this committee.

It was in the realm of air safety, however, that the testimony concerning FAA operations took the most serious turn. Uncontroverted evidence in the form of two series of actual photographs taken on commercial airliners during routine flight operations with passengers aboard showed pilots or copilots asleep, reading newspapers or magazines, or with stewardesses sitting in their laps during "familiarization flights."

These photographs were augmented by testimony of former airline stewardesses who told of either flying commercial airliners or were witnesses to other stewardesses flying them. The testimony further indicated that the management of at least two of the Nation's large commercial airlines had been indifferent to the needs of optimum air safety on several specific occasions.

As stressed throughout the hearings, the committee's interest lies in optimum safety in the future. The committee is not interested in prosecuting or persecuting those who may have been negligent or lax in the past.

This report recommends maintenance of the highest standards in air safety.

RECOMMENDATIONS

FLIGHT INSPECTIONS OF COMMERCIAL AIRLINER OPERATIONS (Recommendation No. 1):

FAA should begin to make unannounced flight inspections of commercial airliner operations for the purpose of determining the extent to which aircrew members are applying themselves to their duties and responsibilities.

RESULTS.—The Federal Aviation Agency has advised the subcommittee that:

The Agency has implemented a program of unannounced en route inspections on air carriers. These inspections are conducted whenever practicable by air carrier operations inspectors who are traveling as fare-paying passengers on official Agency business. This new program supplements the normal en route inspection program under which advance notice of an intended inspection is provided to the air carrier.

STANDARDS FOR PILOT-TRAINED FLIGHT ENGINEERS (Recommendation No. 2):

The FAA, collateral to further implementation of the Feinsinger Commission recommendations, should increase the minimum standards for pilot-trained flight engineers to require more extensive engineering, mechanical, and maintenance education and experience.

RESULTS.—The Federal Aviation Agency has advised the subcommittee that:

The FAA has taken no action to implement this recommendation. In 1965, FAA issued a notice of proposed rule making to revise the requirements for a flight engineer certificate, and after considering the many comments received on the proposal, concluded that general aircraft maintenance should not be included as a knowledge requirement for an engineer certificate. In the modern transport fleet of aircraft, the flight engineer is no longer used as an in-flight maintenance man. In fact, Agency regulations prohibit the performance of maintenance by persons who do not possess a mechanics or repairman's certificate or who do not perform such work under the supervision of the holder of such certificates.

COMMERCIAL AIRLINER FLIGHT DECK OR COCKPIT DESIGN AND OPERATIONS (Recommendation No. 3):

The CAB should undertake a fundamental study and review of commercial airliner flight deck or cockpit design and operations,

including cockpit configuration, the division of duties, and the qualifications of crew members.

RESULTS.—The Civil Aeronautics Board has advised the subcommittee that:

The Board submitted a study entitled "Jet Transport Cockpit Review" to your committee on October 16, 1964, implementing this recommendation. The study, which was based on a broad survey of the industry's views, operating practices, safety record and historical development, concluded, among other things, that:

(*a*) There was no feasible way for the cockpit design of then certificated jet transports to be adapted to a two-man operation, with the equivalent degree of safety then provided, without a complete modification through redesign;

(*b*) The basis for minimum flight crew complement should be operational complexity and resulting workload rather than maximum takeoff weight;

(*c*) The then current turbojet transport aircraft required a minimum of three flight crewmembers to maintain a satisfactory level of safety;

(*d*) Flight engineer duty assignments could be accomplished and were being performed safely by both pilot- and mechanic-oriented persons; and

(*e*) Orientation of the third crewmember, whether pilot or mechanic, had not compromised the safe performance of assigned functions, provided that the crewmember was fully qualified and crew discipline was maintained.

In this connection, the Federal Aviation Agency concluded, after giving consideration to the conclusions in the Board's study, in establishing criteria for determining the minimum required flight crew for transport category airplanes that requiring a flight engineer solely on the basis of airplane weight was unrealistic. Accordingly, such Agency amended parts 25 and 121 of the Federal Aviation Regulations (30 F.R. 6066, April 29, 1965) so as to provide that the requirement for a flight engineer, as well as other flight crewmembers, for transport category airplanes type certificated after January 1, 1964, would be determined under minimum flight crew criteria based largely on workload factors, and include, among other things, accessibility, ease and simplicity of operation of necessary flight, power and equipment controls; accessibility and conspicuity of all necessary instruments and failure warning devices; the number, urgency and complexity of operating procedures; degree and duration of concentrated mental and physical effort involved; extent of required monitoring of the various systems; and the communications and navigation workload. The Federal Aviation Agency pointed out that compliance with these criteria would continue to justify a minimum of three flight crew-

members for the "current turbojet aircraft" referred to by the Board in its study since these planes were type certificated with a minimum of three flight crewmembers.

You may also be interested in the fact that the National Aeronautics and Space Administration is engaged in a contractor research program through which it is studying the crew role problem area for the supersonic transport. We understand that the results of this work are now being prepared for early publication as "Potential Roles of Supersonic Transport Crews and Some Implications for the Flight Deck." An interim contractor's report (NASA CR–146), entitled "Requirements and Constraints of Potential Roles of Supersonic Transport Crews," has been issued, which we understand compares crew variables, operational variables, and flight deck design of the SST with today's jets.

RESULTS.—The Federal Aviation Agency had advised the subcommittee that:

> This recommendation was directed to the CAB. However, FAA took regulatory action related to the subject as follows: On April 21, 1965, we issued amendments to the Agency transport category certification rules (14 CFR, Part 25) and the air carrier operations rules (14 CFR, Part 121) establishing new criteria for the determination of the minimum required flight crew for each transport category airplane type certificated after January 1, 1964. These regulations established criteria for determining the minimum flight crew for transport category aircraft based on basic workload functions, workload factors, and the kinds of operations authorized. These criteria were consistent with recommendations made to the Agency by the CAB and with the recommendation included by the CAB's Bureau of Safety in its October 1, 1964, report to your committee entitled "Jet Transport Cockpit Review."

LIGHTS ON LIFEJACKETS (Recommendation No. 4):

The FAA should issue regulations immediately requiring lights on lifejackets on extended overwater flights.

RESULTS.—The Federal Aviation Agency has advised the subcommittee that:

> In April 1964, FAA issued amendments to the Agency air carrier and commercial operator certification and operations rules (14 CFR, Part 121) requiring that each life preserver and liferaft (already prescribed for extended overwater operations under Agency rules) be equipped with an approved survivor locator light.

REPLACEMENT OF MILITARY DC–3 TYPE SUPPORT AIRCRAFT (Recommendation No. 5):

Assuming early adoption of a plan for the replacement of military DC–3 type support aircraft, the CAB and FAA, in coordination with the Department of Defense, should develop a replacement program applicable to obsolete DC–3 aircraft presently in use on local service airlines. If, however, replacement of military-type DC–3 aircraft is further postponed, then, the FAA and CAB, on their own and independent of Department of Defense plans, should develop a replacement program for local service DC–3's encompassing aircraft currently in production and/or those of manufacturers willing to undertake the development of aircraft suitable for local use.

RESULTS.—The Civil Aeronautics Board has advised the subcommittee that:

With respect to the recommendation that a replacement program be developed for the DC–3, in October 1963, the Administrator of the Federal Aviation Agency, pursuant to the authority which he has under section 312(b) of the act to "undertake or supervise such developmental work and testing as tends to the creation of improved aircraft, aircraft engines, propellers, and appliances", formally initiated a program intended to stimulate the development of a small, modern transport for short-haul routes. A preliminary design competition was completed in June 1964. However, none of the designs submitted was considered by the Administrator and representatives of the Board and other government agencies to represent a sufficient advance in the state of the art to warrant award of a detailed-design contract. It was also found that the local service carriers displayed little enthusiasm for the design submitted in the competition.

Nevertheless, the local service airlines have in fact been moving rapidly to replace DC–3's with better flight equipment. As of the beginning of 1966, only 10 percent of the passenger seat miles provided by these carriers were in DC–3's and this is expected to drop to well below 5 percent (probably 2 percent) by 1969.

Although it thus appears that the DC–3's will soon be almost completely replaced, the Board believes that continued attention should be given to developing improved aircraft in the 25 to 30 seat range particularly suited for service on short-hop, low-density routes. Most of the local airlines' newer equipment is larger than this, and thus may entail higher than optimum operating costs for routes of this kind.

The Nord 262, a French-made 27 passenger propjet, which has been placed in service by one local carrier in recent months appears from preliminary reports to be giving good results. It would, of course, be desirable to have U.S. made planes which would do as well or better in this type of service. Perhaps the most effective way to seek this result is to undertake to provide the financial incentive—the moti-

vation—for the local carriers to buy, and the aircraft manufacturers to make, such aircraft. This seems to me to be chiefly a problem for the CAB, and in trying to refine the subsidy formula for the class rate we will have this problem very much in mind to see if we cannot build into that formula the needed incentive. If we can provide the incentive, I believe the industry has the technical ability to produce the plane and adequate resources to fund its developmental costs.

RESULTS.—The Federal Aviation Agency has advised the subcommittee that:

> In 1963, the FAA initiated a program to stimulate the development of a modern, short-haul, local service transport to operate on routes served by DC–3 aircraft. The program included a formal design competition under which bids were solicited for airplane designs on the condition that if a feasible design was submitted, FAA would help defray part of the design cost and help establish a market for the airplane. The response by the manufacturers was discouraging. However, some manufacturers submitted bids under the project and the designs were made available to the local service air carriers and to the Department of Defense. Neither the airlines nor the Military Establishment indicated any serious interest in any of the designs. Thus the design competition was terminated. None of the design sponsors submitted designs representing any significant advancement in technology or economics as compared to the DC–3.

COMPLIANCE WITH PUBLIC LAW 84–863 (Recommendation No. 6):

The FAA should further expedite compliance with Public Law 84–863, requiring Agency accounts to be maintained on an accrual basis.

RESULTS.—

> Beginning in June 1963 and continuing to the present, the Agency has issued a number of directives for the installation of the accrual basis in accounting for property, receivables, other assets, revenues, and liabilities. An extension of the accrual basis has been implemented for certain activities by the installation of cost accounting systems. There are no significant operations of the Agency for which the accrual basis of accounting has not been prescribed; however, there are some areas for which refinements and extensions of the accrual basis are necessary before the Agency instructions will be in complete compliance with the principles and standards prescribed by the Comptroller General.
>
> We have submitted several directives related to our accounting system to GAO for their informal review and comment. This is a step preliminary to making a formal submis-

sion to the Comptroller General in which his approval is requested as required by the Budget and Accounting Procedures Act of 1950. In March 1966, we published a schedule of plans designed to fulfill the Agency commitment to develop an Agency accounting system responsive to external reporting and internal management requirements, which conforms to the principles and standards established by the Comptroller General and the requirements contained in Public Law 84–863.

INTERNAL AUDIT FUNCTION (Recommendation No. 7):

The internal audit function in the FAA should be consolidated and otherwise reorganized so as to be in compliance with the recommendations of the Comptroller General and the criteria established by this committee.

RESULTS.—The Federal Aviation Agency has advised the subcommittee that:

The audit function in FAA is now placed in a separate Office of Audit headed by a director who comes under the administrative direction of the Associate Administrator for Administration, but who reports to the Administrator on all substantive matters. In addition to establishing this function in an independent office, we have increased the number of authorized audit positions in the Agency, the present total being 119. In 1963, we had approximately 70 auditors on our rolls.

In our view we now have a consolidated internal audit program. The distinct functions established in the Office of Appraisal, Office of Compliance and Security, and Office of Audit give recognition to the different orientations and skills required in this Agency for the appraisal of substantive program performance, investigation and enforcement work, and professional internal auditing. These Offices work in harmony in serving the Agency's overall interests as a result of clear assignments of responsibility and close coordination of effort. In view of the continued success we have had in pursuing this course and the Comptroller General's published concept that assignment of responsibilities for internal review and appraisal functions should be tailored to the needs of each Agency, we see no need for changing our established arrangement.

INTERGOVERNMENTAL RELATIONS SUBCOMMITTEE

[H. Rept. No. 445, 88th Cong., 1st sess.]

CONSUMER PROTECTION ACTIVITIES OF STATE GOVERNMENTS (PART 1—THE REGULATION OF DRUGS AND RELATED PRODUCTS)

Seventh Report by the Committee on Government Operations

(Submitted to the Speaker June 24, 1963)

This is the second in a series of reports resulting from the subcommittee's study of consumer protection activities at all levels of government. An earlier report (H. Rept. No. 1241, 87th Cong., 2d sess.) summarized the consumer protection activities of Federal departments and agencies.

This report, which is based upon a questionnaire survey, describes the consumer protection activities reported by States for the regulation of drugs and related products such as therapeutic devices, cosmetics, human and veterinary biologics, and hazardous household substances. It contains information on the legal authority, administrative arrangements, expenditures, personnel, laboratory equipment and facilities, work programs and intergovernmental relations and problems reported by the respective States in connection with these activities.

The report provides valuable information previously unavailable to Government officials and the public.

[H. Rept. No. 921, 88th Cong., 1st sess.]

CONSUMER PROTECTION ACTIVITIES OF STATE GOVERNMENTS (PART 2—THE REGULATION OF FOODS AND RELATED PRODUCTS)

Seventeenth Report of the Committee on Government Operations

(Submitted to the Speaker November 22, 1963)

This report is the third in the subcommittee's overall study of consumer protection activities of Federal, State, and local governments and is the second dealing with the activities of State governments.

It describes the consumer protection activities for the regulation of foods and related products reported by the States in response to a subcommittee questionnaire. These include the inspection and/or grading of specific commodities, such as meat, poultry, eggs, fresh fruits and vegetables, dairy products, and seafoods; the regulation of food-handling establishments, such as restaurants, processing plants, and distribution and storage facilities; and the regulation of certain

potentially dangerous food-related products such as pesticides, food additives, and medicated animal foods.

The report contains information on the legal authority, administrative arrangements, expenditures, personnel, laboratory equipment and facilities, work programs, and intergovernmental relations and problems reported by the respective States in connection with these activities.

This report contains information previously unavailable to Government officials and the public.

[Subcommittee print, October 1964]

OPERATIONS OF BILLIE SOL ESTES

This print was issued as a subcommittee report during the 88th Congress. It was approved by the full committee during the 1st session of the 89th Congress.

The 436-page report provides a detailed account of significant activities of Billie Sol Estes involving programs or personnel of the Federal Government. The subcommittee investigation disclosed that Estes had obtained contracts for storage of Government grain by submitting false financial statements and that inadequate regulations and procedures, lack of alertness and poor judgment contributed to the success of his misrepresentations. The subcommittee found that irregularities in Estes' operations had been investigated many times by agencies of the Federal Government, beginning at least as early as 1953, and concluded that there was an almost total lack of effective coordination and communication between or within the departments, agencies, and subunits involved.

RECOMMENDATIONS

IMPROVING COORDINATION AMONG AND WITHIN FEDERAL AGENCIES CONDUCTING AUDITING AND INVESTIGATIVE WORK (Recommendation No. 1):

The subcommittee's investigation disclosed a serious lack of effective coordination and communication among Federal units engaged in auditing and investigative activities.

The subcommittee recommends that the President authorize and direct a comprehensive review of Federal audit and investigative activities with a view to securing improved coordination and communication both among and within Federal departments and agencies. The subcommittee believes that such a review should include—but not be limited to consideration of appropriate actions designed to promote the following objectives:

(*a*) To insure that information coming to the attention of Federal agencies or personnel from outside sources is promptly referred to all agencies of the Federal Government that might have a potential interest in it or responsibility for taking action concerning it. Efforts should be made to better inform Federal employees, particularly those engaged in auditing and investigative activities, concerning

the types of information that may be significant to other agencies. Federal employees should be encouraged and instructed to regard themselves as having a responsibility for the public interest generally, in addition to the specific duties assigned by their particular agency.

(*b*) To insure that Federal employees are aware of and make appropriate use of sources of information available within the Federal Government.

(*c*) Where evidence of irregularities may be of potential interest to more than one Federal agency, appropriate measures should be taken to insure proper coordination of Federal investigative activity with a view to avoiding both unnecessary duplication of effort and inadvertent failure to cover significant matters. This would include such measures as joint investigations, where desirable, temporary assignment of personnel with special experience or qualifications to assist other agencies, joint determinations concerning priorities where one agency's work might conflict with another, etc.

(*d*) In planning, conducting, and assigning priorities to investigative work, greater emphasis should be placed on giving advance consideration to the relative importance of criminal prosecutions which may result and on obtaining greater coordination between personnel responsible for investigative work and personnel responsible for the conduct of prosecutions or litigation.

The subcommittee requests that it be informed of the action taken with respect to this recommendation.

RESULTS.—The subcommittee has been advised that it may expect a reply in the near future concerning action taken with respect to this recommendation.

ACTION TO RECOVER PROFITS DERIVED FROM STORAGE CONTRACTS (Recommendation No. 2):

Billie Sol Estes secured approval of contracts for storage of Government grain by misrepresenting his financial condition. Since the Government was induced by fraud to grant these contracts, the subcommittee recommends that appropriate legal action be taken with a view to recovering, insofar as feasible, profits derived from them.

RESULTS.—The Department of Justice has taken legal action to recover sums paid out under grain storage agreements with Billie Sol Estes and the matter is awaiting trial.

LEGISLATION SPECIFICALLY PROHIBITING SALE OF FRAUDULENT COMMERCIAL PAPER TO NATIONAL BANKS (Recommendation No. 3):

Because of a possible loophole in Federal law, the sale of fraudulent commercial paper to a national bank probably is not a viola-

tion of Federal law in the absence of use of the mail, interstate transportation, or knowledge or participation by an officer or employee of the bank. The subcommittee recommends that the appropriate committees of the Congress give consideration to making it a specific violation of Federal law to knowingly sell fraudulent commercial paper to national banks, without regard to whether or not use of the mails, interstate transportation, or knowledge or participation by an officer or employee of the bank is involved.

RESULTS.—This recommendation has been brought to the attention of the appropriate committees of Congress.

REVIEW OF POLICIES AND PROCEDURES WITH RESPECT TO ASSIGNMENT OF PROCEEDS OF GOVERNMENT CONTRACTS (Recommendation No. 4):

The subcommittee's investigation indicated that it has been the practice of the Department of Agriculture to allow assignment of the proceeds of contracts with the Department to third parties without considering whether or not such assignments operate to the benefit or detriment of the Government. The subcommittee recommends that the Department of Agriculture reexamine its policies and procedures with respect to the assignment of proceeds of Government contracts with a view to eliminating assignments which are not in the best interests of the Government.

RESULTS.—The Department of Agriculture made the following report to the subcommittee:

It is the policy of CCC to permit assignments of moneys due or to become due under any contract, except where it is determined in advance of the issuance of notices, announcements and regulations, or the negotiation of contracts, that to permit such assignments in connection with a particular program would hamper operations. CCC in allowing assignments follows the requirements of the Assignment of Claims Act of 1940, except that it also permits assignments to other than financing institutions subject to the approval of the contracting officer or other authorized official.

In reviewing this policy, we have concluded that the approval of an assignment to other than a bank, trust company, Federal lending agency, or other financing institution should be based on a determination that the assignment is in the best interests of CCC. We deem it imperative, therefore, that each Notice of Assignment be carefully examined to determine that the assignee has indicated thereon his proper status (financing institution or other person or firm), and that any questions with respect thereto be resolved before the assignment is acknowledged or approved. Instructions to this effect were issued to all offices concerned on January 7, 1965.

CONSOLIDATION OF WAREHOUSE EXAMINATION AND APPROVAL FUNCTIONS (*Recommendation No. 5*):

The committee recommends that the Department of Agriculture give consideration to possible consolidation, insofar as feasible, of the similar warehouse examination and approval functions now performed individually by the Agricultural Marketing Service and the Agricultural Stabilization and Conservation Service.

RESULTS.—The Department of Agriculture has advised the subcommittee that:

Effective February 8, 1965, the name of the Agricultural Marketing Service was changed to the Consumer and Marketing Service. Effective June 7, 1965, warehouse examination functions administered in the Agricultural Stabilization and Conservation Service were transferred to the Consumer and Marketing Service.

CONSIDERATION OF POSSIBLE BLANKET BOND SYSTEM (*Recommendation No. 6*):

The subcommittee's investigation disclosed serious inadequacies in the procedures and practices of the Department of Agriculture relating to grain storage. A number of changes in these procedures and practices were made during the subcommittee's investigation. The subcommittee recommends that the Department of Agriculture give continued attention to the problem of assuring adequate protection for the Government and others who store grain in commercial warehouses. The subcommittee specifically recommends that consideration be given to the possibility of utilizing a blanket bond system for warehouses licensed under the U.S. Warehouse Act, as is now being done in the case of State-licensed warehouses storing grain for the Commodity Credit Corporation.

RESULTS.—After making a study of the matter, the Department of Agriculture advised the subcommittee that utilization of a "blanket bond" system for warehouses licensed under the U.S. Warehouse Act did not appear to be desirable. Among the reasons cited for this conclusion were the existence of a question concerning legal authority of the Secretary of Agriculture to adopt such a system without additional legislation and the likelihood of substantially increased administrative costs because of the large number of warehouse receipt holders who would be potential claimants (as compared with only one potential claimant under CCC's existing system). The Department of Agriculture further advised that the problem of assuring adequate protection for the Government and others who store grain in commercial warehouses will receive continued study and attention.

REVIEW OF REPORT BY DEPARTMENT OF JUSTICE (*Recommendation No. 7*):

During the course of its investigation, the subcommittee made available to the Department of Justice transcripts of its hearings and any other information it believed might be of particular significance in connection with the responsibilities of that Department. The subcommittee recommends that the Department of Justice make a careful examination of this report, as well as the information previously supplied, with a view to taking appropriate action. The subcommittee requests that the Department of Justice inform it of action taken with respect to this recommendation.

RESULTS.—The subcommittee has been advised by the Department of Justice that the report will be reviewed by the Department and that the subcommittee will be advised of any action taken as a result of such review.

NATURAL RESOURCES AND POWER SUBCOMMITTEE

[H. Rept. 1633, 88th Cong., 2d sess.]

REIMBURSEMENT OF GOVERNMENT EXPENDITURES FOR REMOVAL OF HAZARDOUS SUBSTANCES (WATER POLLUTION CONTROL AND ABATEMENT)

Twentieth Report by the Committee on Government Operations

(Submitted to the Speaker July 29, 1964)

This report examined whether the present law adequately enables the Federal Government to obtain reimbursement for its expenditures in removing hazardous substances from our Nation's waters in cases where such substances were discharged either purposely or as a result of negligence or violation of law.

RECOMMENDATION

The committee recommended that in view of the considerable litigation as to the scope of the Refuse Act in this respect, the act should be clarified by an amendment to clearly define the Government's rights to obtain reimbursement for its costs in removing hazardous substances in such circumstances.

RESULTS.—The committee's recommendation was embodied in bills introduced in the closing days of the 88th Congress by two committee members, Congressman Jones (H.R. 11822) and Congressman McClory (H.R. 11727). An identical bill was introduced in the 89th Congress by Congressman Jones (H.R. 2100) and is now pending in the House Public Works Committee.

[H. Rept. 1636, 88th Cong., 2d sess.]

DISPOSAL OF WASTE WATER AT FEDERAL INSTALLATIONS (WATER POLLUTION CONTROL AND ABATEMENT) INTERIM REPORT

Twenty-First Report by the Committee on Government Operations

(Submitted to the Speaker July 30, 1964)

This interim report was based on a committee survey of waste discharge practices at 367 of 1,003 Federal installations to determine what progress was being made in preventing and controlling water pollution from Federal installations.

61-207—66——6

RECOMMENDATION

The committee urged that every Federal installation discharging more than 3,000 gallons per day of untreated sewage or industrial wastes into surface or ground waters should promptly take action to control its wastes discharges.

RESULTS.—As a result of this recommendation, all agencies of the Federal Government greatly increased their efforts to control water pollution at their installations. During the next year more progress was accomplished than in many previous years. See House Report 555, 89th Congress, 1st session, entitled "Disposal of Sewage and Industrial Wastes by Federal Installations (Water Pollution Control and Abatement)" which summarized the results of the committee's study of waste-water discharges at 963 Federal installations in considerable detail and which resulted in extensive upgrading of the Federal Government's efforts to reduce water pollution emanating from Federal installations.

RECOMMENDATION

The committee requested a report, not later than September 15, 1964, from each agency having jurisdiction over any of the 26 installations which had taken no action to correct the reported pollution conditions, specifying the agency's plans for treating the wastes discharged from such installation and its schedule for accomplishing such plans.

RESULTS.—Each agency submitted reports as requested, and the information was subsequently used in House Report 555 supra.

RECOMMENDATION

The committee requested the Public Health Service, in cooperation with the various Federal agencies, to complete the field inspection of the remaining 636 Federal facilities listed in the committee's request and to report promptly thereon to the committee.

RESULTS.—The field inspections and reports requested by the committee provided information which was subsequently used in House Report 555, supra.

FOREIGN OPERATIONS AND GOVERNMENT INFORMATION SUBCOMMITTEE

Foreign Operations

[H. Rept. 797, 88th Cong., 1st sess.]

UNITED STATES INFORMATION PROBLEMS IN VIETNAM

Eleventh Report by the Committee on Government Operations

(Submitted to the Speaker October 1, 1963)

In mid-1962 the Special Subcommittee on Government Information first looked into complaints that U.S. officials in Vietnam were attempting to control stories filed by U.S. correspondents covering the war between President Ngo Dinh Diem's Government of Vietnam and the Communist Vietcong guerrillas. The complaints did not allege that information of a military-security nature should be divulged, and the subcommittee had the firm conviction that information of military value should not be disclosed. The Foreign Operations and Government Information Subcommittee held hearings with news media representatives to discuss Government information plans and policies in March 1963. At a subsequent public hearing on May 24, 1963, Robert J. Manning, Assistant Secretary of State for Public Affairs, was asked about a cable in early 1962 from the Secretary of State to the U.S. Ambassador in Vietnam on the handling of U.S. correspondents covering the war in Vietnam. He asked that the cable—a joint State-Defense-USIA directive—be discussed in a closed rather than public, subcommittee session. The hearing, closed to protect information of military-security value, was held on May 24, 1963, with Roger Hilsman, Assistant Secretary of State for Far Eastern Affairs, as the witness. This report covers the investigation of control of U.S. correspondents reporting developments in Vietnam and, particularly, the joint directive on the handling of U.S. correspondents.

The State Department contended that the only fault of the 1962 press guidance was "sloppy drafting" and that it was not designed to restrict access to information about U.S. activities in Vietnam. Soon after the press guidance was issued, however, newsmen began reporting difficulties getting information from U.S. officials in Vietnam.

Although there were no specific recommendations, the committee concluded:

> In recent weeks the American public has been surprised by developments in Vietnam—developments which have been many months in the making but which the American people are just now discovering. The restrictive U.S. press policy in Vietnam unquestionably contributed to the lack of information about conditions in Vietnam which created an inter-

> national crisis. Instead of hiding the facts from the American public, the State Department should have done everything possible to expose the true situation to full view.

RESULTS.—The State Department reported that the sections of the 1962 cable which were criticized by the committee as establishing a restrictive press policy in Vietnam were specifically rescinded. New press guidelines were drafted, but before they could be issued conditions changed in Vietnam. The developments resulting in the overthrow of the Diem regime included the establishment of martial law and censorship by the Government of Vietnam. Later, as the Vietnam war escalated and as U.S. participation increased, State, Defense and USIA officials developed special guidelines to permit the greatest possible flow of information while protecting military security. As tighter controls were established on the flow of information, U.S. officials took the advice of the committee and attempted to prevent restrictions on information which would not clearly endanger the lives of U.S. servicemen.

Government Information

[H. Rept. 918, 88th Cong., 1st sess.]

AVAILABILITY OF INFORMATION FROM FEDERAL DEPARTMENTS AND AGENCIES (PROGRESS OF STUDY SEPTEMBER 1961–DECEMBER 1962)

Fourteenth Report by the Committee on Government Operations

(Submitted to the Speaker November 22, 1963)

Although there were no specific recommendations in this report, the committee did comment on the general pattern of availability of Federal Government information. The report stated:

> In the great majority of instances covered in this report, the barriers of secrecy erected by Government agencies gave way to congressional pressure. But no Government agency should be complimented for informing the citizenry. One unnecessary secret is one too many. To withhold information from the public is contrary to the basic principles of a democratic society; to inform the public is the Government's fundamental responsibility.

The report also covered specific areas of information restriction such as congressional action to remove restrictions and military arrogance toward the people's right to know the facts of Government. The committee commented that:

> The increasing readiness of the Congress to assert its right to know has become a vital counterpressure against the bureaucratic penchant for secrecy, for unrestricted congressional access to executive branch information is basic to the effective operation of the "check and balance" principle which underlies our system of government.

The committee also stated:

> No one wishes to disclose information which would endanger the Nation's security, but no one wants the military to take the law into its own hands as has been done repeatedly when military policemen take over civilian property at the scene of a military accident.

RESULTS.—Of the 40 cases covered in the report, restrictions on access to Government information were removed or information policies were otherwise improved in 34 instances. Results were mixed in three cases, and there was no improvement in information policies in three additional instances. As a result of the investigations covered in this report and earlier reports there has been a noticeable decrease in restrictions on access to Federal information. The number of complaints filed with the Foreign Operations and Government Information Subcommittee has decreased, and many reporters have commented that documents once refused to them are made available when they threaten to complain to the subcommittee.

An improvement in relations between the Congress and the executive branch also has resulted from the work covered in the report. This improvement is highlighted by the decision of President Johnson to use the claim of "Executive privilege" to withhold information from the Congress only as a personal Presidential power. On April 2, 1965, the President wrote Subcommittee Chairman John Moss that "the claim of 'Executive privilege' will continue to be made only by the President." He said his administration will continue "to cooperate completely with the Congress in making available to it all information possible."

As the report points out, a result of the continuing interest in the problem of access to executive branch information has been increased congressional pressure to remove unjustifiable restrictions. Legislation introduced early in the 89th Congress to establish a Federal public records law has been passed by the Senate and is pending in the House. Language requiring full disclosure to the Congress was included in the law establishing the Communications Satellite Corp., and the certainty of legislative action also convinced the Food and Drug Administration to back away from an attempt to restrict congressional access to agency information. Congressional action also clarified the right of the General Accounting Office, acting as an arm of the Congress, to audit all documents held by Federal agencies. The Interstate Commerce Commission had refused to give the GAO files relating to the guarantee of railroad loans, so the Congress included provisions in Public Law 87–820 to clarify the fact that the GAO has the right of access to loan guarantee documents.

Among the results of the sections of the report dealing with access to information classified as military security was the issuance of departmental orders to implement Executive Order 10964. This order, which resulted from the subcommittee's continuing study of military information problems, set up a downgrading and declassification system for information restricted to protect military security. The implementing directives provide that the great bulk of classified information will be downgraded at 3-year intervals until the material is automatically declassified.

This procedure will make unnecessary the expensive protection system for out-dated security information, and Defense Department officials estimate the procedure will save the Government $1 million a year in storage costs.

As a result of the section of the report criticizing military restrictions on access to accident sites on civilian property, the Defense Department issued orders prohibiting military officials from exercising police power over civilians. The report objected that "when the press attempts to carry out the duty of informing the public about accidents involving military equipment, armed servicemen are permitted to use force against the press even in civilian areas far removed from military bases." As a result, Defense Department Directive 5410.14 was issued directing "cooperation with news media representatives at the scene of military accidents outside military installations." This was the first time the Defense Department had issued a general order on the subject, and the directive states that military officials shall "refrain from using force if news media representatives refuse to cooperate in the protection of DOD material."

The directive tells military authorities that they can warn reporters and photographers of the presence of classified material at a military accident site and they can warn them that photographing the material might violate Federal espionage laws. The military men can ask assistance from civilian law officers and they can contact the superiors "of the offending news media representatives," but they are warned not to use force.

Foreign Operations

[Subcommittee Print, 88th Cong., 2d sess.]

U.S.-OWNED FOREIGN CURRENCIES

The subcommittee print (subsequently issued as the 11th Report by the Committee on Government Operations, 89th Cong., March 22, 1965) resulted from an intensive subcommittee study of the many problems relating to the huge and ever-growing stock of foreign currencies in the possession of the U.S. Government. The subcommittee studied not only the magnitude and composition of these U.S.-owned foreign currencies, but also considered those policies and concepts which brought about the accumulation and have failed to impede its reduction. Additionally, the subcommittee looked into the impact of these foreign currencies on the U.S. balance of payments and gold outflow.

A summary of the subcommittee study shows that in the period covered the United States owned about $3 billion worth of currencies in some 83 countries. These currencies result from programs authorized by the Mutual Security Act, the Foreign Assistance Act, and Public Law 480.

RECOMMENDATIONS

The subcommittee urged that renewed efforts should be made to reduce the huge stockpiles of U.S.-owned foreign currencies with a

resultant savings of dollars to American taxpayers, and to help achieve this objective recommended as follows:

1. Both present and future arrangements with other countries governing the amount of U.S.-owned foreign currencies to be returned to the other countries for their own use, and the amount to be made available to the United States, should be carefully thought through so that—

(*a*) Enough is reserved to finance the legitimate needs of U.S. mission in each country instead of spending dollars; and

(*b*) In countries where large amounts of local currencies are generated, a larger proportion is reserved for the country's sound use to avoid further embarrassing surpluses.

2. Because the foreign aid agencies now ask Congress to appropriate dollars which are used to buy U.S.-owned foreign currencies from Treasury accounts, the agencies often are reluctant to seek the appropriations. Instead, the administration should request the direct appropriation of U.S.-owned foreign currencies to finance programs authorized by law to further the international interests of the United States.

3. The administration should prepare plans and request appropriations for necessary and constructive programs to be financed by U.S.-owned foreign currencies, particularly in those countries where the holdings are considered excess to U.S. needs. Such expenditures should advance the foreign policy of the United States without causing inflation in the country being aided and without adversely subtracting from that country's foreign exchange.

Programs and activities which could be financed by foreign currencies appropriated for general U.S. mission purposes include:

Providing schools for dependent children of U.S. officers and employees overseas;

Improving language instruction for Foreign Service officers and other U.S. officials overseas;

Increasing official travel for key members of U.S. mission staffs within their regional area of service;

Leasing, renting, acquiring, and constructing adequate housing facilities and office space for U.S. mission personnel before the rising real estate values and rental costs reach a prohibitive level;

Repairing and maintaining U.S. mission buildings, equipment, vehicles, and household furnishings;

Increasing international education, cultural exchange, and leader-grant activities;

Improving personnel policy for local employees in situations where it is justified; and

Establishing training institutions to teach English as a second language.

Programs and activities which could be financed by foreign currencies appropriated for foreign aid activities include:

Stimulating small industries, marketing and distribution facilities, and similar activities;

Improving agriculture through the promotion of more efficient use of modern techniques;

Providing the type of technical assistance which will improve individuals' wage-earning capacities and directly increase standards of living; and

Developing a foundation under the direction of a binational board serving without pay to concentrate on problems of economic development and social change and much-needed studies of regional and national history.

Programs and activities which could be financed by foreign currencies appropriated to the U.S. Information Agency include:

Expanding publication of low-cost books in English;

Financing the building and staffing and stocking of municipal libraries; and

Setting up schools for training illiterate or barely literate adult and youth leaders from urban areas, villages, or local governments, and from the trades and businesses

4. If the congressional mandate to purchase commodities in one country for foreign aid to a third country is taken literally, the executive branch would have to in all circumstances practically buy up the first country's economy—to the detriment of its foreign exchange position and its domestic economy—in order to provide foreign aid for other countries. At the opposite pole, the executive branch seems opposed to almost any third country purchases on the ground that real wealth is thus subtracted from an already impoverished economy.

The subcommittee recommends a sensible view which lies in between the two extremes. U.S.-owned foreign currencies should be used to buy commodities in one country for third countries when, and only when—

(*a*) the third country would not be buying the commodity anyway; this, the transaction would not subtract significantly from foreign exchange; and

(*b*) there are unused resources of manpower and materials which can be brought into play without danger of inflation.

RESULTS.—In response to the subcommittee study and recommendations, appropriate Government officials indicated they would explore various proposals to achieve an increased utilization of foreign currencies stockpiles, and would review and activate previously conceived plans which had been considered but not implemented. Affirmative steps taken thus far include:

INDIAN-AMERICAN FOUNDATION

Following a subcommittee suggestion aimed at utilizing the vast accumulation of U.S.-owned Indian rupees—slightly more than $1 billion worth—State Department and AID officials have carried on negotiations with the Government of India to establish a binational foundation. The foundation would serve as a source for providing new initiatives in education and science and for the creation and support of individual and institutional efforts to supplement existing programs, public and private. Excess currencies would be used to support development of centers of academic excellence, scholarships for higher education, teacher training schools, projects in literacy and adult education, English language training, books and library programs, and other related programs in the fields of education and science.

TRAVEL

Based on a subcommittee investigation and a GAO study it was found that approximately $1.2 million was unnecessarily being expended annually to buy official air travel tickets to or from seven countries where the United States owned an excess of foreign currencies. Despite country agreements permitting the use of these currencies for travel, U.S. agencies had not taken advantage of the opportunity to use the foreign currencies as a substitute for dollar expenditures.

Prodding by the subcommittee resulted in the issuance of State Department Foreign Currency Bulletin No. 1, dated December 7, 1964, to heads of executive departments and other appropriate officials which provides guidelines to assist agencies in using excess foreign currencies for travel, transportation, per diem and related costs. The bulletin reflected the coordinated efforts of State, AID, Bureau of the Budget, Treasury and other pertinent agencies. Similar directives and regulations have been issued by these agencies to their overseas missions, resulting in an increased use of foreign currencies in lieu of dollars for travel purposes.

SALES OF LOCAL CURRENCIES TO U.S. VOLUNTARY NONPROFIT ORGANIZATIONS

On July 7, 1964, the Treasury Department supplemented Treasury Department Circular 830, first revision, dated December 17, 1953, by adding a subparagraph which has the effect of making available the sales of foreign currencies, in excess to U.S. needs, to voluntary nonprofit organizations. The proposal was discussed at length during subcommittee hearings in the 88th Congress.

In response to a subcommittee followup both the Treasury Department and the Department of State have given evidence that positive efforts are being made to implement the Treasury Department circular.

As a result of the subcommittee investigation there was an amendment to the Foreign Assistance Act of 1964—section 612(c)—the purpose of which was to encourage the use of excess foreign currencies by authorizing the direct appropriations of such currencies to carry

out programs under any act for U.S. operations abroad. The amendment also urged the President to take all appropriate steps to assure that, to the maximum extent possible, U.S. owned excess foreign currencies be utilized in lieu of dollars.

As a followup to this section, the subcommittee requested all appropriate agencies and departments to inform the subcommittee as to what action has been taken or is planned to implement this provision of law. In addition, appropriate officials were requested to inform the subcommittee about specific plans to seek congressional appropriations of U.S.-owned foreign currencies. Responses to this request are being evaluated.

LEGAL AND MONETARY AFFAIRS SUBCOMMITTEE

[H. Rept. No. 429, 88th Cong., 1st sess.]

COMMON TRUST FUNDS—OVERLAPPING RESPONSIBILITY AND CONFLICT IN REGULATIONS

Fifth Report by the Committee on Government Operations

(Submitted to the Speaker June 19, 1963)

This report resulted from a study of the effect that overlapping of authority and duplication of regulations over the same subject matter by several agencies can have on the efficiency and economy of administrative functions. What amounted to a public conflict arose when the Comptroller of the Currency issued revised regulations which would permit the trust departments of national banks to invest collectively in common trust funds moneys received by them for managing agency accounts and Smathers-Keogh retirement plans. The Comptroller contended these were proper trust functions and therefore subject only to regulations by his Office. The Securities and Exchange Commission, however, claimed such accounts bore such similarity to mutual funds and to securities as to make them amenable to the requirements of the Federal securities accounts administered by the SEC.

The committee found that regulation by both the SEC and the Comptroller would impose hardships on banks through the necessity of complying with separate registration, reporting, and other requirements and would greatly increase the costs involved; and that inasmuch as the Congress had exempted bank securities and common trust funds, generally, from the operation of the securities accounts, similar exemption should be made as to the collective investments here involved, thus eliminating the expenses of costly litigation, duplication of regulation, and the prospective costs (up to $250,000 per year), of SEC supervision.

RECOMMENDATION

In order to eliminate the problems created by overlapping authority and duplicate regulation, the committee recommended:

> To the Interstate and Foreign Commerce Committee of the House of Representatives that it direct its attention to the consideration of legislation which would specifically exempt common trust funds of managing agency accounts and Smathers-Keogh plans maintained by national banks from the Federal securities laws, and provide for such protections for investors therein as may be deemed necessary.

RESULTS.—In June 1964, a subcommittee of the House Interstate and Foreign Commerce Committee held hearings on H.R. 9410, a

bill to accomplish the recommendation of the committee, which had been introduced by Congressman Dante B. Fascell, chairman of the Legal and Monetary Affairs Subcommittee, and on H.R. 8499, which had been introduced by Congressman John B. Anderson, a member of that subcommittee. Officials of the Federal banking agencies and of the SEC testified, as did public witnesses, including officials of asscciations representing the mutual funds industries. The 88th Congress adjourned without any further action being taken on the bills. Proposed legislation is pending in the 89th Congress. The SEC, recently, on application filed by the First National City Bank of New York, has granted such exemptions from compliance with requirements of the Federal securities laws that, if sustained by the courts, the necessity for legislation to avoid duplicate regulation, may no longer exist.

[H. Rept. No. 919, 88th Cong., 1st sess.]

FEDERAL DEPOSIT INSURANCE CORPORATION—ASSUMPTION OF EMPLOYEE BENEFITS COSTS AND CHANGE IN AUDIT DATES

Fifteenth Report by the Committee on Government Operations

(Submitted to the Speaker November 22, 1963)

This report results from study of recommendations made by the Comptroller General that the Federal Deposit Insurance Corporation pay its share of the cost for Federal retirement, disability, and employment compensation costs provided to its employees. The committee found about $5¼ million should be reimbursed to the civil service fund by FDIC, to which the agency agreed. However, it could not do so in the absence of a change in the FDIC Act for that purpose.

The Comptroller General had also recommended change in the GAO dates of audits of the FDIC, which also required changes in existing laws. The committee found that the present requirement of the Federal Deposit Insurance Act that General Accounting Office audits of FDIC be made on a fiscal year basis as of June 30 each year results in confusion, unnecessary duplication of effort, and waste.

RECOMMENDATIONS

It is recommended to the Banking and Currency Committee of the House of Representatives that it direct its attention to the consideration of legislation which would amend the Federal Deposit Insurance Act so as to:

1. Require the Federal Deposit Insurance Corporation to—

(*a*) Pay into the civil service retirement and disability fund the Government's cost of providing retirement and disability benefits for the Corporation's employees from the inception of FDIC, June 16, 1933, through June 30, 1957, plus interest at the rate of 2 percent to date of payment;

(*b*) Pay into the Federal employees' compensation fund the total amount of benefits paid to FDIC employees from June 16, 1933, to the effective date of such amendment, plus interest at 2 percent; and to assume full responsibility for the subsequent costs of the Corporation's employee compensation benefits;

(*c*) Pay into the Treasury as miscellaneous receipts a fair portion of the costs of administering the civil service retirement system and the employees' compensation fund from June 16, 1933; and

2. Require that the General Accounting Office make its audits and reports of audits of the Federal Deposit Insurance Corporation on a calendar year basis instead of the fiscal year basis now provided.

RESULTS.—The committee's recommendations were transmitted to the chairman of the House Banking and Currency Committee. In acknowledging the receipt thereof, the chairman of that committee stated that, "You may be sure that we will give the committee's report and its recommendations most careful consideration." In a communication dated March 31, 1966, the FDIC advised that it remains favorably disposed to the committee's recommendations.

[H. Rept. No. 920, 88th Cong., 1st sess.]

"WINDOW DRESSING" IN BANK REPORTS

Sixteenth Report of the Committee on Government Operations

(Submitted to the Speaker November 22, 1963)

All federally insured banks are called upon to report their condition four times a year to the Federal banking agency under whose supervision they operate. These "call" reports disclose the conditions of banks as of dates selected jointly by the heads of the Federal Deposit Insurance Corporation, and the Federal Reserve System, and the Comptroller of the Currency, or a majority of them. The committee concluded that some banks, particularly some large banks, "window dressed" their call reports and other statements of condition; i.e., they used temporary nonbusiness purpose transactions so as to be able to show more favorable financial conditions on a particular date than would normally be the case. The practice is not illegal. However, it is deceptive. It is motivated by the desire of particular banks to appear larger than they really are. The bank supervisory agencies knew the practice existed; however, they did not know its full extent, nor had they joined in coordinated efforts to eliminate it. In order to eliminate window dressing, while at the same time preserving the statistical and supervisory value of call reports the committee made the following recommendations:

RECOMMENDATIONS

MORAL SUASION (Recommendation No. 1):

The Federal bank supervisory agencies make a coordinated, concerted, continued use of their powers of moral suasion to have the banking community refrain and desist from the use of non-purpose transactions and from window dressing of bank reports and statements.

RESULTS.—The Federal Reserve Board and the Federal Deposit Insurance Corporation, advised that they collaborated on determined face-to-face discussions with the bankers in every city where the practice of window dressing prevailed; the presidents of the Federal Reserve banks were requested to arrange meetings with the principal officials of the State and National banks in their districts that appeared to be engaging in window dressing, so that a frank exchange of views would lead to a cooperative agreement to put an end to the practice; comments of the presidents of the Federal Reserve banks and of individual bankers were almost entirely favorable to the program of moral suasion; comparative studies of year-end reports of condition have indicated that the program was quite successful.

The Comptroller of the Currency's original proposal to eliminate window dressing in bank reports was to utilize "surprise" calls; i.e., to require condition reports as of dates which the banks could not anticipate, and therefore could not effectively take steps to "window dress" their reports.

The Comptroller advised that while maintaining the belief that genuine surprise dates for call reports are the most effective method for dealing with the problem of window dressing, alternate means have nevertheless been explored with the Federal Reserve System and the FDIC; and that resulting from a series of meetings held with representatives of the other bank regulatory agencies, beginning with the fourth call for 1965, the forms used by the three agencies will be basically uniform and will preserve the statistical and supervisory value of the report; a memorandums section to be added to the call report form will require, among other disclosures, the average of total deposits for the 15 calendar days ending with the call date; and the average of total loans for the 15 calendar days ending with the call date. Window-dressing effects, according to the agencies, cannot be maintained for longer than a few days at most, and the proposed publication of a 15-day average of loans and deposits—the two most significant items in a window-dressing operation—will go a long way toward making any such attempt difficult and largely unrewarding.

ENFORCEMENT PROVISIONS (Recommendation No. 2):

That the Federal bank supervisory agencies adopt uniform rules or regulations under which, commencing with the second call date in 1964: (*a*) Every bank shall be required (1) to include in every required and voluntary report and statement of condition a certification that no window dressing is contained therein, and (2) to file with its Federal supervisory agency as many

copies of such reports and statements as such agency shall require. (*b*) Any supervisory agency which finds through bank examination or otherwise that contrary to such certification a bank has engaged in window dressing shall give public notice of its findings by publication of the name of the bank, the extent of the window dressing, and other details thereof in the Federal Register and by press release; and shall refer the matter to the Attorney General for possible prosecution under the false statements statutes.

RESULTS.—The FDIC advised that the agencies have always required a certification that the statements and figures in a call report are "true and correct," and questioned whether an additional negative restatement of this fact would be helpful, because unscrupulous managements would have no moral hesitancy in signing such a certification, and the great preponderance of managements who are honorable might consider such a requirement an indignity. The FDIC further stated it was inclined to agree that some form of disciplinary action should be taken against flagrant offenders. The Comptroller of the Currency advised that where abuses are observed, his Office will take supervisory measures as deemed appropriate.

[H. Rept. No. 1147, 88th Cong., 2d sess.]

CRIMES AGAINST BANKING INSTITUTIONS

Eighteenth Report by the Committee on Government Operations

(Submitted to the Speaker February 20, 1964)

This report is concerned with the ever-increasing rise in crimes against banking institutions (both in the external crimes of robberies, burglaries, and larcenies, and in internal crimes like embezzlements and false entries), and the actions of the Federal banking supervisory agencies to deal with the problem. The report concluded that, for the most part, the supervisory agencies (i.e., the Office of the Comptroller of the Currency, the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Federal Savings and Loan Insurance Corporation) had issued no rules, regulations, or requirements with respect to the prevention of bank crimes. They specified no standards or requirements for bank structures or vaults, or for any security devices or procedures. There was virtually no coordination and cooperation between the agencies with reference to security matters. In general, the agencies left all such matters completely to the discretion of bank managements, except as to such security deficiencies which might be noted by agency examiners in the course of bank examinations. In order to combat the rise in crimes against banking institutions the report recommended:

RECOMMENDATIONS

SECURITY GUIDELINES (*Recommendation No. 1*):

That the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance

Corporation, and the Federal Home Loan Bank Board, hereafter called supervisory agencies, each establish by rules or regulations specific guidelines for the prevention of external and internal crimes against banking institutions under their supervision, consistent with the requirements of the several kinds and sizes of such institutions, and the public interest.

RESULTS.—The Federal Reserve System and the Federal Deposit Insurance Corporation advised that they jointly formulated a questionnaire, used in each bank examination, to supply clearer guidelines for examiners. It spells out 21 specific points to be checked by the examiner in appraising a bank's security and controls against external crimes, and supplements the questionnaires on internal operations, which are being revised and expanded. These are designed to make bank management more security conscious. The FDIC sent copies of the committee report to over 13,000 insured banks and copies are used in examiners' training. FDIC has assigned a staff man to the problem of bank crimes.

The Comptroller of the Currency has advised that since the committee hearings in 1963, that Office has given special attention to the scope of bank examinations as a means of deterring internal and external crimes against national banks; that reports of examination have been recently revised requiring national bank examiners to detail the scope of their examinations; that it is the responsibility of the 14 Regional Comptrollers of the Currency to carefully review the scope of the examinations of each national bank located in his assigned region and to determine that it is of sufficient depth to disclose any weaknesses which might lead to the commission of internal and external crimes; and that during the course of an examination that Office's representatives carefully review with bank management internal control procedures and adequacy of the protective equipment for the prevention of external crimes.

The Federal Home Loan Bank Board has advised that, in essence it is carrying out that part of this recommendation which relates to the prevention of internal crimes against savings and loan associations. The Board has promulgated rules and regulations covering examinations and supervisory procedures designed for the prevention of internal crimes. Among other things these regulations require the pursuit of sound financial practices, the establishment and maintenance of accurate records, and sound accounting practices and internal procedures. The Board has considerable doubt, because of the many variables involved, detailed and specific measures for the effective prevention of external crimes are susceptible to Board rules and regulations. It believes that the establishment of workable guidelines for the prevention of external crimes should evolve from a joint effort by trade groups within the financial industry, law enforcement authorities and other specialists in the field of crime prevention and security. The Board has made available to every examiner on its staff and to each savings and loan association member of the Federal Home Loan Bank System a copy of the Federal Bureau of Investigation's "How Banks Can Help the FBI" and a copy of the committee's report. The Board also now requires all insured associations to submit an annual report giving: (1) information on the number of robberies or burglaries committed against the institution

during the calendar year, and (2) the type of protective measures in effect at the time of the incident and of plans to install new protective measures.

SPECIFIC REQUIREMENTS (Recommendation No. 2):

That in establishing such guidelines the supervisory agencies give consideration to incorporating therein, as requirements, adequate audit, compulsory vacations, direct verification, decoy money, and other widely accepted measures referred to in the report.

RESULTS.—The FDIC and FRB advised they have implemented the above recommendations by having their examiners check for such security features as decoy money, and for other security measures against external and internal crimes. During examination, management's attention is called to deficiencies in controls, determined by using questionnaires and also by general knowledge of banking. Management is urged to strengthen procedures where weaknesses are uncovered. According to FDIC, its questionnaire on internal controls has been expanded to include questions applicable to automated systems, to adequate audit programs, and on direct verification. Its manual for bank examination has been revised, with substantial coverage accorded to adequate records, internal controls, audits, compulsory vacation policies, sound personnel practices, cash control, rotation of personnel, segregation of duties, dual control and direct verification. Critical areas are covered, including: (1) the importance of an adequate physical security program; (2) recent developments contributing to the external hazard; (3) security measures and practices; and (4) protective facilities and devices. These subjects are also covered in the joint examination schools of the FDIC and FRB.

According to the Comptroller of the Currency, a comprehensive program for prevention and detection of crimes against national banks includes a review during bank examination of protective controls which have been established, and examiners encourage direct verification of loans and deposits, the use of decoy money and the enforcing of the requirement that all officers and employees take at least 2 consecutive weeks' annual vacations. His office also conducts periodic training schools at the regional level during which examiners are trained in methods of detection and prevention of internal and external crimes. FBI lecturers are part of the program.

The Federal Home Loan Bank Board advised that its regulations require each institution whose accounts are insured by the Federal Savings and Loan Insurance Corporation to undergo a periodic audit, in addition to the regular supervisory examination. If any institution has not been audited by independent auditors or adopted an internal audit program, a supervisory examination of such institution will include an audit. Audits are reviewed for compliance with the Board's established requirements. Its principles of internal checks and control include adequacy of audit, required vacations, direct verification, and other widely accepted elements. It recommends the use of decoy money. Examiners are instructed to report any

failures to utilize decoy money, and where operating officers or employees do not take annual vacations.

EXAMINER TRAINING (Recommendation No. 3):

That the examiners employed by the supervisory agencies be given such training in the methods of prevention of external and internal crimes as will enable them to ascertain and advise on any security deficiencies in the institutions they examine; and that to assist in the examination for security against external crimes the examination report forms call for detailed information in that regard, similar to the American Bankers Association's bank inspection form referred to in the report.

RESULTS.—All of the Federal supervisory agencies have advised that their examiner training procedures have been expanded, particularly as to security against external crimes. The FHLBB trains its examiners in the prevention of internal crimes. Indications of the nature and scope of training given examiners by the supervisory agencies are discussed above. The FDIC and the FRB have collaborated on a form entitled "Security and Controls Against External Crimes," which is used by their examiners, and questionnaires on internal hazards have been expanded by the agencies.

PERSONNEL FINGERPRINTING (Recommendation No. 4):

That the supervisory agencies consider making it a requirement on the institutions they supervise that fingerprints of prospective officers, directors, and employees of such institutions be submitted to the Federal Bureau of Investigation for criminal record checks.

RESULTS.—The FHLBB advised that it has recommended all insured institutions avail themselves of the services of the FBI to obtain a fingerprint check of all prospective savings and loan association employees and has advised such associations that the FBI is willing to make such checks with respect to all their present employees including their officers and directors. The Board will obtain, at least on an annual basis, a report from each insured institution as to whether it is availing itself of these services. The Board would favor legislation requiring that fingerprints of prospective officers, directors, or employees of financial institutions supervised by a Federal board or agency be submitted to the FBI for criminal record checks, but it would be opposed if the requirement was made solely applicable to institutions subject to its jurisdiction.

The Federal Reserve Board advised that any such legislation should apply to applicants for employment in industry generally, and not just to applicants for positions in banks.

COORDINATED AGENCY EFFORTS (Recommendation No. 5):

That the supervisory agencies establish an interagency committee for the purposes of making a coordinated effort to lessen

bank crimes through the collection and analysis of bank crime statistics and the study and development of means of combating such crimes; and to assist banking institutions toward greater security against such crimes by undertaking such research projects as may be deemed advisable, including the requirements, from the security standpoint, of a model institution, and the testing and evaluating of security means and devices.

RESULTS.—The FDIC and FRB have advised they have made coordinated efforts, particularly in the area of external crimes, in the preparation of questionnaires and in the training of examiners. These agencies are coordinating their efforts in collecting and analyzing data concerning the physical security arrangements and controls against external crimes employed by insured banks. The FDIC also advised that it has held conferences with State bank supervisors, in which such subjects as external controls were discussed. The FHLBB advised that it is cooperating with other financial supervisory agencies for the purpose of undertaking a coordinated effort to lessen crimes against financial institutions, and that to this end members of the Board's staff participate in conferences with other supervisory agencies.

CRIME PREVENTION ADEQUACY REVIEW (Recommendation No. 6):

> That the adequacy of the institution's crime prevention facilities and procedures be considered whenever a supervisory agency must act upon its application for charter, deposit insurance, branch offices, or any other application requiring agency approval.

RESULTS.—The FDIC advised that before approving applications for deposit insurance or new branch offices, it investigates each application and considers statutory factors including the general character of the bank's management; that favorable finding is made only if the management is considered capable of operating a safe and sound bank; and that in evaluating management's character, it considers ability to safeguard the bank's assets and to provide adequate internal and external controls. While not believing that its approval of applications by State member banks should be made contingent on a determination as to the adequacy of the bank's crime prevention facilities and procedures, the FRB feels that it is reasonable for examiners to impress upon management the desirability of considering safety against external and internal crimes when applications are being investigated, and examiners are instructed to urge management to consider safety in any building program, and to discuss inadequacies with the view of obtaining corrections. The FHLBB advised that while the adequacy of an institution's practices and procedures with respect to the prevention of internal crimes is a subject of each eligibility examination for insurance of accounts and of each succeeding examination and audit, and on applications for branch offices the Board considers the record of the past operations of the applicant association and whether or not it has any supervisory problems. These considerations apply only as affects internal, not external, crime controls.

DIRECTORS' RESPONSIBILITIES (Recommendation No. 7):

That the supervisory agencies impress on the directors of the institutions they supervise the collective and individual responsibilities of director for the adequate security of their institutions against losses from crimes.

RESULTS.—The FDIC has advised it is utilizing every opportunity to impress on bank directors their collective and individual responsibilities for the adequate security of their institutions against losses from crimes, through its report of examination, other official communications and in talks before banking groups. The Federal Reserve Board has advised that at the conclusion of each examination, System examiners customarily meet with top executive officers, who are also usually directors, or with the board of directors as a whole. Any inadequacies noted are discussed, and a copy of the examination report is always made available to directors, which they are urged to review with the view of effecting corrections.

In addition to similar action on the part of its examiners, the Comptroller of the Currency has advised that its recent publication, "Comptroller's Policy Guidelines for National Bank Directors," emphasizes directors' statutory and common law responsibility to protect the bank against internal fraud and external crimes; the examination report contains a section entitled, "Internal Controls," which serves as a basic tool in discharging this responsibility; and suggested guidelines for national bank directors in connection with their annual or semiannual audits have been published. The Federal Home Loan Bank Board has advised that the substance of this recommendation is being effectuated as to internal crimes. The Board has called to the attention of all member institutions its concern regarding the increase in external crimes together with the preventive measures recommended by law enforcement agencies, has forwarded a copy of the committee's report to all institutions, and a Board member, John deLaittre, in a speech at a savings and loan association convention, stressed the responsibility of management for adopting adequate security measures to combat internal and external crimes.

MANAGEMENT CHANGES (Recommendation No. 8):

That consideration be given to legislation which would permit the supervisory agencies to approve or disapprove major changes in management arising from changes in control or ownership of institutions they supervise, and to exclude underworld elements from becoming directors or employees of banking institutions.

RESULTS.—Public Law 88–593, sponsored by the FDIC, and enacted September 12, 1964, provides for notice of change in control of management of insured banks. Under this new act, the chief executive officer of any insured bank is required to report promptly to the appropriate Federal banking agency the facts about changes occurring in the outstanding voting stock of the bank which will result in a change in the control of the bank, loans which are secured by 25 percent or more of the shares of the voting stock of an insured bank, and when there has been a change in control, any changes or replace-

ments in the chief executive officer or directors occurring in the next 12-month period, including in its report a statement of the past and current business and professional affiliations of the new chief executive officer or directors. The act does not apply to savings and loan associations. However, the Federal Home Loan Bank Board has advised that it is continuing its study of the advisability of legislation contemplated in the recommendation, and that it has directed that effective January 1, 1966. a monthly report be secured from each insured institution showing any changes in directorships, officerships, ownership of 10 percent or more of the permanent stock, or control of proxies representing 10 percent or more of the outstanding voting power.

The FDIC advised it is sponsoring additional legislative proposals which accord with the committee's recommendations. One would effectively penalize violators of Federal regulations which prescribe maximum interest rates payable by insured banks. According to FDIC, the financial condition of seven recently failed banks was brought about primarily through self-serving loans of the management with funds for this purpose obtained with the aid of money brokers rather than from the growth of deposits in the normal course of business. These funds were brought in with compensation in excess of the maximum permissible rate of interest which insured banks may pay on deposits under FDIC and FRB regulations. Other proposals under consideration would grant FDIC authority to issue prompt cease-and-desist orders and authority to suspend or remove any directors or officers of an insured bank who have committed any violation of law, rules, or regulations or of a cease-and-desist order; authorize FDIC to assist a solvent insured bank by loans and deposits for short corrective periods when the bank has inadequate capital funds but can be rehabilitated, thus protecting depositors and minimizing losses to FDIC; give the Federal banking agencies authority to require audits when deemed necessary because of inadequacies in the banks' records, their internal routines or controls, or for other sufficient reasons arising in the course of supervision; and amend section 1014 of title 18, United States Code, to make it a Federal crime for any person to make false statements or misrepresentations on loan or credit applications to any bank insured by FDIC.

The FHLBB advised that it strongly recommends legislation requiring prior written Board approval before any person could serve as a director, officer or employee of an insured institution who has been convicted of a criminal offense involving dishonesty or a breach of trust. Such proposed legislation has been introduced in the 89th Congress.

[H. Rept. No. 1640, 88th Cong., 2d sess.]

JUDGMENT COLLECTION PRACTICES AND POLICIES OF THE DEPARTMENT OF JUSTICE

Twenty-Second Report by the Committee on Government Operations

(Submitted to the Speaker July 31, 1964)

The Department of Justice is the Federal agency through which most money claims of the United States are adjudicated. Annually,

the Department institutes a tremendous volume of civil suits, criminal cases, and other litigation which result in judgments, fines, and other court determinations that moneys in adjudicated amounts are due the Government.

The Legal and Monetary Affairs Subcommittee undertook a study into the effectiveness of the Department's procedures and practices in collecting the moneys due the United States as a result of judgments, fines, penalties, and forfeitures. Among the findings and conclusions resulting from the study were these: The Department's inventories of judgments balances were largely inaccurate. U.S. attorneys who handle most of the litigation were not required to notify the Department of judgment balances they closed out as uncollectible. The Department, therefore, did not, at any time, know the exact total of judgments outstanding. When it sought precise information, it learned that of the $178 million the Department reported as outstanding, $50 million was deemed uncollectible by U.S. attorneys. The Department did not require any review of the determinations of U.S. attorneys that judgments were uncollectible. No division or branch of the Department exercised overall responsibility for judgment collections.

Although various officials of the Department had recognized there were "soft spots" in its collections system, practically nothing was done to improve it between 1918 and the subcommittee's study; and the General Accounting Office had made no studies of the Department's collections system, nor that of any U.S. attorney's office.

RECOMMENDATIONS

In order to improve its practices and procedures relating to the collection of money due the United States as the result of court actions, it was recommended that the Department of Justice:

CENTRALIZED RESPONSIBILITY (Recommendation No. 1(a)):

> Assign to a single division or branch the overall responsibility for judgment collections activities, including the correlating of the collection activities of the divisions and of the U.S. attorneys.

RESULTS.—The Executive Office for U.S. Attorneys, a part of the Office of the Deputy Attorney General, has the responsibility for overseeing the collection activities of U.S. attorneys. Among its supervisory functions in collection matters are the developing and maintaining of accurate statistics on the collection activities of each U.S. attorney office; enforcing standards of currency with respect to the collection activities of the U.S. attorneys; insuring that the collections reporting system is as accurate as possible, and conducting field inspections of U.S. attorneys' offices to ascertain how the collection activities of those offices are being conducted and to suggest improvements where needed. Because the reporting system was extended to judgment collections only, this year, the executive office has not been able yet to carry out the aforementioned duties to the fullest possible extent, but substantial progress has been made.

Practically all of the collection items in which the Department is involved are in the following Divisions, each of which has established a centralized unit for handling its judgment collection activities:

(1) The Civil Division's Collection Unit has been increased from four attorneys to five, the Unit's personnel have been brought together into a contiguous group of officers for more effective operation, and the Division has promulgated to U.S. attorneys special instructions concerning the handling of collection activities.

(2) The Tax Division has centralized in its Litigation Control Unit the responsibility for supervising collections under its control. This Unit has established a monitoring system over Tax Division cases by which the U.S. attorneys report collection activity on each case to the Division.

(3) The Criminal Division has analyzed the criminal cases in which fines have been imposed and not collected, and has estab-listed a Unit with the responsibility of supervising the collection of criminal fines and forfeitures by the U.S. attorneys.

The Department's experience leads it to believe that the correlating of the collection activities of the Divisions and the U.S. attorneys can best be accomplished under the overall supervision of the Executive Office for U.S. attorneys. That responsibility has not yet been formally assigned to the Office, however, pending further experience.

The Justice Department has advised the House Appropriations Committee that its collections have greatly improved as a result of the study made by the Legal and Monetary Affairs Subcommittee.

EXPANDED REPORTING (Recommendation No. 1(b)):

Give consideration to extending its IBM/mark-sense card reporting system to reflect postjudgment collection activities in individual cases.

RESULTS.—The Department has advised that an inventory has been taken of all outstanding judgments, fines, forfeitures, and penalties being handled by the U.S. attorneys. Forty-two thousand have been reported. Mark-sense cards have been forwarded to the U.S. attorneys' offices for use in reporting changes in status of these collection items. Regular reports are required of U.S. attorneys to show status changes in post-judgment collection matters. New judgments, fines, forfeitures, and penalties are incorporated into the system and kept current through the use of mark-sense cards. This project has been substantially completed but additional work will be necessary before the Department can say with assurance that it is functioning effectively and accurately.

COLLECTIONS SPECIALISTS (Recommendation No. 1(c)):

Give consideration to enlarging the collection activities within the 92 Federal judicial districts by the employment,

on a salary, fee or commission basis, of persons specialized in making collections.

RESULTS.—The Department has advised that after careful consideration it has concluded that it is not feasible to have collection activities performed by private collection agencies, because there are many aspects in which debts owed to the Government differ from typical private debts. The employment of private agencies would make it difficult to maintain uniform standards and procedures, and it has reservations about the propriety of a citizen being dunned by private bill collectors for his debts to the Government. It has, however, endeavored to enlarge the collection activities in the U.S. attorneys' offices by seeking funds to employ 40 additional attorneys to engage in collection work in the several U.S. attorneys' offices (a request not granted by the Congress), and it has instructed each U.S. attorney to designate an assistant to assume charge of all collection activities within the office; and such designation has been accomplished in virtually all offices.

COLLECTIONS GUIDANCE (Recommendation No. 1(d)):

Establish general criteria for the guidance of U.S. attorneys in determining whether cases warrant closing for uncollectibility, and, require that cases closed for debtors' inabilities to pay be supported by memoranda justifying such actions, such memoranda to be reviewed by Department personnel.

RESULTS.—The Department has advised that new detailed instructions have been issued to the U.S. attorneys concerning both pre- and post-judgment collection procedures and policies with guidelines for compromising, closing, and transferring cases to inactive status, including the determination of collectibility. A memorandum justifying the closing of any case for uncollectibility must be forwarded to the supervising division of the Department for review, except in delegated Civil Division cases (i.e., those involving $5,000 or less) in which a memorandum is to be placed in the U.S. attorney's file, subject to being spot checked in the course of the inspections and visits to U.S. attorneys' offices conducted by the Executive Office for U.S. Attorneys and the Civil Division.

GENERAL LEDGERS (Recommendation No. 1(e)):

Give consideration to the establishment and maintenance of general control ledgers on all claims and judgments outstanding in each of the U.S. attorneys' offices and in the Department of Justice.

RESULTS.—The Department has advised that those most actively concerned with collection matters believe that all of the basic information which a ledger would reflect can be obtained under its existing system from machine records, debtor index cards, and case files. Further, it keeps the referring agency currently advised of all judgments taken, payments received, and closings effected, so that the

agency may keep its master records current, and the recommended ledger would be duplicative of agency efforts. The Department believes that control ledgers should be kept by the referring agency rather than by the Department, since it is primarily an accounting function and therefore more properly belongs to the referring agency. As the Department's system is perfected—machine records, debtor index cards, case files—it says it will have sufficient records to properly discharge responsibilities in collection matters.

JUDGMENT REPORTING (Recommendation No. 2):

> In computing its reports under the Budget and Accounting Procedures Act of 1950, the Department should determine and report the actual amount of judgments written off for uncollectibility.

RESULTS.—Because, as noted immediately above, the Department is of the view that since referring agencies keep ledgers of their own claims and judgments, which are carried by the agencies as funds owed to them (rather than owed to the Department of Justice), it should be the responsibility of the referring agency to report the writing-off of claims and judgments due to it.

GAO AUDITS (Recommendation No. 3):

> In the interest of aiding the Department in improving its practices and procedures relating to collections of judgments, it is recommended that the Comptroller General of the United States: Cause audits to be made by the General Accounting Office of the collection activities of the litigating divisions of the Department and of any offices of U.S. attorneys deemed necessary, such audits to be followed by reports to be made available to the Department and to this committee.

RESULTS.—The Comptroller General has advised that the GAO has had the collection activities at the U.S. attorneys' offices in Boston, Mass., New York, N.Y., Chicago, Ill., and Los Angeles, Calif., and of the litigating divisions of the Department under review. A report on the GAO findings will be prepared with copies to be made available to the Department and to the committee.

The Department has advised that its Civil Division continued its expanded program of periodic visits to U.S. attorneys' offices to review and discuss the handling of matters, including judgment collections, within the Division's jurisdiction. In fiscal year 1965, 34 offices were visited; 52 visits are scheduled for fiscal year 1966; and it is planned that all offices in the continental United States will have been visited during the 3 fiscal years 1965–67, with the larger offices being visited annually. Further, attorneys from the Executive Office for U.S. Attorneys and from the Administrative Division have been instructed that as they make inspections of the various U.S. attorneys' offices they are to give particular emphasis to collection problems, with a view to improving collection procedures where necessary.

SPECIAL FEDERAL HOME LOAN BANK BOARD SUBCOMMITTEE

[House Rept. No. 447, 88th Cong, 1st sess.]

(NOTE.—The Special Federal Home Loan Bank Board Subcommittee was established in the 88th Cong. for the purpose of completing work which had been done by a similarly named special subcommittee in the 87th Cong. in investigating and studying the Federal Home Loan Bank Board's activities with respect to the Alice Savings & Loan Association of Alice, Tex. The activity of the special subcommittee terminated with the approval by the full committee on June 19, 1963, of the report referred to below.)

INVESTIGATION AND STUDY OF THE FEDERAL HOME LOAN BANK BOARD, ALICE, TEX.

Sixth Report by the Committee on Government Operations

(Submitted to the Speaker June 24, 1963)

This report is concerned with the operations and activities of the Federal Home Loan Bank Board (hereinafter referred to as Bank Board) as affecting an insured State-chartered savings and loan association—the Alice Savings & Loan Association, Alice, Tex.—and particularly with the series of events following an examination made jointly by the State of Texas and the Bank Board in 1958.

The Alice Association came under the jurisdiction of the Bank Board by having its accounts insured by the Federal Savings and Loan Insurance Corporation, a constituent agency of the Bank Board.

This is the second of two reports based upon hearings held by the special subcommittee during the 87th Congress. The other report dealt with the Bank Board's activities in connection with the First Federal Savings & Loan Association of Clovis, N. Mex. (H. Rept. 2494, 87th Cong., 2d sess.). The report presented a pattern of persecution and harassment of the Alice Savings & Loan Association and its principal officers by employees of the Home Loan Bank Board aided and abetted by the local U.S. attorney. The report found that the Federal Home Loan Bank Board had been seriously derelict in—

(1) failing to promulgate adequate rules and regulations for the operation of savings and loan associations and for the conduct and activities of associations' managements.

(2) failing to establish adequate internal guidelines and controls for the activities of its employees and the operations of the agency.

(3) allowing a few top employees to arrogate to themselvs instead of the Board, the responsibility for issuing instructions and policies governing the conduct of savings and loan associa-

tions and their managements. This has resulted in capricious and arbitrary supervision of the savings and loan industry.

(4) failing to evolve definitions of terms, such as "self-dealing" and "conflict of interest," which it uses in relation to the actions of associations and upon which it bases actions against the associations.

The committee stated:

> "Due to the background of the organizers of savings and loan associations this is a difficult and tenuous area where the Bank Board should exercise leadership rather than leave the industry to flounder and individuals to become innocently entrapped. Failure to chart the area has led to a situation where the Bank Board staff can blackmail and bludgeon associations and their officers for any cause or whim whatsoever."

The committee found that the Alice Savings & Loan Association was persecuted and harassed because it had increased its dividend rate while other savings and loan associations in the area were reducing theirs. While this action was within the prerogative of the management and not prohibited by any rule, Bank Board employees undertook a course of action designed to force the association back into line even though the employees had no legal authority to act as they did. These actions included the instigation of a capricious prosecution, which was later dismissed, of the association's president, and illegally obtaining income tax returns of persons dealing with the association. Both of these actions involved the improper cooperation of the U.S. attorney.

The report also pointed out that there was a serious question regarding the adequacy of standards and procedures used by the Bank Board to assure that qualified persons are hired for positions as examiners. The report found low qualification standards, failure adequately to investigate the backgrounds and qualifications claimed by applicants and weaknesses in the hiring, training, and promotion practices.

The committee found that Bank Board employees were not adequately instructed regarding the laws applicable to State-chartered savings and loan associations, nor regarding the statutes and regulations applicable to the use of income tax returns. Similar lack of knowledge was found with respect to the local U.S. attorney and his assistant.

The committee noted that the Bank Board had taken at least 12 actions, listed in the report, as a result of comments made during the course of the subcommittee hearings and in accordance with recommendations in prior committee reports.

The recommendations of the report as listed below are followed, in each case, by a statement of the status on results, largely composed of current information from the Chairman of the Bank Board, transmitted April 29, 1966.

RECOMMENDATIONS TO THE BANK BOARD

The committee recommended that the Federal Home Loan Bank Board—

> (*a*) immediately establish adequate guidelines and controls for the supervision and control of the activities of its employees and agents and the operations of the agency so as to prevent the

recurrence of events as depicted in this particular case and particularly to prevent its staff or agents from taking actions tantamount to establishing policy in behalf of the Bank Board without its knowledge or consent.

(*b*) prescribe clear and definitive rules and regulations for the operations of savings and loan associations and for the conduct and activities of association management so as to prevent the further ad hoc approach to the supervision and regulation of these financial institutions.

(*c*) define by rule and regulation such terms as "self-dealing," "conflict of interest," etc., so as to give association management proper guidance in the operations of savings and loan associations and their own conduct relating thereto. Until such action is taken, the Bank Board should refrain from the use of such terms, and similarly instruct its staff, particularly in supervisory matters and relations relative to savings and loan associations.

(*d*) clarify its examining procedures and properly instruct its supervisory personnel so as to prevent unwarranted "special examinations" of savings and loan associations where there is no indication that they are not being properly operated.

(*e*) not attempt to control the dividend rates of savings and loan associations either directly or indirectly on a general or a case-by-case basis without proper authority.

(*f*) give specific attention and study to the matter of dividend rate practices with a view to developing sound criteria and guidelines for the savings and loan industry, as well as the Bank Board itself, in the interest of promoting internal stability and orderly relationships among the federally insured savings and loan associations.

(*g*) dispense with confidential section of the examination reports which permits undocumented, unsupported, and unverified opinions giving rise to the ad hoc approach to supervision.

(*h*) reconsider the use of the management questionnaire, with a view to dispensing with this part of the examination if its need is not thoroughly justified.

(*i*) take such steps as are necessary to effect a change in the arrogant and overly suspicious attitude of its staff and personnel with respect to their responsibility and the operators of savings and loan associations.

(*j*) clarify its instructions and procedures for the reporting and referral of possible violations of Federal statutes by its staff to the Department of Justice. This should include the revision of the Division of Examinations Memo No. 3014, dated July 11, 1957, as it appears to be in conflict with the instructions contained in the Examiners Manual, and the Bank Board should, by appropriate action, clearly delineate the basis for direct referral of matters to the local U.S. attorney, after approval by responsible authority in the Washington office of the Bank Board.

(*k*) take such action as is necessary to prevent its staff from obtaining Federal tax returns without first justifying the need for such information to the Bank Board itself and to make certain that they are obtained only in accordance with applicable laws and regulations.

(*l*) see that its examining and supervisory staffs are informed of the State laws applicable to the operations of federally insured State-chartered savings and loan associations under their jurisdiction.

(*m*) appropriately clarify and delineate the areas of responsibility of the Federal Savings and Loan Insurance Corporation with respect to insured savings and loan associations, particularly those which are State chartered. In furtherance of this the Bank Board should provide for definitive coordination of information and activity between the Divisions of Examinations and Supervision and the Insurance Corporation.

(*n*) issue adequate guidelines for its examiners governing the scope of examination of insured State-chartered savings and loan associations.

(*o*) by appropriate action, prevent the further harassment of the Alice Savings & Loan Association.

(*p*) review its procedures for the assignment of examiners to specific examinations and issue definite procedures governing such assignments.

(*q*) actively consider the separation of the dual authority of the presidents of the Federal home loan banks as employees of the banks and as supervisory agents for the Bank Board itself.

(*r*) take appropriate action regarding H. H. Chastain, district chief examiner for the ninth Federal home loan bank district, in view of the committee findings in this report and in light of the information obtained by the subcommittee during the hearings in this case and that involving the Clovis, N. Mex., savings and loan association.

As to Recommendations (a) and (d)

Generally, the actions taken by the Board in the area responsive to establishing guidelines and controls of the activities of employees and to prevent policies being effected without Board knowledge or consent, are set forth in the September 27, 1963, report. As the committee is aware, and reflects on page 60 of its report, the functions of the Division of Examinations and the Division of Supervision were transferred, on December 20, 1963, to the Office of Examinations and Supervision.

As a result of the establishment of this Office there has been initiated an updating of procedures for both examination and supervision. There has been decentralization of Office activities which has afforded a basis to minimize the time period between the start and completion of an examination and related supervisory review or actions. Greater coordination is realized between supervisory agents and chief examiners.

The decentralization of responsibilities included delegation of authority to examiners to remove rigid procedures and provide flexibility in extent and scope of examinations. This gives recognition to sound and well-managed institutions through elimination of unnecessary procedures. It gives emphasis to qualitative analysis rather than quantitative analysis of the association's condition and practices.

The examiner has been cautioned not to go beyond his scope of authority and not to employ procedures or to extend the scope of the examination beyond that necessary to meet the examination objectives.

If an examiner finds an unusual or complex situation he must contact the chief examiner and advise him of his findings and receive instructions as to procedures to be followed. In every case an examiner confines himself to analytical work sufficient to substantiate his findings.

When it appears that a prolonged examination may be necessary, a preliminary report must be submitted citing the problems encountered. In addition, field visits to the assignment may be made by the chief examiner or an assistant chief examiner during the course of the examination to maintain liaison between the district office and the field.

Time limits have been established for examination, processing, and supervisory actions. Any material deviations must be justified by written report to the Board.

For the purpose of dealing with cases other than routine, a Washington staff member has been assigned to coordinating activities and keeping the Board informed on a timely and proper basis. This includes the coordination of the matters set forth under recommendation (*m*) with respect to the Federal Savings and Loan Insurance Corporation.

The unification of functions of examination and supervision has led to the gradual adoption of revised or new reporting procedures. This includes a new monthly report form and a new supervisory examination report form now near completion. In addition, there are relatively frequent meetings with Washington staff and supervisory agents and chief examiners in attendance. A training and development program takes into consideration the purposes and objectives of revised procedures.

The Board, with the cooperation of industry representatives, is preparing a revision of its statement of policy with respect to appraisals.

The Board has recently announced that beginning January 1, 1968, independent or internal auditors, rather than Board examiners, will conduct annual audits of both Federal and State-chartered insured savings and loan associations.

The supervisory agents and chief examiners have been issued guidelines on internal procedures to reflect reevaluation of responsibilities and to reflect delineation and reaffirmation of broad areas of policies and objectives.

Guidelines issued are being incorporated in a revision of the manual of examining procedure. In the revision, supervisory practice and procedure will become an integral part of the manual.

As to Recommendation (*b*)

The Board has continued to adopt and revise rules and regulations in order to make them clearer, more specific or to relieve restrictions. Since I became Chairman, 34 regulations, 5 of which had been proposed before my assumption of the chairmanship, have been proposed or adopted. Twenty-five of them are liberalizing amendments designed to give associations a broader scope of operations.

As to recommendation (*c*)

In supplement to the statements under this caption in the September 27, 1963, report to the committee, it is assumed that the committee is aware of bills H.R. 14159 and S. 3158 (89th Cong., 2d sess.), to be

known as Financial Institutions Supervisory Act of 1966, and my testimony in support of S. 3158 before the Senate Banking and Currency Subcommittee on Financial Institutions.

As stated in a public release, dated April 4, 1966, in brief:

> The proposed legislation, carrying administration approval, would authorize the Board to issue cease-and-desist orders and to remove or suspend an officer or director of a savings and loan association. The issuance of a cease-and-desist order would be authorized where there has been a violation of law or regulation or the commission of unsafe or unsound practices. An order to remove an officer or director would be authorized where it is determined that there has been a violation of law or regulation and that the association would incur substantial loss or damage from such violation or practice.
>
> The use of either authority by the Board would be subject to due notice, a full hearing, and an opportunity for the association or individual involved to appeal to a court of appeals and obtain judicial review of the Board's action.

Your attention is specifically directed to section 5(d) (4)(A) and (4)(B) and section 407(g) (1) and (2) of this bill which set forth provisions relating to breach of fiduciary duty and conduct or practices of directors and officers.

Attention is also directed to H.R. 108 and similar S. 2561, a bill to provide for an increase in the maximum amount of insurance coverage for bank deposits and savings and loan accounts, to protect further the safety and liquidity of insured institutions, to strengthen safeguards against conflicts of interest, and for other purposes.

As to Recommendation (e)

Section 403(b) of title IV of the National Housing Act provides that applicants for insurance file an agreement that, among other provisions, the applicant "will provide adequate reserves satisfactory to the Corporation, to be established in accordance with regulations made by the Corporation, before paying dividends to its insured members." Pursuant to this provision of law, the Corporation had a reserve regulation for many years which, after careful review in 1963, appeared not to be serving the purposes cited above as fully as might be desirable.

Pursuant to its obligations under the National Housing Act, the Board revised the regulation in late 1963 to assure that the income transferred to reserves did not result in unreasonable dilution of reserve positions and that reserve levels were maintained in a reasonable relationship to the quality of assets as well as savings.

The only logical enforcement procedure was to require a review of an association's efficiency, lending performance, and dividend policy if the requirements of the reserve regulation were not met. This procedure was made more explicit than under the former reserve regulation.

As a result, the Board could order a reduction in rate if an association did not meet the requirements for allocating income to reserves or maintaining reserve levels, but this reduction is ordered only after a study of the association's performance, condition, and prospects for correction. The Board believes that this procedure is essential

to fulfill explicit instructions in legislation. The institution of the new regulation appears to have made one contribution to sounder practices and improved reserve allocations.

In early April 1965 it became apparent that many institutions were increasing dividend rates in markets in which there was a surplus of funds. The Board became concerned that the resulting flow of funds to the markets affected would result in adverse developments. It determined, therefore, to direct that Federal Home Loan Bank advances for expansion purposes not be made until the effect of the member's action could be evaluated. An evaluation procedure was developed and the procedure was published in the Federal Register. Some members were released from restriction because their performance and that of their markets made it clear that the increase in dividend rates would not be likely to lead to unfavorable developments. Other institutions reduced dividend rates in order to reestablish their eligibility for advances. A number remained restricted, preferring to pursue savings through higher dividend rates rather than reestablishing eligibility for advances.

The Board believes that its action was consistent with and necessary to fulfillment of the provisions of the Federal Home Loan Bank Act. In the absence of this action, the excess availability of funds in given markets, where oversupply of credit was already evident, and for given institutions with unfavorable performance would have been intensified by the extension of advances for expansion.

As to Recommendation (f)

The Board has studied the need for criteria for dividend rates and has provided standards to members. The reserve regulation for insured institutions spells out the type of considerations which should enter into dividend rate setting based on income available for reserves and asset quality. In addition, the Board has continued to support legislation (S. 2561 in the present Congress) which would, among other provisions, grant standby authority to impose maximum rates on institutions accepting deposits or shares by the respective regulatory bodies. This legislation has received the endorsement of the President.

The Board has found that an unstable situation exists in dividend rate practices stemming from the fact that each State has its own rules under which State-chartered associations may determine rates. In some instances, this leads to variations in rate paying practices with reference to terms peripheral to the dividend rate. As a result, an association which finds that its competition compounds daily, pays quarterly, or follows some other course that the association cannot pursue under its law, responds by raising rates across the board. The competitor then adopts the higher rate plus the peripheral devices. The Board feels that its present legislative authority requires that it either restrict Federal associations unduly or accept the lowest common denominator in State law. Neither course is desirable and the attention of Congress is being invited to this situation.

As to Recommendation (g)

The Board eliminated the confidential section of the examination report. In cases of supervisory concern, it has been noted that inadequate management or lack of management depth has contributed to

the problems of an association. In order for the Board to be more fully informed in these cases, it has adopted an evaluation of management questionnaire which is completed by the examiner on every examination conducted. It is distributed only to the supervisory agent and the Washington office. This questionnaire is not a part of the examination report. The examiners have been instructed to comment only when they have a matter of substance to report, and they are specifically instructed not to extend their comments to unfounded rumor or make comments when none are warranted.

As to Recommendation (h)

The management questionnaire has been reviewed and revised to eliminate those questions not pertinent to the fulfillment of examination objectives. The responses to the questions now included in the questionnaire will preclude the necessity for extending examining procedures to obtain the necessary information. The revised questionnaire is a part of the new examination report referred to in (*a*) above, and will be used on a nationwide basis with the final adoption of the report.

As to Recommendation (i)

In order to assure that the examining and supervisory staff are informed of State laws applicable to federally insured State-chartered savings and loan associations, the Office of Examinations and Supervision has had its examiners in many States participate in joint training meetings with State examiners. In addition, the revised manual referred to in (*a*) above will include recommendations as a result of cooperative meetings with State supervisors with respect to mutual problems and requirements.

As to Recommendation (m)

The Board has delineated the responsibilities of the Federal Savings and Loan Insurance Corporation with reference to insured savings and loan associations by Order No. 132 issued by the Chairman on December 30, 1963. In this order, the Director of the Insurance Corporation was given the duty of supervising the payment of insurance and the development of plans for the settlement of insurance, and settlement of insurance was spelled out to include both the payment of claims to insured shareholders or savings account holders and also the taking of necessary steps as provided by law to prevent a default in an insured institution, or to restore an insured institution in default to normal operations.

With reference to coordination of information and activity between the Office of Examinations and Supervision and the Insurance Corporation, the Board adopted a statement of policy on February 18, 1966, which provides in substance as follows:

1. The Office of Examinations and Supervision shall keep the Office of the Insurance Corporation informed as to all problem cases in which Insurance Corporation financial participation appears probable.

2. The Office of the Insurance Corporation shall keep the Office of Examinations and Supervision advised as to the development, negotiation, or implementation of any plan of default prevention with reference to a problem association, and will also consult with the Office of Examinations and Supervision as to

the supervisory feasibility of a default prevention plan prior to its adoption.

In addition to the above, the Director of the Insurance Corporation with the approval of the Chairman of the Board established a Problem and Rehabilitation Division on July 1, 1965. This division has the responsibility for developing and implementing default prevention techniques and plans with the objective of rehabilitating problem insured institutions. The chief of this division is in frequent contact with the various regional supervisors of the Office of Examinations and Supervision with reference to all problem associations, and they work very closely in both the development and implementation of default prevention plans for problem associations. In no area is there any lack of coordination between these two offices at this time.

As to Recommendation (p)

Each chief examiner has been required to write instructions on the preparation of assignments in his district to accommodate the particular requirements in his area. These instructions, which are reviewed by the Washington office and are part of the Manual of District Office Operations, cover both the mechanical procedures and the method of selecting examiners in charge.

A major area of emphasis has been continuation and implementation of personnel training and development program. The training and development of examiners was revised in direct relation to the updating of examination and supervisory approach.

As to Recommendation (q)

The Board has further carefully weighted the aspects of the dual authority of the presidents of the Federal home loan banks as between their official capacity in the bank and in their role as supervisory agents of the Board and the Insurance Corporation. With due consideration to advantages and disadvantages, it has been determined that fulfillment of Board responsibilities, under the revised examination and supervisory program, are best met under the present organizational structure.

The Committee Also Recommended:

That the Civil Service Commission immediately undertake a review and evaluation of—

(*a*) The standards for qualification as an examiner for the Bank Board;

(*b*) The practices and procedures being utilized in the hiring of examiners for the Bank Board; and

(*c*) The program of training and advancement for examiners, in all grade levels, of the Bank Board.

RESULTS.—The Civil Service Commission has reported that it has reviewed the Board's personnel employment and training policies and programs and has discovered substantial improvement in the Board's practices and procedures for examining, training, and promoting its savings and loan examiners.

That the Department of Justice—

(*a*) immediately instruct its employees and particularly the U.S. attorneys that the handling of income tax returns by its agents in the manner described in this report is not approved and is, in fact, in violation of the spirit, intent, and letter of the law and regulations applicable to the use of Federal tax returns;

(*b*) immediately determine whether or not the laws and regulations applicable to the use of Federal tax returns were violated by—

(i) William B. Butler, assistant U.S. attorney at Houston, Tex. (formerly U.S. attorney);

(ii) Dan Kennerly, former assistant U.S. attorney at Houston, Tex.;

(iii) Harold H. Chastain, chief examiner, ninth district, Federal Home Loan Bank Board;

(iv) Gotlieb E. Schmoker, former examiner, ninth district, Federal Home Loan Bank Board, and others associated with these persons;

and, should a violation be found to have occurred, promptly prosecute those who committed the violations.

(*c*) immediately determine whether or not there has been a violation of Federal law, particularly section 2071 of title 18 of the United States Code, by the absence of the five particular letters, as set forth in this report, from the files of the Division of Examinations in Little Rock, Ark., under the custody of district chief examiner, H. H. Chastain.

RESULTS.—The Department of Justice has issued clarifying instructions to the U.S. attorneys reemphasizing the laws and regulations relating to the obtaining of income returns.

That the Department of the Treasury review its regulations regarding the "Application for inspection," and "Inspection by Government attorneys," of Federal tax returns, and take such steps as are necessary to prevent the disclosure of information in a manner inconsistent with the spirit and intent of the Congress and in violation of laws and regulations. It should be remembered that while such returns are considered public records the information contained is still to be considered confidential so as to prevent disclosure to those who do not have a legitimate interest therein.

RESULTS.—The Commissioner of Internal Revenue has also issued a manual supplement on the release of tax returns and confidential tax information to U.S. attorneys and to other Federal agencies which takes into account and remedies the deficiencies described in the committee report.

○