

GAO

Report to the Chairman, Subcommittee on  
Legislation and National Security,  
Committee on Government Operations,  
House of Representatives

August 1987

# FOREIGN AID

## Improvement Needed in Management of Technical Services Contracts



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United States  
General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division

B-227294

August 18, 1987

The Honorable Jack Brooks  
Chairman, Subcommittee on Legislation  
and National Security  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

This report is in response to your request that we review Agency for International Development (AID) procurement practices for and management controls over centrally managed contracts. Generally, these contracts allow AID's overseas missions and regional bureaus to obtain technical services, such as studies, training, and evaluations. You asked us to determine whether AID is complying with the competition requirements of current laws and regulations relative to these contracts. In this connection, we also reviewed AID's progress in implementing the competition advocacy program established under the Competition in Contracting Act of 1984 (CICA) and the recommendations concerning competition we made in our 1984 report, Direct Contracting By the Agency for International Development Can Be Better Managed (GAO NSIAD-84-108, July 9, 1984).

Also, you asked us to determine whether AID (1) is adequately accounting for procurements made by its organizations under centrally managed contracts and (2) has management controls to ensure that funds are used only for intended purposes and that services are received.

Our findings, conclusions, and recommendations are summarized below; details are presented in the appendices.

## Compliance With Competition Requirements and Recommendations

The AID contracts we reviewed generally followed the competition requirements of current laws and regulations, although in some cases AID did not follow all requirements for publicizing procurements. Also, AID could improve the quality of future annual reports to the Congress on competition by elaborating on actions planned and taken to increase competition and including an analysis of changes in competitive procurements.

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## Publicizing Procurement Actions

Our review of 4 of 11 centrally managed contracts that AID classified as awarded under full and open competition (defined as permitting all responsible sources to submit sealed bids or competitive proposals) showed that AID had implemented the requirements specified in the procurement statutes and regulations for establishing agency needs and making contract amendments but it did not always fully specify the information required for publicizing the proposed procurements. For example, in publishing these procurements in the Commerce Business Daily, AID did not (1) include the required statement that all responsible sources could submit bids or proposals for consideration or (2) always include a required statement designed to encourage participation by small and minority business concerns. Also, a contract for which only one bid was received was improperly classified as being awarded competitively.

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## Informing the Congress

In implementing the requirements of CICA, AID has submitted to the Congress the required annual reports on competition for fiscal years 1985 and 1986. These reports are required to include descriptions of all actions the agency intends to take during the current fiscal year to increase competition and a summary of actions and accomplishments of the competition advocate during the preceding year.

The fiscal year 1986 report to the Congress described several such accomplishments. For example, procurement systems in 11 AID missions had been evaluated and training courses had been given on the need for better procurement planning and competition. However, the report did not discuss the status of other proposed initiatives, such as the planned establishment of a central file of written justifications for noncompetitive procurements to better monitor such actions. Also, although the 1986 report contained statistical data on the agency's procurements, it did not provide any analysis of the changes in AID's competitive procurements. We noted that the percentage of procurement involving more than \$25,000 awarded competitively decreased from the 72 percent reported for fiscal year 1985 to about 52 percent for 1986 and the dollar value of noncompetitive actions rose from \$8.4 million in 1985 to \$43.5 million in 1986.

In our 1984 report on AID direct contracting, we found that AID needed to improve its analysis and monitoring of procurements. We therefore recommended that the AID Administrator better quantify, report, and monitor the amount of and reasons for contract amendments and

noncompetitive actions to better judge whether the extent of competition was adequate or actions were needed to maximize competition. In response, AID established a data base on contract amendments and noncompetitive procurement actions in 1985 but has not analyzed the data to identify trends and monitor changes in competitive and noncompetitive awards.

The competition advocate told us in March 1987 that some of the earlier initiatives had not been implemented and procurement data had not been analyzed because he did not have sufficient staff to perform these tasks. AID is now correcting this problem by hiring additional staff.

## Management and Accounting Controls Over Centrally Managed Procurements

AID has been using centrally managed contracts that allow individual AID organizations to obtain technical services since 1983. Generally, AID will award a contract to a university or for-profit institution for a specified level of technical services to be delivered over a period of time. Once the contract is awarded, missions and bureaus may "tap into" the contract through contract amendments for specific services to be performed for their projects, as long as the services required are within the scope of the basic contract and the contract ceiling is not exceeded. These contracts are funded with both AID Washington bureau and participating mission funds and are managed by a project officer in Washington. Payments to contractors are made from the AID finance office in Washington.

To manage these procurements, AID intended to establish written guidance by the end of 1983. We found that AID had not done so and had been handling them on an ad hoc basis. As a result, several management control weaknesses have developed. Our review confirmed that, contrary to its own fund control procedures, AID had been charging expenditures to the wrong accounts because contractors did not attribute expenditures to the appropriate AID Washington or overseas mission organization funding the services performed. Also, project officers seldom received feedback from missions on work performed.

The terms of three of the four contracts we reviewed required contractors' invoices to show the AID project numbers under which the expenses were incurred. Because contractors did not comply with this provision, AID charged expenditures in the sequence in which its organizations funded the contracts. As a result, expenditures were charged to the wrong accounts and the status of individual mission expenditures and

account balances was incorrectly reported. This is inconsistent with good internal control practices.

For example, a contractor billed AID \$232,000 for services performed but did not indicate which organizations received the services, as required by the contract. AID applied the entire amount to the Ecuador mission project account, although only \$23,000 was applicable to that project. The remaining \$209,000 was for work performed on six other projects. Using this first-in, first-out method, AID records show that the entire \$397,000 in the contract for the Ecuador mission was used by October 1986 although only \$149,000 was actually spent on the Ecuador project at that time according to the contractor's monthly expense reports.

Several factors have contributed to these management control problems.

- AID project officers did not enforce compliance with billing instructions in the contracts; had they adhered to prescribed monitoring procedures, AID would have been able to charge the proper accounts.
- There is no operational guidance for these procurements specifying contract requirements. As a result, not all contracts require contractors to bill AID by the specific project number and to include funding data needed for charging the proper accounts.
- Missions are not required to provide feedback to the Washington project officers on work performed by the contractor; such information would ensure that services had been received before contractors' vouchers were approved for payment.

## Conclusions

For the contracts we reviewed, AID had generally implemented and complied with competition requirements of current laws and regulations, but it needs to ensure that all required information is publicized in the Commerce Business Daily to ensure that all potential sources are given an opportunity to compete. AID also could improve its reports to Congress on its efforts to increase competition by discussing the status of initiatives planned for implementation and reasons for any significant changes in noncompetitive awards. Also, AID should analyze the extent of and reasons for noncompetitive contracting actions so it can better judge whether the extent of competition overall is adequate or whether competition should be expanded in certain areas.

Inadequate AID management controls over centrally managed contracts have resulted in expenditures being charged to the wrong accounts. Specifically, AID project officers have not adequately monitored contractor

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compliance with contract terms. Also, because there is no requirement that information on services performed be obtained before payment is made, there is insufficient management assurance that funds are used only for intended projects and that services have been rendered.

Project officers must follow established procedures to ensure that expenditures are charged to proper accounts, and AID needs to develop guidance to ensure that it receives information on contractor performance before it makes payment. An internal AID study identified similar weaknesses and acknowledged the need to develop guidelines for the centrally managed contracts.

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## Recommendations

We recommend that the AID Administrator (1) ensure that competitive opportunities are fully publicized, (2) in reports to Congress on competition, discuss the status of all actions previously proposed and provide an analysis of the trends in number and percent of competitive procurement actions since 1985, and (3) issue instructions on managing centrally funded procurements, including procedures for (a) project officers to ensure contractor compliance with billing requirements, (b) missions to provide information on services received, and (c) contracts to require contractors to bill AID by funding organizations.

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## Objectives, Scope, and Methodology

We reviewed competitive procurement practices and management controls for AID's centrally managed contracts. We made our review, in accordance with generally accepted government auditing standards, during November 1986 to March 1987 at AID headquarters in Washington, D.C. We reviewed procurement statutes, federal acquisition regulations, and agency procedures for monitoring and accounting for contract activities. We reviewed AID's implementation of the competition advocacy system and of our 1984 recommendations on direct contracting. We reviewed procurement records for four centrally managed contracts with a total value of about \$65 million, awarded after March 31, 1985, for compliance with selected competition requirements. As requested, we did not obtain formal agency comments on this report.

As arranged with your office, unless you publicly announce the contents earlier, we plan no further distribution of this report until 30 days from the date it is issued. At that time, we will send copies to the Chairmen, Senate Committees on Foreign Relations and on Governmental Affairs, House Committee on Foreign Affairs and House and Senate Committees

on Appropriations; Director, Office of Management and Budget; Administrator of AID; and other interested parties.

Sincerely yours.

A handwritten signature in black ink that reads "Frank C. Conahan". The signature is written in a cursive style with a large initial 'F' and 'C'.

Frank C. Conahan  
Assistant Comptroller General

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## Abbreviations

AID	Agency for International Development
CICA	Competition in Contracting Act of 1984
GAO	General Accounting Office



# Compliance With Competition Requirements

The AID centrally managed procurements we reviewed generally followed the competition requirements of current laws and regulations, but AID did not always ensure that all competition requirements were followed when publicizing procurements. Also, AID has established a system of competition advocacy and makes annual reports to Congress on competition.

## Review of Contracts for Compliance With Competition Requirements

The Competition in Contracting Act of 1984 (CICA) strengthened or added requirements that federal agencies (1) use competitive procedures to obtain full and open competition (defined as permitting all responsible sources to submit sealed bids or competitive proposals on a procurement), (2) publicize proposed contract awards, and (3) specify the needs for the services in the request for proposals in a manner designed to promote full and open competition.

In recent years, AID regional bureaus and overseas missions have increasingly participated in the centrally managed and funded contracts of AID's Bureau for Science and Technology by obtaining technical services, such as studies, training, and evaluations. This participation amounts to about \$30 million annually. AID records show 36 contracts with mission participation as of November 1986; 11 of them, totaling \$142 million, had been solicited after CICA was implemented in April 1985 and were classified as awarded under full and open competition. We reviewed 4 of these 11 contracts, totaling about \$65 million (generally those with a large volume of mission participation) for compliance with selected competition requirements.

We focused our efforts on determining whether (1) needs were identified in a reasonable manner and specified in the request for proposals, (2) the contract amendments for participating AID organizations' work met the test for competition, i.e., were within the scope and under the terms of the basic contracts, and (3) contract publication requirements were met.

For the four contracts we reviewed, we found that agency needs appeared to be properly stated. Our review of amendments to these contracts also showed that the nature of the services requested by the participating organizations was within the scope of the work of the basic contracts.

For example, the AID mission in Paraguay requested services through a centrally funded contract to satisfy its need for promoting widespread

adoption of oral rehydration therapy in Paraguay. Since the requested services (training, development of educational materials, and use of mass media) were within the scope of work of the contract—diarrheal control programs—use of a contract amendment to obtain them was appropriate.

Procurement statutes and regulations require that federal agencies publish synopses of proposed contract awards in the Commerce Business Daily and include (1) statements that all responsible sources may submit bids, proposals, or quotations for consideration and (2) the names, addresses, and telephone numbers of the contracting officers. However, synopses of the four proposed procurements did not include the statement encouraging competition and only one synopsis included the telephone number of the contracting officer. In addition, AID Contract Information Bulletins require that each notice in the Commerce Business Daily include language on contracting with small business concerns, small disadvantaged business concerns, and small business concerns owned by women. Two of the four contract notices did not have the required language.

One contract was improperly classified and reported. CICA requires that agencies establish and maintain files of all procurements for 5 years, except for small purchases, and report them to the Federal Procurement Data System to facilitate congressional oversight of agency contracting activities. If a bid or proposal by only one responsible source is submitted, the procurement is to be separately categorized in this data base as a noncompetitive procurement using competitive procedures. One of the contracts received only one bid. AID improperly recorded this contract as competitive when it should have been recorded and classified as awarded noncompetitively using competitive procedures.

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## Implementation of Competition Advocacy System and Reporting to Congress

CICA amended the Office of Federal Procurement Policy Act to require that the head of each executive agency submit annual reports to the Congress on competition and designate a competition advocate for the agency and one for each of the agency's procuring activities. The annual report on competition must (1) describe all actions the agency intends to take during the current fiscal year to increase competition for its contracts on the basis of cost and other significant factors and to reduce the number and dollar value of noncompetitive contracts and (2) summarize activities and accomplishments of the advocate for competition during the preceding year.

The advocate for competition is to (1) challenge barriers to and promote full and open competition in the agency's procurements, (2) review procurement activities of the agency, and (3) prepare annual reports to the agency's senior procurement executive describing initiatives required to increase competition and remove barriers to full and open competition.

In 1985, AID established a system of competition advocacy consisting of an overall competition advocate and advocates in each of its over 70 contracting activities. The competition advocate is AID's focal point for competition-related activities.

AID has submitted the required annual reports to the Congress on competition for both fiscal years 1985 and 1986. These reports stated that AID planned to implement actions to strengthen its promotion of full and open competition in contracting and to strengthen its competition advocacy system. The annual report for fiscal year 1986 discussed several accomplishments. The report did not, however, discuss the status of some of the initiatives that had been identified in the previous year's report or the lack of progress in implementing several of them.

AID's fiscal year 1985 report to the Congress identified 7 initiatives to be implemented during fiscal year 1986. The competition advocate told us in March 1987 that action was taken on 4 of the 7 initiatives: (1) procurement systems in 11 AID missions were evaluated, (2) training courses were held on the need for better procurement planning and competition, (3) senior officials in AID offices and missions were appointed to ensure that full and open competition was considered early in the planning process, and (4) noncompetitive advisory panels were established to review and approve or disapprove all justifications for noncompetitive procurements. We noted that in the report AID mentioned only the first two of the above accomplishments.

No action had been taken on plans to

- provide written justifications for exceptions to competition in a central file,
- provide quarterly reports to the competition advocate showing the use of competitive solicitation procedures and any exceptions, and
- evaluate competition advocates on their assigned advocacy responsibilities.

The first two planned but unimplemented initiatives would have allowed the competition advocate to monitor noncompetitive actions.

The advocate told us in March 1987 that these initiatives were not implemented because he did not have staff to review the justifications or the quarterly reports. The advocate added that further coordination is needed before the performance of the agency's competition advocates can be evaluated. AID had noted in its 1985 report that these initiatives were part of its comprehensive approach to provide a fully coordinated competition advocacy system to strengthen its promotion of full and open competition.

According to the advocate, the lack of staff had also precluded the analysis of procurement data in the statistical section of the fiscal year 1986 report. A comparison of the statistical sections in the 1985 and 1986 reports shows that AID's competitive procurements involving more than \$25,000 decreased from 72 percent in 1985 to about 52 percent in 1986, and the dollar value of noncompetitive actions rose from \$8.4 million in 1985 to \$43.5 million in 1986. The competition advocate told us that because of staffing constraints, the data, which had been recently collected, had not been analyzed. He was also concerned that because reporting requirements had changed, there could have been some misunderstanding among the AID units as to what data should be provided in 1986.

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## Implementation of GAO's 1984 Recommendations

The need to analyze procurement data was previously identified in our 1984 report, Direct Contracting By the Agency For International Development Can be Better Managed (GAO NSIAD-84-108, July 9, 1984). We concluded that AID was not in a position to adequately judge whether the extent of competition overall was adequate or whether it should try to expand competition in certain areas. To make such judgments, AID needed basic data to monitor, over time, the amount of and reasons for contract amendments and noncompetitive contracting actions by its bureaus, offices, and missions. We therefore recommended that the AID Administrator better quantify, report, and monitor these data.

In response, AID established a data base for contract amendments and noncompetitive procurement actions, but it has not yet analyzed the data to identify trends and monitor changes in performance. According to the competition advocate, the primary reason for not fully implementing our recommendation has been lack of staff to carry out these functions. Although AID has established four staff positions for the competition advocate's functions, only two persons had been hired as of March 1987. The competition advocate advised us that AID is actively recruiting staff to fill the remaining authorized positions.

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# Management and Accounting Controls Over Centrally Managed Procurements

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AID has permitted overseas mission and regional bureau participation in centrally managed and funded contracts since 1983, but has established no formal guidelines for managing these procurements. AID's handling of these contracts over the years on an ad hoc basis and its inadequate monitoring of contractor compliance with contract terms have resulted in expenditures being charged to the wrong accounts and insufficient information being obtained on services performed. AID should (1) emphasize to project officers the need to enforce contractor compliance with contract terms and (2) issue instructions including procedures for missions to provide information on whether services have been received and for contracts to require that contractors bill AID by funding organizations.

In August 1983, AID's Bureau for Science and Technology requested that a contract mechanism be established to enable overseas missions and regional bureaus to expand their participation in common theme, centrally funded, research-type projects. The Administrator approved pilot contracts and instructed that guidance be established by December 31, 1983.

These contracts provide opportunities for other AID organizational units to obtain technical services from universities or for-profit institutions implementing these projects. Generally, the process begins with missions and regional bureaus identifying their needs for professional services, training, evaluations, and studies. AID then computes the total agency needs and negotiates a total estimated contract cost with the selected contractor for a specified level of technical services to be delivered over a period of time. Once the contract is awarded, missions and bureaus may "tap into" the contract through amendments for the specific activities to be carried out in their countries. These contracts are managed by a project officer in Washington and payments for services are made by AID's finance office in Washington.

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## Accounting and Control Problems

AID regulations provide that obligations should be liquidated by expenditures specifically related to those obligations to allow tracking of funds from obligation through disbursement. Our review showed that AID did not record expenditures against the appropriate AID organization accounts. This occurred because contractors' vouchers did not show the project numbers of the Washington or overseas mission organizations which received the services.

For three of the four contracts we reviewed, contractors were required to break down amounts on vouchers by the AID organizations that funded the services. The contractors did not do so, and AID accounting personnel used a first-in, first-out method in charging expenditures to funding organizations. AID's Office of Financial Management adopted this method some years ago as a practical way to charge payments in contracts when vouchers did not show the accounting information of the organization which received the services—expenditures are paid from the accounts in the sequence that the funds were included in the contract (i.e., in the order of the amendments to the contract).

For example, in September 1986, a contractor submitted a voucher for services performed during August 1986 but did not break down the \$232,000 billed according to the AID organizations receiving the services. Using first-in, first-out procedures, AID applied the entire amount to the next unused account—the Ecuador mission project account. However, in its monthly expense report to the project officer, the contractor showed that only \$23,000 of the \$232,000 amount was applicable to work for the Ecuador mission; about \$168,000 applied to AID Washington-funded work and \$41,000 to projects funded by five other missions. By using the first-in, first-out method, AID records show that the entire \$397,000 which was included in the contract for the Ecuador mission project was expended by October 1986, although only about \$149,000 was actually spent on this project at that time as shown by the contractor's monthly expense reports. AID officials acknowledged that in these cases, expenditures were not systematically charged to the accounts of the organizations which received the services.

The use of the first-in, first-out accounting method is inconsistent with AID fund control procedures which generally require that payments match the services performed. It also results in incorrectly reporting to the funding organizations the status of their expenditures and account balances, violating an AID internal control objective that expenditures be accounted for properly so that accounts and reliable reports can be prepared and proper accountability maintained. Keeping expenditures segregated by the funding obligations is a safeguard for preventing unauthorized use of funds and for permitting the return of unexpended funds to the funding organization. If this is not done, the wrong account may be credited in deobligating unexpended amounts or the wrong account adjusted when contract cost adjustments based on audits need to be made.

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We also found that information was not systematically obtained from the missions on contractor performance to ensure AID that services had been rendered. For these contracts, the responsibility for monitoring the technical performance of the contractors and administrative approval of contractors' vouchers rested with the Washington project officer. Because the services were performed at various locations in the field, far from the Washington project officer and paying office, it was particularly important to closely monitor contractor performance and obtain feedback from organizations that received the services to ensure that funds were used only for the intended projects. However, we found that project officers did little to verify that payment was made for services rendered. For example, one project officer told us that his knowledge of contractors' field activities was based primarily on reports provided by the contractors; he gets nothing in writing from the missions. Another project officer also told us that missions were not contacted systematically to verify contractors' work.

We requested information on management controls from four missions having significant participation in centrally managed contracts. Their responses indicated several concerns with these procurements. For example, all four missions stated there were no formal procedures for providing information on contractor performance to AID Washington and that mission practices ranged from close contact to only supplying information upon completion of work segments. Three of the missions indicated a desire to be more directly involved in approving vouchers for payment to more effectively control their expenditures. Although these missions did not identify cases, as we did, where their funds were used to pay for work performed for other missions or Washington, they expressed concern regarding that possibility.

A December 1986 Bureau for Science and Technology study on contracts with mission participation described similar inconsistencies in meeting agency standards for monitoring and documenting contractor performance. For example, about half of the contractors did not break down bills by the organizations funding the work performed, and the organizations provided information in writing to the Washington project officer that the contractors' performance was completed and acceptable for only 9 percent of these contracts.

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**Management of  
Procurements**

Several factors have contributed to the management control weaknesses of charging payments to the wrong accounts and receiving inadequate feedback from the missions. AID project officers have not adequately

carried out their responsibilities of enforcing contractor compliance with contract billing instructions. Also, there has been a lack of operational guidance for the centrally managed procurements.

Our review of paid vouchers showed that project officers approved contractors' vouchers and invoices although the vouchers did not show which AID organizations were involved. AID regulations assign to project officers the responsibility for approving contractors' vouchers prior to payment to ensure that AID's interests are adequately protected. If the project officer finds errors, defects, or improprieties in the voucher and supporting documents, the paying office must be notified and corrective action taken. When contractors' vouchers do not comply with contract provisions for breaking out expenditures by the appropriate organizations, we believe the vouchers should be returned to the contractors for correction.

For one of the contracts, the project officer approved the vouchers realizing that the appropriate account number had not been provided. This project officer relied on the paying office to charge the proper account, believing that the office had the necessary information to make this determination. The project officer did not know that the paying office used the first-in, first-out method to determine which account to charge. After we discussed the matter with the project officer, she sent a letter to the contractor requesting that all future vouchers break down all costs by AID organizations as required by the contract. For two other contracts, the project officer told us that he approved the vouchers because he thought the contractor had provided sufficient documentation with the vouchers to show the billed amounts by the appropriate AID organization.

We found that both project officers had received monthly expense reports from the contractors, in addition to the vouchers and supporting documentation, that showed how expenditures were broken down by various AID projects. However, this information was not used in approving contractors' vouchers nor was it used, as previously stated, in determining the proper accounts and amounts to be charged.

Although operational guidance for the centrally managed procurements was to be established by end of 1983, AID had not yet developed any written procedures and was still handling these procurements on an ad hoc basis. Our review showed that not all contracts called for contractors to submit vouchers showing specific AID project numbers and accounting data, which is needed for charging the payments to proper

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accounts. Also, AID is not requiring missions to supply appropriate information to the Washington project officers on work performed by the contractors. Such feedback would assure the project officers that services have been rendered before they approve the contractors' vouchers.

An AID procurement official told us that AID had not issued guidelines primarily because it did not anticipate problems with the contracts developed initially for applied research-type projects. However, as the concept of mission participation was expanded to other types of contracts for centrally funded projects, management and accounting problems developed and AID personnel recognized the need for procedural guidance in this area.

Following the 1986 internal study of centrally managed contracts, AID procurement, financial, and program personnel discussed proposed solutions. They concluded that, as a first step, they needed to develop a contract for these procurements that would remedy some of the problems identified. In March 1987, AID's Office of Procurement issued a request for proposal for a regional bureau contract with mission participation, expanding this concept to other Washington bureaus. Procurement officials told us this contract proposal would require the contractor to bill AID by the funding organizations and that it would be used as a model for future contracts.

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