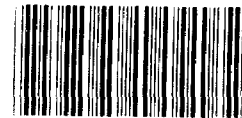


GAO

August 1987

# INTERNAL CONTROLS

## Indian Housing Controls Improved but Need Strengthening



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**Resources, Community, and  
Economic Development Division**

B-226204

August 5, 1987

The Honorable Donald P. Hodel  
Secretary of the Interior

Dear Mr. Secretary:

As part of our continuing effort to determine if agencies are improving internal controls pursuant to the Federal Managers' Financial Integrity Act of 1982 (FMFIA), we reviewed the Bureau of Indian Affairs' (BIA's) actions to correct a material weakness in its Housing Improvement Program (HIP). HIP provides grants to Indian families living in substandard or inadequate housing to (1) make repairs, (2) make down payments for the purchase of a home, and (3) finance construction of a new home.

FMFIA requires that agency heads report annually on the adequacy of their internal controls and identify areas of material weakness, along with their plans to correct them. In your 1983 FMFIA statement to the President and the Congress, you reported that BIA had a material internal control weakness in HIP in that funds were misspent and assistance was not going to the neediest Indian families. For example, funds were spent on ineligible people, or they were spent for purposes other than the upgrading of substandard housing. In your 1984 statement, you reported that BIA had taken corrective action on the material weakness. In this regard, BIA developed and implemented a model contract for its use with tribes that operate the program for BIA. Among other provisions, the model contract requires tribes to prioritize their assistance to applicants. It also requires BIA to monitor project construction. Our objective in this review was to assess the effectiveness of the contract in correcting the HIP material weakness.

In summary, we believe that the model contract is a positive step toward solving the material internal control weakness. We did, however, find examples where tribes are not complying with—and BIA is not monitoring or enforcing—important provisions of the model contract. Therefore, while the model contract sets an appropriate standard, because compliance with its provisions has been spotty, BIA does not have adequate assurance that the neediest Indian families are being served and that funds are being properly spent.

In obtaining information for this report, we contacted officials and reviewed documents and records from BIA's headquarters in Washington, D.C., and BIA area offices in Arlington, Virginia; Albuquerque, New

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Mexico; Phoenix, Arizona; and Portland, Oregon. We reviewed 45 contract files at the four area offices, with each contract covering one tribe. We then selected 7 of these 45 tribes to visit, and we spoke with officials from and reviewed records at the seven Indian organizations and their respective BIA agency-level offices. A more complete description of our objective, scope, and methodology appears as appendix I. Our review was conducted in accordance with generally accepted government auditing standards.

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## Background

Through HIP, BIA provides grants for Indian families living in substandard housing who cannot obtain assistance from other sources. BIA can manage the program directly or, at the option of the tribes, management is contracted out to them. If the tribe is unwilling or incapable of operating the program under contract, BIA agency-level staff operate the program directly. Of the 271 tribes in HIP, 175—about 65 percent—operate the program under contract with BIA. For fiscal year 1986, HIP's budget was about \$19 million.

BIA administers its programs through a network of 12 area offices and various types of field offices, the primary type being agency offices, of which there are 83. BIA's central office in Washington, D.C., provides general program direction. Contracting officers (COs) at BIA area offices execute the tribal contracts. In addition, each area office has a housing staff that is responsible for providing technical assistance and program oversight. The CO is responsible for ensuring that the contractor (tribe or tribal organization) carries out the terms of the contract. The CO designates the day-to-day responsibility for contract compliance and enforcement to a contracting officer's representative (COR). The COR is usually located at a BIA agency office.

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## The HIP Material Weakness and Efforts to Correct It

Leading up to reporting the HIP material weakness were several reports on HIP deficiencies issued over the years by the Department of the Interior's Inspector General. A summary report was issued in March 1983, showing that the program was not effectively progressing toward the objective of improving the housing of needy Indians. Additionally, the report showed that tribal organizations used HIP funds for unauthorized purposes or for purposes contrary to HIP requirements and that, in many cases, HIP recipients were not selected on the basis of need.

The Inspector General's report recommended a number of changes. For example, it recommended that BIA formulate requirements that an

Indian organization must meet before award of any future HIP contract. Consistent with the Inspector General's recommendation, BIA in August 1983 issued a model contract to be used by all HIP contracting tribes to ensure that the neediest Indian families are selected for assistance.

## Tribal Requirements

The contract placed the following requirements on the tribes:

- Develop and submit to BIA a current inventory of housing needs of all tribal members desiring to participate in HIP—in effect, a listing of applicants.
- Develop and provide BIA with a set of written criteria used to establish a priority list of applicants most in need of HIP assistance.
- Submit to BIA the priority list of applicants for HIP assistance.
- Prior to construction, submit work plans for each project to the CO. Work plans should include such items as the name of the applicant, the type of assistance, cost estimate, a description of repairs or the new unit to be built, the location of the housing unit, and start and completion dates.
- Furnish quarterly HIP reports on housing starts, housing conditions, and housing needs to the CO.
- Submit annual inventories of housing needs to the CO.

## BIA's Role

CORS have a number of responsibilities. Among them is assuring that the contractor performs in accordance with the contract's terms and conditions. Additionally, the model contract provides for monthly construction inspections by the CORS. Starting in fiscal year 1987, this requirement was modified to allow for inspections at least bimonthly. The contract requires the COR to monitor construction progress as well as to assure that the construction work performed is consistent with the contractor's work plans. The COR is required to submit the results of each inspection to the CO and the area office director. If the inspection indicates that the construction work is not in compliance with work plans, BIA gives the contractor an opportunity to correct or replace non-conforming construction work or supplies.

## Tribes Not Fully Complying With Model Contract Requirements

Our review of contract files showed that, to varying degrees, tribes were not complying with some requirements of the model contract. Most non-compliance centered around three provisions—the inventory of tribal members desiring to participate in the program, tribal selection criteria, and construction work plans. These items are important because they specifically address the internal control weakness that was identified

for this program: namely, that funds continue to be misspent and recipients are not priority-ranked.

Moreover, where tribes do comply with these requirements, we found operational problems at some of the tribes we visited. Specifically, we found instances where tribes did not properly apply their selection criteria for establishing priority lists and deviated from these lists without justifying it to BIA, as is required. Because of these discrepancies, BIA does not have adequate assurance that the neediest Indian families are being assisted. Until BIA can make certain that tribes are complying with provisions of the model contract, the value of the contract as an effective corrective action remains limited.

**Compliance Profile**

Our review of 45 fiscal year 1986 contract files at four area offices resulted in the following profile, showing the extent to which tribes complied with provisions of the model contract. The profile is adjusted for information received after we had BIA area offices request any missing information from BIA agency offices or tribes.

**Table 1: Model Contract Compliance**

Contract requirement	Degree of compliance		
	Full	Partial	None
Inventory of tribal members desiring to participate in HIP	23		22 <sup>a</sup>
Selection criteria	37		8
Priority list	42		3
Work plans <sup>b</sup>	10	22	1
Quarterly HIP reports	36	6	3
Annual inventory of housing needs	45		

<sup>a</sup>Eleven of these tribes are in the Phoenix area, where the area office modified the model contract to allow the annual inventory of housing needs to satisfy this requirement.

<sup>b</sup>We agreed not to review for work plans at the Portland area office because this office does not retain them and area office officials felt that they were too voluminous to request from BIA agency offices.

Details for each of the four area offices are shown in appendix II.

**Inventory of Tribal Members Desiring to Participate in HIP**

BIA requires tribes to compile an annual inventory of tribal members who wish to participate in the program. The inventory is, in essence, a listing of tribal members by name. It demonstrates that the tribe has an ongoing process of receiving and reviewing applications, as required by the model contract, and that the tribe has a complete file of applications

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and information from which to objectively determine priority needs. Only 23 of the 45 contract files we reviewed had these inventories. BIA officials in the Albuquerque and Phoenix areas believe that a consolidated housing inventory form showing aggregate numbers of houses satisfies the requirement. The form shows the total number of existing housing units categorized by physical condition, with no reference to individuals or applicants desiring to participate in HIP. This is a misinterpretation of the requirement, since the form does not list individual applicants who want to participate in the program. The model contract as presently written, requires an inventory of housing needs of all tribal members desiring to participate in HIP. The use of the term "housing needs" rather than "applicants" could have been interpreted as requiring an inventory of houses. Without an inventory of applicants, BIA does not have sufficient assurance that the tribes have the required application process in place. The national director of HIP agrees with our position and has agreed to clarify this model contract requirement.

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## Selection Criteria

Objective selection criteria help ensure that the neediest Indians get served, which is the model contract's primary objective. Need usually is defined by elements such as income, family size, and condition of housing. Eight of the 45 contract files we reviewed did not contain a statement of selection criteria, as required by the model contract. Moreover, although the seven tribes we visited had selection criteria, we question the proper application of the criteria at four of the tribes. For example, one tribe did not use its established criteria to select from applications on hand. A tribal official said that a former tribal official simply picked names for inclusion on the 1986 priority list. Another tribe that has an established point system for prioritizing HIP applicants did not use the system for its 1986 priority list. According to the tribal HIP coordinator, the tribe could not apply the point system because the application form did not request all of the information included in its selection criteria—specifically, data were missing on the education level attained and the handicap status of applicants.

While BIA issued national selection criteria in November 1986, it must still monitor how tribal organizations apply these criteria to applications. This monitoring is a crucial step in ensuring that tribes give priority to the neediest applicants.

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## Priority Lists

Priority lists of HIP applicants should result from the tribal application of selection criteria to applications. Similar to selection criteria, priority

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lists serve to ensure that the neediest Indian families get served first. While 42 of the 45 tribal contract files we reviewed contained priority lists, five of the seven tribes we visited did not follow their established priority lists when it came to actual project funding. Tribal officials said that they did not realize they were required to follow the order on their priority lists, or they simply neglected to obtain BIA's required approval when they made changes to their priority lists.

Our review of selected applications at the tribes we visited did not reveal any instances where applicants who did not make the priority lists were more needy than applicants on the lists. However, if tribes do not follow their priority lists or justify deviations from the lists, BIA does not have assurance that the neediest are given priority on a wide-scale basis. Until tribal compliance with model contract requirements and BIA monitoring improve, BIA will continue to lack this assurance.

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## Work Plans

Construction work plans prepared by the tribes identify the houses to be repaired or constructed and describe the work to be performed. They are also a tool to help BIA verify that planned work was actually carried out, and that it is in compliance with program objectives and regulations. As table 1 indicates, we found complete work plans in only 10 of the 33 contract files where we reviewed for work plans. The two most notable missing items were drawings and specifications and start and completion dates. See appendix III for details.

We reviewed the elements of what we consider a work plan as identified in appendix III.<sup>1</sup> Most of the requirements appear to be clear, with the exception of the level of detail required in the drawings and specifications and the description of the repairs to be made. We asked BIA and some tribal officials for their thoughts on noncompliance and received varied replies. BIA officials attributed the incomplete work plans to the tribes not understanding some of the elements of a work plan. The general manager of a tribal organization that operates HIP said that he thought reports on completed work satisfied the requirement for work plans.

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<sup>1</sup>The model contract does not use the term "work plan." We have used it to describe collectively a number of contract requirements for information about the housing work being funded.



## BIA Oversight and Enforcement of Model Contract Not Fully Effective

Some BIA area offices are not enforcing tribal compliance with model contract requirements consistently or vigorously. We also found that BIA is not monitoring construction, as required by the model contract.

### Model Contract Enforcement

COS and CORS are not properly enforcing provisions of the model contract. This is borne out by the fact that our review of 45 contracts showed items required by the model contract to be missing (see table 1 and app. II).

As mentioned, while the CO is ultimately responsible for ensuring compliance with the terms of the contracts he or she awards on behalf of BIA, the CO delegates the day-to-day responsibility for contract compliance and enforcement to a COR. The CO designates the COR with a memorandum spelling out the COR's duties and responsibilities. Basically, the COR is responsible for assuring that the contractor (1) performs in accordance with the contract's terms and conditions, (2) provides services as agreed to in the contract, (3) spends funds for the purposes intended, (4) properly accounts for funds, and (5) submits contract reports as required. The CO can also designate an alternate or subordinate COR.

Both the Portland and Phoenix area offices review contract applications for missing information and follow up by sending letters to the tribes. At the other two area offices, we did not find any indication that this type of follow-up took place. The lack of aggressive efforts to get tribal organizations to comply with contract terms may be contributing to the lower model contract compliance rate in the Eastern area.

### Construction Monitoring

The model contract requires the COR to inspect construction work at least once a month to assess construction progress as well as to assure that the construction work is consistent with the contractor's work plans. At the beginning of fiscal year 1987, this requirement was changed to bimonthly. As mentioned, the contract also requires the COR to furnish the results of each inspection to the CO and the area office director.

Our review of the 45 contract files showed that COR monitoring reports were missing for 28 contracts. We could not locate monitoring reports for any of the 22 contracts at BIA's Eastern and Albuquerque area

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offices. However, handwritten notes indicate that BIA had done some construction monitoring on four of the eight Albuquerque contracts we reviewed. In Phoenix, however, we located COR monitoring reports for 7 of its 11 contracts and in Portland for 10 of its 12 contracts.

The CORs and assistant CORs we spoke with generally attributed the absence of monitoring to a lack of expertise in assessing construction quality. They agreed, however, that they could at least verify that planned work had been accomplished (for example, that three houses were reroofed and windows replaced on two other houses). Additionally, according to the national director of HIP, BIA area offices have construction expertise that the COs and CORs should be drawing on. We were also told that the shortage of time and resources sometimes limits monitoring.

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## Conclusions

We believe that the model contract is a positive step toward correcting the HIP material weakness. However, we found instances where tribes are not complying with a number of important model contract provisions and BIA is not adequately monitoring and enforcing tribal compliance.

Our review showed inadequate BIA monitoring in two areas. BIA is not adequately monitoring to ensure (1) tribal compliance with contract provisions and (2) that planned construction work is in fact accomplished. Insufficient CO and COR diligence in requiring tribes to submit all information required by the model contract has resulted in some important information not being reported to BIA. Although CORs attribute their insufficient construction monitoring to inadequate expertise, they could at least verify that actual construction or repairs are consistent with planned projects. If they do not have the proper expertise, they should avail themselves of construction expertise at BIA area offices.

In addition, we found a number of problems in the way some tribes apply selection criteria to establish priority lists of HIP recipients.

Finally, we disagree with how BIA and tribal officials interpret some of the model contract requirements. A consolidated inventory of housing needs does not satisfy the model contract requirement for an inventory of housing needs of all tribal members desiring to participate in HIP, thus ensuring that a tribe has an application process in place. This model contract requirement does not make it clear that the requirement is for a listing of individuals rather than a housing inventory.

The required elements of a work plan are clear with the exception of the level of detail required in drawings and specifications and a description of repairs.

## Recommendations

In order to improve the effectiveness of the model contract, thereby ensuring that HIP funds are properly spent on the neediest Indian applicants, we recommend that the Secretary of the Interior direct the Assistant Secretary for Indian Affairs to

- require COS and CORS to enforce the model contract provisions requiring the submission of documents, such as inventories of applicants, which help BIA monitor the operation of the program;
- require CORS to verify that planned construction is carried out; if they do not have the engineering expertise to assess quality, CORS should make use of construction expertise at the area office;
- require BIA to periodically test tribal application of selection criteria;
- change the model contract requirement from an “inventory of housing needs of all tribal members desiring to participate in HIP” to an “inventory of applicants;” and
- clarify the level of detail required in drawings and specifications and the description of repairs.

## Agency Comments and Our Evaluation

The Department of the Interior agreed with our recommendations and said that our findings were helpful toward redirecting HIP in order to make it more professional, accountable, and cost-effective. One of the actions proposed by Interior is not, however, clearly responsive to our recommendation. In recommending that BIA be required to periodically test tribal application of selection criteria, we sought to ensure that priority lists are in fact developed in accordance with established selection criteria. Interior does not specifically state that it will require this type of test. Since we found a number of problems in the way some tribes apply selection criteria, we believe this type of testing is essential to ensuring that the neediest Indian families get priority funding.

As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this report, and to the House and Senate Committees on Appropriations with the agency’s first request for appropriations made more than 60 days after the date of this report.

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We are sending copies of this report to the House Committee on Government Operations and the Senate Committee on Governmental Affairs; the House and Senate Committees on Appropriations; the House Committee on Interior and Insular Affairs; the Senate Select Committee on Indian Affairs; and the Director, Office of Management and Budget. Copies will also be made available to others upon request.

This work was performed under the direction of Sarah P. Frazier, Associate Director. Other major contributors are listed in appendix V.

Sincerely yours,

A handwritten signature in cursive script that reads "J. Dexter Peach". The signature is written in black ink and is positioned above the typed name and title.

J. Dexter Peach  
Assistant Comptroller General



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**Table**

Table 1: Model Contract Compliance

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**Abbreviations**

BIA	Bureau of Indian Affairs
CO	contracting officer
COR	contracting officer's representative
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
HIP	Housing Improvement Program
RCED	Resources, Community, and Economic Development Division

# Objective, Scope, and Methodology

Our objective was to determine whether BIA was implementing the actions cited by the Secretary of the Interior in his FMFIA statements and to assess the effectiveness of the model contract in correcting the material weakness that existed in HIP.

We collected information from BIA's headquarters and BIA area offices in Arlington, Virginia; Albuquerque, New Mexico; Phoenix, Arizona; and Portland, Oregon. We selected the Arlington office—BIA's Eastern area office—for review because of its proximity to our staff in Washington. We selected the Albuquerque area office because 10 of its 24 tribes operated HIP under contract, and because of the tribes' proximity to the BIA area office and the existence of a BIA agency office in Albuquerque. We selected Phoenix because it receives one of the largest allocations of HIP funds (\$2.2 million in fiscal year 1986). We selected Portland on the basis of the national director of HIP's statement to us that HIP should be operating optimally at this location since it had a full contingent of housing staff at the area office. These four area offices are responsible for about 30 percent of all tribal contracts. We also collected information from seven Indian tribes within these areas and at their respective BIA agency-level offices. We selected the following seven tribes from 45 tribal contract files we reviewed at the four area offices: St. Regis Mohawk, Eastern Band of Cherokee, Tulalip, Southern Ute, San Juan Pueblo, Gila River Indian Community, and San Carlos Apache.

At BIA headquarters we clarified the definition of BIA's material weakness and corrective action and obtained information on the causes and effects of the material weakness. We also reviewed pertinent Inspector General reports.

In order to determine tribal compliance with model contract provisions, we reviewed fiscal year 1986 contract files for 45 tribes covered by the four area offices included in our review. Any required information missing from the area office contract files was requested from the respective BIA agency offices or tribes. We discussed model contract enforcement and oversight with BIA officials at BIA's headquarters, area offices, and agency offices. We also discussed model contract compliance with tribal officials at the seven tribes we visited. In selecting the tribes for our detailed review, we attempted to select one tribe at each area office that was in full or substantial compliance with the model contract provisions and one tribe that was not. We made these selections on the basis of our initial review of the contract files at the area offices. Since the Portland area office had a high degree of compliance overall, we selected only one tribe under its jurisdiction for detailed review.



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**Appendix I**  
**Objective, Scope, and Methodology**

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We tested priority list selection to obtain indications of whether the neediest Indian applicants were getting on the priority list. We accomplished this by developing need profiles of both priority list and nonpriority list applicants at the tribes we visited. In doing so we applied priority list selection criteria established by each of the tribes.

# Model Contract Compliance Schedule

	Degree of compliance by area office														
	Albuquerque			Eastern			Phoenix			Portland			Total		
	Full	Partial	None	Full	Partial	None	Full	Partial	None	Full	Partial	None	Full	Partial	None
Inventory of tribal members desiring to participate in HIP			8	11		3			11	12			23		22
Selection criteria	8			7		7	10		1	12			37		8
Priority list	8			11		3	11			12			42		3
Work plans	2	6		3	10	1	5	6					10	22	1
Quarterly HIP reports	8			8	4	2	8	2	1	12			36	6	3
Annual inventory of housing needs	8			14			11			12			45		

# Tribal Compliance With Work Plans<sup>a</sup>

	Albuquerque		Eastern		Phoenix		Total <sup>b</sup>	
	Yes	No	Yes	No	Yes	No	Yes	No
Name of applicant	8		10	4	11		29	4
Type of assistance	6	2	13	1	11		30	3
Cost estimate	8		11	3	11		30	3
Description of repairs	6	2	6	7	9		21	9
Location of housing unit	6	2	3	11	9	2	18	15
Sale price				3				3
Down payment required				3				3
Drawings and specifications	2	6	3	11	6	5	11	22
Start and completion dates	3	5	3	11	8	3	14	19

<sup>a</sup>Not all items are required for each type of assistance. For example, sale price and down payment requirements are only needed for category C assistance (down payments).

<sup>b</sup>We reviewed 33 contracts at three area offices for work plans. We did not review work plans at the Portland area office because this office does not retain them and area office officials felt that they were too voluminous for us to request from the BIA agency offices.

# Comments From the Department of the Interior



## United States Department of the Interior

OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240

JUN 30 1987

Mr. J. Dexter Peach  
Assistant Comptroller General of the  
United States  
General Accounting Office  
Washington, D. C. 20548

Dear Mr. Peach:

This letter is in response to the General Accounting audit report entitled Indian Housing--Internal Controls Improved but Needs Strengthening (GAO/RCED-87-184). We concur with the recommendations contained in the report and provide the following comments:

GAO Recommendation #1

Require COs and CORs to enforce the model contract provisions requiring the submission of documents such as inventories of applicants, which help BIA monitor the operation of the program.

BIA Comment

We will reinforce our instructions to Area Directors by requiring adherence to the HIP Model Contract provisions calling for all HIP contract applications to contain the necessary information and documentation before the contract is executed.

GAO Recommendation #2

Require CORs to verify that planned construction is carried out; if they do not have the engineering expertise to assess quality, they should make use of construction expertise at the area office.

BIA Comment

Although the model contract contains requirements for construction monitoring and inspection by the CORs, where the CORs are not the housing officers and are not able to monitor and inspect, the CO will ensure that procedures are in place to have the Area Housing Officers monitor and inspect.

Changed to  
(GAO/RCED-87-148)

GAO Recommendation #3

Require BIA to periodically-test tribal application of selection criteria.

BIA Comment

As the GAO noted, the uniform HIP Selection Criteria were issued in November 1986. Consequently, many FY 1987 HIP contracts negotiated prior to this date did not contain the requirement to use the HIP Selection Criteria. Towards this end, we will issue instructions to all Area Directors that all tribal HIP contractors must use the Uniform Selection Criteria to develop their FY 1988 and future priority lists.

Moreover, we will require that the Area/Agency housing staff review each contract application to ascertain that the priority list is in accordance with 25 CFR Part 256.5 and the HIP Selection Criteria. In addition, we will require that during the contract period, the Area/Agency housing officer monitor, evaluate and inspect the projects to determine that the funds are used for purposes intended and to assure compliance with contract provisions. The results of this monitoring will be submitted to the Area Directors and the Contracting Officers for their review and action.

GAO Recommendation #4

Change the model contract requirement from an "inventory of housing needs of all tribal members desiring to participate in the HIP" to an "inventory of applicants".

BIA Comment

We will incorporate this language in the model contract.

GAO Recommendation #5

Clarify the level of detail required in drawings and specifications and the description of repairs.

BIA Comment

The following descriptive language will be added to the model contract:

The plan shall also include preliminary drawings, specifications and cost estimates and a phased construction schedule for each unit to be repaired, renovated or built new. Drawings should fix and illustrate what is required to repair or build new houses by providing when applicable a

design, elevations, unit and room total square feet, general construction, placement of heating, mechanical, electrical, and utility systems, site layout for grading and utility distribution. The specifications should describe clearly the scope of work to repair or build a new house, workmanship involved, a statement describing the quality of materials, and applicable building standards. Project construction costs should be based only on work and materials described in the drawings and specification documents so that total construction costs may be kept within regulation limits.

Although the redirected HIP effort was not complete during the GAO's review process, we find the findings helpful towards redirecting the HIP in order to make it more professional, accountable, and cost effective.

We trust this information clarifies the Bureau's position regarding the recommendations contained in the report.

Sincerely,



Assistant Secretary - Indian Affairs

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# Major Contributors to This Report

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