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Statement of

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before the

Subcommittee on Consumer Affairs
Committee on Banking, Finance and Urban Affairs
House of Representatives

concerning

General Services Administration's
Sale of Carson City Silver Dollars

Mr. Chairman and Members of the Subcommittee:

I welcome this opportunity to appear before you today to discuss the results of our review of the General Services Administration's (GSA) sale of the Government's remaining Carson City Silver Dollars.

The Chairman's October 16, 1979, letter to the Comptroller General expressed concern about the manner in which GSA planned to spend the remaining \$2.2 million of the money the Congress had appropriated for the sale of these silver dollars. We were asked to investigate the appropriateness of the manner in which GSA planned to spend these funds. In view of the difficulty we were experiencing in attempting to satisfy this request without

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interfering with GSA's planning and conduct of the first sale scheduled for February 8, 1980, and the lack of firm information on the planned expenditures, it was subsequently agreed that we would discontinue our efforts at GSA. On February 1, 1980, we sent the Chairman a short letter summarizing our work up to that time.

The Chairman's June 16 letter expressed growing concern about certain aspects of GSA's management of the sale and requested that we resume our investigation.

As agreed in subsequent discussions with the Subcommittee staff, my testimony today will cover:

- How the limits were set for the maximum number of coins per category that would be sold on individual orders.
- Our evaluation of the order and coin selection processes.
- The extent to which "bad checks" were received and why this occurred.
- How the \$2.2 million is being spent, with our assessment of whether the expenditures were necessary and prudent.

LIMITS ON THE NUMBER OF COINS

On July 26, 1979, GSA announced that there would be no limit on the number of coins that could be ordered for the sale to be conducted between February 8 and April 8, 1980. Subsequently, GSA announced that it would fill orders for up to

500 coins in each of three mint year categories at random, based on the dates received. The unfilled balance of orders for more than 500 coins was to be filled at the end of the sale.

The volume of orders greatly exceeded GSA's expectations. About 350,000 orders were on hand by February 19. Based on a sampling of the orders received, on February 25 the Commissioner of GSA's Federal Property Resources Service announced that almost all orders were for more than one coin and he projected a large oversubscription. He also announced new limits on the number of coins that would be filled per order. These limits were: 10 for the 1883 coins, 20 for the 1884 coins, and 5 for the Mixed Year coins. Although the limits were changed to provide a more equitable distribution of the coins, they did not guarantee that every order on hand would be filled with some coins.

The Carson City Silver Dollar Project Manager informed us that the decision to establish limits on the number of coins which would be filled was not a basic policy change because the Terms and Conditions of Sale provided to the public had reserved the Government's right to cancel the sale and to reduce the quantity of coins to be filled.

Based on our discussions with Project Office officials and our review of pertinent documents relating to the setting of the limits, we found no basis to question GSA's actions in this regard.

ORDER AND COIN SELECTION PROCESSES

On February 8, 1980, the sale of 923,266 Carson City Silver Dollars began. Approximately 350,000 orders were received by the San Francisco Project Office between February 8 and February 19, 1980. Eventually, a total of about 500,000 orders were received. At the time of our review, the selection and awarding of coins had already been completed. Therefore, we could not observe these processes, but had to rely on interviews and discussions with Project officials concerning the methodologies used.

Order Selection

Most of the orders were received by first-class mail and arrived in mail trays holding between 800 and 1,000 orders each. A stick-on label was put on each tray to identify the day of arrival and the trays were segregated by arrival date.

Orders were received by registered mail, special delivery mail, Federal Express or were personally deposited in a box placed in Region 9's Business Service Center. At the close of business each day, personally delivered orders were taken to the Project's mail room and placed in that day's mail receipts. According to Project officials, all orders were handled in the same manner regardless of how they were sent. All orders received between February 8

and February 19, 1980, were consolidated into a single group and labeled "Day 1" mail. Orders received on February 20 were labeled "Day 2", and so on.

After February 20, 1980, approximately 150,000 orders were received; most of these were returned to the sender unopened. Project officials informed us that they had already determined that the sale was oversubscribed and decided that these orders would be returned as soon as possible so as not to tie up an individual's funds for a long period of time. On May 9, 1980, the Project began returning orders and remittances to individuals who had not been selected to receive coins; the latest received were returned first. This was done to provide a cushion if, for some reason, there were not enough orders to sell all the coins. The last unfilled order and remittance was returned on June 6, 1980.

The order selection process began on February 19 and was completed on May 9, 1980. Briefly, 4 or 5 order trays marked "Day 1" were selected and taken to the processing room; clerks selected orders from these trays in no particular sequence. However, they were instructed not to remove more than two-thirds of the orders from any one tray. The orders were checked and sent to keypunching, and the remittances were sent to the GSA cashier for deposit.

The order selection process was developed by the Region 9 Personal Property Division's Director. The Director stated

that in his opinion, there was not a more fair, equitable, logical, nonbiased, and totally random procedure that could be instituted and operated considering the volume of orders that were received and the limited funds available to dispose of the coins.

The technique used for selecting orders to be filled was not a true random process. For example, orders were not selected from all of the mail trays. Also, the selection of an envelope could have been influenced by its size--little, thin, large, or thick; color or absence thereof; or location within the mail tray. In our opinion, it would have been feasible for GSA to devise a selection process that would have provided greater assurance that either intentional or unintentional bias did not influence the selections.

We also found that GSA had not established controls to ensure that all orders were properly accounted for throughout the selection process. For example, predetermined control totals had not been established over order batches to make sure that all batches were accounted for and not lost during computer processing.

Around May 21, 1980, 158 order batches representing 3,865 orders were mistakenly dropped from the computer system during input. Project officials did not detect and correct this situation until about June 19, 1980. Thus the dropped orders were not processed for receipt of a coin until the input error was corrected. These customers probably did not receive their ordered coins since, according to Project officials, most of

the coins had been awarded by the time the dropped orders were reentered into the computer. Project officials believe that this problem occurred when a work tape was removed from a tape drive in error and was not included in the sorted daily transactions. Subsequently, Project officials tightened their control procedures to insure that all batches were accounted for.

Coin Selection

The Bureau of the Mint's random selection process for scrambling the Mixed Years coins which included a number of very valuable coins, appeared reasonable and adequate. In our opinion it would have been extremely difficult for an individual to influence the random selection process without collusion on the part of several employees.

When the correct number of coins to be shipped in sets had been determined and verified, they were transferred to the packaging area. Once in the packaging area, they were removed from the containers, randomly placed on the packaging line and shuffled at the initial staging point, which was the head of the packaging line. After the sets were shuffled, employees on the line picked up sets at random and placed them in the mailing cartons. The mailing cartons had no identity because a mailing label had not yet been affixed.

When the sets had been placed in the mailing cartons, they were ready for labeling. Mailing and labeling employees randomly placed the mailing cartons on the lines and labels

were attached by a labeling machine. When the mailing carton was labeled, custody was transferred to the Postal Service. A Mint official told us that initially when "mixed sets" were transferred to the packaging area, it might have been possible for a Mint employee to know which sets contained the high value coins. However, after random shuffling and labeling, any identity would be impossible without completely opening a set or a mailing carton.

As of July 23, 1980, 818 coins had been returned as undeliverable to the Project; there were 116 1883's, 518 1884's and 184 Mixed Years. According to Project officials, the bulk of the coins were undeliverable because of unknown or insufficient addresses. Project officials had been successful in correcting some of the addresses and, by August 1, only 432 of the returned coins were still on hand.

When the Postal Service returned coins they were signed for, logged into a coin registry book and assigned a control number; a control index card was made up; and the coins were placed in one of four filing cabinets. However, we found that the coins were kept in the order processing room and stored in file cabinets that are unlocked during regular office hours. As a result, the coins were not only accessible to more than one Project employee, but also to contract cleaning employees. Also, there were no requirements for periodic verification of the number of undeliverable coins on hand against any control document.

REMITTANCES AND BAD CHECKS

Of the approximately 500,000 remittances received during the sale, the majority were personal checks.

As of July 28, 1980, the Project had received 3,795 dishonored checks having a face value of \$8.1 million. The Project was able to cancel the orders relating to these checks for all but 714 with a face value of about \$1.1 million. Coins and/or Treasury refund checks were issued in these 714 instances.

We believe that more timely deposits of original remittances and better handling of dishonored checks that were returned could have reduced the number of orders filled and refund checks issued relating to these dishonored checks.

The Project had a policy of delaying shipments of individual orders from 4 to 6 weeks to permit remittance checks to clear prior to shipment. However, this was somewhat subverted by the failure to promptly deposit remittance checks. For example, order processing began on February 19, 1980, but the first deposit wasn't made until March 4, 1980.

We examined the handling of 50 remittances and found that it took an average of 6.5 business days for the Project to deposit a remittance with the GSA cashier after an order had been selected for processing. Further, it took the GSA cashier an average of 4 business days to deposit a remittance with the Federal Reserve Bank, thus delaying clearance of a remittance by 10.5 business days, or 15 calendar days.

As previously stated most of the dishonored checks were returned prior to shipment of the orders and the orders were

cancelled. However we found that some of the 714 checks for which coins and/or refund checks were mailed had also been returned prior to shipment.

We examined 50 of the 714 dishonored check cases to determine whether the Federal Reserve Bank had notified the GSA cashier or the Project about the status of the check before the Silver Dollars and/or Treasury refund checks were mailed. We found that in 44 of the 50 cases the Federal Reserve Bank had notified GSA about the dishonored checks' status before the refund or coins were mailed. According to the GSA cashier, the Project was notified about the status of dishonored checks either on the same day that notification was received from the Federal Reserve Bank or, at the most, on the following day.

As of August 1, 1980, the Project had collected on 356 of the dishonored checks having a face value of \$550,060, leaving to be collected 358 checks having a face value of \$571,787. GSA was continuing collection action on these checks.

PROJECT COSTS

At the beginning of fiscal year 1980 about \$2.2 million of the \$10 million Congress appropriated to sell the Carson City Silver Dollars had not been spent. As of June 30, 1980, about \$1.5 million of the remaining funds had been obligated and about \$600,000 had been spent. About \$730,000 in project funds had not been obligated. The exhibit at the end of this statement shows the status of the Project's budget plan, of June 30, 1980.

We examined supporting documentation for the amounts budgeted and expended in the larger cost categories and believe that the costs incurred were generally necessary and prudent.

Project officials have told us the remaining funds should be more than adequate to cover the costs of selling all the remaining coins and that some money will likely be returned to the Treasury.

Mr. Chairman, this concludes my prepared statement. My associates and I will be pleased to respond to any questions at this time.

Status of the Carson City Silver Dollar Project's Budget Plan,
Obligated, Unobligated, and Expended Funds as of June 30, 1980

		Budgeted as of <u>6/30/80</u>	Funds obligated through <u>6/30/80</u>	Funds unobligated through <u>6/30/80</u>	Funds expended through <u>6/30/80</u>
Salaries & Wages	CO	\$156,800	\$ 83,350	\$ 73,450	\$ 83,370
	R-9	203,800	146,299	57,501	146,442
	Total	<u>360,600</u>	<u>229,649</u>	<u>130,951</u>	<u>229,812</u>
Retirement & Insurance	CO	15,600	6,077	9,523	6,083
	R-9	20,400	10,752	9,648	10,760
	Total	<u>36,000</u>	<u>16,829</u>	<u>19,171</u>	<u>16,843</u>
Travel Non-Limited	CO	-	240	(240)	160
	R-9	-	-	-	-
	Total	-	<u>240</u>	<u>(240)</u>	<u>160</u>
Transportation Things	CO	-	-	-	-
	R-9	-	238	(238)	518
	Total	-	<u>238</u>	<u>(238)</u>	<u>518</u>
Printing	CO	334,500	430,744	(96,244)	2,522
	R-9	55,000	16,772	38,228	10,653
	Total	<u>389,500</u>	<u>447,516</u>	<u>(58,016)</u>	<u>13,175</u>
Contract Services	CO	845,000	667,565	177,435	270,689
	R-9	150,000	79,311	70,689	51,167
	Total	<u>995,000</u>	<u>746,876</u>	<u>248,124</u>	<u>321,856</u>
Supplies	CO	-	348	(348)	232
	R-9	25,000	26,861	(1,861)	5,345
	Total	<u>25,000</u>	<u>27,209</u>	<u>(2,209)</u>	<u>5,577</u>
Communications	CO	298,100	-	298,100	-
	R-9	-	1,525	(1,525)	935
	Total	<u>298,100</u>	<u>1,525</u>	<u>296,575</u>	<u>935</u>
Administrative Equipment	CO	8,700	-	8,700	-
	R-9	5,000	6,511	(1,511)	3,482
	Total	<u>13,700</u>	<u>6,511</u>	<u>7,189</u>	<u>3,482</u>
Standard Level User Charge	CO	12,000	250	11,750	250
	R-9	64,000	4,200	59,800	4,200
	Total	<u>76,000</u>	<u>4,450</u>	<u>71,550</u>	<u>4,450</u>
Grants	CO	-	760	(760)	-
	R-9	-	-	-	-
	Total	-	<u>760</u>	<u>(760)</u>	-
Travel Limited	CO	10,100	1,536	8,564	1,492
	R-9	10,000	567	9,433	567
	Total	<u>20,100</u>	<u>2,103</u>	<u>17,997</u>	<u>2,059</u>
Grand Totals	CO	<u>1,680,800</u>	<u>1,190,870</u>	<u>489,930</u>	<u>364,798</u>
	R-9	<u>533,200</u>	<u>293,036</u>	<u>240,164</u>	<u>234,069</u>
	Total	<u>\$2,214,000</u>	<u>\$1,483,906</u>	<u>\$730,094</u>	<u>\$598,867</u>

