

BUDGET 11 AUDITING

*Course pandence from 11-24-58 to 8-11-61*

## TITLE

## Budget 11 Auditing

	Date	To	From	Class	Pgs. No.	To	From	Class
1	1-12-59	Campbell, Joseph GAO Audit Program		vee u				
2	11-24-58	Audit, Inspection and Appraisal		vee				
3	3-26-59	AEC 110/12 Design and Engineering of Gov. Facilities		vee u				
4	1-21-60	AEC 166/22 Audit Program		vee u				

UNITED STATES GOVERNMENT

# Memorandum

*Exhibit 11*

TO : Heads of Divisions and Offices, HQ  
Managers of Operations

DATE: August 11, 1961

FROM : John A. Derry, Director  
Division of Construction and Supply, HQ

*J. A. Derry*

SUBJECT: NOTIFICATION OF COMPLETION OF GAO AUDIT THROUGH JUNE 30, 1958

CSMR:SHH

Enclosed are copies of the General Accounting Office official notification of completion of audit through June 30, 1958 covering AEC-direct activities and cost-type contractors.

Appropriate action should be taken to dispose of records which have been retained pending the receipt of this notification and which are otherwise eligible for disposal in accordance with prescribed retention periods published in AEC Manual Appendix 0230, the handbook on Records Disposition.

It should be noted that the second paragraph of the enclosed GAO letter regarding monthly transmittals of records covering payments to carriers for transportation services applies only to AEC direct activities. Cost-type contractors' freight and express bills required by GAO are transmitted on a quarterly basis in accordance with AEC Manual Chapter 1130.

Enclosure -  
Cy ltr to AEC fm GAO, 8/2/61

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**UNITED STATES GENERAL ACCOUNTING OFFICE**

**Washington 25, D. C.**

**Civil Accounting and  
Auditing Division**

**August 2, 1961**

**Mr. Don S. Burrows, Controller  
U. S. Atomic Energy Commission  
Washington, D. C.**

**Dear Mr. Burrows:**

Pursuant to the provisions of Chapter 2000, Section 2060.20, Title 3 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, this is to advise you that the General Accounting Office audit of the Atomic Energy Commission has been completed through June 30, 1958.

In accordance with the provisions of § GAO 3030.40, voucher-schedules and supporting basic documents covering payments to carriers for transportation services should continue to be transmitted each month, after the disbursing officer's account current or statement of transactions has been reconciled and approved by the agency, to:

**Operations Branch  
Transportation Division  
U. S. General Accounting Office  
Washington 25, D. C.**

It should be understood that this advice of audit completion is not a statement of settlement of the accountability of the Commission's accountable officers but is issued for the purpose of implementing the records disposition program of the Commission and its contractors.

Sincerely yours,

/s/ Arthur L. Litke

**Arthur L. Litke  
Assistant Director**

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UNITED STATES GOVERNMENT

# Memorandum

TO : Heads of Divisions and Offices, HQ  
Managers of Operations

DATE: September 12, 1960

FROM : *J. R. Brindel*  
John A. Derry, Director  
Division of Construction and Supply, HQ

*for* SUBJECT: NOTIFICATION OF COMPLETION OF GAO AUDIT THROUGH JUNE 30, 1957

CSMR:TJP

Enclosed are copies of the General Accounting Office official notification of completion of audit through June 30, 1957 covering AEC-direct activities and cost-type contractors.

Appropriate action should be taken to dispose of records which have been retained pending the receipt of this notification and which are otherwise eligible for disposal in accordance with prescribed retention periods published in Chapter 0230, AEC Manual.

Enclosure -  
Cy ltr to AEC fm GAO, 9/6/60

*9/12/60*

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON 25, D. C.

Civil Accounting and  
Auditing Division

September 6, 1960

Mr. Don S. Burrows, Controller  
U. S. Atomic Energy Commission  
Washington, D. C.

Dear Mr. Burrows:

Pursuant to the provisions of Chapter 2000, Section 2060.20, Title 3 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, this is to advise you that the General Accounting Office audit of the Atomic Energy Commission has been completed through June 30, 1957.

It should be understood that this advice of audit completion is not a statement of settlement of the accountability of the Commission's accountable officers but is issued for the purpose of implementing the records disposition program of the Commission and its contractors.

Sincerely yours,

/s/ Arthur L. Litke

Arthur L. Litke  
Assistant Director

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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON 25, D. C.

CIVIL ACCOUNTING AND  
AUDITING DIVISION

MAY 17 1960

Mr. Alvin E. Luedcke  
General Manager  
Atomic Energy Commission

Dear Mr. Luedcke:

The Executive Director of the Joint Committee on Atomic Energy has requested us to furnish the Committee with copies of all future General Accounting Office reports on audits of the Atomic Energy Commission exclusive of letter reports to the AEC operations offices.

This letter is to inform you that in accordance with the request, we shall transmit a copy of the indicated audit reports to the Committee.

Sincerely yours,

*A. T. Samuelson*  
A. T. Samuelson  
Director

5-17-60

*Budgetary-Auditing*

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AEC 166/22

January 21, 1960

COPY NO. 22

ATOMIC ENERGY COMMISSION

AEC-WIDE INTERNAL AUDIT PROGRAM

Note by the Secretary

The General Manager has requested that the attached memorandum and report from the Controller be circulated for the information of the Commission.

W. B. McCool  
Secretary

AEC  
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DISTRIBUTION

COPY NO.

Secretary	1
Commissioners	2 - 6
General Manager	7
Deputy Gen. Mgr.	8
Asst. Gen. Mgr.	9
Asst. Gen. Mgr. IA	10
Asst. Gen. Mgr. Mfg.	11
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1-21-60

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Office Memorandum • UNITED STATES GOVERNMENT

TO : A. R. Luedcke  
General Manager

DATE: December 10, 1959

FROM : Don S. Burrows  
Controller *DSB*

SUBJECT: STATUS REPORT - AEC-WIDE INTERNAL AUDIT PROGRAM

The AEC Internal Audit Program is a significant factor in the system through which AEC controls its operations and those of its contractors. Since your direct contacts with the AEC audit undertaking are rather infrequent, I am certain that you will be interested in reading the attached report by the Assistant Controller for Auditing on developments during the past year.

As the report indicates, AEC auditing activities ranged from standard verifications of cash disbursements to the disclosure of ineffective and inadequate business practices and the discovery of bribery and fraud. Such a wide sphere of coverage is indicative of a dynamic internal audit program and provides assurance to all who have been entrusted with the stewardship of AEC's vast resources that the financial integrity of its operations have been subjected to close scrutiny and critical review.

One point which I would like to emphasize is that while auditing consistently produces sizeable dollar savings to the Government, particularly in connection with overhead billings of contractors, I do not consider that this is the principal purpose of AEC's internal audit program. Of greater importance are the improvements achieved in the various business practice areas subjected to audit plus the deterrent effect provided by knowledge that all business practices will be periodically reviewed.

In the aggregate, we can take pride in a highly competent and professional audit undertaking while at the same time recognizing that there are certain areas which still require attention, such as overhead costs and financial control of SN materials. The Headquarters audit staff, in discharging its responsibility for providing technical guidance and surveillance over field audit activities, will be continuously alert to improving and strengthening internal auditing in order that it may most effectively contribute to the financial administration of the atomic energy enterprise.

After you have had an opportunity to read the report, I would like to arrange a meeting at your convenience in order that we may discuss the report and the audit program generally.

Attachment:  
Report

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Report by Assistant Controller for Auditing  
On AEC-Wide Audit Activities for FY 1959

This report on the AEC-wide audit undertaking summarizes recent developments affecting the AEC audit program, and the organization and staffing for carrying it out. It also presents the highlights of audits conducted throughout AEC during fiscal year 1959.

AEC Audit Program

Since the inception of the AEC internal audit program in January 1953 there has been no change in the basic audit policy that internal auditing be an element in the administration of operations performed by AEC and its cost-type contractors, exclusive of technical operations. During the past year, however, three significant developments have taken place that affected the manner in which the policy is carried out.

First, in the light of experience gained to date, provision was made for a reduction in the required frequency of audits. In lieu of the annual audit of all business practices and procedures heretofore required, only those activities essential to minimum financial control must now be subjected to annual review. Other activities will be examined with such frequency as the Managers of Operations determine to be necessary, normally every two or three years. Additionally, latitude was provided to Managers of Operations, within the broad principles established, to determine the scope and extensiveness of audits of contractor and Area Office activities under their jurisdiction. It is contemplated that these modifications will result in a more productive audit designed to better fulfill the needs of management, while at the same time assuring elimination of unnecessary or excessive audit coverage.

The second development concerns completion of the AEC Audit Handbook which was prepared pursuant to the requirements of the AEC Management Directive System for developing detailed guidelines in implementation of established policy. Inasmuch as the Handbook will be used primarily in the field, the views of the Operations Offices were solicited and incorporated in the final product. The Audit Handbook is now being circulated in Headquarters for coordination with interested Headquarters divisions to mutually assure that there is no unnecessary overlap or duplication between the audits and the appraisals of other staff divisions.

Finally, as discussed later in this report, an audit of SN materials in research and with licensees was inaugurated for the purpose of eliminating the audit qualification appearing in AEC's Annual Financial Report.

Organization and Responsibilities

Responsibility for carrying out the AEC Internal Audit Program is assigned in part to the Controller and in part to the Managers of Operations Offices.

The Controller's audit staff exercises overall direction of the program including evaluation of and reporting on the technical competence of the Operations Office audit staffs. Additionally, the Controller's staff audits direct activities of the Operations Offices, direct activities of Headquarters, Headquarters administered contracts, and such other special examinations as the Controller may direct.

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The Operations Office audit staffs are responsible for passing upon the propriety of expenditures and adequacy of financial controls of the 54 major operating contractors whose accounts are integrated with those of AEC, as well as the more than 350 cost-type non-integrated contractors and their cost-type subcontractors. The auditors also review and report on integrated contractors' business practices in such areas as procurements and contracting, property and inventory, personal services and travel, and financial accounting and reporting. Paralleling the Headquarters sphere of responsibility, they audit Area Office direct activities and evaluate the competence of contractor internal audit staffs as well as performing diverse special purpose audits ranging from the community disposal programs at Oak Ridge and Hanford to the mining leases at Grand Junction.

It is AEC's policy to encourage its major operating contractors to provide for an internal audit of contract operations. However, the actual audit responsibility assumed by them is a matter for negotiation and is covered in the contract provisions. Currently, 22 major contractors have agreed to and are actually carrying out internal audits of their own contract operations, among whom are such large commercial corporations as du Pont, General Electric, Phillips Petroleum, Union Carbide, Western Electric, and Westinghouse. Brookhaven is the only one of the educational and research institutions which has established an internal audit program, although others such as the University of California and Argonne perform some auditing of contract expenditures. These internal audit programs provide an effective addition to the contractor's system of internal controls, and we have found that considerable reliance can be placed upon them by AEC in discharging its own audit responsibilities.

### Staffing

A staff of 29 professional auditors was attached to Headquarters, one less than the preceding year. To achieve maximum staff utilization and minimize travel time and travel expenses, 18 of these employees are permanently stationed at seven of the Operations Offices, with the audits of the other 5 offices (Schenectady, Savannah River, Lockland, Idaho, and Grand Junction) being carried out on an itinerant basis.

The Operations Offices employed 154 auditors at June 30, 1959 as compared with 170 a year earlier, while the number of auditors on contractors' internal audit staffs (131) remained at substantially the same level. The reduction in Operations Office auditors is even greater than the figures indicate since two new offices were established at Pittsburgh and Lockland in the interim period with an increase of 1 and 2 respectively in the number of auditors permanently assigned to those locations. The downward adjustment in staffing levels resulted principally from two factors: the audit stretch-out discussed earlier in this report, and a general improvement in the contractor activities being audited resulting in less audit effort being required to complete the work.

The present AEC-wide audit complement is generally adequate to discharge the existing audit workload although there are staff imbalances at certain offices. The Schenectady and Hanford staffs have been unable to maintain their audits on a current basis and have little hope of doing so without an increase of at least two auditors at each office. The New York Office is short-handed to approximately the same extent, although this situation has been generated in part by the fact that the three auditors at Brookhaven

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and the one auditor at Princeton are attached to the Area Managers' staffs. The placing of these employees under the direct supervision of the New York Office Audit Branch Chief would provide greater flexibility in making audit assignments and assure full utilization of their services on audit matters. A reduction of approximately three auditors in the Savannah River staff of fourteen could be effected. One factor which leads to this conclusion is the indicated diminishment in audit workload at that office. Additionally, the frequency of functional audits could be reduced consistent with present requirements, and greater utilization could be made of du Font's internal audit efforts.

Auditing by the Headquarters Staff

Headquarters Direct Activities

Twenty-nine audits of Headquarters direct activities were completed during the past year. Seventeen of these audits were for the purpose of verifying expenditures under Headquarters administered cost-type contracts and included contracts pertaining to construction of the Germantown building, and contracts entered into by the Office of Special Projects in connection with the September 1958 exhibit at Geneva on Peaceful Uses of Atomic Energy. One of the latter was with Reynolds-Feal Corp., the audit of which was performed in New York City and Milan, Italy, where the principal records were maintained. The audit questioned the propriety of more than 15% of the \$166,000 total costs and developed certain information which indicated the possibility of fraud. For this reason the audit findings were communicated to the Joint Committee on Atomic Energy and to the U. S. Department of Justice for its review and consideration of what further action should be taken. Subsequently the Reynolds-Feal Corp. offered \$21,913 in settlement of the Government's claim against it and the Department of Justice concluded that it would be in the best interests of the Government to accept this offer.

The remaining twelve audits related principally to the \$478 million of expenditures by Central Accounts Branch, a special study of telephone charges at Germantown, and review of the Isotope Equipment Grants Program of the Division of Biology and Medicine.

The preponderance of Central Accounts Branch expenditures were for the procurement of raw materials from foreign and domestic sources. In addition to ascertaining that expenditures for this purpose were in accordance with contractual provisions, the auditors also participated in the Finance Division reviews of proposed new contracts and contract amendments.

The special telephone study revealed that monthly charges had increased from \$30,000 in October 1957 (pre-Germantown) to \$59,000 in June 1958 (post Germantown). The principal reasons for the higher cost were an increase in monthly equipment rental charges from \$9,000 to \$26,000 and a 100% increase in the cost of long distance toll calls from \$11,000 to \$22,000. Following the audit, economy measures were introduced with the result that equipment rental charges have been reduced approximately \$3,000 a month and long distance toll calls are approximately \$15,000 a month less than a year ago.

The audit of equipment grants pointed up an absence of clearly defined criteria for reviewing submitted proposals and a failure to review final grant reports to determine adherence to the grant conditions. Procedural revisions are being instituted to correct these and other findings set forth in the audit report.

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Business Practices of the Operations Offices

Audits of Operations Office direct activities resulted in the issuance of 39 reports to the cognizant Operating Division Directors covering 48 functions and containing over 100 disclosures of various types indicating a need for corrective action. The most prevalent weaknesses were a need for more adequately documenting the record of contract actions taken, and the necessity for improving records and controls of government property in the hands of non-integrated contractors. Two across the board audits were carried out simultaneously at all Operations Offices. One provided for inquiry into the budgetary and financial aspects of construction projects and indicated that financial and administrative controls at all offices were generally in accordance with AEC requirements and that actions taken were on a timely basis. The principal respects in which improvements were indicated to be necessary were: (a) ineffective use of project directives as an aid in controlling construction projects; (b) delays in closing out completed construction projects; (c) inadequate financial control over and inaccurate accounting for general plant project funds; and (d) insufficient documentation to indicate compliance with required administrative procedures.

The other across the board audit related to Source and Nuclear materials in research and with licensees. The audit indicated that the method of valuing SN materials in research is not uniform at all offices, the accuracy of the results produced by the designated method is questionable, and the prescribed annual surveys by the Division of Nuclear Materials Management on whom reliance was being placed for verification of quantities were not all performed. As to SN materials with licensees, the examination disclosed a number of deficiencies in the basic systems and procedures which govern the processing and recording of licensee transactions. Principal among these were an absence of provisions for adequate physical control over materials in the hands of licensees and a need to develop a more accurate and simplified method for valuing licensee inventories. Those responsible for these areas of activity have been apprised in order that appropriate corrective measures may be instituted.

In addition to the foregoing, each Operations Office's financial statements were verified and their consolidation at Headquarters reviewed. These reviews in conjunction with those of integrated contractors conducted by the Operations Offices, provided the basis for certifying to the financial integrity of the Commission's FY 1959 Annual Financial Report. As in prior years, however, it was necessary to again include a qualification with respect to SN materials in view of the deficiencies disclosed by the previously mentioned audits in this area.

The year-end review also included verification of the June 30, 1959 obligations reported by each Operations Office for inclusion in the annual report on the status of AEC appropriations. (Prior to FY 1959 this report was submitted to Congress and certified by the AEC Chairman; commencing in FY 1959 it was submitted by the Finance Division directly to the Treasury Department.) In contrast with FY 1958 when audit adjustments approximated \$10 million, the obligations at June 30, 1959 were correctly reported by all offices except two. Chicago's obligations were overstated by \$181,000 due to inclusion of general plant projects contemplated but not authorized as of June 30, 1959, and New York's obligations were understated in the amount of \$1,162,000 because of a misunderstanding by New York as to which of its contracts should be forward financed and the proper method of establishing the dollar level of forward financing to be provided. In both instances adjustments were effected and the offices were apprised of the applicable regulations for future guidance.

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Evaluation of Audit Performance by Operations Offices

Individual appraisal reports are being issued by the Controller's audit staff evaluating each Operations Office's audit activities during FY 1959. In the aggregate these reports indicate that the Operations Office audit undertaking fulfilled the requirements of the AEC internal audit program, and in its execution evidenced a high degree of technical and professional competence on the part of the audit staffs. By and large all important activities were audited and adequately covered, including verification of allowability and reasonableness of expenditures. Furthermore, results of the audit were fully disclosed in audit reports.

There were nevertheless some instances where the audit coverage was not satisfactory. At Savannah River, the audit did not include a determination of the applicability to the contract of the du Pont general and administrative expenses allocated thereto. At Chicago, the audit of Brush Beryllium Co. failed to disclose that the contractor, contrary to specific contractual provisions, was diverting sizeable quantities of beryllium for use in his commercial operation. Additionally there was a backlog in auditing at Schenectady, Hanford, and New York which can be attributed primarily to inadequate staffing. At Pittsburgh, the other office where a backlog existed, noticeable progress was made in reducing the audit arrearage during the past year and it is expected that the remainder of the audit backlog will be eliminated by the close of fiscal year 1960.

The most frequently recurring problems affecting technical audit performance were undue delays in reporting audit results and ineffective utilization of contractor internal audit efforts. To assist in expediting report issuance at Chicago, San Francisco, Lockland, and Pittsburgh, it was suggested that less formal type reports be utilized where circumstances warrant and that consideration be given to reporting more frequently on smaller segments of the operation. At New York, reports have been issued promptly, but distribution has been unduly limited with the result that all interested parties have not received timely knowledge of the audit results.

As to utilization of contractor internal audit efforts, at Savannah River and Albuquerque there is need for closer coordination to arrange for dovetailing the AEC and contractor audit schedules, while at Pittsburgh and Hanford acceptance of the contractors work without independent verification to establish a basis for reliance is contrary to AEC audit policy and fundamental auditing principles. At Lockland utilization of General Electric and Pratt & Whitney audit efforts by AEC auditors has been seriously hampered because of refusal to allow them free access to the contractors' audit workpapers. Continuing efforts are being made at these locations to arrive at more satisfactory arrangements which will assure maximum utilization of the contractors' internal audit efforts.

Auditing by the Operations Offices

The more than 350 reports on audits of integrated and non-integrated contractors' financial activities indicated that, for the most part, expenditures made were proper, in accordance with contractual provisions, and correctly documented. There were, nevertheless, a number of instances where costs claimed were found to be in excess of allowable amounts, resulting in significant cost reductions as illustrated by the following.

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From a review of the Combustion Engineering Inc. accounting system, the Schenectady auditors concluded that the existing method of distributing overhead was not equitable. Redistribution of costs on a more acceptable basis resulted in savings to AEC of \$450,000. In this same contract the auditors questioned the contractor's proposed method of apportioning its home office general and administrative expenses on the grounds that it did not accurately measure the benefits derived. As a result, the proposed rates were reduced several percentage points, and this reduction when applied to total costs incurred to date represents a saving in excess of \$1 million. Furthermore, other federal agencies, who have contracts with this same organization, have been advised of the audit results and will undoubtedly achieve proportionate reductions in their own costs. (Cost reductions are being achieved from overhead audits at all Operations Offices.)

The certified costs of plant construction and expansion undertaken by uranium concentrate contractors at Grand Junction were audited and reduced \$519,000 producing a saving of \$211,000 in amortization payments (the balance representing costs in excess of the maximum allowable in the contract). Disallowances under formula type production contracts at this same location totalled more than \$144,000.

Audits at Albuquerque produced numerous savings such as unallowable employee fringe benefits of \$125,796 under the General Electric Co. contract; unallowable legal and accounting fees of \$20,839 under the contract with Edgerton, Garmeshausen and Greer Inc; and overpayments to Holmes and Narver Inc. of home office indirect charges totaling \$181,889.

At New York, the audit disclosed that improper charges had been billed by Metals Research and Development Corp. A company official unsuccessfully attempted to have the facts concealed by offering the auditor a bribe; the bribe attempt was reported to the FBI, the official was prosecuted, and he is now serving a jail sentence.

There were better than 400 individual audit findings in the 237 functional reports issued in FY 1959, a substantial portion of which related to weaknesses in particular details, as opposed to basic procedural deficiencies or inadequate overall controls. Among the more significant exceptions to this general observation were the following, representing the most prevalent current weaknesses in contractor business practices requiring correction: (a) inadequate financial controls over inventories, (b) malpractices in travel, (c) unacceptable accounting practices, and (d) an absence of adequate documentation in support of procurement actions. In the aggregate however, steady improvement has been noted in the business practice areas examined since the institution of the internal audit program. This is attributable in part to the revisions in policies and procedures stemming from the audit as well as to the preventive influence emanating from knowledge that periodic reviews will be conducted.

The contractors' internal audit made a material contribution to the effective administration of the contract work. Conformance to AEC internal audit principles in establishing areas of audit coverage and in developing appropriate programs, coupled with a more intimate knowledge of the contractor's operation achieved through continuing observation and contact, resulted in the disclosure of many significant audit findings. For example the periodic audit of stores inventories revealed a lack of

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uniformity in methods and practices, an absence of adequate procedures, and inadequate storage facilities to provide proper physical safeguards. Their audit of receiving and shipping disclosed a backlog of rejected material on hand because of failure to provide disposal instructions. These and other audit findings developed by Carbide and other contractor internal audit staffs produced substantial benefits to AEC and the contract operations as demonstrated by the fact that contractor management has effectively utilized the findings to improve procedures and strengthen controls. It is also significant that the contractor audits provided a basis for AEC discharging its own audit responsibilities with considerably less staff than would otherwise have been required.

### Correction of Deficiencies Disclosed by Audit

At most Operations Offices procedures have been instituted to assure that all audit findings receive appropriate consideration, that responsibility for necessary corrective action is assigned, and that this action is in fact taken. The only exceptions are at New York where follow-up procedures are not effective and San Francisco where procedures have not yet been fully developed. The need for more aggressive follow-up at New York and San Francisco is demonstrated by the fact that at each of these locations a number of audit findings continue to be repetitive of those appearing in prior years reports.

A satisfactory working arrangement has been established with the Washington Operating Divisions for follow-up of findings in Headquarters reports on Operations Office activities. Their cooperation has been an important factor in assuring that necessary corrective action is promptly taken.

### General Accounting Office

Favorable working relationships continue with the General Accounting Office and it is apparent that ever increasing reliance is being placed on AEC internal audits in the discharge of their own audit responsibilities. A brief outline of GAO's reporting practices together with a summary of reports resulting from GAO's audit activities during the past fiscal year follows.

It is GAO's practice to issue three different types of audit reports: those submitted to Congress, those addressed to the General Manager, and those addressed to Operations Office Managers. This reporting approach is designed to distinguish among the various classes of findings disclosed by their audits with the thought that the less significant findings can be resolved at the local level.

There were only two reports submitted to Congress during FY 1959; one covered the contract with Consumers Public Power District and the other the contracts for construction and operation of the Shippingport Atomic Power Station.

With respect to the Consumers report, AEC adopted the GAO recommendations that certain contractual provisions be further clarified. In the PWR report GAO made three points: (a) the desirability of avoiding joint ownership of facilities with a contributing contractor, (b) the desirability of direct AEC contracting for construction work and (c) the essentiality of timely and effectively executed audits, particularly audits of cost-type construction projects. AEC expressed agreement with all three points, each of which had been reported upon earlier by the AEC auditors.

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As an outgrowth of the audits, a special study was undertaken by the Headquarters audit staff for the purpose of determining the extent to which major construction projects were being contracted for by AEC prime operating contractors rather than by AEC itself. The study disclosed numerous exceptions to the AEC general policy of direct contracting for architect-engineer and construction services and proposed, with the concurrence of the Construction and Supply Division, that the policy be strengthened by making it mandatory that major architect-engineer and construction contracts be executed, administered, and controlled by AEC. This proposal was subsequently the subject of a Construction and Supply Division staff paper presented to the Commission.

There were no reports addressed by GAO to the General Manager. Of the 38 letter reports issued to Operations Office Managers, many were merely notification of audit completion in a particular area and indicated that there were no audit findings; where findings were reported satisfactory resolution was achieved in all instances at the Operations Office level. Six letters were addressed to the General Manager advising him of particular items contained in these letter reports with all six being for information purposes only, no actions being requested or required.

December 1959  
Assistant Controller for Auditing

*Handwritten: 11*

A. R. Landsche, General Manager

(Title of Don S. Zimm) *Handwritten: 11*

MAY 12 1959

Don S. Burrows, Controller

**REPLIES TO GAO AUDIT REPORTS**

The attached Bureau of the Budget Circular No. A-50 is a formal statement of the action to be taken by agencies of the Executive Branch in connection with audit and investigation reports issued by the General Accounting Office. This circular, incidentally, was coordinated in draft with this office, and the procedures now formally prescribed are consistent with those which we have worked out with GAO over the years for our handling of its reports addressed to the various levels within AEC.

The circular introduces a requirement that the agency provide its views to NCB on any report addressed by GAO to the agency head, the Congress, or a Congressional committee. This is a sequel to a practice originated by GAO some time ago of sending to NCB copies of its reports which were of such importance as to be so addressed. This requirement poses no problem insofar as AEC is concerned. The reports of this character have numbered only one or two a year, and there is no reason to believe that they will be more numerous in the future. All replies to GAO on such reports already are handled by this office as a part of its maintaining liaison with and coordinating correspondence to GAO, collaterally with the handling of such replies to GAO in the Bureau, we will simultaneously provide for the required advice to NCB, with which this office also has the liaison responsibility.

A second new requirement under the circular is that the agency furnish NCB with copies of any replies to inquiries by congressional committees to the agency head regarding GAO audit reports. Here also we have had very few such inquiries in the past, and again this requirement can be met by this office being promptly informed of the receipt of the Congressional inquiry and thereupon proceeding with the coordination of the reply and the furnishing of the required copies to NCB.

Attachment:  
Budget Circular No. A-50

FAH:JRS/bsc SCHWAB CIRCULARS

5/12/59 5/12/59

**EXECUTIVE OFFICE OF THE PRESIDENT**  
**BUREAU OF THE BUDGET**  
WASHINGTON 25, D. C.

April 1, 1959

CIRCULAR NO. A-50

**TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS**

**SUBJECT: Executive branch action on reports by the General Accounting Office on audits and investigations**

1. Purpose. Agencies of the executive branch have regularly given careful attention to reports made by the General Accounting Office in connection with its audits and investigations. This Circular establishes a uniform policy and procedure for such consideration by agencies of the executive branch, including where appropriate the initiation of follow-up action and the subsequent filing of a statement of views and results with the Bureau of the Budget.

2. Policy on General Accounting Office reports. The General Accounting Office has the responsibility for making independent audits and investigations of the agencies and functions of the executive branch. General Accounting Office reports, although varying in form and scope, often contain good independent reviews of executive branch operations as well as significant findings. In some cases, suggestions and recommendations are offered for changes in laws, policies, methods, and procedures.

Findings, suggestions, and recommendations in the reports will be given careful consideration by the respective agencies of the executive branch. The agencies are not obliged to accept these findings, suggestions, and recommendations. However, it is the intention that systematic consideration of the reports result in constructive action on every recommendation where such action is appropriate from the viewpoint of the executive branch.

3. Action by the agencies. The head of each agency shall provide for the systematic consideration of all General Accounting Office reports on the work of his agency -- both those on which agency statements are required by paragraph 4 below and those additional General Accounting Office reports on which agency statements are not required. When review in the agency indicates that action would be appropriate, the head of the agency shall promptly initiate such action. Where the action requires clearance by a central agency of the Government, or where it requires action regarding legislation or appropriations to put it in effect, the agency will proceed through the usual channels.

4. Requirement for agency statement to the Bureau of the Budget. Within 60 calendar days after formal transmittal of a General Accounting Office report to the agency, the head of the agency will comment on it

(No. A-50)

the above items (see paragraph 6). If action is incomplete at the time the statement is made to the Bureau of the Budget, a supplementary statement should be made when the matters outstanding are disposed of.

6. Relationship to comments on a preliminary draft of a report. In some cases, the General Accounting Office furnishes to the agency concerned a preliminary draft of its proposed report and invites comments prior to the time that the report is put into final form. The agency statement required by this Circular relates to the actual report, not to preliminary drafts. However, where the final report and the preliminary draft are substantially the same, the agency head may submit to the Bureau of the Budget copies of his comments on the draft, but he must also submit such additional data as required by paragraph 5 above.

7. Specific reports to congressional committees. Occasionally congressional committees request an agency head to express views in writing on a General Accounting Office report. In such cases, two copies of the communication to the committee will be promptly furnished to the Bureau of the Budget for its information. Where the communication to the committee includes an expression of views on proposed or pending legislation, it will be subject to coordination and clearance in advance in accordance with the regularly established procedures set forth in Bureau of the Budget Circular No. A-19. Similarly, where a statement of agency views deals with matters pertaining to other agencies or with executive budget policies, four copies of the proposed communication will be furnished to the Bureau of the Budget for coordination in advance of transmittal to the committee.

8. Effective date and transitional requirement. This Circular is effective with respect to reports issued by the General Accounting Office after April 1, 1959.

In some cases, the Bureau of the Budget may desire comments on a General Accounting Office report which was issued before April 1, 1959. Such comments will be requested in writing and will be due within 60 calendar days after the request. The information desired will be along the lines indicated in paragraph 5 unless otherwise specified in the request.

By direction of the President:

MAURICE H. STANS  
Director

Budget 11-

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AEC 110/12

March 26, 1959

COPY NO. 82

AEC  
110  
12

ATOMIC ENERGY COMMISSION

DESIGN AND ENGINEERING OF GOVERNMENT FACILITIES

Note by the Secretary

The General Manager has requested that the attached memorandum, and enclosure, be circulated for the information of the Commission.

W. B. McCool  
Secretary

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Copy filed in 110-4

3-26-59

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UNITED STATES  
ATOMIC ENERGY COMMISSION  
WASHINGTON 25, D. C.

March 10, 1959

MEMORANDUM

TO : A. R. Luedecke, General Manager

FROM : John A. Derry, Director  
Division of Construction and Supply

SUBJECT: DESIGN AND ENGINEERING OF GOVERNMENT FACILITIES

Recently representatives of several engineering firms have called our attention to the attached article by the world-renowned Robert Moses captioned, "Should Private Firms Plan Public Works?" I believe that you will be most interested in it and the sound philosophies expressed by the eminently qualified author.

Your particular attention is called to page 4 of the pamphlet which cites the basic conclusion from the Task Force Report of the Hoover Commission. As noted therein, the quoted excerpt commends the AEC for the efficient administration of its construction and related engineering program.

The Hoover Commission report was submitted to the President of the Senate and Speaker of the House of Representatives under date of June 20, 1955. The Task Force comprised outstanding representatives of the construction-engineering management field, and was chaired by the former president and chairman of the board of Stone & Webster Engineering Corporation.

In view of the cited commendation and the compatibility of the expressed philosophies with our construction and related engineering contract policies, you might like to call the enclosed article to the attention of the Chairman and Commissioners:

Additional copies are being sent to our field offices for their information.

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SHOULD PRIVATE FIRMS PLAN PUBLIC WORKS?

An Article by ROBERT MOSES

Because of its importance to public officials responsible for large public works programs, architects, engineers and other professional groups, this article by world-renowned Robert Moses has been reprinted and distributed by a nationwide group of architects and engineers.

For further information, write W. J. Donoghue Associates, 10 Columbus Circle, New York 19, N.Y.

ROBERT MOSES holds many titles, including chairman of the New York State Power Authority, chairman of the Triborough Bridge and Tunnel Authority, Park Commissioner of New York and City Construction Coordinator.

In various parts of the nation renewed efforts are being made to force public officials to use only permanent civil service technicians in the preparation of engineering, architectural, landscape and related plans and specifications for public works and for supervision of construction of such works. Civil service associations and groups, ambitious and jealous bureaucrats and innocent people misled by plausible propaganda have been triggering these attacks for years. Contrary to the old aphorism, opportunity to swell the ranks of government employes in these days of huge armament, arterial, housing and building expenditures knocks again and again and may, if we do not think and act, become irresistible.

Mine is no attack on the permanent Government agencies, in which I have long been enrolled, or upon many exceptionally able, experienced, underpaid and unrecognized men and women who are fully as competent, honest, and ambitious as any to be found in more lucrative private employment. I propose to make an honest, impartial analysis of the reasons why relying on the rank and file of public employes to furnish all professional advice, diagnosis, plans and supervision to the exclusion of outside consultants would be suicidal.

Let me offer an example of the drive for exclusive government planning. In connection with the vast new Federal Aid Highway Program, involving some fifty billion dollars over a period of twelve years, and especially the 41,000-mile interstate network, there has been serious discussion at various meetings of state highway officials of the question of eliminating private firms. The adoption of such a policy, if it were followed by legislation to put it into effect, would in my opinion go far toward ruining this great program, especially in the urban areas of the nation, and would inevitably spread into the design and inspection of other public works, including slum clearance, housing, power, bridges, parks and every conceivable kind of construction carried on or aided by public funds.

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The objective of the proponents of this philosophy is clearly to prevent the employment on public work of skilled professional private consultants, experts and technicians, notably competent engineering and architectural firms, and to relegate all such work to permanent public employes, to bureaucrats, and to the political leaders who are over the bureaucrats. The character of the work to be performed, the size of the program, the urgency of the improvements, and above all, the professional and technical skills and problems involved and the necessity of independent judgment and superior talent, are ignored. Government engineers are essential. So are outside consultants. Both have their place.

The almanacs show every year that there are more and more government employes - Federal, state and municipal. This is logical up to a point and there is no use getting hysterical about it, but a prodigious and alarming increase in the next decades, not explicable or justified by population growth, higher standards, greater demands and better services, represents a tendency which must be watched and controlled. Otherwise, before long pretty nearly everybody will be working for the government - certainly not a happy prospect. In any event, there can be no excuse for transferring to public offices outside professional talent which can be hired to do the work in private offices. Public house-keeping and protective forces must grow, but consultants need not multiply like rabbits to keep pace with the population.

Government employes must take care of budgeting of programs, routine construction, overhead policy decisions, supervision, review and coordination of plans, maintenance and other essential overhead work. Thereafter, the use of outside professional firms and technicians is the logical and economical method of progressing engineering and architectural design and supervision of most large construction projects.

It has become increasingly difficult to find people in public employment competent to meet our big construction requirements, many of them brought about as a result of work stoppage during the war years and postwar expansion, population increases and other factors. Many qualified engineers and architects have left public service for better paying positions in private practice. Private firms move much faster in progressing large building programs. Multiplying civil service technicians means recruiting by examination, slow promotions, tremendous overhead costs usually not fully reported to the public, delays, slow motion, and futile attempts to make an effective team out of people who usually lack incentives for imaginative concepts, speed and economy.

Permanent government engineering organizations recruited to handle huge construction programs acquire rights, privileges and protections under laws which make it impossible to tailor their size to current needs. They go on indefinitely. Work has to be made for them if, as in most instances, they live on capital construction as distinguished from expense budget appropriation. The costs of engineering, design and inspection by government agencies run up to 18 per cent of estimated construction costs, according to surveys made by the Hoover Commission in its second report as against an average of 4 per cent for design and 4 per cent for inspection ordinarily paid to private consulting firms who have to meet their entire overhead bills and pay full taxes.

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These Hoover studies of eight billion dollars' worth of construction concluded:

"By contracting to private architect-engineer and construction organizations all phases of design and construction work on Government construction projects, relatively small supervisory engineering organizations in the executive agencies could furnish the preliminary study, preplanning and budgeting, and the supervisory management and control essential for all Government projects, without maintaining through periods of fluctuating demands the present costly overhead for complete engineering and construction staffs. With minor exceptions, the Atomic Energy Commission has been operating under such a program. If other Federal agencies could attain the operating efficiency of the AEC, the savings to the Government in just the cost of design and supervision of construction, on the basis of present volume of business, would be more than \$100 million annually."

Other authoritative studies substantiate the conclusion that engineering plans and supervision in a typical state highway department range as high as 15 per cent of the cost of construction, while private engineering firms generally work for half that amount. There have been instances where rapid transit engineering costs by regular forces have run even higher.

There are those who assume or profess to believe that permanent Government engineers, architects and draftsmen turn out satisfactory work and meet schedules at moderate cost because of low public pay. Actually, in many instances, urgent projects are delayed, postponed, shelved or saved up to be worked on when inadequate forces get around to it and so as to stagger their chores and leave no intervals without funds.

As a squirrel buries nuts for future consumption, the tendency of a permanent staff is to keep plenty of plans in obedience and not to work itself out of a job. It is almost always opposed to hiring outside services. This is human nature. Most state highway departments cannot equip themselves with skills which are needed only infrequently. Their staffs do not have the experience, the drive, the ambition and the discipline to handle large programs smoothly and on schedule.

There is unfortunately a prevalent type of engineering and architectural and planning bureaucrat who measures his power and prestige by the number of subordinates working for him, or the space they occupy in public offices, by the length of the rows of drafting tables and typewriter desks, and by the accumulation of instruments and other paraphernalia.

There are, too, the rarer ones who take up little room, command only a few good men and farm out the work to firms which operate in rented space, hire their help in the market, sharpen their own pencils, pay the lighting company and, like Rufus Rastus Johnson Brown, have to figure out what to do when the rent comes round.

Outside professional consultants, firms and companies can seek their talent anywhere regardless of restrictions; they can advance and reward at will; they can make it possible for exceptional men to become partners. Public business, on the other hand,

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suffers from mortmain from absurd residence and age restrictions, seniority systems, veteran and other preferences, uniform efficiency ratings which in any event cannot reflect either lively imagination or executive ability, all aimed to maintain a level of satisfied mediocrity and the democratic rule of the lowest common denominator.

Elimination of employment of outside private professional firms and technicians would force state, city and other municipalities to expand their already unwieldy and extremely expensive permanent engineering staffs to meet emergencies and peaks in construction programs. It is doubtful if many competent engineers and architects with specialized training and knowledge would accept civil service employment where their abilities might be put to use only a few times in their entire careers. The alternative of securing infrequent, occasional, overhead advice on a per diem or piecework basis is not practical because of divided responsibility and because actual technical design after consultation would be left in the hands of inexperienced personnel.

The construction of the St. Lawrence and Niagara power projects, involving an expenditure of over a billion dollars, is being carried out on a tight schedule engineered by an eminent private firm of consultants with recognized experience throughout the world in hydroelectric power construction. It was logical to turn to private engineers specializing in this kind of work. Recruiting a great planning and inspection staff over night through civil service competitive examinations to prepare contract specifications for a program of this magnitude would have been doomed to failure from the start.

There is no mystery as to how these firms obtain their men. Engineers as well as contractors gravitate toward the big job whether it is a hydro plant, bridge, tunnel, or new express artery. On the Niagara and St. Lawrence projects, by employing consulting firms, we got the experience of men from the Tennessee Valley Authority, the Bureau of Reclamation, the Army Engineers and private agencies long involved in this type of work, men who have worked on every large dam and hydro plant in the United States and many abroad.

The Public Works task force which I headed under the direction of the first Hoover Commission made a thorough study of the subject of engineering personnel. Our report pointed out that the traditional tendency to build up a large permanent civil service force, in the absence of a foreseeable and continuing need, should be opposed and counteracted, and that such forces in many Government engineering bureaus invite justified criticism by multiplication of permanent personnel and over-head expenses for specific projects which would be better and more cheaply designed and supervised by consulting firms.

"We need competent top engineers in civil service," the report stated, "but it is only human nature for the rank and file who are paid out of limited project funds to string out the work and make it last as long as possible. Adoption of a policy to retain qualified engineers engaged in private practice for specific purposes on a fee basis would expedite work, reduce overhead costs, afford an opportunity to secure specialized personnel for such specialized work, and would encourage professional pride without weakening the esprit de corps of the permanent civil service personnel."

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In any permanent Government organization with a reasonably small number of regular employes, there should be first-rate professional men and technicians on a par with the best in private employment, competent to engage and direct the activities of outside consultants on design and contractors on construction.

In World War II, military and related establishments more and more adopted the practice of employing outside consultants for specific tasks of limited duration, and got away from the old practice of building up an immense permanent staff for projects performed better, more quickly and more cheaply by private engineering and architectural firms experienced in the latest developments in their particular fields, and familiar with the problems of the locality, physical difficulties at the site, local building codes and availability of local labor.

I cannot make it too plain that the top so-called civil service career men, the skilled professional and technical people in Government - not the hidebound, old-fashioned bureaucrats - have no superiors and few equals in private practice and corporate business. Private enterprise has no monopoly of brains.

It must be admitted, however, that in Government departments there are altogether too many routine red-tape artists, clock-watchers, comma chasers, and writers of cautious gobbledygook letters and interoffice memos for the files. The rank and file are held down by absurd promotion rules, overlooked and underpaid, and there are too many who, like Falstaff's army, are the cankers of a calm world.

The dilemma may, to be sure, be avoided by mechanical brains and automation. Pretty soon engineering may be reduced to expediting. Problems will be shot to Univac by pneumatic tube and come zooming back neatly packaged and completely solved the next day.

What happens in Government service, when there is some urgent job to be done and an exceptional man is available, was recently illustrated by the career of Vice Admiral Hyman Rickover, in the case of the atomic submarine. Here an iconoclast, no doubt smarting under old wounds, irritating and impatient, picks his helpers from junior officers, defies the system, tramples on custom. The traditional brass got out their swords and cyanide, muttered that the man never stood a watch, and cut him off from promotion and recognition until the press and public came to his rescue. At that he had a narrow shave.

The ablest heads in public service must be given incentives and rewards to keep them on their toes. Loading them down with hordes of subordinates primarily interested in security is no kindness to them. They should have the greatest outside professional talent made available to them for design, just as they should have the best private contractors in the field. Experience has taught us that building by force account, that is, by Government labor, is an expensive, long-winded business. Private contractors can be hired by the use of competitive bids, but the consultants must be picked by the public officials who carry the responsibility, usually on the basis of recommendations of the heads of the permanent staffs.

No doubt there will occasionally be favoritism, politics, pull and other extraneous reasons for the selection of this or that con-

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sulting firm, but the Government service is not free from such considerations either. No system yet devised is absolutely fool-proof. The time is still far off when, as Kipling said: "Only the Master shall praise us, and only the Master shall blame; and no one shall work for money, and no one shall work for fame."

I am quite aware of other faults which appear here and there when private consultants are employed on public works - new, untried, fly-by-night firms without much experience or talent, smarties who make others do their work, chiselers who assign too few men, especially on inspection, ugly rumors, if not positive evidence, of political pressures and contributions in the selection of consultants, tough competition of firms for the large planning sums involved, irksome problems of choice between and among the contenders.

The possibility of such tricks and tricksters calls for vigilance on the part of the appointing officials but is no reason to rule out the good ones. One answer is to prequalify firms on the basis of ability, experience and resources. A consultant or architect should be something more than a professional man who has gone into business.

There is a familiar, almost constitutional, three-way separation of powers in big public building - that is, in major, original, nonrecurring projects. The work is shared by the Government which conceives, initiates and controls; the outside consulting engineering or architectural firm, which makes the detailed plans and sees that they are conformed with, and the private contractor, who does the actual construction on the ground. Labor is involved in each of the three: public employes in the first; professional, private, field and office workers in the second, and union labor in the third.

When this balance is disturbed, as it is in many foreign countries, such as in South America, where the outside contractor designs and builds and often initially invents, there is usually trouble and always heavy expense. The checks and balances are missing. Disturb that balance, fuse their powers and you create a private or public monopoly which is no good for Government, the professions, management, labor or the citizenry in general.

The present and prospective total volume of public building is staggering, whether subsidized in one way or another by the Federal Government or designed and built by private enterprise. It runs to billions annually and a drastic departure from the conventional pattern and balance governing professional work may well send us on the long dubious road to socialism.

Therefore, the failure of the engineering, architectural, planning and related professions to defend their independence, their freedom, their claim to respect, not to speak of their very livelihood, is almost incomprehensible, unless we reflect on the shell shock or supineness of the traditional sculptor, painter and artist familiar with history, perspective anatomy and the ground work of the great arts as he is elbowed out of ornamentation in public building and, indeed, almost forgotten in the triumph of sheer, stark, metallic design and mass effects.

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Let us see what the highway officials of the several states will do on the question of making highway plans another Government monopoly. If they do not knock out this grab for power, the road builders will do themselves, their states, the public service, and business generally, a conspicuous disservice.

January 12, 1959

MEMORANDUM FOR THE COMMISSIONERS

Subject: MEETING WITH JOSEPH CAMPBELL, COMPTROLLER GENERAL,  
AND HIS STAFF

On Thursday, January 15, 1959, at 2:30 p.m. in Room A-410, the Commissioners and the General Manager will meet with Joseph Campbell, the Comptroller General, and members of his General Accounting Office staff.

It is customary for the GAO staff to meet with heads of agencies from time to time in order to make themselves known, explain the nature of the GAO audit program, and to discuss relationships between the GAO and the agency. If appropriate, the GAO also makes known any observations relating to the audit of the agency during these meetings. It would be considered appropriate for the Commission to likewise make any observations it chooses regarding the audit program during this meeting.

Insofar as is known, there are no outstanding significant issues raised by the GAO audits, or problems of relationships, which it is believed should be specifically raised by the Commission for discussion during Thursday's meeting with the GAO.

Attending with Mr. Campbell will be A. T. Samuelson, Director of the Civil Accounting and Auditing Division, John P. Abadesse, L. Kermit Gerhardt, and Arthur L. Litke.

W. B. McCool  
Secretary

cc: General Manager  
Deputy General Manager  
Controller

*Y. G. 27-6  
Do 27-6 - Luman Htp. - Carle*

\* This mtg. was not held

OFFICE ▶	SECY					
SURNAME ▶	EJTownsend/ckE					
DATE ▶	1/12/59					

1-12-59

Budget II

## Office Memorandum • UNITED STATES GOVERNMENT

TO : W. B. McCool, Secretary

DATE: JAN 9 1959

FROM : A. R. Luedtke, General Manager

*A. R. Luedtke*

SUBJECT: VISIT BY JOSEPH CAMPBELL, COMPTROLLER GENERAL, AND HIS STAFF

I understand from Mr. Burrows that you have set aside 2:30 P.M. on January 15 for a meeting between the Commissioners and Mr. Campbell and his key staff members engaged on the GAO audit of AEC. You may wish to inform the Commissioners regarding the nature of this meeting along the lines following.

It is customary for the GAO staff to meet with the heads of agencies from time to time in order to make themselves known, to explain the nature of the GAO audit program, and to discuss relationships between GAO and the agency, including any observations stemming from its audit which the GAO staff considers appropriate on such an occasion. It would be appropriate for the Commission to likewise make any observations it chooses regarding the audit program at this meeting.

It is my understanding that Mr. Campbell will accompany his staff on this visit to AEC in view of his past association with the Commission.

There are no outstanding significant issues raised by GAO audits, or problems of relationship, which it is believed should be specifically raised by the Commission for discussion during the meeting with GAO.

*JK*

Budget - 7. last accounting  
# 421

## Office Memorandum • UNITED STATES GOVERNMENT

TO : Managers of Operations

DATE: November 24, 1958

FROM : Paul F. Foster, General Manager

*Paul F. Foster*

SUBJECT: AEC AUDIT, INSPECTION AND APPRAISAL

SUBJECT:

You will recall that the AEC audit, inspection and appraisal programs were discussed at some length at the Meeting of Managers of Operations in Chicago on August 4 and 5, 1958. I am writing to you now to inform you of the actions taken and to be taken on this matter.

A general review has been made of the inspection and audit activities of the Headquarters staff Divisions. This review has taken into consideration previous studies on this subject (such as the Ad Hoc Committee Report of 1956), the continuing problems cited by the Managers and the necessity for living within the restricted staffing levels now available. Opportunities for economy in application of inspection and audit effort have been found which will still preserve a sound basis for review of all programs. These are to be reflected in the changes to individual programs which are reported below.

I should like to emphasize that these changes in no way diminish the continuing importance of AEC's responsibility for effective appraisal (i.e. evaluation of performance) of AEC and contractor operations. Each Headquarters Division Director and Manager of Operations continues to be responsible for making appraisals of activities under his jurisdiction on an annual basis. The changes, however, are designed to permit more flexibility in the use made of the various inspection, reporting and other methods which are available to support valid evaluations of performance. For example, every annual staff appraisal need not be preceded by a formal physical inspection when adequate supporting information is available by other means. Such flexibility calls for the exercise of good judgment on the part of appraising officials and I am expecting each Division Director and Manager to follow closely the appraisal work performed by their organizations.

#### Personnel and Organization and Management

The Office of Personnel has abolished its Review and Assistance Branch and has eliminated scheduled formal inspections of personnel activities in Operations Offices. Appraisals of Operations Offices' personnel and organization and management functions will be made periodically on the basis of information obtained by the Director's Office and Branch Chiefs from such visits as are necessary and desirable to test and validate standards, provide assistance, discuss problems, and hear suggestions for program improvements. Work audits of positions allocated under authority delegated to Managers of Operations will be made on a sampling basis from time to time to substantiate certifications under Section 161d of the Atomic Energy Act.

11-24-58

### Internal Audit

Beginning with the FY-1959 program, only the most important audits from a financial point of view will be performed by Headquarters each year. All others will be performed once every two or three years. Even with respect to those which are performed annually, provision is being made for contraction in scope and detailed checking wherever possible. Insofar as the Operations Offices' audits of contractors are concerned, similar changes in frequency and scope of audits have been worked out and appropriate interim instructions set forth in memorandums to Managers of Operations. Authority for contracting or expanding the scope of audits, including those which will continue to be performed annually, resides with those who have responsibility for the execution of the audits. In this way the audit effort can take local conditions into consideration and thus be directed to the matters which are most important and best serve the interests of local management. There is being completed the coordination among the audit and other inspection staffs of the coverage of their respective programs to assure minimum overlap.

AEC Manual Chapters 1201 and 1203 will be revised to reflect these and earlier changes in the AEC audit program.

### Supply

The Division of Construction and Supply is revising AEC-5002 to extend the minimum interval between formal inspection of supply operations of Operations Offices from one year to two years. Appraisals of supply activities (as distinguished from appraisal visits) will still be made yearly and, if necessary, may contain reference to the information sources on which they are based. The revision will permit the Operations Offices to make the same change in their formal inspection of Area Offices and major cost-type contractors. In special circumstances more frequent inspections may be made at the discretion of the Manager of Operations or, in the case of C&S, its Director or the Director of an Operating Division.

### Security

Significant reduction in the number and frequency of Headquarters security inspections has been made. The Division has recently instituted a performance appraisal program to supply responsible management with annual summary evaluations of the Operations Office programs. As experience is gained with this "appraisal approach" further reductions will be made in the number of Headquarters sampling inspections of Area Offices and contractors.

### Construction-Engineering

The Division of Construction and Supply in 1957, at the request of the Operating Divisions, initiated annual appraisals of the construction-engineering programs at the Operations Offices. In addition to an evaluation of the effectiveness of written submissions to Headquarters, these appraisals are a byproduct of the routine trips of the C&S project engineers in providing staff coordination for the over-all construction program. During FY-1959 project engineer visits will be confined primarily to special surveys, or as members of task forces or various AEC Selection Boards. The number of project engineer trips to Operations Offices (and offices subordinate to them) is being sharply reduced. In the case of Operations Offices with major construction programs this will amount to a reduction from the FY 1958 average of four visits to two in FY 1959.

### Safety and Fire Protection

The Office of Industrial Relations is reorienting its inspection away from direct Headquarters examination of individual field facilities to an evaluation of the over-all adequacy of the Operations Offices safety and fire protection programs. An AEC Manual Chapter will be issued clarifying the primary responsibility of Managers of Operations for necessary review of Area Offices and contractor operations and setting forth standards and guidelines for such reviews. This will permit the elimination of direct inspections by Headquarters of organizations subordinate to the Operations Offices.

### Contractor Personnel

Appraisals and reports by Headquarters have been made of the contractor personnel function at each Operations Office. Based upon the experience gained with this coverage the Office of Industrial Relations is revising the methods by which it will make future annual appraisals. Primary reliance will be placed on indicators of over-all Operations Office effectiveness, analysis of statistical and other reports and informal communications with formal inspections largely reserved for critical incidents or the most difficult problems.

### Nuclear Materials Management

The Division has consolidated into one annual document its reports to Management of field performance.

Classification

The Division of Classification has completed an initial appraisal of the classification programs of each of the Operations Offices. From experience gained through these initial appraisals and in recognition of Operations Office responsibility for review of contractors, the Division is sharply reducing the number and extent of its sampling reviews of contractors and Area Offices during FY 1959. The extent of field review of Operations Offices will also be reduced.

\* \* \*

I am asking each affected Division to prepare (by December 31, 1958) revisions to applicable AEC Manual Chapters which will reflect the above and previous changes called for in their inspection or audit programs. This up-dating of the Manual should be accomplished in accordance with the instructions in my memorandum of September 5, 1958, subject, "AEC Manual." The Director, Division of Inspection, will develop necessary implementing revisions to the general AEC inspection policy statement (AEC 0701) and report to me periodically on the progress made in revising the various programs.

Copies furnished:

Heads of Offices and  
Divisions, Headquarters